DCAM-06

Vardhaman Mahaveer Open University, Kota

Entrepreneurship & Small Scale Businesses

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CONTENTS

Entrepreneurship & Small Scale Businesses

Unit No.	Name of Unit	Page No.
Unit - 1	Entrepreneurship: An Introduction	1
Unit - 2	Theories of Entrepreneurship	22
Unit - 3	Entrepreneur: Definition and Concept	39
Unit - 4	Entrepreneur: Types and Functions	56
Unit - 5	Entrepreneur and Manager	74
Unit - 6	Entrepreneurship and Role of Environment	87
Unit - 7	Entrepreneurship Development Programmes	100
Unit - 8	Women Entrepreneurship	114
Unit - 9	Small Business	128
Unit - 10	Setting-up of Small Scale Unit	139
Unit - 11	Forms of Ownership	153
Unit - 12	Management Process in Small Business	172
Unit - 13	Marketing Management for Small Business	210
Unit - 14	Policy Framework for Small Business	224
Unit - 15	Institutional Support for Small Business	236
Unit - 16	Export Promotion, Import Substitution and Small Business	246

Unit - 1: Entrepreneurship: An Introduction

Structure of Unit:

1.0 Objectives
1.1 Introduction
1.2 What is Entrepreneurship?
1.3 Tools of Entrepreneurship
1.4 Nature and Characteristics of Entrepreneurship
1.5 Why Entrepreneurship?
1.6 Factors Affecting Entrepreneurship
1.7 Entrepreneurship and Economic Development
1.8 Barriers to Entrepreneurship
1.9 The Future of Entrepreneurship
1.10 Summary
1.11 Self Assessment Questions
1.12 Reference Books

1.0 Objectives

After completing this unit, you will be able to:

- Understand and define Entrepreneurship.
- Differentiate between creativity and innovation.
- Explain the process of creativity.
- Describe how innovation is important as a dimension of entrepreneurship.
- Focus on various features of entrepreneurship.
- Know that how entrepreneurship plays an importance role in economic development.
- Point out various factors affecting entrepreneurship.
- Study and analyze the barriers in the growth of entrepreneurship.

1.1 Introduction

Entrepreneurial activity is increasing throughout the world. In India too, there has been a significant change in the mindset of the society. There is no doubt that entrepreneurs and entrepreneurship are playing important roles in today's global business environment. So what is entrepreneurship? And who are entrepreneurs? These are the main topics we are going to explore in upcoming units.

The concept of entrepreneurship is a complex phenomenon. Broadly, it relates to the entrepreneur, his vision and its implementation. Entrepreneurship refers to a process of action an entrepreneur (person) and it is a creative and innovative response to the business environment. It promotes capital formation and creates wealth, and it has the thrill of risk, change, challenge and growth. Entrepreneurship extends beyond a conventional business and economic perspective.

Entrepreneurship is a composite skill, which include imagination, readiness to take risks, ability to bring together and put to user other factors of production, capital, labour, land, as also intangible factors such as the ability to mobilize scientific and technologic advances. One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organize an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning and taking decisions.

The positive impact of entrepreneurial firms is seen throughout the economy and the society. Entrepreneurial firms create jobs, contribute to economic growth they reshape the business ecosystem, create an environment where they play a major role in introducing innovations, commercializing new technologies, opening new market, and creating value by combining resources in exciting new ways.

In India various social changes are taking place like, increase in literacy levels, greater consumer awareness, enhanced media penetration, and basic changes in family structure. These changes are bound to result in a higher level of entrepreneurial activity in future. So whether you want to be the next Michael Dell, Bill Gates, or Ambani brothers, or whether you just want to achieve your own personal dreams, understanding entrepreneurship is an important first step!

1.2 What is Entrepreneurship?

Wherever you turn these days, you will come across the term entrepreneur or entrepreneurship. Pick up a current newspaper or magazine or turn on TV news broadcast. Or log onto web sites there is a huge chance that you'll find at least one story (and probably many more) about an entrepreneur or an entrepreneurial business. Entrepreneurship is a popular topic these days! So it is necessary to know what it is. Let's try to answer this by looking at how entrepreneurship is defined.

Defining Entrepreneurship:

Defining entrepreneurship might seem simple, but it isn't! There are about as many definitions of entrepreneurship. Everyone seems to have his or her own views about what it is and in the same way they have defined it. Let's look at some of the various ways in which entrepreneurship has been defined.

"Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making."

In another view "Entrepreneurship refers to an action process of entrepreneur towards establishing an enterprise. It is a creative and innovative process and adapting response to environment. This concept can be seen in Figure 1.1

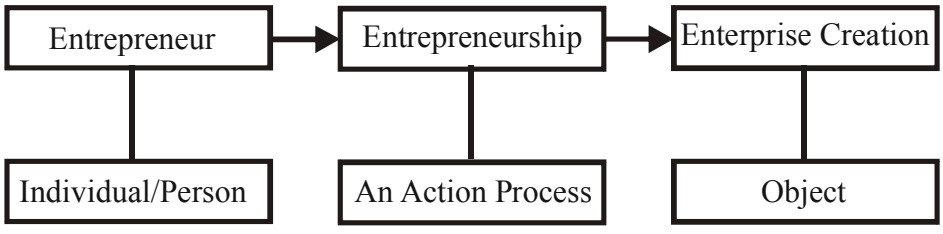


Figure 1.1 : Concept of Entrepreneurship

Entrepreneurship has long been described by researchers and writers with terms such as new, innovative, flexible, dynamic, creative, and risk-taking. Many authors have said that identifying and pursuing opportunities are an important part of entrepreneurship.

According to Frank Knight, "It involves a specialized group or persons who bear 'risks' and meet the uncertainty".

According to Musselman and Jackson, "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful."

In the words of B. Higgins, "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique, discovering new sources of raw materials and selecting top managers for day to day operations of the enterprise." This definition highlights risk-taking, innovating and resource organizing aspects of entrepreneurship.

According to Franklin Lindsay, "Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources".

According to H. Cole, "Entrepreneurship is the purposeful activities of an individuals or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services". This definition states that entrepreneurship is goal-oriented process involving production or distribution of products and goods. It may be undertaken by person or by group of persons.

According to V.R. Gaikaward, ''It connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition i.e., a capacity of seeing things in a way which afterwards prove to be true".

In a another view "Entrepreneurship is the process of bringing together creative and innovative ideas and actions with the management and organizational skills necessary to mobiles the appropriate people, money, and operating resources to meet an identifiable need and create wealth in the process."

According to Richma and Copen, "Entrepreneurship implies more creative, external or open systems orientation. It involves risk-bearing and relatively dynamic leadership."

Schumpeter defines, "Entrepreneurship is an innovative function. It is a leadership rather than an ownership." Other authors have said that entrepreneurship involves the creation of value, the process of starting or growing a new profit-making business, the process of providing a new product or service, and the intentional creation of value through organization by an individual contributor or a small group of partners.

According to Rao and Mehta, "Entrepreneurship can be described as creative and innovative response to the environment".

According to John Kao, "Entrepreneurship is the attempts to create values 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 necessarily to bring a project to fruition." This definition recognizes that entrepreneurship involves the fusion of capital technology and human talent to complete a project successfully and with reasonable degree of risk.

According to Howard W. Johnson, "Entrepreneurship is a composite of three basic elements-invention, innovation and adaptation".

In the words of W.N. Loucks, "Entrepreneurship is a mixture of willingness to take risks, a desire for income and prestige, the urge for self-expression, creativeness, and independence with a dash of the gambling spirit and possibly additional subtle psychic components".

John J.Kao has developed a conceptual model of entrepreneurship. This model is presented in Figure 1.2 on the next page.

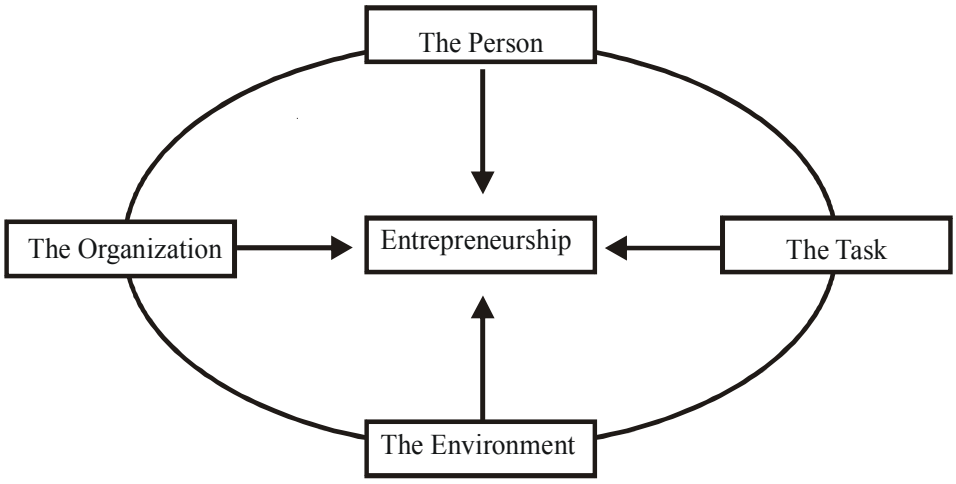


Figure 1.2 : A Conceptual Model of Entrepreneurship

According to Kao, the most successful entrepreneur is one who adapts himself to the changing needs of the environment and makes it hospitable for the growth of his business enterprise. This ECO (Entrepreneurship, creativity ad organization) analysis frame work developed and conceptualized by John J. Kao contributes a great deal to the emergence as well as sustenance of entrepreneurship and entrepreneurial talent in the prevailing business environment.

According Peter Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed what constitutes knowledge in practice is largely defined by the ends; that is, by the practice. Let's look closer at these common themes so we can begin to better understand what entrepreneurship is.

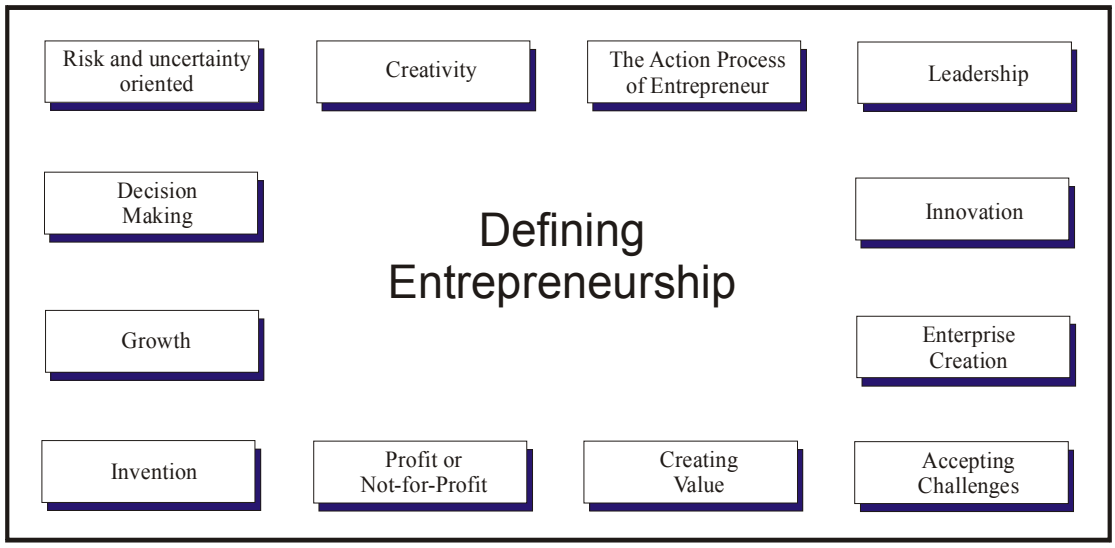


Figure 1.3: Common Themes in Definitions of Entrepreneurship

Thus entrepreneurship is a complex phenomenon. "Some think of entrepreneurs primarily as innovators, some chiefly as managers of enterprise, some as bearers of risks and others place major emphasis on their function as mobilisers and allocators of capital."

1.3 Tools of Entrepreneurship

Entrepreneurship was defined as the process of use of innovation to exploit or create change and opportunity for the purpose of making profit. Change creates opportunity and entrepreneurship create value by exploiting

or creating change, for example in technology, materials, prices or demographic. Entrepreneurial secret for creating value is creativity and innovation.

Entrepreneurship is the result of a disciplined, systematic process of applying creativity and innovation to needs and opportunities in the marketplace. It involves applying exposed strategies to new ideas and new insights to create a product or a service that satisfies customers' needs or solves their problems.

The terms creativity and innovation are often used to mean the same thing, but each has a unique connotation. **Creativity is** "the ability to bring something new into existence." This definition emphasizes the "ability," not the' "activity," of bringing something new into existence. A person may therefore conceive of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. **Innovation** is the process of doing new things. This distinction is important. Simply having a great new idea is not enough; transforming the idea into a tangible product, service or business venture is the essential next step. Innovation, therefore, is the transformation of creative ideas into useful applications, but creativity is a prerequisite to innovation. Entrepreneurship requires business owners to be bold enough to try their new ideas, flexible enough to throw aside those that do not work, and wise enough to learn about what will work based on their observations of what did not. Entrepreneurs develop new ideas and, from their ideas, establish new enterprises that add value to society. Creative thinking has become a core business skill, and entrepreneurs lead the way in developing and applying that skill. In fact, creativity and innovation often lie at the heart of small companies' ability to compete successfully with their larger rival.

According to Peter Drucker, "Admittedly, all new small businesses have many factors in common. But to entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Indeed, entrepreneurs are a minority among new businesses. They create something new, something different; they change on transmute values. A recent study by the Small Business Administration found that small firms produce more economically and technically important innovations than larger firms. Millions of people come up with creative ideas for new or different products and services; most of them, however, never do anything with them. Entrepreneurs are people who connect their creative ideas with the purposeful action and structure of a business. Thus, successful entrepreneurship is a constant process that relies on creativity, innovation, and application in the marketplace.

Creativity – A necessity for Survival: In this fiercely competitive, global world, creativity is not only an important source for building a competitive advantage, but it is also a necessity for survival. When developing creative solutions to modern problems, entrepreneurs must go beyond merely relying on what has worked in the past. Ideas usually evolve through a creative process whereby imaginative people germinate ideas, nurture them, and develop them successfully. Various labels have been applied to stages in the creative process, but most social scientists agree on five stages. A model of the entrepreneur's creative process is shown in Figure 1.4.

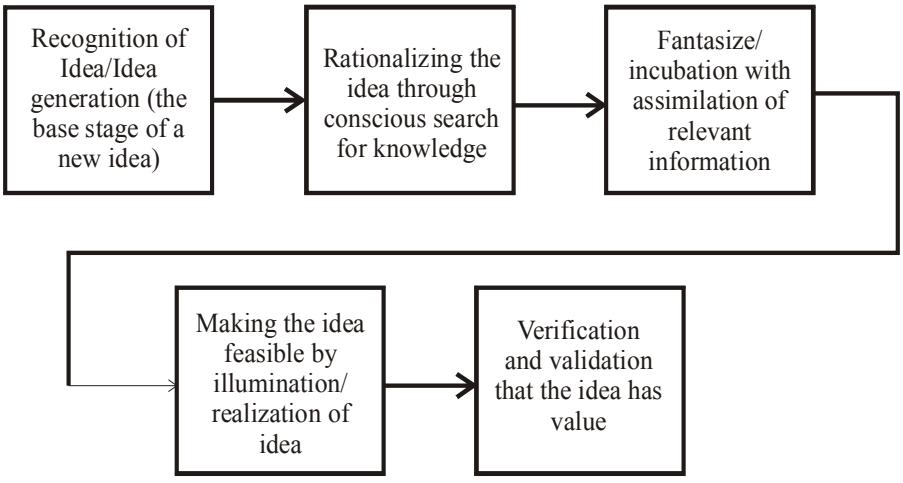


Figure 1.4 : The Creative Process

In each stage, a creative individual behaves differently to move an idea from the seed stage of germination to verification, and behavior varies greatly among individuals and their ideas.

Bolton and Thompson (2000) associate invention closely with creativity but link it with entrepreneurship if the invention is to become a commercial opportunity to be exploited. 'Creativity is the starting point whether it is associated with invention or opportunity spotting. This creativity is turned to practical reality (a product, for example) through innovation. Entrepreneurship then sets that innovation in the context of an enterprise (the actual business), which is something of recognized value.' Creativity and innovation need the entrepreneurial context to become a business reality - supported by a certain mix of talents and temperaments and based on appropriate knowledge and skills.

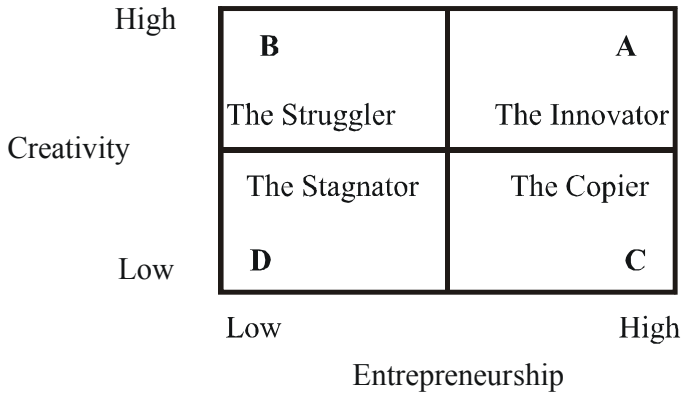


Figure 1.5 : Creativity and Entrepreneurship

The matrix in Figure 1.5 shows the relationship between creativity and the entrepreneurship. Only in quadrant A is there a, winning combination, of creativity and entrepreneurship. In quadrant B there is a firm struggling with too many wasted ideas. It lacks an entrepreneur with the ability both to see the commercial application of the idea and to exploit it. In quadrant C there is a firm that lacks creativity but can at least copy and perhaps improve on creativity coming from other firms if they have a commercial application. Firms in quadrant D lack creativity and entrepreneurship are certain never to grow and indeed their survival may be questioned.

Innovation and Entrepreneurship

If creativity is the seed that inspires entrepreneurship, innovation is the process of entrepreneurship. This was Schumpeter's conclusion when he wrote about the eco-nomic foundations of free enterprise and entrepreneurship. According to him innovation does not happen as a random event. Central to the process is the entrepreneur. It is they who introduce and then exploit the new innovations. For Schumpeter, 'the entrepreneur initiates change and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium'. Sometimes innovation involves generating something from nothing. However, innovation is more likely to result from elaborating on the present, from putting old things together in new ways, or from taking something away to create something simpler or better.

Peter Drucker believes 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 capable of being 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.

Drucker, therefore, believes innovation can be practiced systematically. Firms -that practice innovation systematically search for change then carefully evaluate its potential for an economic or social return. Change provides the opportunity for innovation to make an economic return.

Mintzberg (1983) defines innovation as 'the means to break away from established patterns', in other words doing things really differently. Therefore, simply introducing a new product or service that has customer's willing to buy it, is not necessarily innovation. Innovations have to break the mould of how things are done. To really -innovate Mintzberg says that 'one engages in divergent thinking aimed at innovation; the other is convergent thinking aimed at perfection'.

The innovation can, of course, be of varying degrees of uniqueness. Most innovations introduced to the market are ordinary innovations, that is, with little uniqueness or technology. As expected, there are fewer technological innovations and breakthrough innovations with the number of actual innovations decreasing as the technology involved increases. Regardless of its level of uniqueness or technology, each innovation (particularly the latter two types) evolves into and develops toward commercialization through one of three mechanisms: the government, intrapreneurship, or entre-preneurship.

Innovation means "doing new things or the doing of things that is already being done in a new way." It includes new processes of production, introduction of new products, and creation of new markets, discovery of a new and better form of industrial organization.

Earlier, we defined innovation as the process of doing new things. It is important to recognize the innovation more focus on action not conceiving new ideas only. When people have passed through the Realization and Validation stages of creativity process, they may have become inventors, but they are not yet innovators. The difference between creativity and innovation is shown in Figure 1.6

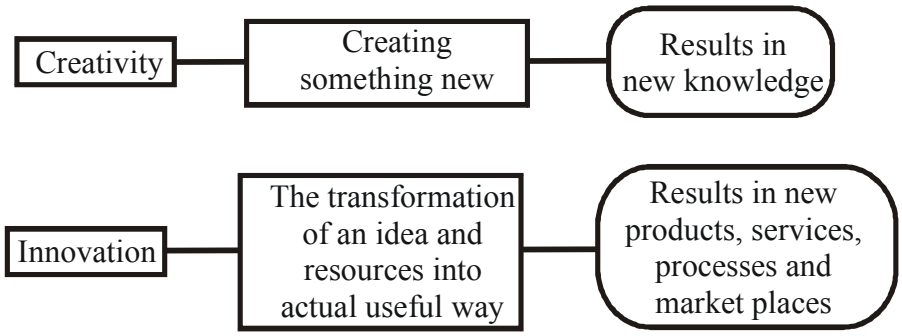


Figure 1.6: Invention Versus Innovation

To innovate effectively, therefore, requires insight - into customers and markets, into what is possible and what is not, and into how to make things happen. It is also helped by good luck. What is more, innovation may be a -necessary condition for establishing a growth

business, but it is not a sufficient condition. To exploit an innovation successfully requires strength of personal character, managerial ability and often money, which bring us back to the central role of the entrepreneur.

1.4 Nature and Characteristics of Entrepreneurship

The main characteristics of entrepreneurship are given below:

1. **Economic Activity:** Entrepreneurship is primarily an economic activity because it involves the creation and operation of an enterprise. It is basically concerned with the production and distribution of goods and services and optimally utilizes the resource towards productive use.

2. **Entrepreneurship Involves Innovation:** Entrepreneurship involves changing, revolutionizing, transforming, and introducing new approaches. Entrepreneurship is an innovative function as it involves doing things in a new and better way. Innovation may take several forms, such as a new product, a new source of raw material a new market, a new method of-production, not yet applied in a particular branch or, manufacturing etc. Drucker says, "Innovation is the specific instrument of entrepreneurship". Entrepreneur is a change agent.

3. **Goal-oriented Activity:** The entrepreneur who creates and operates enterprises seeks to earn profits through satisfaction of needs of consumers; hence, entrepreneurship is a goal-oriented activity. Entrepreneurship emphasizes results, achievements and targets achieved. It is work done not imaginary plans or paper decisions. Hence entrepreneurship is a goal oriented activity.

4. **Value Creation:** Next, we find that the process of creating value is a characteristic in describing entrepreneurship. Through entrepreneurship, new products, services, transactions, approaches, resources, technologies, and markets are created that contribute some value to a community or marketplace. We can also see value created when, through entrepreneurship, resources are transformed into outputs such as products or services. During this transformation process, value is created because the entrepreneur is fashioning something worthwhile and useful. Drucker says, "Until entrepreneurial act, every plant is a seed and every mineral just another rock".

5. **Enterprise Creation:** The next characteristic of entrepreneurship is enterprise creation. In order to pursue the perceived opportunities for innovation and to create value, there must be organized efforts and actions. Someone must take the initiative to do something – take action to get the entrepreneurial venture up and running. Entrepreneurship is a creative response to changes in the environment. It involves innovation or introduction of something new or improved. An entrepreneur is an agent to effect change.

6. **A Function of Risk Bearing:** Risk is an inherent and inseparable element of entrepreneurship. An entrepreneur works under uncertainties and he assumes the uncertainty of future. In the pursuit of profit, there is possibility of loss also.

7. **Entrepreneurship Implies Growth:** The next characteristic in entrepreneurship is growth. One major difference between entrepreneurial ventures and other small businesses is the emphasis on growth. Entrepreneurship is about growing a business and pursu-ing opportunities as they arise. It's not about standing still or being content to stay in one market or with one product.

8. **Managerial Skill and Leadership Function:** Managerial skill and leadership are the most important facets of entrepreneurship. An entrepreneur must have the ability to lead and manage. He provides direction, create work culture, and build teamwork and cohesiveness among employees.

9. **Recognition that it is a process:** The characteristics commonly found in entrepreneurship is the recognition that it is a process, very simply, is a set of ongoing decisions and actions. Entrepreneurship is not a one-time phenomenon; it occurs over time. It involves a series of decisions and actions from initial start-up to managing the entrepreneurial venture.

10. **Gap Filling Function:** The gap between human needs and the available products and services filled by entrepreneurship. An entrepreneur determines the needs of people and combines resources to produce goods and services of requirements. He introduces new products and

services, new methods of production and distribution, new sources of inputs and new market s for this purpose.

11. **Dynamic Process:** Entrepreneurship is a dynamic function. Entrepreneur thrives on changes in the environment, which bring useful opportunities for business. An entrepreneur deals proactively with changing markets -and environment. He looks at the changes as the source of market advantages, not as a problem. Uncertainties are market opportunities for him. He capitalizes on fleeting market-anomalies.

12. **Uniqueness:** Other characteristic found in entrepreneurship is that of uniqueness. Entrepreneurship involves new combinations and new approaches with which entrepreneurs are willing to experiment. Through Entrepreneurship unique products are created and unique approaches are tried. Entrepreneurship isn't merely imitating what others have done. It's doing something new, something untested and untried – something unique.

13. **Organizing Function:** It is the ability to bring together productive resources of society. Entrepreneur coordinates and control the efforts of all the persons engaged in his enterprises. He harnesses land, labour, capital and other resources of for the benefits of mankind. Therefore, an entrepreneur is called as an organization builder.

14. **Essential in Every Activity:** Entrepreneurship is required in all types of businesses – small or big, trading or manufacturing or service industry. It is essential for every business to exist and grow. Drucker says, "Entrepreneurship is by no means confined solely to economic institutions."

15. **Knowledge-based Practice:** Drucker writes, "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. He uses his experiences for high achievements. The enterprising quality is generated after a long practice of risk-bearing behaviour."

16. Another Characteristics of entrepreneurship is a **recognition that entrepreneurship can take place in both profit and not-for-profit environments.** Although we tend to assume that entrepreneurial activity is geared at making a profit (and we agree that much of it is), entrepreneurship also occurs in social service agencies, in community arts organizations, or in other types of not-for-profit settings.

17. **Entrepreneurship and Management:** Management is the agent through which all entrepreneurial decisions and plans are implemented. The entrepreneur brings new changes and improvements through management. To survive and win, the managers must become entrepreneurial in their approach and tasks.

18. Other Characteristics :

(1) It relates to updating of knowledge relating to entrepreneurship promotion on a regular basis.
(2) It aims at development of skills ad capabilities in identifying latent entrepreneurial traits of entrepreneurs.
(3) It is a means of rapid economic development which is likely to result in creation of gainful employment in society.
(4) It believes in the fact that entrepreneurs are not born, they can be created. In the light of this, large numbers of Entrepreneurship Development Programmes are conducted to promote entrepreneurship in the country.
(5) It optimizes the use of resources by arriving at the most productive combination that will provide the society the need goods and services.

Thus, entrepreneurship is multi-dimensional concept. It is both the science as well as art. But is more an art than science as there are very few ground rules or principles that can be used to create and run business enterprises in a fat changing and heterogeneous environment.

1.5 Why Entrepreneurship?

Entrepreneurship is, and continues to be, important to every sector in India and in other global economies. Entrepreneurship contributes to economic and social development of a country. Operating an enterprise, wealth creation, making innovative decisions or managing an organization, all have the thrill of risk, challenges and profitable opportunities.

Entrepreneurial firms are not just money-making ventures for their promot-ers. The positive impact of entrepreneurial firms is seen throughout the economy and society. A vast majority of this high-impact .firms are fast -growing companies. David Birch has differentiated these firms by calling them gazelles. He defines a gazelle as a business establishment with at least 20 per cent growth every year.

Entrepreneurship has many functions to perform and roles to play in every type of economy. Entrepreneurship is the life blood of any economy and it applies more to a developing economy like India. It influences a number of areas such as innovation, job creation, career alternatives etc. The contribution of entrepreneurship lies in the following areas:

1. **Innovation:** Innovating is a process of creating, changing, experimenting, transforming and revolutionizing. Innovation is one of the key distinguishing characteristics of entrepreneurial activity. The passionate drive and intense hunger of entrepreneurs to forge new direc-tions products and processes and to take risks set in motion a series of decisions that lead to the innovations that are important for economic vitality. Without these new ideas, economic, technological, and social progress would be slow indeed.

   The "creative destruction" process of innovating leads to technological changes and employment growth. Entrepreneurial firms act as these "agents of change" by providing an essential source of new and unique ideas that might otherwise go.

2. **Job Creation:** We know that job creation is vital to the overall long-term economic health of communities, regions, ad nations. Entrepreneurial ventures play very important role in it. Small business create more jobs than large business do. During economic recession, when large companies are on their way to retrenchment of their work force, individuals whose jobs are eliminated find employment with small business. The creation of jobs by small businesses is expected to continue into the future as new firms start small and grow.

3. **Number of New Start-ups:** All businesses whether they fit the definition of entrepreneurial or not – at one point in time were start-ups, the most convenient measure we have of the role that entrepreneurship plays in this economic statistic is to look at the number of new firms over a period of time. The assump-tion that we have to make, then, is that some of these new firms engage in activi-ties that are entrepreneurial in nature.

   The next important function of entrepreneurship is starting the venture. In fact, entrepreneurs identify opportunities and possible competitive advantages. They set goals and strategies. Pursuit of entrepreneurship contributed to the overall creation of new firms. Why is the creation of new firms so important? It's important because these new firms contribute to economic development through

benefits such as product-process innovations, increased tax rev-enues, societal betterment, and job creation.

4. **Opportunity to Contribute to Society and Be Recognized for Your Efforts:** Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers they have served faithfully over the years.

   Entrepreneurship often deals with the difficult issues of social responsibility and ethical problems. Entrepreneurship produces such goods and services that protect consumer health and global environment and helps in creating better living conditions in society. It generates employment and conserves natural resources, balances growth in the country and provides more amenities to people. Ethical considerations also play a role in decisions and actions of entrepreneurs.

5. **Path of Creating Tomorrow:** Peter Drucker Says, "Entrepreneur has to seek off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow. Making the business of tomorrow cannot be a flash of genius. It requires systematic analysis and hard, rigorous work today·. The specific job of entrepreneurship is to make today's business capable of making the future, of making itself into a different business".

6. **Entrepreneurship Provides an Opportunity to Make a Difference and Create Your Own Destiny:** Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Entrepreneurs are finding ways to combine their concerns for social issues ad their desire to earn a good living. Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them.

7. **Entrepreneurship Serve Small Markets With New Technology:** Large firms, with their crippling overheads, do not find it profitable to serve small populations. This is where small entrepreneurial firms serve an invaluable role by providing specialized products to niche customers. Entrepreneurial firms are usually faster to come to the market with radical new technologies. Ultimately, this will lead to a better standard of living for the whole society.

8. **Entrepreneurship Provides Opportunity to Reach Your Full Potential and Reap Impressive Profit:** Too many people find .their work boring, unchallenging, and unexciting, but not entrepreneurs. To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision.

   Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich: but many of them do become quite wealthy.

9. **Other Contribution:**

- Entrepreneurship in small businesses helps in distribution of products of large business. They, thus, support the large business houses.

- It offers business avenues to women and minorities. Women and minorities are allowed the benefit of financial independence and a chance to exhibit the ability to manage business enterprises.
- Dispersal of economic activities to different sectors of economy and identifying new avenues of growth.
- Improvement of the standard of living of different weaker sections in the society.
- Bring socio political change in the society.
- Develop technological know-how.
- Improve culture of business and expand commercial activities.
- Entrepreneurship acts as a change agent to meet the requirements of the changing markets and customer preferences.
- Develop a culture of achievement orientation.
- It helps in bringing about change and development of the civilization through change in trade, comment be and industrialization.
- It arouses the need for achievement in individuals which brings about a change in the economic scenario through economic development and growth.
- It results in exploitation of economy's resources, such as labour, capital and technology to the fullest extent.

1.6 Factors Affecting Entrepreneurship

The entrepreneurial activity at any time is dependent upon a complex and varying combination of economic, social, political, psychological and other factors. These factors may have been both positive and negative effluences on the emergence of entrepreneurship. Positive influences constitute facilitative and conductive conclusive for the emergence of entrepreneurship whereas negative influences create inhibiting milieu to the emergence of entrepreneurship.

Following factors contribute to the success of entrepreneurship:

1. **Economic Factor:** Factors such as availability of finance, labour, land, accessibility of customers, suppliers are the factors that stimulate entrepreneurship. Capital is one of the most important prerequisites to establish an enterprise. Availability of sufficient capital affects the introduction, survival and growth of a business enterprise.

   Capital is regarded as lubricant to the process of production. If we increase in capital investment, capital output ratio also tends to increases. This results in increase in profit, which ultimately goes to capital formation. Due to this capital supply increase, entrepreneurship also increases.

2. **Socio-Economic Factors:** The entrepreneurial activity at any time and place is governed by varying combination of socio-economic factors. The empirical studies have identified the following socio-economic factors:
   - Cast/religion
   - Family background
   - Level of Education
   - Level of perception
   - Legitimacy of Entrepreneurship
   - Migratory character
   - Social Mobility
   - Social Security

- Investment capacity
- Ambition/motivation

3. **Personal Factors:** McClelland assumes 'that achievement motivation is the immediate cause of the origin of entrepreneurship. He explained entrepreneurial growth in terms of need for achievement motivation. Thus, he found high correlation between need for achievement and successful economic activities.

   Personality traits such as inner desire for control of their activities, tolerance for risk, high level of tolerance to function in adverse situations and background experiences such as the family environment, level of education, age and work history tolerance for ambiguity are important personal characteristics that affect entrepreneurship. Individuals who are desirous of working independently; willing to work for long hours and assume risk; are self-confident and hard-working are likely to be more successful as entrepreneurs than those who do not posses these qualities.

4. **Political:** Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Boulding held that political structure was the deciding factor in entrepreneurial growth of France and Russia. Similarly, Hoselitz argued that France lagged behind economically because his social structure did not provide sufficient incentives and security to entrepreneurs. Medhora also conc1uded that the entrepreneurial growth in India was delayed not because of lack of entrepreneurial motivation but due to non-commitment of -the political structure.

5. **Deregulation and Privatization:** Phillips (1985) gives evidence that small firms are dominant in the increase of entrepreneurial activity in sectors that have been recently deregulated. Liberal economic policies in China have led to phenomenal growth fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in the new free-market economies. Even in the rest of the world, conservative economic policy has given way to a brave new approach that has led to broad level deregulation across industries. Now companies have to deal with fewer licenses and fewer governmental controls. Many state-owned enterprises have also been privatized leading to a greater role or the private sector in general and entrepreneurs in particular.

6. **Internal Control System:** Entrepreneurship largely depends upon the control system designed for controlling the business activities. If the control system is effective they will result in optimal inventory, good quality products and high profit margins. This will have a positive effect on the success of entrepreneurship.

7. **Government Incentives ad Subsidies:** Loveman and Sengenberuer (1991) have discussed the positive role of govern-ment incentives and subsidies. In India, there are incentives being given by both the state and central government, many of the incentive are often sector specific, being given by the concerned ministry. Similarly, entrepreneurship is being encouraged in many countries with a variety of incentives such as tax breaks, preferred sourcing or grants. Performance, in terms of economic growth, is shaped by the degree to which the prevalent industry structure efficiently utilizes scarce resources.

8. **Impact of Ethical Value System:** Max Weber was first to point out that the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends upon a rationalized technology, acquisition of money and its rational use for productivity and multiplication of money. These elements depend upon a specific value orientation of individuals.

Robert Kennedy and Yale also held the view that entrepreneurship developed rapidly in those societies where ethical values provided independent capacity of decision making. No doubt, this view has some truth but it was not accepted universally.

9. **Increasing Demand for Variety:** Increased wealth has led to increase in the demand for variety (Jackson 1984). The increasing demand for new products is of advantage to smaller firms. A number of studies have shown the comparative advantage of smaller firms in being innovative and coming up with new products (Prusa and Schmitz 1991, Rothwcll 1984). If the products has unmet demand, it will create a market for itself. The success of entrepreneurship is, therefore, dependent upon the extent to which the product is in demand.

   Changes in consumer tastes are a major reason for growth of entrepreneur-ship (Brock and Evans 1989). People are, inclined to products that are specifically designed to meet their special needs. Mass produced homogenous goods do not enjoy as wide an appeal anymore. Jovanovic (1993) states that large firms have not been comfortable entering into niche markets.

10. **Impact of Services Sector:** Increase in per capita income leads to a greater share of the services sector in the national economy (Inmar 1985). The average size of firms' m many sections of the services sector are relatively small. This in turn promotes entrepreneurial activity across a number of service sector industries. Even for some developing countries such as India, services account for over half of the total GDP. Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.

11. **Work Environment:** If the environment that a individual is working in is unsatisfactory, that is, not conducive to his growth needs, it is likely that the individual will quit his job and start his own business as an entrepreneur. Unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.

12. **Easier Access to Resources Promotes Entrepreneurship:** Today, it is easier for an entrepreneur to access debt and equity finance than ever before. Not just capital, most other factors of production are now easily available to entrepreneurs. With greater flow of information, it is easier to contact and to deal with resource providers such as raw material suppliers and dealers of capital goods. Also, many business services are now tailored to suit.

13. **Career Transitions**: "Career transition points are circumstances in which an individual is moving between one type of career-related activity and another." Retirement from existing service or completion of a degree course is the factors that boost up a person's morale to start a venture of his own.

14. **Entrepreneurial Education:** More and more people with high academic attainments started joining the ranks of industrialists, especially the professionals holding qualifications in engineering, law, medicine, cost and chartered accounting. The newer entrepreneurs have a larger proportion of their floatation in the traditional sector, but these professionals have by and large preferred to make their investments in modern sector. The technicians in particular among both old and new entrepreneurs have entered industries in the modern sector having a bearing of their academic qualifications.

    Many universities and institutes are nowadays offering entrepreneurship education. A number of institutes have set up successful entrepreneurship centers, which provide help to budding entrepreneurs by conducting formal training and structured mentoring programmes.

1.7 Entrepreneurship and Economic Development

Let's try to look at what entrepreneurship contributes towards economic development. The role of entrepreneurship in economic development varies from economy to economy depending upon its materials resources, industrial climate and the responsiveness of the political system to the entrepreneurial functions. The entrepreneurs contribute more in favorable opportunity conditions than in the economies with relatively less favorable opportunity conditions.

Entrepreneurship constitutes an important input in the process of economic development. It channelizes resources, capital and men for economic growth. It is the best a l ternate to over the problem of unemployment and poverty: It manages growth. J.A. Timmons has remarked, "It creates and builds something from practically nothing. It takes calculated risks. It is the knack for sensing an opportunity where others see chaos contradiction and confusion. It is the know-how to find, and control resources and to make sure that the venture does not run out of money when it is needed most". Robert Ronstadt writes, "Entrepreneurship is the dynamic process of creating incremental wealth."

According to Schumpeter, economic development consists of "employing resources in a different way", bringing in a new combination of means of production. The entrepreneur looks for ideas and puts them into effect for economic development.

Entrepreneurship has great importance in various economic systems. It is all the more important under capitalism - and mixed economy where not only the responsibilities of entrepreneur in production and distribution are recognized but the objective of growth of business and profit maximization is also attained. Therefore, the importance of entrepreneurship stands beyond challenge in every economic system except under socialism where it appears in a different form, yet, entrepreneurship prevails in all economic systems in one form or the other. An entrepreneur has a critical role in competitive market economy, especially in developing contrives like India. An entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions.

Further, India which itself is an under-developed country aims at decentralized industrial structure to militate the regional imbalances in levels of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development. It is unequivocally believed that small scale industries provide immediate large scale employment, ensure a more equitable distribution of national income and also facilitate an effective. resource mobilization of capital and skill which might otherwise remain unutilized. Entrepreneurship contributes in economic development in following ways:

1. **Increasing Income and Per Capita Income:** Entrepreneur brings in new products and services and develops new markets for growth of economy thus increasing gross national product as well as per capital incomes of the people in the country. The role of entrepreneurship in economic development involves more than just increasing per capita output and income; it involves initiating and constituting change economic growth depends on the rate of applied technical progress (i.e., innovation) and rate of technical progress in the economic field which in turn depends on the supply of entrepreneurs in the society. Thus the entrepreneur is the agent of change in society.

2. **Wealth Creation and Distribution:** Entrepreneurial activity leads to value addition and creation of wealth and capital in the structure of business and society. This change is accompanied by growth and increased output which allows more wealth to be divided by the various participants. It provides

businessmen with a realistic basis to identify, analyze, and exploit a business opportunity. It takes most challenging decisions to help towards the building of a rapid growth and financially sound enterprise William James says, ''It is only through risking our decisions from one hour to another that we create wealth and capital". The wealth also gets distributed to more people and geographic areas, thus giving benefit to larger section of society.

3. **Production Evolution Process:** Entrepreneur understands and takes up product evolution process. This is a process where innovation develops and an entrepreneur commercializes the new products. Here an entrepreneur combines different technologies and fuses them in to products and services which turn into marketable items. Entrepreneurs also focus on costs and efficiency. It asks, "to what results should the resources and efforts of the business be allocated so as to reach extraordinary productivity and results.

The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

- Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
- It provides immediate large-scale employment. Thus, it helps reduces the unemployment problem in the country, i.e. the root of all socio-economic problem.
- It promotes balanced regional development.
- It helps reduces the concentration of economic power.
- It simulates the equitable redistribution of wealth, income and even political power in the interest of the country.
- It encourages effective resource mobilization of capital and skill which might -otherwise remain unutilized.
- It also induces backward and forward linkages which stimulate the process of economic development in the country.
- Last but no means the least; it also promotes country's export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can be best be put as "an economy is the effect for which entrepreneurship is the cause."

1.8 Barriers to Entrepreneurship

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers like:

- ✓ Lack of market knowledge
- ✓ Lack of technical know how
- ✓ Lack of seed capital
- ✓ Lack of business know how
- ✓ Complacency–lack of motivation and individual spirit
- ✓ Unfavorable family ground
- ✓ Lack of Education
- ✓ Lack of attitude and training
- ✓ Influence of Gender, Caste, Custom.
- ✓ Inadequate infrastructure facilities.
- ✓ Lack of transportation and communication facilities.

- ✓ Unavailability of raw material.
- ✓ Absence of regular supply of power.
- ✓ Absence of Ideal Market conditions.
- ✓ Corruption in administration.
- ✓ Unstable state government.
- ✓ Legal constraints and regulations
- ✓ Monopoly and protectionism

All these causes are due to unfavorable socio economic conditions. Karl H. Vesper lists certain entrepreneurial factors that help to reduce the effect of these barriers. The following figure depicts how it happens:

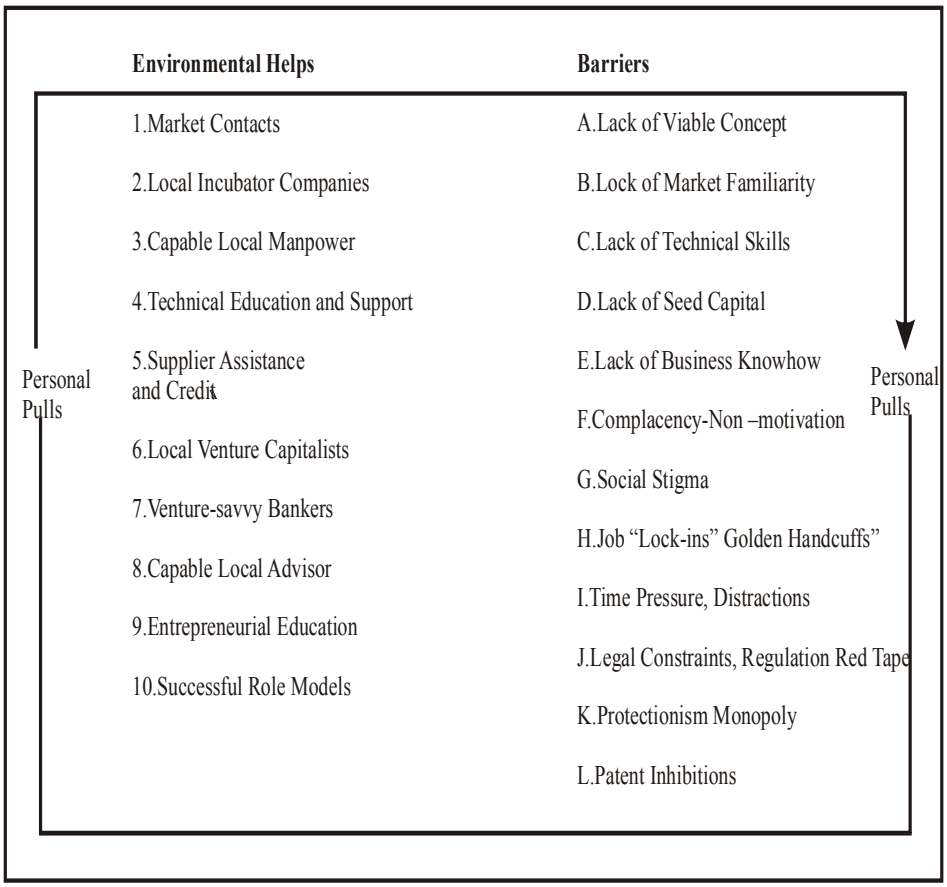


Figure 1.7: Barriers to Entrepreneurship

Source: Karl H. Vesper, Entrepreneurship and National Policy (1983), Walter E. Heller, International Institute for Small Business.

Many entrepreneurs may lack managerial skills, marketing capability, or financial resources. Their inventions are often unrealistic, requiring significant modification to be marketable. In addition, entrepreneurs frequently do not know how to interface with all the necessary entities, such as banks, suppliers, customers, venture capitalists distributors and advertising agencies.

Yet, in spite of all these difficulties, entrepreneurship is presently the most effec-tive method for bridging the gap between science and the marketplace, creating new enterprises, and bringing new products and services to the market. These entrepre-neurial activities significantly affect the economy of an area by building the eco-nomic base and providing jobs. Given its impact on both the overall economy and the employment of an area, it is surprising that entrepreneurship has not become even more of a focal point in economic development

1.9 The Future of Entrepreneurship

As evidenced by the many different definitions, the term entrepreneurship means dif-ferent things to different people and can be viewed from different conceptual per-spectives. However, in spite of the differences, there are some common aspects: risk taking, creativity, innovation, independence, and rewards. These common themes will continue to be the driving force behind the notion of entrepreneurship in the future. One thing is clear: The future for entrepreneurship appears to be bright. We are living in the age of the entrepreneur, with entrepreneurship endorsed by educational institutions governmental units, society, and corporations. Entrepreneurial education has never been so important in terms of courses and academic research.

Various governments are taking an increased interest in promoting the growth of entrepreneurship. Individuals are encouraged to form new business and provided such government support as tax incentives, buildings, roads, and a communication system to facilitate this creation process. Encouragement by local governments should continue in the future as more lawmakers understand that new enterprises create jobs and increase economic output in the area. Some state governments in the India like Gujarat are developing their own innovative industrial strategies for fostering entrepreneurial activity and the timely development of the technology of the area. The impact of this strategy is seen in the venture - capital industry, which is always sensitive to government regulations and policies.

Society's support of entrepreneurship will also continue. This support is critical in providing both motivation and public support. Never before have entrepreneurs been so revered by the general public. Entrepreneurial endeavors are considered honorable and even, in many causes, prestigious pursuits. A major factor in the development of this societal approval is the media. The media has played, and will continue to play, a powerful and constructive role by reporting on the general entrepreneurial spirit ad highlighting specific success cases of the spirit in operation.

Forbes magazine comes out with a list of the world's richest persons every year, years back this list used to be dominated by monarchs and heirs of family fortunes build up over years. Now, the case is very different, 7 out of the top 10 are self-made. This goes a long way to prove that entrepreneurship is the path to riches.

Table :1.1 Forbes World's Richest

Rank	Name	Ctizenship	Age	Net Worth ($ billion)
1	William Gates III	Unites States	51	56.0
2	Warren Buffett	Unites States	76	52.0
3	Carlos Slim Helu	Mexico	67	49.0
4	Ingvar Kamprad	Sweden	80	33.0
5	Lakshmi Mittal	India	56	32.0
6	Sheldon Adelson	United States	73	26.5
7	Bernard Arnault	France	58	26.0
8	Amancio Ortega	Spain	71	24.0
9	Li Ka-Shing	Hong Kong	78	23.0
10	David Thomson	Canada	49	22.0

Source: Forbes magazine, 2007

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and thus generating more robust economic development. These stimulants are as follows:

- ✓ Availability of capital is a stimulate to an entrepreneur to start a new firm and/or give birth to a new idea.
- ✓ The ability to transform scientific and technical development through new institutional development is a second stimulant.
- ✓ A third stimulant is the supportive government programmes.
- ✓ Availability of required training and input is ranked fourth.
- ✓ A collaborative relationship between business and research and their direct attempts to transfer technology, to the market place may provide stimulus to a number of entrepreneurs who seek the opportunity to commercialize their ideas and
- ✓ Finally, an endeavor to create an environment conducive to innovation will provide a much needed stimulant to entrepreneurial activities.

The innovation centre provides technological evaluation, entrepreneurial assessment and other related levels of assistance to entrepreneurs.

Misconceptions about Entrepreneurship:

1. **Successful Entrepreneurship Needs Only a Great Idea.** Having a great idea is only part of the equation for successful entrepreneurship. Understanding the demands of the different phases of the entrepreneurial process, taking an organized approach to developing the entrepreneurial venture, and coping with the challenges of managing the entrepreneurial venture are also key ingredients to successful entrepreneurship.

2. **Entrepreneurship is Easy.** Entrepreneurship is not easy! It takes commit-ment, determination, and hard work. And even if you have these qualities, it still isn't effortless! Entrepreneurs often encounter difficulties and setbacks, but the successful entrepreneurs are those who push on in spite of the difficulties.

3. **Entrepreneurship is a Risky Gamble.** Although entrepreneurs aren't afraid to take risks, entrepreneurship involves calculated risks, not unnecessary ones. In fact, there are times when successful entrepreneurship means avoiding or minimizing risks.

4. **Entrepreneurship is Found Only in Small Businesses.** Many people have the mis-taken idea that entrepreneurship is associated only with small organizations. The truth is that entrepreneurship can be found in any size organization. On the other hand, just because an organization is small doesn't automatically make it entrepreneurial.

1.10 Summary

Globalisation has brought a structural change in the economy and hence in the entrepreneurship. It is breaking the artificial boundaries and giving way to new products, new services and new ways to manufacturing and service methods. The current fast changes are being lead by technology advancements. The globalisation also has brought change of mind set with the government to help entrepreneurship by adopting suitable policies, regulations and inviting foreign capital. The environment is posing challenges of increased competition, new products, substitute products and emerging markets.

Any economy can develop to its extent if it has entrepreneurship. It is necessary to recognize entrepreneurial role as a separate and important factor of production. Large industrial units and business houses also play

an important role in developing and sustaining new entrepreneurship. For this, it should be noted that while the growth of entrepreneurship in India in the last 25-30 years have been remarkable, entrepreneurship is still a comparatively scarce factor in India, as indeed in all developing countries.

The study of entrepreneurship has relevance today, not only because it helps entrepreneurs better fulfill their personal needs but because of the economic contri-bution of the new ventures. More than increasing national income by creating new jobs entrepreneurship acts as a positive force in economic growth by serving as the bridge between innovation and the marketplace. With this entrepreneurial skills and store of knowledge, Indian entrepreneurs becoming creative and innovative and this will ensure that India will rise as a global economic power house. The entrepreneurship development movement in India had received significant attention; this is borne out by the fact that the small manufacturing enterprises have made phenomenal progress during the last three decades and today occupy an important position in the industrial economy of India.

1.11 Self Assessment Questions

1. Define 'Entrepreneurship'. Describe its characteristics.
2. Discuss the various definitions of 'Entrepreneurship'.
3. Entrepreneurship is an innovative function. It is a leadership rather than an ownership". Discuss.
4. "Entrepreneurship connotes innovation, risk-bearing and relatively dynamic leadership". Explain the statement..
5. Discuss the various views of entrepreneurship. Explain its nature / characteristics.
6. Explain the meaning and importance of Entrepreneurship.
7. Define 'Entrepreneurship'. Also discuss its significance.
8. State the factors that affect entrepreneurship.
9. "Without vision, the people perish. Without entrepreneurship, the economy and business stagnate". (Ralph Horwitz). Discuss the statement.
10. "To study the entrepreneur is to study the main figure in economic activity". Discuss the role of entrepreneurship in economic development of a country with reference to above statement.
11. What have been the main barriers for the growth in entrepreneurship?

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Unit - 2 : Theories of Entrepreneurship

Structure of Unit:

2.0 Objectives
2.1 Introduction: Historical Perspectives on Entrepreneurship
2.2 Different Opinion on Emergence of Entrepreneurship
2.3 Theories of Entrepreneurship
2.4 Entrepreneurship Globally
2.5 Summary
2.6 Self Assessment Questions
2.7 Reference Books

2.0 Objectives

After completing this unit, you will be able to:

- Describe the historical perspectives of entrepreneurship.
- Point out economical, sociological and psychological view on the emergence of entrepreneurship.
- Understand various theories of entrepreneurship propounded by various eminent authors.
- Focus on various multitudes of factors which influence entrepreneurship.
- Study and analyze global impact of entrepreneurship.
- Explain and correlate various theories from your own point of view.
- Understand Entrepreneurship as multi dimensional concept

2.1 Introduction: Historical Perspectives on Entrepreneurship

The definition of entrepreneurship involves creation of value through fusion of capital, risk taking, technology and human talent. It is a multidimensional concept. The distinctive features of entrepreneurship over the years are:

- Innovation,
- A Function of high achievement,
- Organisation building,
- Group level activities,
- Managerial skills and leadership,
- Gap filling activity
- Entrepreneurship – An emerging class.

For Scientist, 'theory' refers to the relationships between facts. In another words, theory is some ordering principles. There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. These theories have been supported and given by various thinkers over a period of more than two and half centuries. Let's understand the Historical perspective of Entrepreneurship in Figure 2.1:

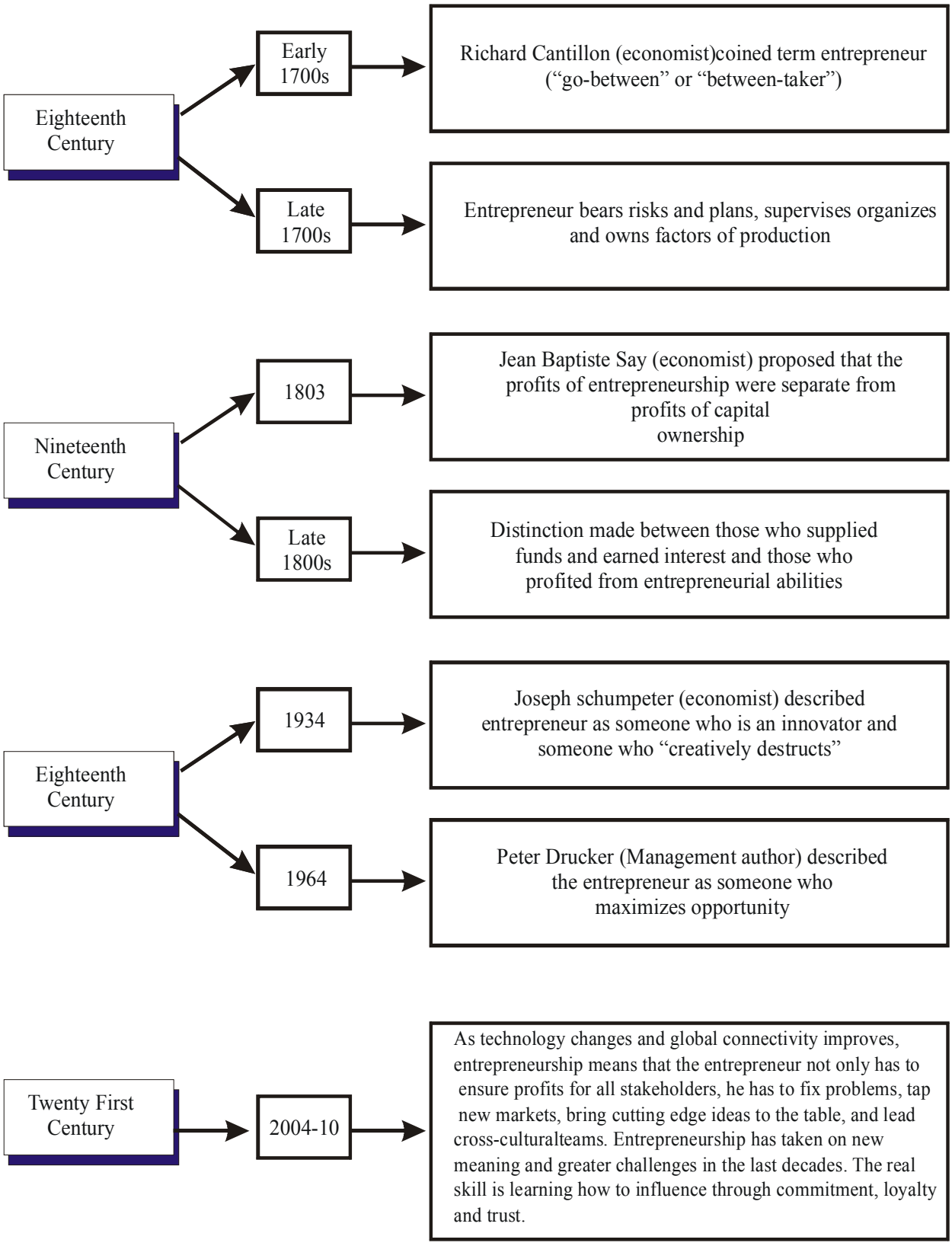


Figure 2.1: Time table of the Development of Entrepreneurship Theory

Although the current popularity of entrepreneurial exploits would tend to make you think that it is a twentieth or twenty first century phenomenon, but it's not like this. Early in the eighteenth century, the French term *entrepreneur* was first used to describe a "go-between" or a "between-taker." Richard Cantillon, a noted economist and reknowned author in the 1700s, is regarded by many as the originator of the

term entrepreneur. Cantillon used the term to refer to a person who took an active risk-bearing role in pursuing opportunities.

Late in the eighteenth century, the concept of entrepreneurship was expanded to include not only the bearing of risks but also the planning, supervis-ing, organizing, and even owning the factors of production. The nineteenth century was a fertile time for entrepreneurial activity because technological advances during the industrial revolution provided the impetus for continued inventions and innovations. Then, toward the end of the nineteen century, the concept of entrepreneurship changed slightly again to distinguish between those who supplied funds and earned interest and those who profited from entrepreneurial abilities.

During the early part of the twentieth century, entrepreneurship was still believed to be distinct and different from the management of organizations. However, in the mid-1930s the concept of entrepreneurship expanded. That's when economist Joseph Schumpeter proposed that entrepreneurship involved innovations and untried technologies or what he called creative destruction, which is defined as the process whereby existing products, processes, ideas, and businesses are replaced with better ones. Schumpeter believed that through the process of creative destruction, old and outdated approaches and products were replaced with better ones. Through the destruction of the old came the creation of the new. He also believed that entrepreneurs were the driving forces behind this process of creative destruction. They were the ones who took the breakthrough ideas and innovations into the marketplace. Schumpeter's description of the process of creative destruction served to highlight further the important role that innovation plays in entrepreneurship. As our earlier definition of entrepreneurship showed, the concepts of innovation and uniqueness are (and always have been) integral parts of entrepreneurial activity.

The final development from the twenti-eth century we'll look at is Peter Drucker's contention that entrepreneurship involves maximizing opportunities. Drucker is a well -known and prolific writer on a wide variety of management issues. What his perspective added to the concept of entrepreneurship is that entrepreneurs recognize and act on opportunities. Drucker proposed that entrepreneurship doesn't just happen out of the blue but arises in response to what the entrepreneur sees as untapped and undeveloped opportunities.

Although .we've looked at only a small portion of entrepreneurship's long and colourful past, keep in mind that the history of entrepreneurship continues to unfold. Its history is still being written today. In the early years of the twenty-first century, researchers continue to study entrepreneurs and entrepreneurship. Although no generally accepted theory of entrepreneurship has emerged from these studies.

2.2 Different Opinion on Emergence of Entrepreneurship

The concept of entrepreneurship has undergone major changes over more than two and half centuries. Yet the concept of entrepreneurship is not clear. As the concept of entrepreneurship is complex in its content, it is influenced by not only economical aspects, but also by sociological, psychological, ethical, religious and cultural values. Over the years the social scientists have interpreted the phenomenon of entrepreneurship differently in accordance with their perception and economic environment. We can identify five stages in the evolution of Entrepreneurship as shown in figure 2.2:

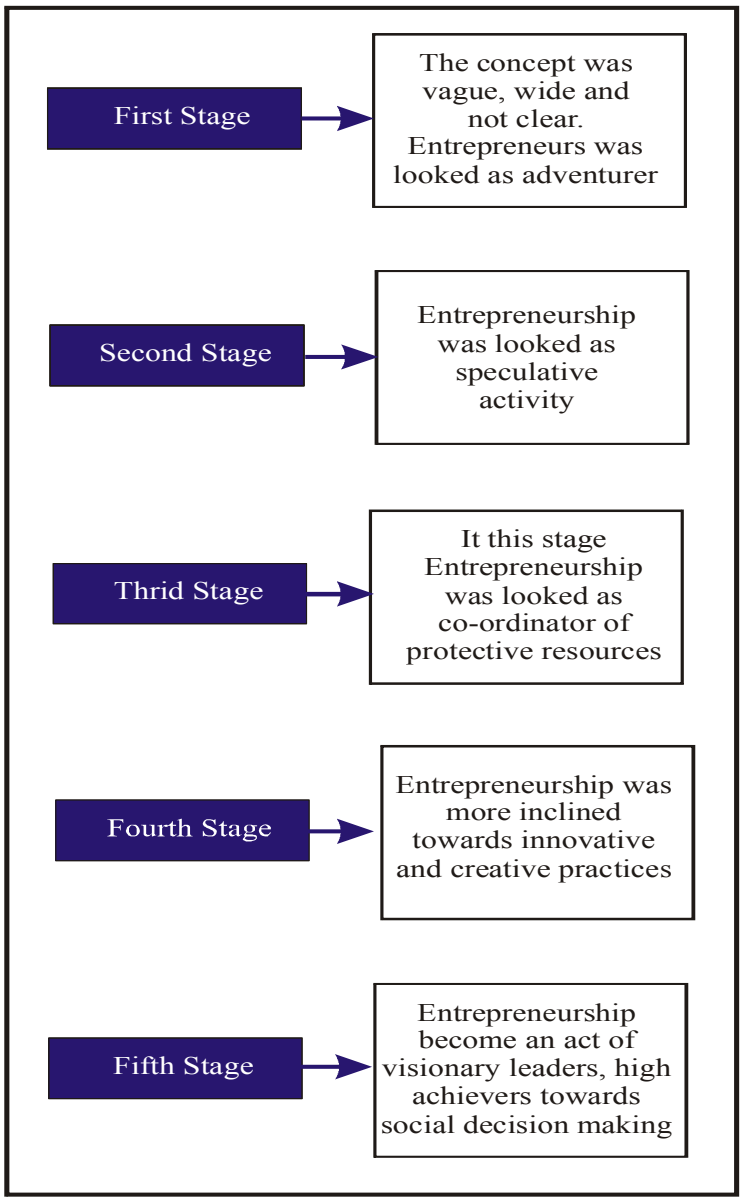


Figure 2.2 : Stage in Evolution of Entrepreneurship

Joseph Massie observes, "However, because of the diversity of approaches to the study of entrepreneurship, there is difficulty in defining just what entrepreneurship is and identifying just who is an entrepreneur." There are different opinions on the emergence of entrepreneurship. These opinions may be classified into three categories:

A. Economist's view
B. Sociologist's view
C. Psychologist's view

A. Economist's View

Entrepreneur and entrepreneurship have been a point of interest to economics as early as 1755. The term entrepreneur seems to have been introduced into economics by Cantillon, but the entrepreneur was first accorded prominence by Say. It was variously translated into English as 'merchant', 'adventurer' and 'employer', though the precise meaning is 'the undertaker of a project.' James Stuart Mill popularised the term in England.

According to economists entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. Economic incentives are the main drive for the entrepreneurial activities. They firmly believe that a well development market and efficient economic policies foster entrepreneurship a big way. G.F. Papanek and J.R. Harris are the main advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it not so evident, but the persons inner drives have always been associated with economic gains. Therefore, these incentives and gains are regards as the sufficient conditions for the emergence of industrial entrepreneurship. When an individual recognizes that the market for a product or service is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to but at the highest price. Lack of entrepreneurship is due to various kinds of market imperfections and inefficient economic policies.

B. Sociologist's View

Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities: The forces of custom, values, the rigidity of status and the district of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment and innovation. Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. According to them social sanctions, cultural values and role expectations are responsible for the emergence of entrepreneurship. Social-cultural values channel economic action that gives birth to entrepreneurship. The theories of Weber and Cocharan in this context are mainly sociological in nature and worth mention.

According to Cochran the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society's values are the most important determinant of the attitudes and role expectation. According to Weber religious beliefs produce intensive exertion in· occupational pursuits, the systematic ordering of means to end, and the accumulation on assets. It is these beliefs, which generate a drive for entrepreneurial growth. Hoselitz suggests that culturally marginal groups promote entrepreneurship and economic development. Such groups, because of their ambiguous position are peculiarly suited to make creative adjustments and thereby develop genuine innovations. In several countries entrepreneurs have emerged from particular socio-economic class. According to Stokes socio-cultural values channel economic action. He suggests that personal and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

C. Psychologist's View

The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently. Among those who have stressed on the psychological aspects as contributing to entrepreneurial success are Joseph Schumpeter, McClelland, Hagen and Kunkal. The main focus of these theories is as follows:

Schumpeter believes that entrepreneurs are primarily motivated by an atavistic will to power, will to found a private kingdom or will to conquer. According to McClelland it is the high need for achievement which drives people towards entrepreneurial activities. This achievement motive is inculcated through child rearing practices, which stress standards of excellence, material warmth, self-reliance training and low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high rest, desire for responsibility and a desire for a concrete measure of task performance. Hagen considers withdrawal of status respect as the trigger mechanism for changes is personality formation. Status withdrawal is the perception on the part of the members of some social group that their purposes and values on life are not

respected by groups in the society whom they respect Hagen identifies four types of events that coven produce status withdrawal: (a) displacement by force, (b) denigration of valued symbols; (c) inconsistency of status symbols with a changing distribution of economic power, and (d) non acceptance of expected status on migration to a new society.

Kunkel's behavioural model is concerned with the overtly expressed activities of individuals and their relations to the previously and presently surrounding social structures and physical conditions. Behavioural patterns in this model are determined by reinforcing and aversive stimuli present in the social context. Hence, entrepreneurial behaviour is a function of the surrounding social structure both past and present and can be-readily influenced by the manipulative economic and social incentives.

According to Psychologists, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. The main characteristics are:

- an institutional capacity to see things in new way (vision),
- energy of will and mind to overcome fixed habits of thought,
- an urge to do something,
- to fulfil a dream,
- he capacity to withstand social opposition; and
- the high need for achievement.

Each of the above view point is incomplete and none of them is right or wrong. Entrepreneurship is influenced by a multitude factors and, therefore, no single factor by itself can generate entrepreneurship. Thus, entrepreneurship is the outcome of complex and varying combination of socio-economic, psychological and other factors.

2.3 Theories of Entrepreneurship

A coordinated and comprehensive theory of entrepreneurship is yet to come. Mean while lets try to understand the following theories of entrepreneurship propounded by the different eminent social thinkers:

1. Innovation Theory of Schumpeter
2. Need for Achievement Theory of McClelland
3. Leibenstein's X-efficiency Theory
4. Risk Bearing Theory of knight.
5. Max Weber's Theory of Entrepreneurial Growth
6. Hagen's Theory of Entrepreneurship
7. Thomas Cochran's Theory of Cultural Values
8. Theory of Change in Group Level Pattern
9. Economic Theory of Entrepreneurship
10. Exposure Theory of Entrepreneurship.
11. Political System Theory for Entrepreneurial Growth.

1. Innovation Theory of Schumpeter:

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production - which he succinctly terms, innovation - the entrepreneur activates the economy to a new level of development.

Schumpeter introduced a concept of innovation as key factor in entrepreneurship in addition to assuming risks and organising factor of production. Schumpeter defines entrepreneurship as "a creative activity". An innovator who brings new products or services into economy is given the status of an entrepreneur. He regards innovation as a tool of entrepreneur, The entrepreneur is viewed as the 'engine of growth', He sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources. The concept of innovation and its corollary development embraces five functions:

- The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product,
- The introduction of new method of production that is not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially,
- The opening of new market that is a market on to which the particular branch of manufacturer of the country in question has not previously entered, whether or not this market has existed before,
- Conquest of a new source of supply of raw material and
- The carrying out of the new organisation of any industry.

Schumpeter is the first major theorist to put the human agent at the centre of the process of economic development. He is very explicit about the economic function of the entrepreneur. The entrepreneur is the prime mover in economic development; his function, to innovate or carry out new combinations. Schumpeter makes a distinction between an innovator and an inventor. An inventor discovers new methods and new materials. On the contrary, an innovator is one who utilises or applies inventions and discoveries in order to make new combinations. An inventor is concerned with his technical work of invention whereas an entrepreneur converts the technical work into economic performance. An innovator is more than an inventor because he does not only originate as the inventor does but goes much farther in exploiting the invention commercially.

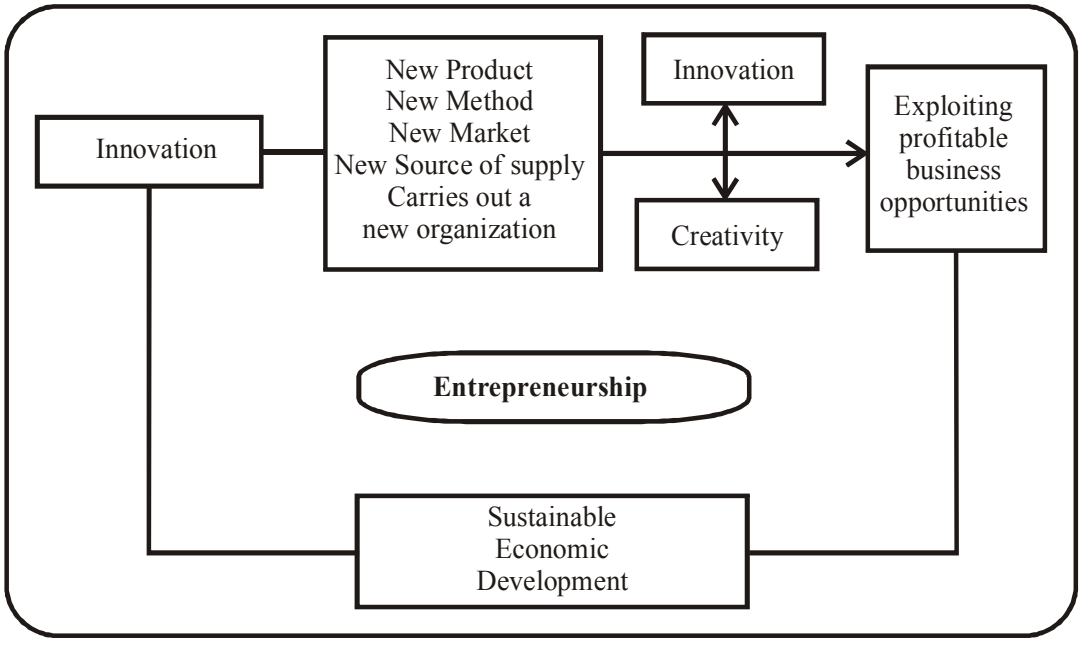


Figure 2.3: Innovation Theory of Entrepreneurship

Wilken had added the concept of the changes that an entrepreneur brings:

- Expansion of goods, products.
- Productivity of factors of production such as finance, labour, material.
- Innovation in production such as, technology, process changes and increase in human resource productivity.
- Innovation in marketing area such as the composition of the market, size of the market and new markets.

To Schumpeter, entrepreneurs are individuals motivated by a will for power; their special characteristic being an -inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts, and a capacity to withstand social opposition. The factors that contribute to the development of entrepreneurship would essentially be a suitable environment in grasping the essential facts.

It can be noted that this theory's main figure, the "innovating entrepreneur" has played an important role in the rise of modem capitalism. The entrepreneur has been the prime mover - for economic development process. On the criticism side, this theory seems one-sided as it puts too much emphasis on innovative functions. It ignores the risk taking and organizing aspects of entrepreneurship. An entrepreneur has not only to innovate but also assemble the resources and put them to optimum use.

While stressing upon the innovative function of the entrepreneur, Schumpeter ignored the risk-taking function, which is equally important. When an entrepreneur develops a new combination of factors of production, there is enough risk involved.

In spite of these lacking, the theory supports the "enterprising spirit" of entrepreneur to innovate. It is the act that endows resources with a new capacity to create wealth. Drucker says, "Innovation, indeed, creates a resource. It endows it with economic value." Schumpeter's views are particularly relevant to developing countries where innovations need to be encouraged. The transformation of an agrarian economy into an industrial economy required a great deal of initiative and changes on the part of businessmen and managers.

2. Need for Achievement Theory of McClelland:

According to McClelland the characteristics of entrepreneur has two features - first doing things in a new and better way and second decision making under uncertainty. McClelland emphasises achievement orientation as most important factor for entrepreneurs. Individuals with high. achievement orientation are not influenced by considerations of money or any other external incentives. Profit and incentives are merely yardsticks of measurement of success of entrepreneurs with high achievement orientation. People with high achievement (N-Ach) are not influenced by money rewards as compared to people with low achievement. The latter types are prepared to work harder for money or such other external incentives. On the contrary, profit is merely a measure of success and competency for people with high achievement need.

Professor David McClelland, in his book *The Achieving Society,* has propounded a theory based on his research that entrepreneurship ultimately depends on motivation. It is the need for achievement (N-Ach), the sense of doing and getting things done, that promote entrepreneurship. According to him, N-Ach is a relatively stable personality characteristic rooted in experiences in middle childhood through family socialisation and child-learning practices which stress standards of excellence, material warmth, self-reliance training and

low father dominance. According to him a person acquires three types of needs as a result of one's life experience. These three needs are:

- ❖ Need for Achievement. A drive to excel, advance and grow.
- ❖ Need for Power. A drive to dominate or influence others and situations.
- ❖ Need for Affiliation. A drive for friendly and close inter-personal relationships.

McClelland found that certain societies tended to produce a large percentage of people with high achievement. He pointed out that individuals, indeed whole societies that possess N-ach will have higher levels of economic well-being than those that do not. McClelland's work indicated that there are five major components to the N-ach trait: (a) responsibility for problem solving, (b) setting goals, (c) reaching goals through one's own effort, (d) the need for and use of feedback, and (e) a preference for moderate levels of risk-taking.

The individual with high levels of need achievement is a potential entrepreneur. The specific characteristics of a high achiever (entrepreneur) can be summarized as follows:

(i) They set moderate realistic and attainable goals for them.

(ii) They take calculated risks.

(iii) They prefer situations wherein they can take personal responsibility for solving problems.

(iv) They need concrete feedback on how well they are doing.

(v) Their need for achievement exist not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

According to McClelland, motivation, abilities and congenial environment, all combine to promote entrepreneurship. Since entrepreneurial motivation and abilities are long run sociological issues; he opined it is better to make political, Social and economic environments congenial for the growth of entrepreneurship in underdeveloped and developing countries.

3. Leibenstein's X-Efficiency Theory:

This theory, originally developed for another purpose, has recently been applied to analyse the role of the entrepreneur. Basically, X-efficiency is the degree of inefficiency in the use of resources within the firm: it measures the extent to which the firm fails to realise its productive potential. According to Leibenstein, When an input is not used effectively the difference between the actual output and the maximum output attributable to that input is a measure of the degree of X-efficiency.

X-efficiency arises either because the firm's resources are used in the wrong way or because they are wasted, that is, not -used at all. Leibenstein identifies two main roles for the entrepreneur: (i) a gap-filler and (ii) an input completer. These functions arise from the basic assumptions of X-efficiency theory. Thus it is clear that "if not all factors of production are marketed or if there are imperfections in markets, the entrepreneur has to fill the gaps in the market. To put the enterprise in motion, the entrepreneur should fill enough of gaps." The second role is input completion, which involves making available inputs that improve the efficiency of existing production methods or facilitate the introduction of new ones. The role of the entrepreneur is to improve the flow of information in the market.

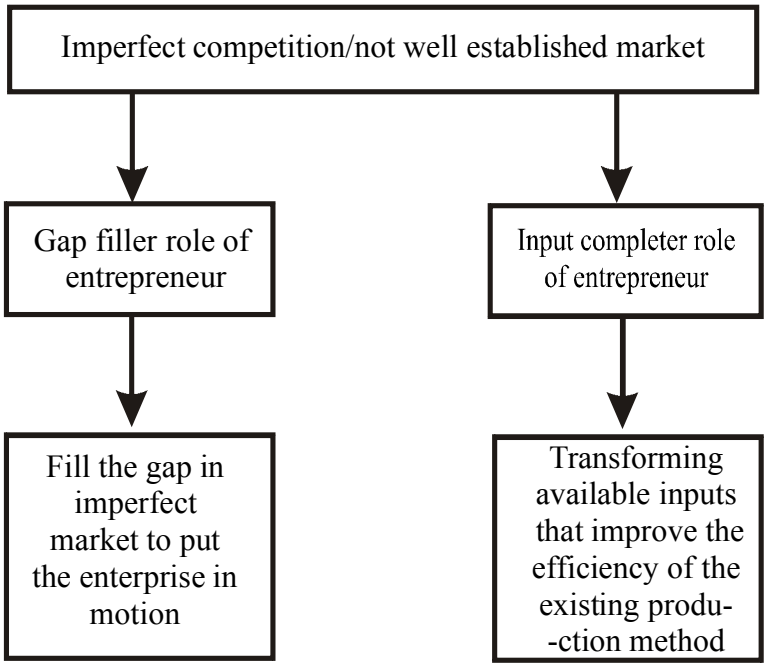


Figure 2.4: Leibenstein X- efficiency Theory

The theory concludes that an entrepreneur has to act as gap filler and an input completer if there are imperfections in markets. For using there unusual skills, he gets profits as well as a variety of non-peculiar advantages. According to him there are two types of entrepreneurship.

(i) Routine entrepreneurship – deals with normal business functions like co-ordinating the business activities.

(ii) Innovative entrepreneurship – wherein an entrepreneur is innovative in his approach. It includes the activities necessary to create an enterprise where not all the markets are well-established or clearly defined.

4. Risk Bearing Theory of Knight:

A key element of entrepreneurship is risk bearing. Prof. Knight and John Staurt Mill saw risk-bearing as the important function of entrepreneurs. Some important features of this theory are as follows:

1. Risk creates Profit: According to the risk-bearing theory, the entrepreneur earns profits because he undertakes risks.

2. More Risk More Gain: The degree of risk varies in different industries. Entrepreneurs undertake different degrees of risk according to their ability ad inclination. The risk theory proposes that the more risky the nature of business, the greater must be the profit earned by it.

3. Profit as Reward and Cost: Profit is the reward of entrepreneur for assuming risks. Hence, it is also treated as a part of the normal cost of production.

4. Entrepreneur's Income is Uncertain: He identifies uncertainty with a situation where the probabilities of alterative outcomes cannot be determined either by a priori reasoning or by statistical inference. A priori reasoning is simply irrelevant to economic situation involving a unique event. This theory summarizes that profit is the reward of an entrepreneur effort which arises for bearing non-insurable risks and uncertainties and the amount of profit earned depends upon the degree of uncertainty bearing. Knight argues that business enterprises the level of uncertainty can be reduced

through 'consolidation'. Consolidation is to uncertainty is what insurance is to risk; it is a method of reducing total uncertainty by pooling individual instance. The elasticity of the supply of self confidence is the single most important determinant of the level of profit and the number of entrepreneurs.

5. Max Weber's Theory of Entrepreneurial Growth:

Max Weber in his theory says religion has a large impact on entrepreneurial development. According to Weber some religions have basic beliefs to earn and acquire money and some have less of it. He calls them a 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism will be generated when mental attitude in the society is favourable to capitalism. According to Max Weber, driving entrepreneurial energies are generated by the adoption of exogenously-supplied religious beliefs. It is these beliefs which produce intensive exertion in occupational pursuits, the systematic ordering of means to ends, and the accumulation of assets. His theory suggests the belief systems of Hinduism, Buddhism ad Islam do not encourage entrepreneurship. His stand has been challenged by many sociologists. Max Weber's Theory is shown in Figure 2.5

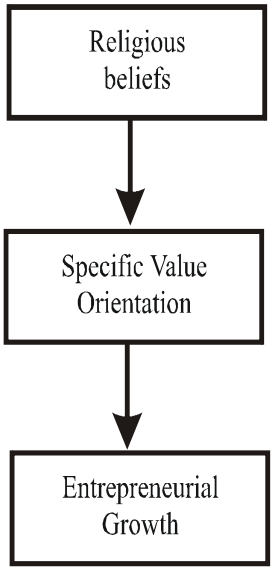


Figure 2.5: Max Weber's Theory

Max Weber's theory suited the colonial rulers who wanted to encourage European entrepreneurship in India. But it has been criticised by subsequent researchers. The theory is based on the invalid assumptions, which are:

(a) There is a single system of Hindu value,
(b) The Indian community internalised those values and translated them to day-to-day behaviour, and
(c) These values remained immune to and insulated against external pressures and change. The rapid growth of -entrepreneurship in India since independence proves that Hinduism is not averse to the spirit of capitalism and to adventurous spirit.

Many thinkers have accepted the Weber's analysis of linkage between religious belief and entrepreneurial growth. But this view is not accepted universally. Samuelson criticised Weber's view on the ground that capitalism also developed in those societies where protestant ethic was 'not prevalent. Hoselitz argued that Protestant could not develop industries in France because they were not given political security. It can be concluded in the words of Carroll that "ethical values have some effect on entrepreneurial growth but to consider them all in all would be unrealistic."

6. Hagen's Theory of Entrepreneurship:

One important theory of entrepreneurial behaviour has been propounded by Hagen which is referred to as the withdrawal of status respect. Hagen has attributed the withdrawal of status respect of a group to genesis of entrepreneurship. Hagen considers the withdrawal of status, of respect, as the trigger mechanism for changes in personality formation. Status withdrawal occurs when members of some social group perceive that their purposes and values in life are not respected by the groups in the society they respect, and whose esteem they value. Hagen postulates four types of events which can produce status withdrawal:

- Displacement of a traditional elite group from its previous status by another traditional supply physical force.
- Denigration of valued symbols through some change in the attitude of the superior group.
- Inconsistency of status symbols with a changing' distribution of economic power.
- Non-acceptance of expected status on migration to a new society.

Hagen further postulates that withdrawal of status respect would give to four possible reactions and create four different personality types:

(a)Retreatist: Entrepreneur who continues to work in society but remains indifferent to his work or status.

(b)Ritualist: One who works as per the norms in the society hut with no hope of improvement in the working conditions or his status.

(c)Reformist: One who is a rebellion and tries to bring in new ways of working and new society.

(d)Innovator: An entrepreneur who is creative and try to achieve his goals set by himself.

According to Hagen (1962), the creativity of a disadvantaged minority group is the main source of entrepreneurship. He developed this thesis from the case of the samurai community of Japan. Traditionally, this community had enjoyed a high status of which it was deprived later. To regain this lost prestige, it became more active and vigorous and gave rise to many entrepreneurs. McClelland supported this thesis by admitting that a suppressed community had more *creativity.* He said that Jains could be successful entrepreneurs because of their consciousness of their majority and superiority complexes. McClelland had modified Hagen's thesis slightly in order to explain such cases. He stated that the subordination of minority group could arouse achievement motivation in its members but its extent depended upon the initial level of motivation and the means available to the group to active its achievement motivations.

7. Thomas Cochran's Theory of Cultural Values

The key proportions in Thomas Cochran's theory are cultural values, role expectations and social sanctions. According to him, the entrepreneur represents society's model personality. His performance is influenced by the factors of his own attitudes towards his occupation, the role expectations held by sanctioning groups, and the operational requirements of the job. The determinants for the first two factors are the society's values. Changes over time in such variables as population, technology, and institutional drift will impinge on the role structure by creating new operational needs. In most countries, entrepreneurs have emerged from a particular socio-economic class. The Protestant ethic of the West is said to have contributed to the emergence of a new class of industrialists. It can be noted that various communities and castes like samurai in Japan, family pattern in France, Yoruba in Nigeria, Kikuya in Kenya, Christians in Lebanon, Halai Memon industrialists in Pakistan, Parsees, Marwaries and Gujaratis in India have been the sources of entrepreneurship.

8. Theory of Change in Group Level Pattern:

Young defines entrepreneurs as that the entrepreneur characteristics are found in small groups wherein individuals develop as entrepreneurs. Young arrived at the group level pattern behaviour entrepreneurs based on his studies known as Thematic Appreciation Test (TAT) on groups of entrepreneurs. The test revealed' the tendency to describe the situation as a problem to be solved, an awareness of pragmatic effort required, confidence in their own ability to solve the problem and a tendency to take the viewpoint of each individual in turn and analyse the situation as he might see it before suggesting an outcome. Young's theory is a theory of change based on society's incorporation of reactive subgroups. A group becomes reactive when the following three conditions coincide:

- When denied of access to important social networks;
- When a group experiences low 'status recognition; and
- When the group has better institutional resources than other groups in the society at the same level.

9. Economic Theory of Entrepreneurship

Many economists revealed that entrepreneurship and economic growth will take place in those circumstances where particular economic conditions are in favour of the business environment. The main advocates of this theory were Papanek and Harris. According to them economic incentives are the main forces for entrepreneurial activities in any country. There are a lot of economic factors which promote or demote entrepreneurship in a country. These factors are:

(a) The availability of bank credit
(b) High capital formation with a good flow of savings and investments
(c) Supply for loanable funds with a lower rate of interest.
(d) Increased demand for consumer goods ad services
(e) Availability of productive resources.
(f) Efficient economic policies like fiscal ad monetary policies
(g) Communication and transportation facilities

Economic development was the result of rationalization of technology and accounting systems and the acquisition of capital and its productive use was the main theme of the Weberian thesis. Some scholars have tried to explain the growth of entrepreneurship in terms of regional economic factors, e.i., industrial support to environment in these regions. A question which was analysed by a researcher is: "Since Jains and Vaisyas were in every corner of India, why was it that only Marwari ad Gujarati Vaisyas and Jains gave lead in entrepreneurship, mostly in Gujarat". This analysis revealed that Gujarat had environment favourable to business and industry. Thus, it can be concluded that the industrial climate may have a very significant impact on the response of entrepreneurs. However, the group factors, as emphasized by various studies, cannot be ignored altogether.

10. Exposure Theory of Entrepreneurship:

Many studies have shown that it is the exposure to new ideas and opportunities towards creativity ad innovation which leads to create a new venture. There is adequate empirical evidence to prove its validity. 'Tripathi has observed that exposure to new ideas and values were the common factor between Parsi and Hindu entrepreneurs, which led them to entrepreneurship. Education have played very significant role in exposing the Indian entrepreneurs to Western ideas leading them to entrepreneurship. It is also the differential responses of the social groups to opportunities provided by the commitment of the political system to industrialisation that has led the process of entrepreneurial spread. This concept is illustrated in Figure 2.6 as under:

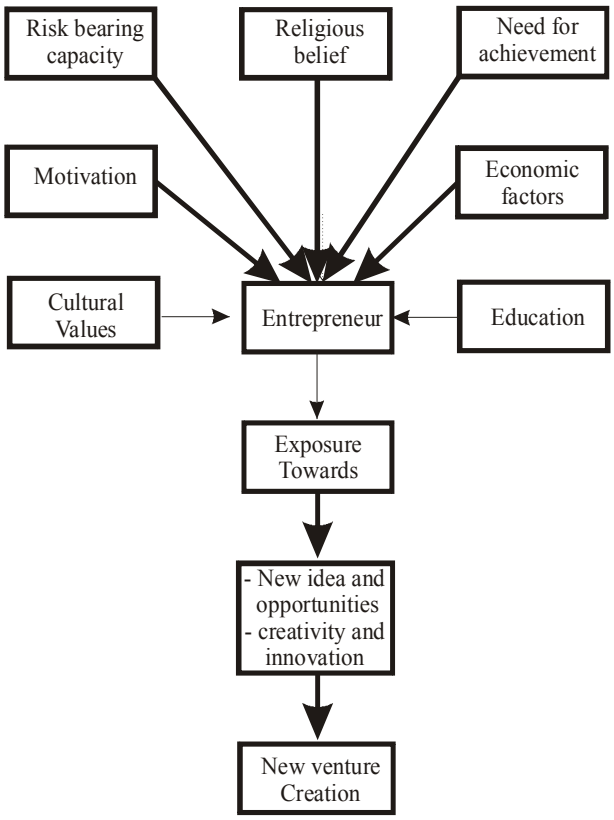


Figure 2.6 : Exposure Theory of Entrepreneurship

11. Political System Theory of Entrepreneurial Growth:

Political system can crate adequate infrastructure, favourable laws, favourable taxation system and procedures, provide incentives and subsides, security to entrepreneurs, create promoting policies and can encourage people towards entrepreneurship. Government can also build supporting system for potential entrepreneurs. Thus, the commitment of political system can contribute significantly towards entrepreneurial development.

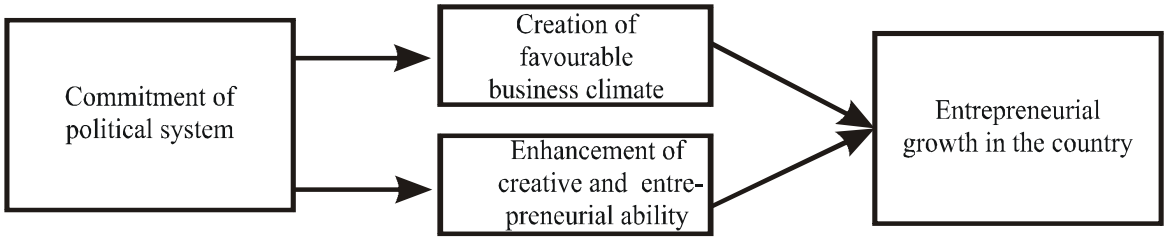


Figure 2.7: Political System Theory of Entrepreneurial Growth

According to Hoselitz, Japanese entrepreneurs could flourish because their political system was able to properly integrate with various sectors such as the industrial and agricultural, large, small and handicraft industries, labour intensive and capital intensive technology, traditional and modem social structure. Also, there was no colonial disruption. According to Boulding "political structure was the *decisive* factor in entrepreneurial growth of France and Russia. But before 1917 it did not flourish because the creative ability of masses could not find expression. Hoselitz argued that France lagged behind entrepreneurially, because his political system did not provide sufficient incentives and security to entrepreneurs.

2.4 Entrepreneurship Globally

The Global Entrepreneurship Monitor 2000 report covered 21 countries that were divided into three levels of entrepreneurship (See Table No. 2.1). As you can see from this data, the highest levels of entrepreneurial activity were found in five countries (Australia, Canada, Korea, Norway, and the United States.) Average levels of entrepreneurial activity were found in 14 countries and the lowest levels of entrepreneurial activity were found in two countries – France and Japan. In addition, the researchers found among the major industrialized G-7 coun-tries (group of seven countries including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), in particular, a very strong relation-ship between the level of entrepreneurial activity and annual economic growth. The GEM report provides conclusive evidence that promoting entrepreneurship and enhancing the entrepreneurial dynamics of a country should be an integral element of any government's commitment to boosting economic well-being.

Table 2.1 Level of Entrepreneurial Activity around the Globe

Top Level	Middle Level	Lowest Level
Australia	Argentina	France
Canada	Belgium	Japan
Korea	Brazil	
Norway	Demark	
United States	Finland	
	Germony	
	India	
	Israel	
	Ireland	
	Italy	
	Sigapore	
	Spain	
	Sweden	
	United Kingdom	

Source : Based on "Economic Growth Linked to Level of Business Start - ups," GEM 2000 Report

A variety of socia1, economic, political and cultural factors are stimulating entrepreneurial activity and consequently generating economic development. These stimulants are as follows:

- An increasing focus on capital formation.
- The ability to transform scientific and technical developments through new institutional development.
- The supportive government programmes.
- Availability of required training and inputs.
- A collaborative relationship between business and research and their direct attempts to transfer technology to the market place will be an opportunity for entrepreneurs who commercialise their ideas.
- Finally, an endeavour to create an environment conducive to innovation will provide a much-needed stimulant to entrepreneura1 activities.

From a global perspective, we can also conclude that entrepreneurship plays an important role in a country's economic growth. The future of entrepreneurship is bright in developing countries. "We are living in an age of entrepreneurial development. The entrepreneurship is endorsed and encouraged by educational institutions, governments, society / and other corporate bodies in India and other developing countries. Entrepreneurial development is introduced as a core subject in universities \ curriculum. The research activities in this direction

are also on growth path. Government organisations are helping entrepreneurs by building infrastructure such as readymade Industrial sheds buildings, training facilities, roads communication, loan for new projects, working capital loans. The governments have understood the potential of new units in creating new jobs, new markets and growth of economy. Governments in developing countries are encouraging collaborations and joint venture and. technology transfers with large MNCs and other corporation to develop indigenous technologies. Growth of few industries is planned to take advantage of available resources and channelizing efforts in new growth markets.

2.5 Summary

The Chapter deals with the multi-dimensional concept of entrepreneurship wherein the eleven theories of entrepreneurship have been discussed in detail. The most important was the Schumpeter's theory of innovation wherein Schumpeter emphasises the importance of innovation in entrepreneurship. The second important theory of entrepreneurship is written by McClelland as a function of achievement that is doing things in a better way and taking critical decisions in a new enterprise.

From the above theories we can see that Schumpeter and McClelland have given primary importance to the individual. While Schumpeter has stressed on innovativeness or creativity of the individual as an important determinant for entrepreneurship, McClelland stresses more on the internal factors, specifically, the need for achievement. Weber has touched upon the religious belief system which is part of culture and which has a great influence in determining the individual's behaviour in every aspect of his life. Hegan's views economic development as a process which is brought about by withdrawal of status respect of a group. Young lays greater emphasis on the nature of the groups, group's assistance and coordination. Like Weber and McClelland, Cochran also speaks in different terms but explicitly, of cultural values and social structure (which include role expectations and social sanction) as playing a vital role in economic development.

As observed, every theorist has looked at the entrepreneur and entrepreneurship on the basis of his perception, and therefore, can, at best, provide only a limited view of entrepreneurial phenomenon. No view is right or wrong, or more or less; in fact, the various factors which cause the emergence of entrepreneurship are integral and not additive. They care interlocking, mutually dependent and usually reinforcing.

As a conclusion, it can be said that entrepreneurship, is the outcome of a complex and varying combinations of socio-economic, psychological and other factors. A realistic perspective should take them together. Each of the entrepreneurship theories discussed are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, dream, ambition, passion, achievement, motivation, commitment, integrity, zeal, honesty, sincerity, ability and hard work which largely determine whether an individual become an entrepreneur or not.

2.6 Self Assessment Questions

1. Define Entrepreneurship and put a light on historical perspective of Entrepreneurship.
2. How emergence or evolution of entrepreneurship took plate? Explain in Detail.
3. Describe in detail the economist's, sociologist's and psychologist's view in detail about the emergence of entrepreneurship.
4. Discuss theories of entrepreneurship and prove that "entrepreneurship is multi- dimensional concept."
5. What are entrepreneurship theories of innovation and a function of high achievement?

6. What is the Risk-bearing theory of Entrepreneurship propounded by Knight? Explain in detail.

7. Explain and evaluate the Innovation theory of Schumpeter.

8. Analyse the Economic Theory of Entrepreneurship.

9. Analyse the Hagen's theory of Entrepreneurship.

10. Enunciate the X-efficiency Theory of Leibenstein.

11. Analyse Thomas Cochran's Theory of culture of values.

12. Explain and evaluate theory of change in group level pattern.

13. What is Max Weberian Model of Entrepreneurship? Also evaluate it.

14. Enunciate the 'Exposure Theory' of Entrepreneurship.

15. Explain the Political System Theory of Entrepreneurship.

16. Write a note on "Global Scenario of Entrepreneurship."

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Unit - 3 : Entrepreneur: Definition and Concept

Structure of Unit:

3.0 Objectives
3.1 Introduction
3.2 Meaning and Definition of Entrepreneur
3.3 What is an Entrepreneur?
3.4 Characteristics and Skills of Entrepreneur
3.5 The Entrepreneurial Decision
3.6 The Entrepreneurial Process
3.7 Summary
3.8 Self Assessment Questions
3.9 Reference Books

3.0 Objectives

After completing this unit, you will be able to:

- Understand meaning of the term 'Entrepreneur'
- Explore various personality characteristics and skills of a successful entrepreneur.
- Understand the evolution of the term entrepreneur.
- Describe who entrepreneurs are and what they do?
- Discuss the various entrepreneurial decisions.
- Outline the steps in entrepreneurial process.

3.1 Introduction

As we enter the third millennium, small firms, new firms and entrepreneurialism have become the focus of economic activities. These are the by-words of business, the latest fashion in the fashionable world of business education. The world is rapidly changing; we should be able to change our attitudes and approaches accordingly. Process of development includes creation of appropriate infrastructure and setting up and management of public utilities. Similarly, application of modern scientific techniques in agriculture has become imperative for providing a sound base for a more rapid growth of employment and incomes. There is also a need for rapid growth of distributed industries in a multi-directional way. Apart from land, labour and capital, there is greater need for entrepreneurs to strive for growth on an ongoing basis.

The key to growth is to foster entrepreneurial culture, Peter Drucker writes, "The emergence of the entrepreneurial society may be a major turning point in history". In fact, entrepreneurs are the builders of a nation and creators of humanity by their innovative vision, dynamic leadership and creative decision behaviour. Entrepreneur is the central figure of economic activity and motivator of development.

Entrepreneurs have become the stuff of legends, 'economic heroes' (Canon 1991) increasingly held in high esteem and held up as role models to be emulated. They are often said to embody many ephemeral qualities - freedom of spirit, creativity, vision, zeal. Like Dhiru Bhai Ambani, they have the courage and self-belief to turn their dreams into realities. They see an opportunity, commercialise it and in the process create jobs from which the rest of society benefits. Vesper suggests that those of us who strongly favour a market

economy view entrepreneurs as pillars of industrial strength - the movers and shakers who constructively disrupt the status quo.

Indian entrepreneurs will have, therefore, to draw up their futuristic vision by way of redefining their purpose and mission and resetting their attainable objectives, and developing long-term strategy against the background of emerging opportunities and impending threats inherent in domestic and global environments on the one hand and competencies and weaknesses, on the other.

3.2 Meaning and Definition of Entrepreneur

Who is an entrepreneur? What is entrepreneurship? What is an entrepreneurial career path? These frequently asked questions reflect the increased national and international interest in entrepreneurs. On the other hand, increased academic interest in the entrepreneurship is bringing a sharper focus on the subject. In spite of all this interest, a concise, universally accepted definition has not yet emerged.

The word entrepreneur is French and, literally translated, means "between-taker" or "go-between". The **Webster Dictionary** explains that the term entrepreneur is applicable to 'one who organizes, manages and assumes the risks of a business or enterprise.' The general perception of the entrepreneurs as a starter of businesses is reflected by the definition in the **BBC English Dictionary**, which refers to an entrepreneur 'as a person who sets up a business.' **English Dictionary** defines an entrepreneur as 'a person who attempts to profit by risk and initiative'. This definition emphasises that entrepreneurs exercise a high degree of initiative and are willing to take a high degree of risk.

Michael Palner writes, "The word entrepreneur carries a deluge of definitional and operational ambiguity. The entrepreneurial function has been identified with "uncertainty bearing", "co-ordination of production resources", "introduction of innovations" and the "provision of capital". All definitions are ex-post facto: a person is defined as an entrepreneur because of something he has done, in terms of a function".

The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions." Leading economists of all schools, including Karl Marx have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

By the 17th century, the term 'entrepreneur' was meant to refer to individuals who entered into contractual agreements to sell goods and services at fixed prices. In the 18th century, the term included individuals, who brought in capital to carry out the business activities rather than using the capital provided by others.

Back in 1800, Jean-Baptist Say, the French economist usually credited with inventing the word said; 'entrepreneurs shift economic resources from an area of lower productivity into an area of higher productivity and greater yield'. In other words entrepreneurs create value by exploiting some form of change, for example in technology, materials, prices or demographics. We call this process innovation and this is an essential tool for entrepreneurs. Entrepreneurs, therefore, create new demand or find new ways of exploiting existing markets. They identify a commercial opportunity and then exploit it.

According to Joseph Schumpeter "Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the commercial organisation going with his ability to identify them and opportunities which others are not able to identify and is able to fulfil such economic opportunities." Joseph A. Schumpeter also writes : "The entrepreneur in an advanced economy and an individual who introduces something new in the economy - a method of production not yet tested by experience in the branch of manufacturer concerned,

a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like." He further states the entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity"

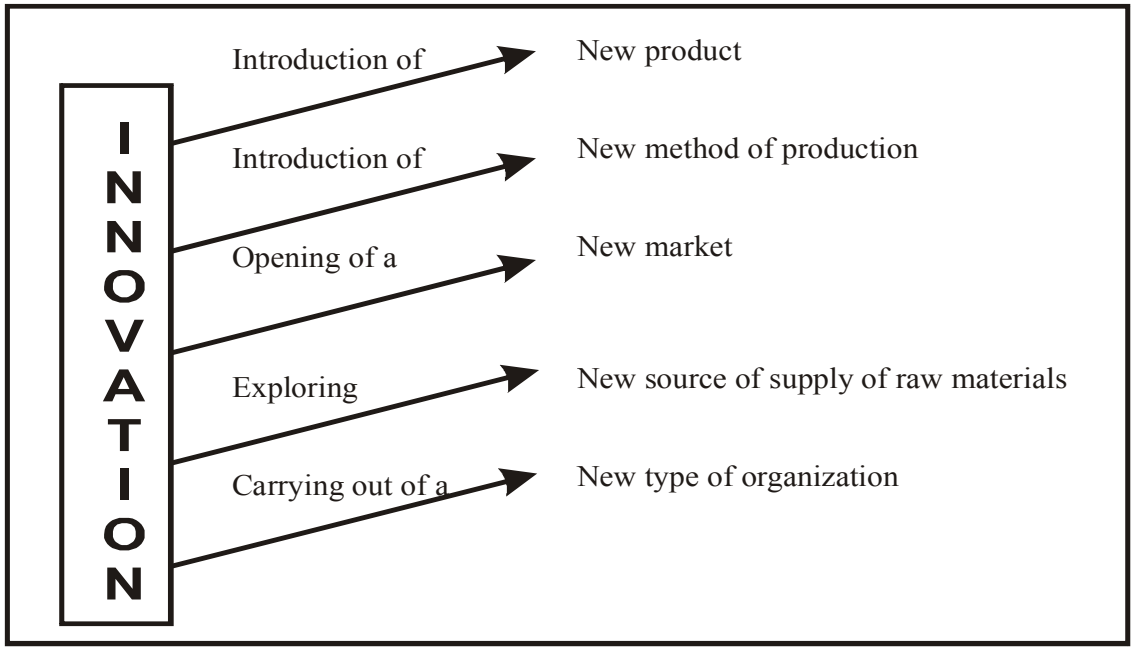


Figure 3.1 : Schumpeter's view of Entrepreneur

Table 3.1 Development of Term Entrepreneur

Middle Ages	actor and person in charge of large-scale production projects.
17th Century	Person bearing risks of profit (loss) in a fixed-price contract with government.
1725	Richard Cantillon- person bearing risks is different from one supplying capital.
1803	Jean Baptiste Say - separated profits of entrepreneur from profits of capital.
1876	Francis Walker - distinguished between those who supplied funds and received interest and those who received profit from managerial capabilities.
1934	Joseph Schumpeter - entrepreneur is an innovator and develops untried technology.
1961	David McClelland - entrepreneur is an energetic, moderate risk taker.
1964	Peter Drucker - entrepreneur maximizes opportunities.
1975	Albert Shapero - entrepreneur takes initiative, organizes some social and economic mechanisms, and accepts risks of failure.
1980	Karl Vesper - entrepreneur seen differently by economists, psychologists, businesspersons and politicians.
1985	Robert Hisrich - entrepreneurship is the process of creating something different with value by devoting the necessary time and effort; assuming the accompanying financial, psychological, and social risks; and receiving the resulting rewards of monetary and personal satisfaction

Source: Robert D. Hisrich, "Entrepreneurship and Intrapreneurship (Lexington, MA : Lexington Books, 1986), p. 96

Frank W. Young conducted a series of tests and found that entrepreneurs show a tendency to describe any problematic situation as a 'problem to be tackled with pragmatic efforts. The entrepreneur will have confidence in their own ability of analysing and solving.

F. H. Knight, in his article on Risk, Uncertainty and Profit propounded that "entrepreneurs are a specialized group of persons who bear risks and deal with uncertainty," He also identified social, psychological and economic factors which govern the supply of entrepreneurship.

According to Francis A. Walker "An entrepreneur is one who is endowed with more than average capacities in the task of organising and coordinating the various factors of production. He should be pioneer, a captain of industry."

David C. McClelland wrote that "an entrepreneur is an individual who takes moderate risks and brings innovation. McClelland also suggests that an entrepreneur is not characterised by routine tasks which are managed by usual managers and situations of high risks such as gambling or betting. The entrepreneur exhibits a desire to take personal responsibilities for decisions preference for moderate risks and interest in concrete knowledge of business and the possible outcomes."

Peter Drucker observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes 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 practised. 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."

Henry Ford said that, Entrepreneur can do anything with passion and enthusiasm. Enthusiasm is the yeast that makes his hopes rise to the stars. Enthusiasm is the spark in his eye, the swing in his gait, the grip of his hand, the irresistible surge of his will and his energy to execute his ideas.

Everett E. Hagen describes an entrepreneur as "a creative problem solver interested in things in the practical and technological area. He is a person who has high need achievement and feels a sense of increased pleasure when he faces a problem. He' does not rebel against the conventional view for sake of rebelling; also he does not accept it because it is generally accepted."

Robert D. Hisrich says, "The person who is going to establish a successful new business venture must also be a visionary leader - a person who dreams great dreams. Although there are many definitions of leadership, the one that best describes the needed entrepreneurial leadership is: A leader is like a gardener. When you want a tomato, you take a seed, put it in fertile soil, -and carefully water under tender care. You don't manufacture tomatoes, you grow them."

As Professor Jan Tinbergen points out, "The best entrepreneur in any developing country is not necessarily the man who uses much capital, out rather the man who knows how to organise 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."

Entrepreneur is someone who initiates and actively operates an entrepreneurial venture. Inherent in this definition is the idea that the entrepreneur is not just the person who identifies the opportunities that are the basis for pursuing and initiating the entrepreneurial venture, but is also that person who operates the entrepreneurial venture. The entrepreneur "does" the venture as well as "dreams" it up.

Entrepreneurship may be defined in various ways, but the four key elements involved in it are:

(i) Innovation
(ii) Risk-taking,
(iii) Vision and
(iv) Organising skill. All the four elements are inter-related and form a continuous process in business.

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project to fruition, and in this process, performs one or more of the following:

- explores the prospects of starting enterprise;
- perceives opportunities for profitable investments;
- arranges initial capital;
- supplies technical know-how;
- obtains necessary industrial licenses;
- provides personal guarantees to the financial institutions;

Combining these definitions and elements of character gives us a good definition for this elusive term:

"Entrepreneurs use innovation to exploit or create change and opportunity for the purpose of making profit. They do this by shifting economic resources from an area of lower productivity into an area of higher productivity and greater yield, accepting a high degree of risk and uncertainty in doing so."

Although each of these definitions views entrepreneurs from a slightly different perspective, they all contain similar notions, such as newness, organizing, creating, wealth, and risk taking. Yet each definition is somewhat restrictive, since entrepreneurs are found in all professions–education, medicine, research, law, architecture, engineering, social work, and distribution.

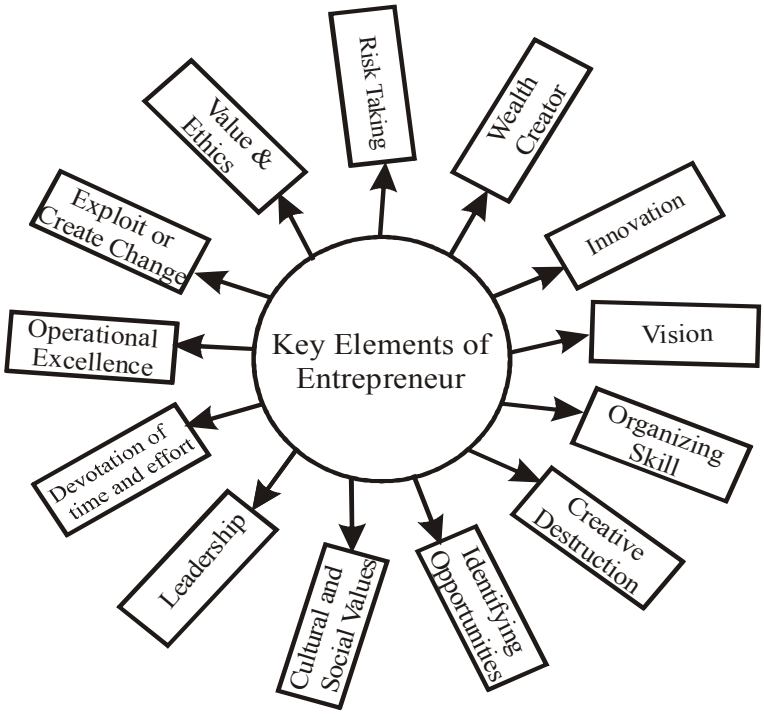


Figure 3.2 : Key elements of Entrepreneur

3.3 What is an Entrepreneur?

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. Although many people come up with great business ideas, most of them never act on their ideas but Entrepreneurs do. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy.

Entrepreneurs can create value in a number of ways inventing new products and services, developing new technology, discovering new knowledge, improving existing products or services, finding different ways of providing more goods and services with fewer resources, and many others. Indeed, finding new ways of satisfying customers' needs, inventing new products and services, putting together existing ideas in new and different ways, and creating new twists on existing products and services are hallmarks of the entrepreneur. He is a person with a dream, originality and daring, who acts as the boss, who decides as to how the commercial organisation shall run, who coordinates all activities or other factors of production, who anticipates the future trend of demand and prices of products. Due to above reasons in modem times, the role of an entrepreneur is recognised as an important factor of production for every business organisation. Economists have identified entrepreneurship is the essential element in generating investment opportunities in an economy.

In almost all of the definitions of entrepreneurship, there is agreement that we are talking about a kind of behaviour that includes: (1) initiative taking, (2) the organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account, (3) the acceptance of risk or failure.

To an economist, an entrepreneur is one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order. To a psychologist, such a person is typically driven by certain forces-the need to obtain or attain something, to experi-ment, to accomplish, or perhaps to escape the authority of others. To one business-man, an entrepreneur appears as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone who creates wealth for others, as well as finds better ways to utilize resources, reduce waste, and produce jobs others are glad to get.

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment or provide value for some product or service. Entrepreneurs achieve success by creating value in the marketplace when they combine resources in new and different ways to gain a competitive edge over rivals.

Table 3.2 What Do We Know About Nascent Entrepreneurs?

• They have significantly higher expectations about the desirability of starting a business, the extent to which doing so would help achieve other goals, and the extent to which their skills and abilities would contribute to the success of the business.
• They use entirely different styles of problem solving, decision making, and creative discovery than do non-nascent entrepreneurs.
• Most nascent entrepreneurs draw upon their own savings and personal assets in putting together their organizations.
• Having strong relationships (high levels of trust and emotional closeness) with contacts (business associates, close friends, and family members) can help nascent entrepreneurs in their efforts.

Sources: H. E. Aldrich and M. A. Martinez, "Many Are Called, But Few Are Chosen: An Evolutionary Perspective For the Study of Entrepreneurship,' Entrepreneurship Theory & Practice, pp. 41-56

3.4 Characteristics and Skills of Entrepreneur

As early as the 1950s, researchers began looking for personality factors that determine the potential of a person to be an entrepreneur. What makes the entrepreneurs successful? Whether they had anything common in their personal characteristics? The scanning of their personal characteristics shows that there are certain characteristics of entrepreneurs which are found usually prominent in them.

These so-called entrepreneurial characteristics can be looked at to deter-mine a set of skills useful for an entrepreneur to possess. It is unlikely that all these skills will be present in sufficient measure in all potential entrepreneurs. For example: some people may have the creative talent to generate new ideas but lack the ability to organize resources, and others may have a compelling need to achieve but lack the resourcefulness to create a new venture. Many· of these individuals with a limited profile based on traits will start new businesses and succeed. Others with a majority of the traits may start new businesses and fail.

It is prudent for the entrepreneur to take stock of what might be lacking and acquire those skills through training. For example, analytical ability and computational skill can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced by the general experience of everyday life. A true entrepreneur besides possessing functional qualities must also possess a broad personality which helps in developing initiative and drive to accomplish great tasks and face challenges squarely. If we go through the business history of India, we come across the names of -persons who have emerged as successful entrepreneurs. For example, Tata, Birla, Modi, Dalmia, Kirlosker, Bajaj, Mittal and others are well- known names of successful entrepreneurs in the country who started their business enterprises with small size and made good fortunes.

Would you be apt to describe their demographic profile or their personality characteristics? Or might you focus more on their intention to be entrepreneurs that is, what made them want to be entrepreneurs? Each of these approaches has been used to describe entrepreneurs.

If we wanted to use the demographic approach to describe who entrepreneurs are, we'd look at the characteristics of the individual's personal background. Some of the more popular demographic factors that have been studied include Family birth order (Studies have shown that firstborn children tend to seek out more responsibility and be high achievers, which researchers say is likely to correlate with being an entrepreneur.), Gender (Studies who men are more likely to be entrepreneur), Work experience (entrepreneurial experience is positively related to being an entrepreneur), Level of Education, Entrepreneurial family. Other demographic traits that have been studied by entrepreneurship researchers include marital status, age, education level of parents, and socioeco-nomic status.

A related stream of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. For example, the review done by Binanchi (1993) indicates the following characteristics of an entrepreneur:

- Being an offspring of self-employed parents
- Being fired from more than one job
- Being an immigrant or a child of immigrants
- Previous employment in a firm with more than 100 people
- Being the eldest child in the family
- Being a college graduate

Because there are drawbacks to using demographic characteristics to describe entrepreneurs, perhaps we can learn something about who entrepreneurs are by looking instead at their personality characteristics. For instance, one list of personality characteristics included the following:

- High level of motivation,
- Abundance of self-confidence,

- Ability to be involved for the long term,
- High energy level,
- Persistent problem solver,
- High degree of initiative, ability to set goals, and
- Moderate risk-taker.

The personality approach to describing entrepreneurs, like the demographic approach, isn't flawless, but it has helped us better understand who entrepreneurs are. Considerable research has been dedicated to the task of identifying the traits and characteristics of the typical entrepreneur. **According to John Hornaday** the characteristics of successful entrepreneurs are described below:

Table 3.3 Characteristics of Successful Entrepreneurs

Self-confident and optimistic	Energetic and diligent
Able to take calculated risk	Creative, need to achieve
Respond positively to challenges	Dynamic leader
Flexible and able to adapt	Responsive to suggestions
Knowledgeable of markets	Take initiatives
Able to get along well with others	Resourceful and persevering
Independent minded	Perceptive with foresight
Versatile knowledge	Responsive to criticism

James J. Berne has stressed the following qualities of a good entrepreneur:

- ✓ He is an enterprising individual, is energetic, hardworking, resourceful, aware of new opportunities and able to adjust himself to changing conditions with ease and willing to assume risks involved in change.
- ✓ He is interested in advancing technologically and in improving the quality of his -product or service.
- ✓ He is interested in expanding the scale of his operations by reinvesting his earnings.
- ✓ He visualizes changes and adapts to changing conditions.
- ✓ He is a firm believer in planning and systematic work.
- ✓ He works for the society at large and for the good of his fe1low-beings.

McClelland (1961) found that entrepreneurs had a higher need for achievement than non-entrepreneurs. Surprisingly, he also concluded that contrary to the popular opinion, entrepreneurs were only moderate risk takers. A great deal of research on the personality characteristics and socio--cultural backgrounds of successful entrepreneurs was conducted in the 1980s and 1990s. The detailed analysis of more than 50 studies done by Timmons (1994) found a consensus around the following six general characteristics of entrepreneurs:

- ✓ Commitment and determination
- ✓ Leadership
- ✓ Opportunity obsession
- ✓ Tolerance of risk, ambiguity and uncertainty
- ✓ Creativity, self-reliance and ability to adapt
- ✓ Motivation to excel

Kilby has rightly enumerated the following activities for a successful entrepreneur in an underdeveloped economy:

- Perception of market opportunities (novel or imitative).
- Gaining command over scarce resources.
- Purchasing of inputs.
- Marketing of the product and responding effectively to competition.
- Dealing with public bureaucracy as regards concessions, licences, taxes, etc. provided through the various fiscal policies of the government.
- Management of the human relations within the enterprise.
- Management of customer and supplier relations.
- Financial management.
- Production management, including control through written records, supervision, coordinating input flows with orders, maintenance.
- Acquiring and overseeing assembly of the plant.
- Taking care for minimising inputs for a given production process.
- Maintaining the production process and improving the quality of the product.
- Introduction of new production techniques and product lines.

According to Michael Armstrong the particular characteristics of successful entrepreneurs are that they:

- Are action orientated
- Have the ability to visualize the steps from idea to actualization.
- Are prepared to 'break the mould'.
- Are thinkers and doers, planners and workers.
- adopt a 'hands-on' approach.
- Can tolerate ambiguity- 'enterprise always consists of action in uncertainty'
- Accept risk but understand and manage it.
- Overcome, rather than avoid mistakes.
- See themselves as' responsible for their own destiny-, they are dedicated, setting self-determined goals.
- Believe in creating markets for their ideas, not just in responding to existing market demands.

Although it seems logical to look at personality and socio-cultural variables to determine the likelihood of entrepreneurial success, studies based on these premises have been able to explain only a small percentage of entrepreneurial successes and failures. In other words researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of "the entrepreneurial personality." Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success.

The characteristics or features or nature or qualities of entrepreneur as an individual are essential to contribute to the success of an enterprise. An entrepreneur possesses the following characteristics:

1. **Innovator:** Within the constraints of available resources that society or a nation offers, entrepreneurs make the best use of them. Entrepreneurs have a creative vision to recognise a business opportunity. An entrepreneur should have creative thinking and be able to engage in the analysis of various problems and situations in order to deal with them. An entrepreneur introduces new products, new

technologies and new economic activities. He creates new demands and new aspirations and new methods to fulfil them. Entrepreneur should anticipate changes and must be able to study various situations in which decisions may have to be made. Drucker Writes, "Entrepreneur create something new, something different, they change or transmute values".

2. **Motivation towards Achievement:** A successful entrepreneur should have a strong motivation towards the achievement of a task and must be able to exert considerable efforts in getting things done by others. He has strong urge to achieve. He has a more aggressive level of entrepreneurial venturing, and need achievement.

3. **Ability to Handle Uncertainty:** The ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial 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."

4. **Moderate Risk Taker:** Entrepreneurs are not wild risk takers but are instead calculating risk takers. Unlike "high-rolling, riverboat" gamblers, entrepreneurs rarely gamble. Their goals may appear to be high-even impossible-in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable. They usu-ally spot opportunities in areas that reflect their knowledge, backgrounds, and experi-ences, which increase their probability of success.

   Entrepreneurs prepare themselves to anticipate problems, create ways to share those problems with suppliers, creditors etc. and minimise the risk by creating likely-to-be successful ventures. In other words, successful entrepreneurs are not as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a solid busi-ness plan for a venture.

5. **Skill for Organizing:** A true entrepreneur is one who has the ability to mobilise resources in the best possible manner for achieving the business objectives. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their vision into reality.

6. **Goal Oriented:** Entrepreneurs are highly goal-oriented and specifically aim at producing goods and services that represent unmet needs of consumers. He adopts a 'hands-on' approach. Entrepreneur is planer and doer, dreamer and action-taker. He implements what he visualises. An entrepreneur must be able to set realistic but challenging goals for him as well as for others in the organisation.

7. **Desire for Responsibility:** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals.

8. **Emotional Stability and Self-control:** Emotional health is a must for entrepreneurs to meet the challenges of exploiting a new business opportunity. Successful entrepreneurs believe in control being exercised from within. They believe in imposing control on themselves and their enterprises rather than leaving their success to fate.

9. **Communication Ability:** This ability pertains to communicate effectively. As a leader an entrepreneur communicates effectively with all concerned such as financiers, employees, customers, suppliers, creditors and all who are concerned with the new enterprise.

10. **Future Orientation:** Entrepreneurs look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. Whereas traditional managers are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalizing on opportunities.

11. **Commitment and Dedication:** Entrepreneurs must work with dedication and commitment to launch successful business enterprises. The commitment from the entrepreneur for longer period may be 5 to 10 years is necessary for conceptualisation, building and running an enterprise. Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment.

12. **High Level of Energy:** Entrepreneurs are more energetic than the average person. Managing resources and running an enterprise calls for long hours of work for longer period of time and hence an entrepreneur is a man of high energy level.

13. **Flexibility:** One hallmark of true entrepreneurs is their ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to failure. As our society, its people, and their tastes change, entrepreneurs also must be willing to adapt their business to meet those changes. When their ideas fail to live up to their expectations, successful entrepreneurs change them.

14. **Technical Knowledge:** An entrepreneur must have a reasonable level of technical knowledge. This is the one ability that most people are able to acquire if they try hard enough. The entrepreneur should have a keen desire to change and adopt new industrial or commercial technology available in the market.

15. **Mental Ability:** An entrepreneur will be a man of high level intelligence, creative, thinking and decision maker. He must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decision have to be made.

16. **More than a Manager:** An entrepreneur is more a true leader and less a manager. An entrepreneur builds up his team, educates them, keeps high level of motivation and also provides an environment for creative and focused to work culture. He is the leader of the team. He inspires loyalty and hard work to raise productivity ad efficiency. He has the ability to become market leader.

17. **Problem Solver and a Decision Maker:** In the initial phases of an enterprise many teething problems do occur and an entrepreneur should be a creative problem solver to turn difficulties into advantages. Entrepreneurs face lots of problems right from the conception of an idea to its implementation. Entrepreneurs who are decisive arrive at the right solution to the problem by spending the least possible time and money. Lack of ability to solve problems will result in most of the problems remaining unresolved.

18. **Desire for Immediate Feedback:** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback.

19. **Human Relation Ability:** Tactful and warm human relation is an important factor which brings success to an entrepreneur. An entrepreneur who maintains good relations with customers, employees, suppliers, creditors and the community is much more likely to succeed in his business than the individual who does not invest in maintaining these relations.

What conclusion can we draw from the above discussion on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether or not hey will succeed. Indeed, diversity seems to be a central characteristic of entrepreneurs.

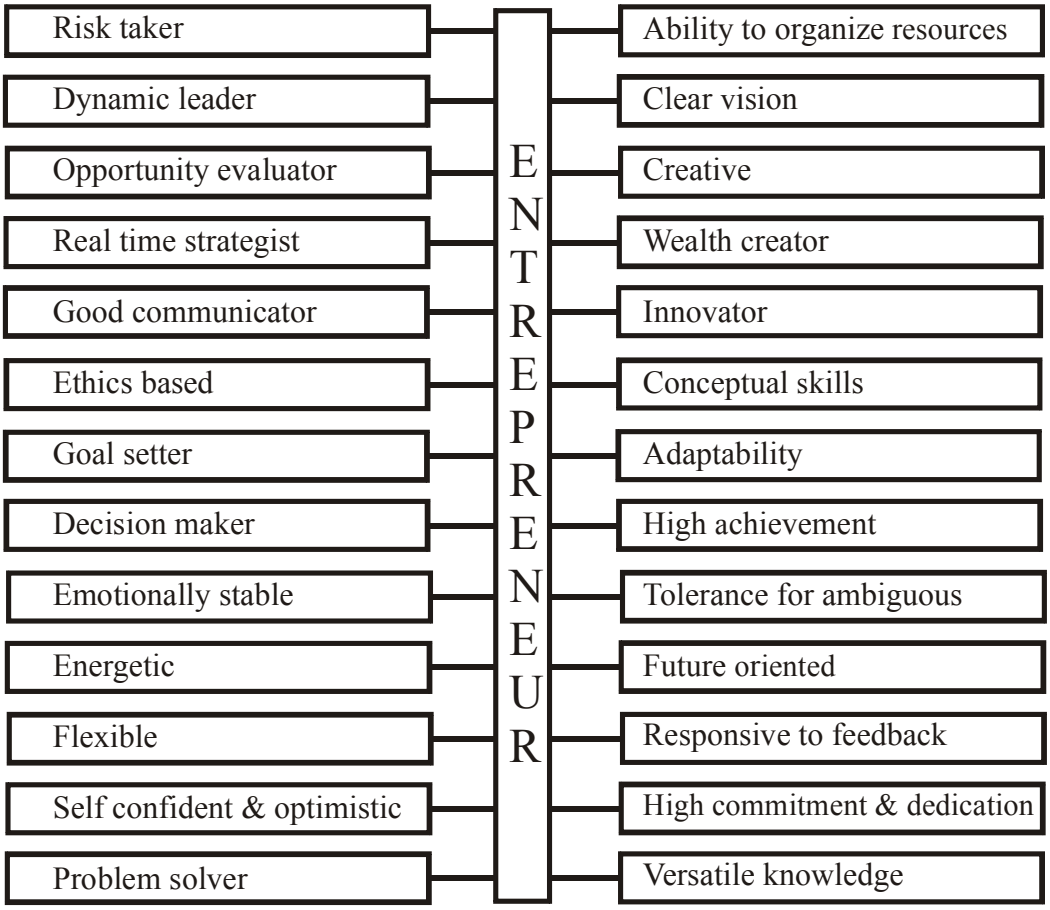


Figure 3.3 : Characteristics of Entrepreneur

3.5 The Entrepreneurial Decision

Many individuals have difficulty in converting their ideas to the reality and creating a new venture. Yet entrepreneurial decisions have resulted in several million new businesses being started throughout the world. Indeed, millions of ventures are formed despite recession, inflation, high interest rates, lack of infrastructure, economic uncertainty, and the high probability of failure. Each of these ventures is formed through a very personal human process that, although unique, has some characteristics common to all. Like all processes, the entrepreneurial decision process entails a movement, from something to something - a movement from a present lifestyle to forming a new enterprise, as indicated in figure 3.4:

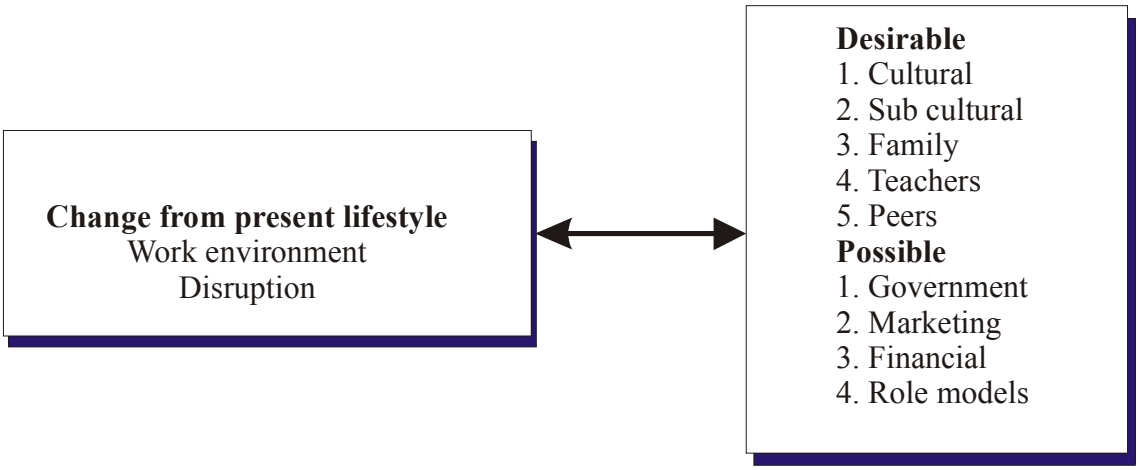


Figure 3.4: Decisions for a Potential Entrepreneur

Source : Robert D. Hisrich (Lexington, MA : Lexington Books, 1986), p. 90

Individuals tend to start businesses in areas that are familiar to their work environments and an even stronger incentive to overcome the inertia and leave a present lifestyle to create something new comes from a negative force-disruption. What causes this change- due to the work environment or disruption to result in a new company being formed instead of something else? The decision to start a new company occurs when an individual perceives that it is both desirable and possible.

The perception that starting a new company is desirable results from an individual's culture, subculture, family, teachers, and peers. A culture that values an individual who successfully creates a new business will spawn more venture formations than one that does not. The culture that place a high value on being one's own boss, having individual opportunities, being a success, and making money - all aspects of entrepreneurship. Therefore, it is not surprising to find a high rate of entrepreneurial spirit countries prevailing these cultural aspects. Although the desire derived from the individuals' culture, subculture, family, teachers, and peers need to be present before any action is taken, the second feature necessary centres around this question: "What makes it possible to form a new company?" Several factors - government, background, marketing, role models, and finances - contribute to the creation of a new venture.

There are various types of decision an Entrepreneur take like strategic, operational, transactional, intelligent, and Situational. Before taking any decision an entrepreneur consider following factors:

- Priority of decision
- Inquiring about all possibilities
- Looking at immediate repercussions
- Taking the decision at the right time
- Examining the motivations of people suggesting something
- Circumstances under which the decision is taken
- The opinions of others
- Maintaining a balance between optimisation in a particular circumstance
- Facts and feelings of people
- Advocating the decision

3.6 The Entrepreneurial Process

Entrepreneurial process is a leadership function which centres round the dynamics of entrepreneurial growth and change. It is a process comprising several distinct stages.

From exploring the various aspects of the entrepreneurial context to identifying opportunities, to starting and managing the entrepreneurial venture, choosing the competitive strategy in action. Let's look at each of these decisions and activities in figure 3.5:

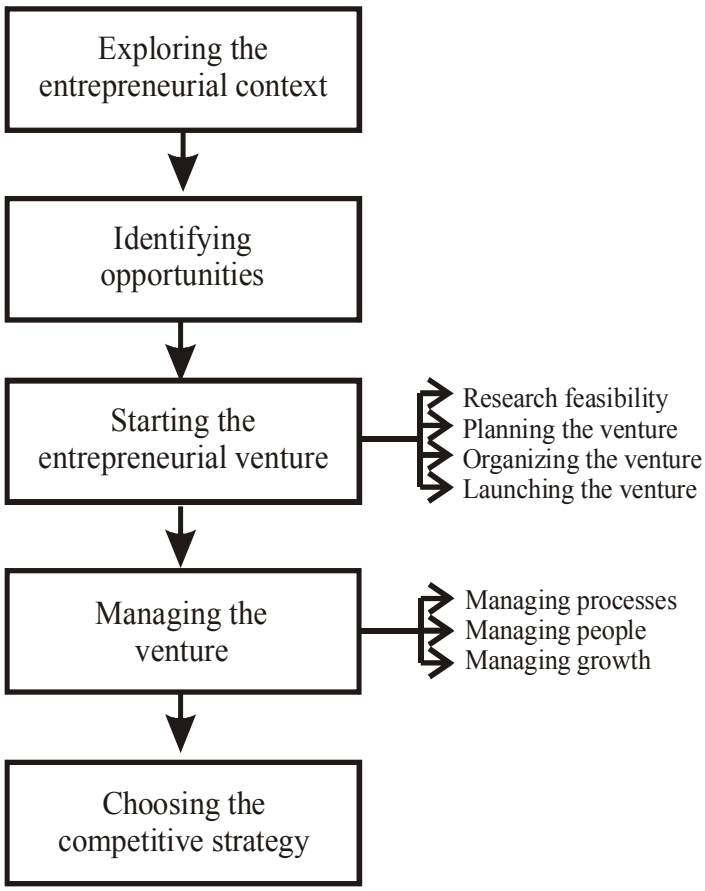


Figure 3.5 : Components of Entrepreneurial Process

1. **Exploring the Entrepreneurial Context:** Why is it important to look at the entrepreneurial context? Because the context determines the "rule" of the game and what decisions are likely to be successful. The context includes the realities of the new economy, society's laws and regulations that compose the legal environment, and the realities of the changing world of work.

   Entrepreneurs should be aware of the context within which entrepreneurial decision are made. Only through exploring the context can entrepreneurs discover the untapped opportunities and competitive advantage(s) that may lead to the development of a potentially successful entrepreneurial venture.

2. **Identifying Opportunities:** A crucial aspect of entrepreneurial process is indentifying opportunities. What are opportunities? These opportunities are positive external trends or changes that provide unique and distinct possibilities for innovating and creating value. There are thousand of opportunities available to an entrepreneur. Some of them are not real opportunities with high potentials. Some opportunities have growth prospects. Entrepreneurs make search for profitable ones and then selects an attractive business opportunity.

However, just identifying an opportunity isn't enough. The entrepreneurial process also involves pinpointing a possible competitive advantage. A competitive advantage is what sets an organization apart; it's an organization's competitive edge. Having a competitive advantage is crucial for an organization's long-term success and survival.

3. **Starting the Venture:** Once entrepreneurs have explored the external context and identified possible opportunities and competitive advantage(s), they must look at the issues involved with actually starting up their entrepreneurial venture. Included in this phase of the entrepreneurial process are the following activities; researching the feasibility of the venture, planning the venture, organizing the venture and launching the venture. Financial, physical and managerial resources must be collected to launch the venture.

4. **Managing the Venture:** Once the entrepreneurial venture is up and running the next step in the entrepreneurial process is managing the venture. An entrepreneur also must effectively manage the venture by managing processes, managing people and managing growth. This requires the talents of leading, decision making, executing, controlling and various managerial skill.

5. **Choosing the Competitive Strategy:** One the entrepreneurial venture is up and running, the last step is to choose competitive strategy. Peter Drucker mentions following specific entrepreneurial strategies. These are:
   - Being fastest with the most.
   - Creative imitation.
   - Entrepreneurial judo.
   - Finding and occupying a specialised ecological niche.
   - Changing values and characteristics by creating utility, by delivering what represents true value to the customer, by adoption to the customer's social and economical reality, by appropriate pricing.

3.7 Summary

The definition of an entrepreneur has evolved over time as the world's economic structure has changed and become more complex. An entrepreneur is someone who initiates and actively operates an entrepreneurial venture. Entrepreneurs can be described by their characteristics using things such as demographic profiles, personality profiles. Entrepreneurs engage in a variety of activities, including exploring the entrepreneurial context, researching the venture's feasibility, planning the venture, organizing the venture, launching the venture, and managing the venture.

To an economist, an entrepreneur is one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order. To a -psychologist, such a person is typically driven by certain forces - the need to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others. To one businessman, an entrepreneur appears -as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone who creates wealth for others, as well as finds better ways to utilize -reduce waste, and produce jobs others are glad to get.

The challenges of being an entrepreneur include being comfortable with change and uncertainty, mak-ing a bewildering number of decisions, facing tough economic choices, being comfortable with taking risks, needing many different skills and talents, and being comfortable with the potential of failure. The rewards of being an entrepreneur include having a high degree of inde-pendence, getting to use a variety of skills and talents,

having the freedom to make decisions, being accountable to only you, having the opportunity to tackle challenges, experiencing feelings of achievement and pride, and having the potential for greater financial rewards.

The steps in the entrepreneurial process include exploring the entrepreneurial context in order to identify opportunities and possible competitive advantage(s); starting the venture through researching its feasibility and planning, organizing, and launching it; and managing the venture (which includes managing processes, managing people, and managing growth) and other entrepreneurial challenges.

In this time of rapid economic development and technological change, entrepreneurial spirit can be unique and of important advantage, but only if we learn to use it. The entrepreneurs are the agents of change and our hope for the future. In fact, the entrepreneur always searches for change, responds to it and exploits it as an opportunity. While charting out its future course of action the Indian entrepreneur will have to remember that to get a competitive edge over its rivals on a sustainable basis, five things are essential - increased productivity, improved quality, innovation in the market, a deep understanding of customer needs and delivery of world class service.

3.8 Self Assessment Questions

1. What are the characteristics of an entrepreneur?
2. What do you mean by an 'Entrepreneur'? Describe the various characteristics and skill of an entrepreneur.
3. What are the components of 'Entrepreneurial Process' describe them?
4. Describe the traits of a successful entrepreneur.
5. What do you mean by 'Entrepreneurial Decision'? Describe in Detail.
6. What is an Entrepreneur? Describe the 'Entrepreneurial Process'
7. List the skills and characteristics required to become a successful entrepreneur.
8. What is your definition of an entrepreneur? List the strengths and weaknesses of the various definitions highlighted in the unit.

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Unit - 4 : Entrepreneur: Types and Functions

Structure of Unit:

4.0 Objectives
4.1 Introduction
4.2 Types of Entrepreneur
4.3 Functions of Entrepreneurs
4.4 Role of Entrepreneurs
4.5 Entrepreneur vs. Entrepreneurship
4.6 Entrepreneurial Failure
4.7 Summary
4.8 Self Assessment Questions
4.9 Reference Books

4.0 Objectives

After completing this unit, you will be able to:

- Classify different types of entrepreneurs on various bases.
- Look at the reasons for entrepreneurial failure.
- Describe the various functions of entrepreneurs.
- Understand the role and significance of entrepreneur in economic development
- Establish a relationship between entrepreneur and entrepreneurship.
- Come across the rewards and challenges of being an entrepreneur.

4.1 Introduction

The role of entrepreneurs in economic development varies from economy to economy, country to country, depending upon its material resources, industrial climate and more importantly, the responsiveness of the political system to the growth of entrepreneurs. Liberalization and the new economic policy have thrown upon the doors for every entrepreneur to seek its own fortunes and thus contribute to the growth of the economy. And entrepreneur is an important input of economic development. He is a catalyst of development. Only the entrepreneurs create capital, wealth and resources in a country by their inventive and risk-taking behaviour. They are the prime movers of industrial development in a country. Entrepreneurs are found in every economic system and in every type of economic activity. Artisans, traders, importers, engineers, exporters, bankers, industrialists, farmers, forest workers, tribal's, professionals, politicians, and bureaucrats, any one from these could be entrepreneur. The nature of entrepreneurs differs according to their functions.

4.2 Types of Entrepreneur

Researchers who have studied entrepreneurial behaviour suggest that there are different types of entrepreneurs. Classifying entrepreneurs into various categories is a tricky issue. The taxonomy of entrepreneurs can be carried out in various ways. Entrepreneurs can be classified on various basis. Clarence Denhof Classifies entrepreneurs on the basis of stage of economic development: some others have classified on the basis of their functions and characteristics. In the initial stages of economic development, entrepreneurs tend to have less initiative and drive. As development proceeds, they become more innovating and enthusiastic. The various types of entrepreneurs are classified on certain parameters. Some important classifications are described below:

1. On the Basis of Economic Development: Clarence Danhof classified entrepreneurs into four groups on the basis of economic development.

A. Innovating Entrepreneurs: This type of entrepreneurship is characterized by aggressive assemblage of information and the analysis of results deriving from novel combination of factors of production. Entrepreneurs falling in this class are generally aggressive in experimentation and exhibited shrewdness in putting attractive possibilities into practice.

They are the entrepreneurs who have creative and innovative ideas of starting a new business. An innovating entrepreneur sees the opportunity for introducing a new technique or a new product or a new market. He may raise money to launch an enterprise, assemble the various factors, and choose top executives and the set the organization going. Schumpeter's entrepreneur was of this type. Innovative entrepreneurs thus, results in the creation of something new. They are the contributors to the economic development of a country.

Innovating entrepreneurs are very commonly frond in undeveloped countries. There is dearth of such entrepreneurs in developed countries. Innovating entrepreneurs played the key role in the rise of modern capitalism, through their enterprising sprit, hope of moneymaking, ability to recognize and exploit opportunities, etc.

B. Adoptive or Imitative Entrepreneur: There is a second group of entrepreneurs generally referred as imitative entrepreneurs. The imitative entrepreneurs copy or adopt suitable innovations made by the innovative entrepreneurs. They does not innovate the changes himself. They only imitates technology innovated by others.

Such entrepreneurs are particularly important in developing courtiers because they contribute significantly to the development of such economies. Imitative entrepreneurs are most suitable for the developing regions because in such countries people prefer to imitate the technology, knowledge and skill already available in more advanced countries. In highly backward countries there is shortage of imitative entrepreneurs also. People who can imitate the technologies and products to the particular conditions prevailing in these countries are needed.

Sometimes, there is a need to adjust and adopt the new technologies to their special conditions. Imitative entrepreneurs help to transform the system with the limited resources available. However; these entrepreneurs face lesser risks and uncertainty then innovative entrepreneurs. While innovative entrepreneurs are creative, imitative entrepreneurs are adoptive.

C. Fabian Entrepreneur: The third type is Fabian entrepreneur. By nature these entrepreneurs are shy and lazy. This type of entrepreneurs have neither will to introduce new changes nor desire to adopt new methods of production innovated by the most entrepreneurs. They follow the set procedures, customs, traditions and religions. They are not much interested in taking risk and they try to follow the footsteps of their predecessors. Usually they are second generation entrepreneur in a business family enterprise.

D. Drone Entrepreneur: The fourth type is Drone entrepreneurs who refuse to copy or use opportunities that come on their way. They are conventional in their approach and stick to their set practices products, production methods and ideas. They struggle to survive not to grow. They may be termed as Laggards. In such cases the organization looses market, their operations become uneconomical and they may be pushed out of the market.

2. On the Basis of Type of Business: Under this category we can classify entrepreneurs as described below:

A. Business Entrepreneurs: They are the entrepreneurs who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap the entire factor of production to develop a new business opportunity. They may set up a big enterprise or a small scale business. When they establish small business units they are called small business entrepreneurs. In a majority of cases, entrepreneurs are found in small trading and manufacturing business.

B. Trading Entrepreneur: There entrepreneurs undertake trading activities and are not concerned with the manufacturing work. They identifies potentiality of their product in markets, stimulates demand for their product line among buyers. They may go for both domestic and overseas trade. These entrepreneurs demonstrated their ability in pushing many ideas ahead which promoted their business.

C. Industrial Entrepreneur: Industrial entrepreneur is essentially a manufacturer who identifies the needs of customers and creates products or services to serve them. He is product-oriented who starts through an industrial unit to create a product like electronic industry, textile unit, machine tools.

D. Corporate Entrepreneur: These entrepreneurs used his innovative skill in organizing and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act like a trust registered under the Trust Act, or a company registered under the Companies Act. These corporate work as separate legal entity. He is thus an individual who plans, develops and manages a corporate body.

E. Agricultural Entrepreneur: Agricultural entrepreneurs are those who undertake agricultural activities as through mechanization, irrigation and application of technologies to produce the crop. They cover a broad spectrum of the agricultural sector and include agriculture and allied occupations.

3. According to the Use of Technology: The application of new technology in various sectors of the national economy is essential for the future growth of business. We may broadly classify these entrepreneurs on the basis of the use of technology as follows:

A. Technical Entrepreneurs: With the decline of joint family business and the rise of scientific and technical institutions, technically qualified persons have entered the field of business. These entrepreneurs may enter business to commercially exploit their inventions and discoveries. Their main asset is technical expertise. They raise the necessary capital and employ experts in financial, legal- marketing and other areas of business. Their success depends upon how they start production and on the acceptance of their products in the market.

B. Non-technical Entrepreneur: Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product or service in which they deal. They are concerned only with developing alternative marketing and promotional strategies for their product or service.

C. Professional Entrepreneur: Professional entrepreneur is an entrepreneur who is interested in establishing a business but does not have interest in managing it after establishment. A professional entrepreneur sells out the existing business on good returns and starts another business with a

new idea. Such an entrepreneur is dynamic and conceives new ideas to develop alternative projects.

4. According to Motivation: Motivation is the main force that promotes the efforts of the entrepreneur to achieve his goals. An entrepreneur is motivated to achieve or prove his excellence in their performance. According to motivation we can classify entrepreneur as:.

A. Pure Entrepreneur: A pure entrepreneur is the one who is motivated by psychological economical, ethical considerations. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

B. Induced Entrepreneur: This type of entrepreneur is one who induced to take up an entrepreneurial task due to the policy reforms of the government that provides assistance, incentives, concessions and other facilities to start a venture. Most of the small scale entrepreneurs belong to this category and enter business due to financial, technical and several other facilities provided to them by the various agency of Govt. to promote entrepreneurship. Today, import restrictions and allocation of production quotas to small units have induced many people to start a small scale unit.

C. Motivated Entrepreneur: New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new products for the use of consumers. They are motivated through reward like profit.

5. According to Growth: The industrial units are identified as high growth, medium growth and low growth industries and as such we have 'Growth Entrepreneur' and 'Super Growth Entrepreneur.'

A. Growth Entrepreneur: He necessarily takes up a high growth industry and chooses an industry which has sustained growth prospects. Growth entrepreneurs have both the desire and ability to grow as fast as large as possible.

B. Super-Growth Entrepreneur: This category of entrepreneurs is those who have shown enormous growth of performance in their venture. The growth performance is identified by the high turnover of sales, liquidity of funds, and profitability.

6. According to Entrepreneurial Activity: Based on entrepreneurial activity, entrepreneurs are classified as novice, serial, and portfolio entrepreneur.

A. Novice Entrepreneur: A novice is someone who has started his/her first entrepreneurial venture. A novice entrepreneur is an individual who has no prior business ownership experience as a business founder, inheritor of a business, or a purchaser of a business. It is not similar to early starter; a novice can also be a 50 year old with over 25 years of experience in the industry.

B. A Serial Entrepreneur: A Serial Entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. It is the process of starting that excites the starter. Once the business is established, the serial entrepreneur may lose interest and think of selling and moving on.

C. Portfolio Entrepreneur: A portfolio entrepreneur is an individual who retains an original business and builds a portfolio of additional businesses through inheriting, establishing, or purchasing them. A portfolio entrepreneur starts and runs a number of businesses. It may be a strategy of spreading risk or it may be that the entrepreneur is simultaneously excited by a variety of opportunities. Also, the entrepreneur may see some synergies between the ventures.

7. Other Entrepreneurs:

A. First-Generation Entrepreneurs: This category consists of those entrepreneurs whose parents or family had not been into business and was into salaried service. The booming economy of India has led to a multitude of business opportunities, and with deregulation, it has become easier to set up businesses. Also, with a change in the mindset of the middle class, it is now more acceptable to become an entrepreneur. A first-generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

B. Modern Entrepreneur: A modern entrepreneur is one who undertakes those businesses which go well along with the changing scenario in the market and suits the current marketing needs.

C. Women Entrepreneurs: Women as entrepreneurs have been a recent phenomenon in India. The social norms in India had made it difficult for women to have a professional life. Now this has changed. Progressive laws and other incentives have also boosted the presence of women in entrepreneurial activity in diverse fields. In 1988, for the first time, the definition of Women Entrepreneurs' enterprise was evolved that termed an SSI unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent as partners / shareholders / directors of a private limited company / members of a cooperative society, as a Woman Enterprise.

D. Nascent Entrepreneur: A nascent entrepreneur is an individual who is in the process of starting a new business.

E. Habitual Entrepreneur: A habitual entrepreneur is an individual who has prior business ownership experience. The nascent entrepreneur can either be a novice or a habitual entrepreneur.

F. Lifestyle Entrepreneurs: Lifestyle entrepreneurs have developed an enterprise that fits their individual circumstances and style of life. Their basic intention is to ear an income for themselves and their families.

G. Copreneurs: It is related to the married couples working together in a business. When a married couple share ownership, commitment and responsibility for a' business, they are called "copreneurs". As copreneurs, couples struggle in ventures to establish equality in. their relationships. Such couples represent the dynamic interaction of the systems of love and work.

H. IT Entrepreneurs: IT entrepreneurs are creating a new business platform that takes them straight to the top. They are confident, ambitious innovative and acquired creativity in the competitive global environment and created a niche of their self. They are the brave new bunch of entrepreneurs who are raring to take on the world of information technology.

I. Social Entrepreneur: Social entrepreneur is one who recognizes the part of society which is stuck and provides new ways to get it unstuck. Be it dedicated efforts for child upliftment, fighting for the conservation of Assam's rainforests, working for the betterment of the blind or initiatives to empower women, the entrepreneur's passion is very strong. Freedom, wealth, exposure, social mobility and greater individual confidence are driving this huge wave of social innovation and entrepreneurship. After all are tired with the Inefficiency of governments and the indifference of corporate, and want to make a change and this is the case everywhere.

J. Forced Entrepreneurs: The money-lenders of yesterday, who are thrown out of their family business because of govern-ment legislation, the neo-rich Indians returning from abroad and the educated unemployed seeking self-employment form this class of entrepreneurs.

K. Individual and Institutional Entrepreneurs: In the small scale sector individual entrepreneurs are dominant. Small enterprises outnumber the large ones in every country. Such entrepreneurs have the advantage of flexibility, quick decision making. But a single individual can establish, operate and control an organization up to a limit. Thereafter, it becomes necessary to institutionalize entrepreneurship. The business will have to acquire a number of new entrepreneurial skills through a corporate body. A group of entrepreneurs has to be developed to handle the increasingly complex network of decision making. The central function of the entrepreneur remains the same but the basic decisions like the line of business, the amount of capital employed, etc. are taken collectively by the promoters at the helm of affairs. Thus, individual entrepreneur and institutional entrepreneur coexist and support each other. Corporate sector the symbol of institutionalized entrepreneurship.

L. Entrepreneurs by Inheritance: At times, people become entrepreneurs when they inherit the family business. In India, there are a large number of family controlled business houses. Firms in these houses are passed from one generation to another.

The various types of entrepreneur based on certain basis are also explained in the figure 4.1:

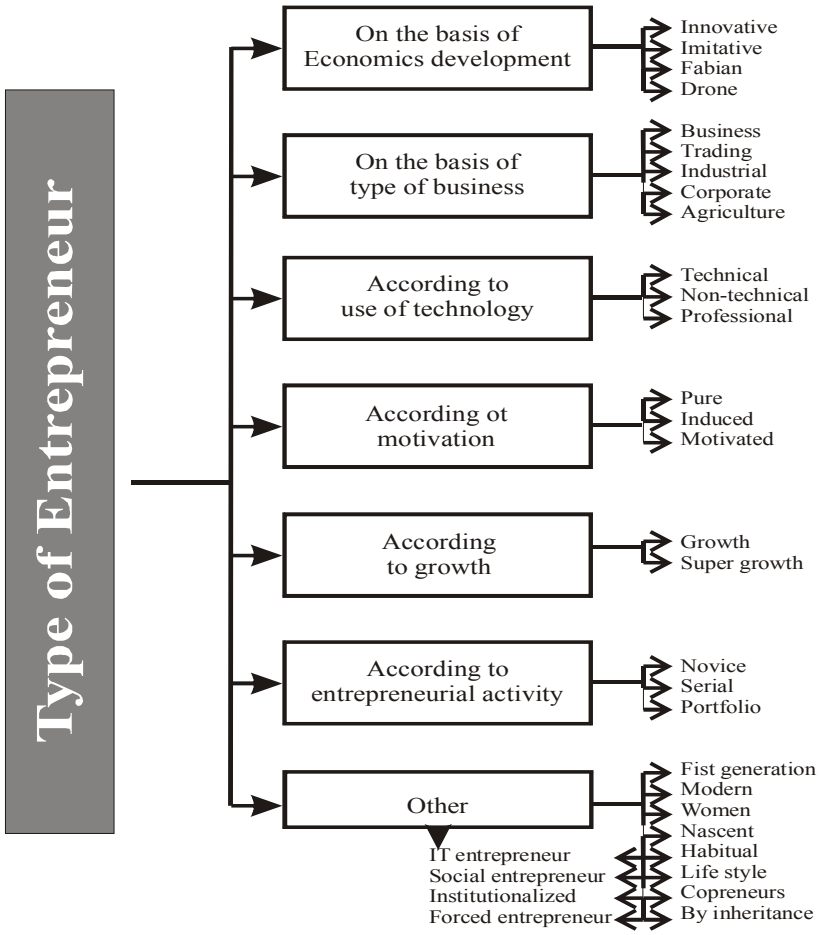


Figure 4.1 : Types of Entrepreneurs

4.3 Functions of Entrepreneurs

Entrepreneur is an opportunity seeker and organizer and coordinator of the factor of production. He not only perceives the business opportunities but also mobilizes the other resources like – man, money, machine, materials and methods. According to some economists, the functions of an entrepreneur are establishing co-ordination. In business enterprise, risk-taking, controlling the enterprise, innovation for change, motivation and other related activities. In reality, an entrepreneur has to carry out a combination of these functions in keeping with time and environment. Truly, he has to consider new ideas, demands and exploit the opportunities, and thereby contribute to technical progress. A successful entrepreneur recognizes the potential of a product or service, design operating policies in marketing, production, product development and the organisational structure. He carries out the whole set of activities of the business. He has a high capacity for taking calculated risks and has faith in his own capabilities.

An entrepreneur performs all the necessary functions which are essential from the point of view of operation and expansion of the enterprise. We can explain this through the flow diagram described in figure 4.2:

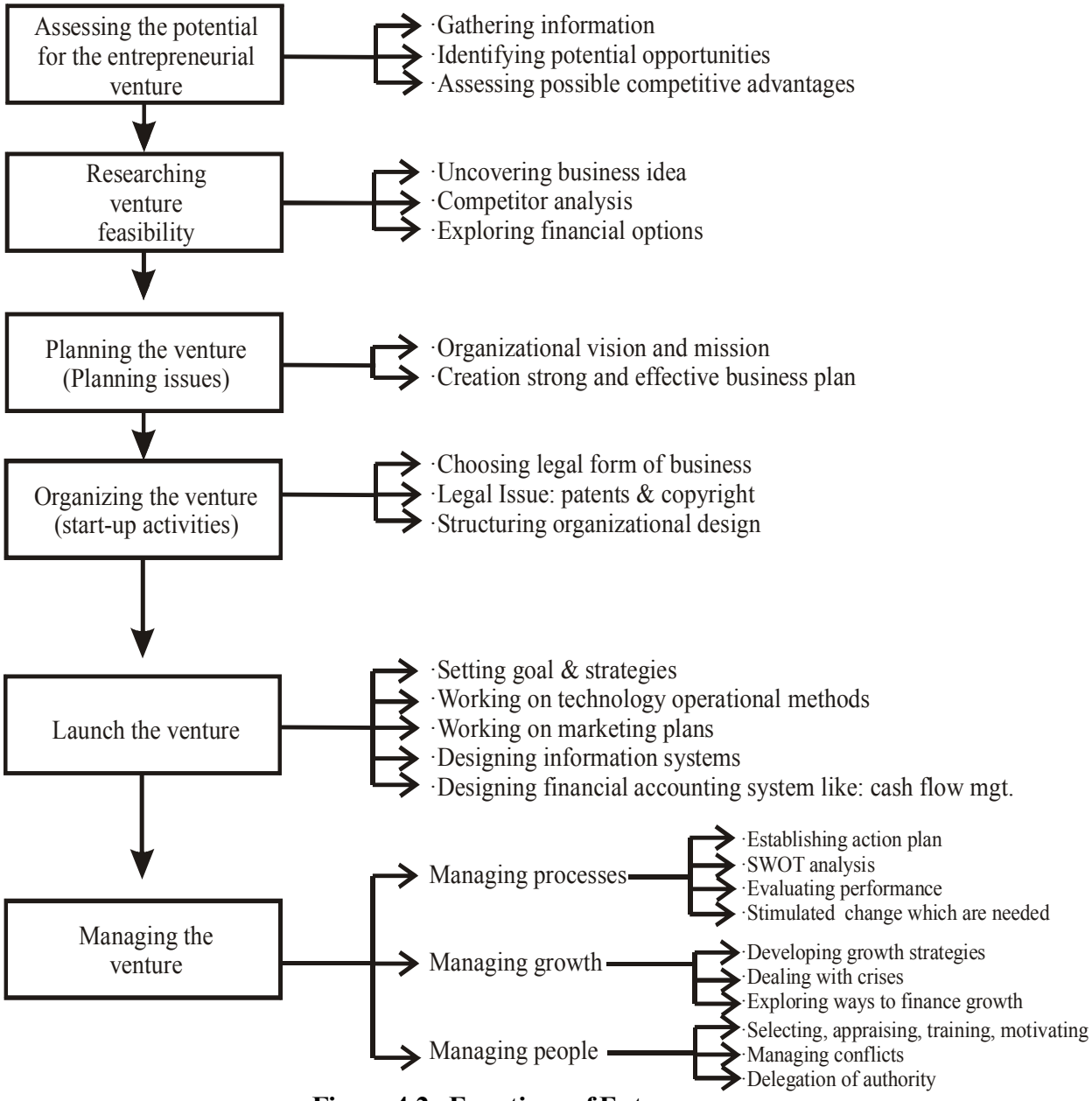


Figure 4.2 : Functions of Entrepreneurs

Kilby identify thirteen functions of an entrepreneur, which included some of the managerial functions also. Kilby has classified these functions into four groups. These are as follows:

A. Exchange Relationship:

1. Perceiving market opportunities.
2. Gaining command over scarce resources.
3. Purchasing inputs.
4. Marketing of the products and responding to competition.

B. Political Administration:

1. Dealing with the public bureaucracy (concession, licenses & taxes)
2. Managing human relation within the firm.
3. Managing customer and supplier relations.

C. Management Control:

1. Managing finance
2. Managing production

D. Technology:

1. Acquiring and overseeing assembly of the factory.
2. Industrial engineering
3. Upgrading process and product quality.
4. Introducing new production techniques and products.

Kilby suggested these functions may vary according to the size, type and setting of an enterprise and could be augmented through training and education. By summing up we can say that Entrepreneurs perform the following functions:

1. Innovation: A very important function performed by entrepreneur is that of innovation. They analyze the existing state of company's affairs and try to reach a new level of equilibrium by trying new and productive combinations of existing resources. They think of creative ideas and use their managerial and innovative skills to put those ideas into reality. They combine the productive factors, bring them together and help in the economic development of a nation.

According to Schumpeter, innovation can occur in the following forms:

- Introduction of new goods ;
- The use of new method of production ;
- The opening of a new market ;
- The conquest of a new source of supply of raw materials ; and
- The reorganization of any industry.

According to Robert Wilken entrepreneurs contribute change that can be categorized into five types:

1. Initial Expansion: the original production of goods.

2. Subsequent Expansion: the subsequent change in the amount of goods produced.

3. Factor Innovation: the increase in supply or productivity of the factors of production.

(a) Financial: the procurement of capital from new sources or in new form.

(b) Labour: the procurement of labour from a new source or of a new type; the upgrading of existing labour.

(c) Material: the procurement of old material from a new source or the use of a new material.

4. Production Innovations: changes in the production process.

(a) Technological: the use of a new production technique.

(b) Organizational: change in the form of structure of relationships among people.

5. Market Innovation: changes in the size or composition of the market.

(a) Product: the production of a new good or the change in quality or cost of existing goods.

(b) Market: the discovery of a new market.

Innovation involves imagination and creativity. It is so basic that a person cannot be called an entrepreneur unless' he creates something new and something different in his venture.

2. Assumption of Risk: An idea that is put to reality does not guarantee success. Entrepreneurs assume the risk of success or failure of the enterprise that they wish to launch. Such risks are not insurable. If they materialize, the entrepreneur has to bear the loss himself. Thus, risk-bearing or uncertainty-bearing still remains the most important function of an entrepreneur which he tries to reduce by his initiative, skill and good judgement.

3. Idea Generation: Entrepreneurs do not immediately think of ideas and put them into practice. Ideas can be generated through environmental scanning and market survey. It is the function of the entrepreneurs to generate as many ideas as he can for the purpose of selecting the best business opportunities which can subsequently be taken up by him as a commercially - viable business venture. They think of a variety of ideas, apply quantitative techniques to test their applicability, supplement them with empirical findings, arrive at the best alternative and apply it in practice. The selection of an idea, thus, involves the application of research methodology by the entrepreneurs, vision, insight, observation, experience, education, training and exposure of the entrepreneur. Idea generation precisely implies product selection and project identification.

4. Organizing and Management: An entrepreneur brings together various resources of production, organizes them properly and converts them into a productive unit. As regards the proposed projects, an entrepreneur manages the following activities:

- Scanning of the business environment (SWOT Analysis)
- Measuring the suitability of business idea.
- **Market Research and Selection of Product Line:** The next important function of the entrepreneur is market research and product market research is the systematic collection of data regarding the product which the entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently in order to know the details of the intending product, i.e., the demand for the product, selection of product line, the price of the substitute product, the size of the customer, etc. while starting an enterprise.
- Studying the government rules, regulation and policies.
- Performing government formalities.
- **Determination of Objectives:** The next function of the entrepreneur is to determine and lay down the mission, vision, objectives and goals of the business, which should be spelt out on clear terms. In other words, entrepreneur should be very much clear about future prospect of the venture.
- **Determination of Form of the Venture:** The function of an entrepreneur in determining the form of enterprise is also important. Entrepreneur has to decide the form of enterprise based upon the nature of the product, volume of investment, nature of activities, types of product, quality of product,

quality of human resources, etc. The major forms of ownership organizations are sole proprietorship, partnership, joint stock company and cooperative society.

- **Managing of Funds**: Fund raising is the most important function of an entrepreneur. All the activities of a business depend upon the finance and its proper management. It is the responsibility of the entrepreneur to raise funds internally as well as externally.
- Selection of Location:
- **Procurement of Raw Material** Entrepreneur has to identify the cheap and regular sources of supply of raw materials, which will help him to reduce the cost of production and face the competition.
- **Procurement of Machinery:** The next function of the entrepreneurs is to procure the machineries and equipments for establishment of the venture. While procuring the machineries, he should specify the following details:

  (a) The details of technology

  (b) Installed capacity of the machines

  (c) After sales service facilities
- **Recruitment Selection and Placement of Manpower :** Entrepreneur has to perform the following activities while undertaking this function :

  (a) Estimating manpower need of the organization

  (b) Laying down of selection procedure

  (c) Placing the employee

Another important function of entrepreneur is 'financial planning', which translates all other activities into monetary terms. Though an entrepreneur is more than a manager, he combines in him some managerial functions. He deals with day-to-day affairs of a going concern by directing and controlling the employees.

5. Decision Making: Arther H. Cole has described the entrepreneur as a 'decision maker'. He takes various decisions regarding following matters:

- ❖ The determination of these objectives of the enterprise and the change of those objectives as conditions required or made advantageous;
- ❖ The development of an organisation, including efficient relations with subordinates and all employees;
- ❖ Securing adequate financial resources, and maintaining good relations with the existing and potential investors ;
- ❖ The requisition of efficient technological equipment and the revision of it as new machinery appeared ;
- ❖ The development of a market for the products and the devising of new products to meet or anticipate consumer's demand: and
- ❖ The maintenance of good relations with public authorities and with the society at large.

6. Leading: As an entrepreneurial venture florish, an entrepreneur takes on a new role of a leader. He acts as a visionary leader. The entrepreneur's leading function is drawing the best out of his human resources. He must create teamwork, motivation among employees. As a leader, entrepreneurs must shift from the command-and-control style of managing to a coach-and-collaboration style.

7. Managing Growth: The entrepreneur must manage the enterprise's growth. It includes such activities as developing and designing appropriate growth strategies, dealing with crises, exploring various ways for financing growth and placing a value on the venture.

8. Support to Social Environment: Social environment is characterized by social customs, culture, values and beliefs. Changes are not easily acceptable in a given socio-economic environment of a country. Entrepreneurs discover new sources of materials, new markets, and new opportunities and establish new and more lucrative forms of organizations. This is a reflection of their will power, enthusiasm and energy and helps in overcoming the society's resistance to change.

9. Economic Development: Entrepreneurs play an important role in accelerating the rate of economic development of developed and under-developed countries. They exploit the country's resources (land, labour, capital and technology) and optimize their utilization to result in development of that country.

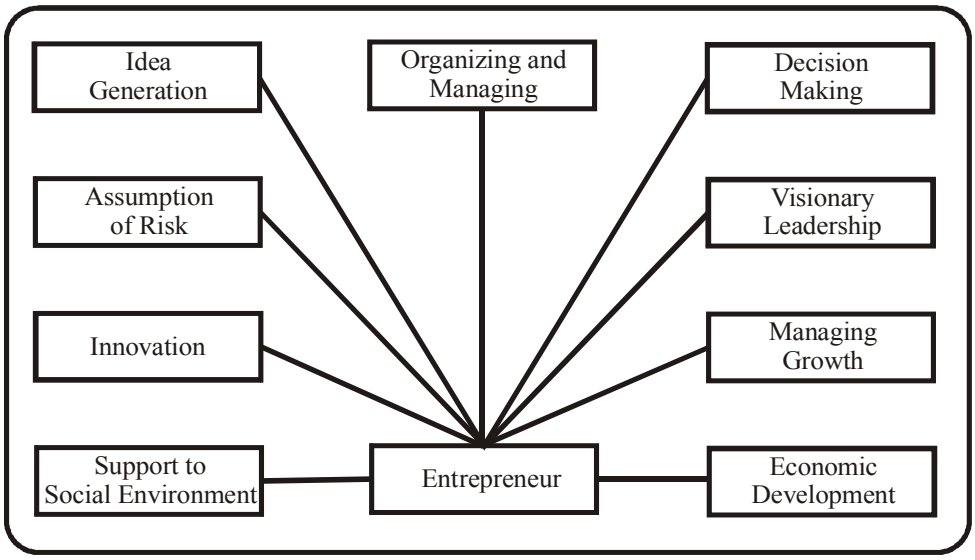


Figure 4.3 : Functions of an Entrepreneur

An entrepreneur performs many useful functions. He undertakes a venture, assumes risk and earns profit. He is the man having a strong motivation to achieve success. He is self-confident in his entrepreneurial abilities. He exploits opportunities wherever and whenever they arise.

As you can tell from the above descriptions, being an entrepreneur is an exciting proposition! Entrepreneurs do a variety of things and deal with a multitude of challenges. In fact, we can say that entrepreneurial behaviour is complex, intentional, and passionate. Yet, it's primarily because or these qualities that it is prudent for you to know, from the start, the rewards and challenges of being an entrepreneur.

The Rewards and Challenges of Being an Entrepreneur

Rewards:

- High degree of independence – freedom from constraints
- Get to use a variety of skills and talents
- Freedom to make decisions
- Accountable to only yourself
- Opportunity to tackle challenges
- Feeling of achievement and pride
- Potential for greater financial rewards

Challenges:

- Must be comfortable with change and uncertainty
- Must make a bewildering number of decisions
- May face tough economic choices
- Must be comfortable with taking risks
- Need many different skills and talents
- Must be comfortable with the potential of failure

4.4 Role of Entrepreneurs

Entrepreneurs play a significant role in economic development of a country. He promotes the prosperity of a nation by his innovation and dynamic leadership Skills. He creates wealth, opens up employment opportunities and fosters the other segments. According to Harbison, entrepreneurs are prime movers of innovation, growth and as such, entrepreneurship is a dynamic force. The role and significance of an entrepreneur are explained below :

1. **Bringing Economic Growth and Prosperity:** Entrepreneur bring economic growth and prosperity in the country through generation of employment opportunities, capital and wealth creation, increasing per capita income and GDP, improvement in quality of life by raising the standard of living, growth of infrastructural facilities, forward and backward linkages in society, development of backward regions, economic independence. George gilder observes, "The 'heroic creativity of entrepreneur came to seem essential to our economic well-being in a global economy". Baumback and Mancuso write, "In underdeveloped nations, entrepreneurs often hold the key to economic growth for a whole society. So entrepreneur is not a dirty word or a fast buck opportunist, but, rather the backbone of the capitalist system".

2. **Brining Social Stability and Balanced Regional Development:** Entrepreneurs play a crucial and unique role in bringing about social stability and balanced regional development through absorption of workforce in industries, removal of poverty, improving health and education facilities, creating fair competition, equitable distribution of income, creation of social infrastructures, empowering women and weaker sections of the society and supply of qualitative goods and services

   Although entrepreneurs are criticized as self interested exploiters, Adam Smith, while recognizing that they do some good for society, partly reflected this view when he wrote in The Wealth of Nations: "In spite of their natural selfishness and rapacity, though they mean only their convenience, though the sole end which they propose from the labours of all the thousands they employ be the gratification of their own vain and insatiable desires they are led by a hidden hand, and without intending it, without knowing it, advance the interest of society".

3. **Innovator in Economic Growth:** by bringing new ideas, combinations, products techniques, organizations, new markets, making full use of technical knowledge, balanced growth, systematic innovation, technological advancement, implementation of mechanical skills, an entrepreneur play very crucial role in encouraging entrepreneurship and economic development. Peter Drucker writes, "Just as management has become the specific organ of all contemporary institutions and the integrating organ of our society of organizations, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organizations, our economy, and our society". He further says that the emergence of a truly entrepreneurial economy is the most significant and hopeful event that have occurred in recent economic and social history.

4. **Creation of Employment Opportunities:** Entrepreneurs play a significant role in generation of employment opportunities by establishing new units in manufacturing, trading and service sectors, laying emphasis on small scale industries, utilizing the surplus labour force in varied industrial and/or service activities, upholding self-employment as a core objective. Entrepreneur integrates resources and technologies into profitable business ventures and creates job opportunities.

5. **Increase Productivity with Modern Production System:** Play an important role in raising productivity. John Keudrick writes, "Higher productivity is chiefly a matter of improving production techniques, and this task is the entrepreneurial function par excellence". Two keys to higher productivity are research and development and investment in new plant and machinery. But there is a close link between R & D and investment programmes, with a higher entrepreneurial input into both".

   George Gilder in The Spirit of Enterprise said that: "Entrepreneurs are innovators who evoke demand'. They are makers of markets, creators of capital, and developers of opportunity and producers of new technology. They seek the unique product, the marketing breakthrough, the startling new, feature or the novel design. They change technical frontiers and reshape public desires. They create wealth and employment. They take exception to the received view that companies should be market led. They lead the market".

6. **Export Promotion and Import Substitution:** Liberalization, privatization and globalization [LPG] has opened the arena of export promotion and import substitution to entrepreneurs by establishing industries producing import substitution goods, establish new industries, especially for export, products, exploration of new global markets, earning foreign exchange reserves, utilizing the available productive resources, achieving self-reliance in production of as many goods as possible, entrepreneur, are playing a pivot role in export promotion and import substitution.

7. **Entrepreneur Plays a Role of Catalytic Agent:** As Joseph Schumpeter says, entrepreneur's task is "creative destruction". He destroys to create new things. He changes and transmutes values. He searches change and responds to it. He is a change creator. Ralph Harwitz writes in his book Realities of Profitability', "The entrepreneur makes a happening, wants piece of action, is the growth man. Without him there is no happening, no action, and no growth".

8. **Augmenting and Meeting Local Demands:** Entrepreneurs also play a significant role in augmenting local demands and meeting them satisfactorily. Towards this entrepreneurs focus their attention to manufacture service through indigenous technology, skill, resources and experiences.

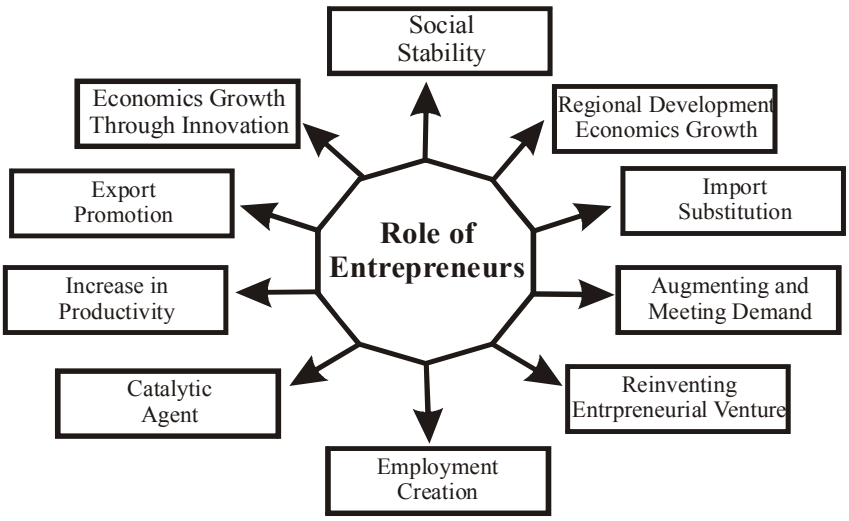


Figure 4.4 : Role of Entrepreneurs

9. **Reinventing Entrepreneurial Venture:** An entrepreneur work to reinvent his entrepreneurial venture. He knows that change and innovation is good for his organization. Paul Wilken observes, "Entrepreneurship is a discontinuous phenomenon, appearing to initiate changes in the production process and then disappearing until it reappears to initiate another change". Zoltan Acs writes, "Entrepreneurs stir up the waters of competition in the market place. They are 'agents of change in a market economy".

4.5 Entrepreneur vs. Entrepreneurship

The term entrepreneur is often used interchangeably with "entrepreneurship". But conceptually, they are different yet they are just like the two sides of a coin. Entrepreneur and entrepreneurship are co-related. The relationship between entrepreneur and entrepreneurship is given in the table 4.1.

Table 4.1 Relationship between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
Refers to a person	**Refers to a Process / Activity / Action**
Leader	Leadership
Planner	Planning
Programmer	Action
Motivator	Motivation
Risk-taker	Risk-taking
Creator	Creativity
Visionary	Vision
Innovator	Innovation
Technologist	Technology
Initiator	Initiative
Organizer	Organization
Decision-maker	Decision Making
Administrator	Administration
Adopter	Adopting
Delegator	Delegating
Ethical	Ethics
Goal Setter	Goal Setting
Imagination	Imagining
Skilled	Skills
Transformer	Transformation
Wealth Creator	Wealth Creation
Economic Developer	Economic Development
Promoter	Promotion

4.6 Entrepreneurial Failure

Getting success in entrepreneurial venture is not the result of a single person's efforts. There is always a team involved in it. The team is made up of other group of people like investors, working partners, employees, vendors, creditors, customers and clients. All play an important part in the success or failure of the enterprise. Although other people are involved, but there is a tendency to believe that they play less important roles and at the end of the day, success or failure of the enterprise will be largely depend on the entrepreneur's vision, skill, achievement level.

Many entrepreneurs fail due to several barriers and problems. Karl H. Vasper has identified following reasons:

- Lack of a viable concept.
- Lack of market knowledge
- Lack of technical skills.
- Lack of seed capital.
- Lack of business know-how.
- Competency-lack of motivation.
- Social stigma.
- Legal constraints and regulations.
- Monopoly and protectionism.
- Inhibitions due to patents

Because of limited productive resources, high levels of uncertainty and risk, in experienced management personnel, employees, new ventures suffer fear mortality much higher than the, well established firms. There are a number of reasons for failure of a new venture and these are discussed below:

1. **Inadequate Management of Finance:** Due to a lot of operational issues sometimes, financial management is likely to get neglected. Sometimes entrepreneurs are more concerned about raising the fund, they are less concerned about utilization of funds. Common errors in financial management can be bad receivables management, improper cash management, unproductive investments, and poor budgeting decisions, poor inventory management.

2. **Lack of Professional and Experienced Management Team:** One of the main problems faced by new enterprises in that the management team is usually very new to their role. Due to the lack of professional management the management of process, management of people go in a wrong direction. Even in some rare cases, when the management has some individuals who have led a company in the past, they are now faced with a situation where the company itself has no previous track record. It is a very different kind of situation.

3. **Weak Promotional Efforts:** Entrepreneurial firms are very reluctant to spend on promotional activities. Sometimes entrepreneur thinks that investing in this campaign is not going to give assured returns and the link between the promotional expenditure and the sales is not very easy to establish. This problem is mainly faced by the entrepreneurs who are in manufacturing business and there target segment is the last customer.

4. **Unplanned Rapid Growth:** Unplanned growth is not always a desirable situation. Higher growth will put greater stress on production facilities, manpower, and distribution and working capacity of Venture. These are designed to cater to the rise in volumes up to a limit and to increase the limit and productivity they might need further capital investments. It will lead to a stage of continuous firefighting and ultimately, many things may not keep pace with the growth. Most commonly, the organization may run out of cash.

5. **Shortage Trained or Experienced Manpower:** Shortage of skilled and experienced manpower, shortage of technologist is faced by new ventures. Most people prefer to work with a well-established organization employing hundreds of employees and having a stable track record and experienced manpower has less desire to work with new venture. New ventures are also reluctant to invest in training and development. Lack of experienced and skilled manpower can lead to a general drop

in productivity and quality of output. The absence of quality manpower is particularly felt during a crisis.

6. **Lack of Appropriate Information:** Even in this era of free-flowing information, the quality of information available to large corporations is superior then the information available to new small entrepreneurial ventures. Quality information is always have some cost and small ventures may not be able to invest so much in getting the high-quality information. For example, before entering a new market, the new venture may send some sales persons to interview customers, retailers and wholesalers. On the other hand, the large corporation may here the services of a market research firm and carries out a through investigation of the potentiality of their future product or service and the opportunities of the new market.

7. **Improper Price Management:** Price of the product / service plays a pivot role is marketing the product / service. There are many sophisticated pricing policies a new venture can adopt, taking into account its cost structure, productivity level, nature of demand, and extent of competition. The entrepreneur can introduce new innovative pricing system also for example, Deccan Airways revolutionized airline pricing in India by introducing low-priced air ways. But improper management of price creates a lot problem to entrepreneur as price is directly associated with the volume of sales.

8. **Lack of Strong Business Relationship:** Relationships with vendors, creditor, venture capitalist, customers, and others is a huge advantage to established businesses. A new venture will have to establish new relationships and work hard at strengthening them. Such business linkages help in smooth conduct of business and are invaluable at times of distress. Otherwise conflict between these relations may create a lot problem to the establishing venture.

9. **Less Concerned about Management:** Improper inventory management can lead to tough problems. Production can be halted due to insufficient inventory, whereas excess inventory can lead to wastages and financial loss. In case of perishable goods, high inventory can lead to expiration of stock. Inflated valuation of inventory can give a very wrong picture of the financial position of the firm and this may lead to wrong pricing policy.

10. **Narrow Vision:** A number of small new firms face huge problems on operational issues and these problems can threaten the very existence of the venture at time of start up. In such circumstances, the management of the venture focus on surviving the immediate crisis and resolving the conflict and soon the long-term vision and strategy of the firm are forgotten. If this continues for long, the danger is that long-term plans and strategies are discarded as impractical or irrelevant. Ultimately, the firm acquires a shape very different from what was originally envisaged by the entrepreneur.

4.7 Summary

An entrepreneur performs many activities from time to time and also simultaneously depending on a complex and combinations of economic, socio-political and other factors in an enterprise. The entrepreneur of the world is the wisest minds who leave an indelible mark in the history of mankind. They make it possible through their action, and not through words. They do things in a completely new way. They think beyond the obvious. They go deeper. They think from different perspectives and angles. There are different types of entrepreneurs. A nascent entrepreneur is an individual who is in the process of starting a new business. A

novice entrepreneur is an individual who has no prior business ownership experience. A habitual entrepreneur is an individual who has prior business ownership experience. A serial entrepreneur is an individual who has sold or closed an original business, established another business, sold or closed that business, established another business, sold or closed that business, and continues this cycle of entrepreneurial behavior. A portfolio entrepreneur is an individual who retains an original business and builds a portfolio of additional businesses.

The entrepreneur is a key in entrepreneurship. His personality is a composite of innovator, risk taker, motivator, planner, a creative problem solver and who makes things happen. Entrepreneurs are made and not born. He is made by his family, environment and education. Because of limited resources, high levels of uncertainty and inexperienced management and employees and man other such reasons, new ventures suffer from a very high rate of failure – much higher than that of larger, well-established firms.

One should remain optimistic that entrepreneurship in India will develop to promote India's economic development on a sound basis, as an integral part of the world economy. The burst of creativity and innovation in emerging technological industries holds tremendous promise for economic development and technological business growth. When talent is linked with technology, people recognize and then push viable ideas and the entrepreneurial process is under way.

4.8 Self Assessment Questions

1. What are the various ways of classifying entrepreneurs?
2. Distinguish between a portfolio entrepreneur and a social entrepreneur.
3. Outline the causes of entrepreneurial failure in detail.
4. Who is an entrepreneur? Explain the various types of entrepreneurs.
5. "An entrepreneur is a catalytic agent in economic development." Explain the role and significance of an entrepreneur in developing economy with reference to above statement.
6. "The entrepreneur is more than a manager. He is an innovator and promoter as well". Explain this statement and describe the various types of entrepreneur.
7. Entrepreneur is a 'Captain of Industry' and 'Economic Leader' of the society. Elucidate.
8. How does an entrepreneur contribute to the economy and the society?
9. Who is Entrepreneur? What are his functions?
10. Narrate the role and significance of an entrepreneur in an economy.
11. What are the functions performed by entrepreneurs? Explain the characteristics of successful entrepreneur.

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Unit - 5 : Entrepreneur and Manager

Structure of Unit:

5.0 Objectives
5.1 Introduction: Professional Management
5.2 Owner-Manager vs. Entrepreneur
5.3 Managers vs. Entrepreneurs
5.4 Owner Manager vs. Professional Manager
5.5 Entrepreneur vs. Administrator
5.6 Intrapreneurship
5.7 Ethics and Social Responsibilities of Entrepreneurs
5.8 Summary
5.9 Self Assessment Questions
5.10 Reference Books

5.0 Objectives

After completing this unit, you will be able to:

- Understand the concept and appreciate the importance of Professional Management.
- Describe and differentiate the character traits of owner manager and entrepreneur.
- Distinguish between the features of entrepreneur and professional manager.
- Outline the trait profiles for entrepreneur and administrators.
- Explain the difference between entrepreneurship and intrapreneurship.
- Discuss the social obligation of entrepreneur towards society
- Focus on the ethical and social responsibility related issues of an entrepreneur

5.1 Introduction: Professional Management

Entrepreneurs and professional managers are the two sides of the coin. Their individual itineraries will make the difference between success and failure for the enterprise. The progressive development in the size of business and the separation of ownership and management in enterprises has made management a distinct profession. Management can be professional not by hiring professional managers but by adopting the style of professional management. Professional management organises managerial functions by setting long-term objectives, formulating policies and strategies, developing formal communication network and evaluation system to deal with the emergence of business problems. The characteristics of professional management are as follows:

Body of Knowledge: Management theory has a philosophy of its own. It is based on systematic and scientific studies.

Management Tools: Tools of management such as accounting, business law, psychology, statistics and data processing have been developed to enhance the practical utility of the science of management.

Specialisation: There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional area of management. This has created greater demand for professionals.

Separate Discipline: Management studies in many universities and institutions of higher learning are recognised as a separate discipline. Seminars, special courses, and training programmes have become essential in management areas like export management, personnel management, production management, marketing management, financial management, etc.

Professional Association: In our country too, business management association have been formed. They mainly aim at spreading the ethics of business management and build up a sound public image of the managerial profession.

According to the Sachar Committee on Company Law "A professional manager is an individual who belongs to the profession of law, accountancy, medicine, engineering or architecture, or is a member of a recognised professional body or institutional body exercising supervisory jurisdiction over its members, or is a holder of a degree or diploma in management from any recognised university and possesses not less than five years' experience in an executive capacity in a company, corporation or in the government".

A professional manager is required to possess specific management knowledge relating to:

(a) Technical processes, products, materials, equipment and procedures;
(b) Economic knowledge about the basic objective of the entrepreneurs and its position in the economic and social system within which it is operating;
(c) Human knowledge about employee motivation, moral and delegation of authority; and
(d) Administrative knowledge about application and analysis of data. This will facilitate him to deal with various problems of the organisation in an effective manner.

5.2 Owner-Manager vs. Entrepreneur

You do not have to own a firm to manage it. However, some managers do own the firms they manage and these make up the majority of managers of small firms. These are owner-managers. Sole traders are owner-managers. To qualify as an owner-managers requires ownership (or beneficially ownership) and controlling authority.

Owner-managers significantly control the operations of their firm on a day-to-day basis. Notice, however, that this is a question of judgement and therefore this term, as with the term entrepreneur, is likely to be used very loosely. We can also see that, using these definitions, owner-managers need not be entrepreneurs. Indeed, most owner-managers are not entrepreneurial.

Many managers of small firms do not own or control the firm they are employed by. The firm is controlled by its larger, parent company. The manager is therefore not an owner-manager. Paradoxically, however, they might be an entrepreneur, depending on the way they act. Figure 5.1 shows these relationships and table no 5.1 shows the character traits of owner managers and entrepreneurs.

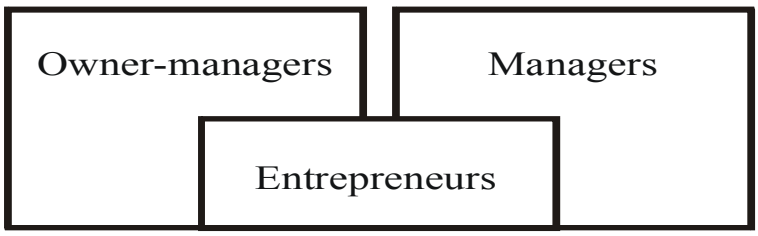


Figure 5.1 : Managers, Owner-managers and Entrepreneurs

Table 5.1 Character Traits of Owner-managers and Entrepreneurs

Owner-managers:
❖ Need for independence
❖ Need for achievement
❖ Internal focus of control
❖ Ability to live with uncertainty and take measured risks

Entrepreneurs:
❖ Opportunistic
❖ Innovative
❖ Self-confident
❖ Proactive and decisive with high energy
❖ Self-motivated
❖ Vision and flair
❖ Willingness to take greater risks and live with greater uncertainty

Entrepreneurs share certain character traits with owner-managers but they also have certain additional, almost magical qualities that the average owner-manager does not possess. Figure 5.2 proposes that entrepreneurs, and indeed owner managers, are in fact both born and made. Whilst they do have certain personal character traits that they may be born with, they are also shaped by their history and experience of life. This comprises their antecedent influences - the social environment that they find themselves in for example, their family, ethnic group, work, education and so on - and the culture of the society they are brought up in. Some cultures encourage entrepreneurial activity, others discourage it. What is more, the situations entrepreneurs find themselves can influence the decision. For example, if they are thrown out of work they may have little option but to try to start up their own business.

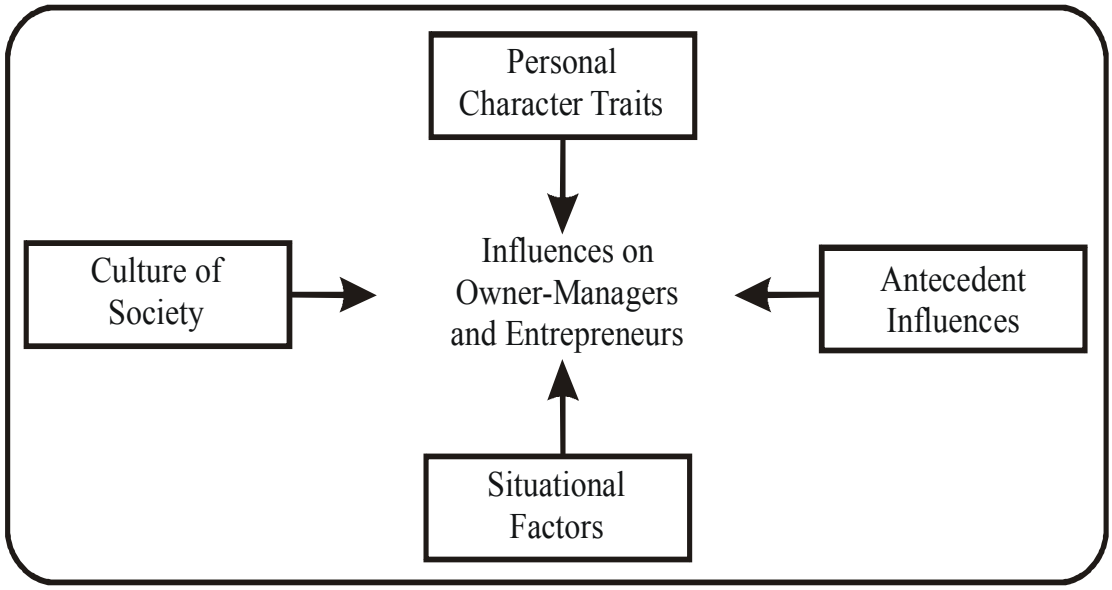


Figure 5.2 : Influences on Owner-Managers and Entrepreneurs

All these factors influence the decision whether to start up a business and whether to grow it. If all the factors are favourable the volume of start-ups should increase as, too, should the number of businesses that grow. Indeed both antecedent influences and the dominant culture of the society will almost certainly influence the personal character traits of individuals as they develop over time and visa versa-over time entrepreneurial characters will start to shape society and influence those they come in contact with. These three factors are interrelated.

5.3 Managers vs. Entrepreneurs

Any enterprise needs entrepreneurs to start the enterprise and run it. It also needs managers for the managerial role required for running day to day operations of the enterprise. Generally the Chief Executive and his team at top level play the role of entrepreneurs whereas the group of officers in the organisation in middle level as well as lower level plays the role of managers. A professional manager takes care of the general functions of running an organisation such as strategic planning, operation planning, organising the resources, staffing,

coordination, motivation and controlling work in the organisation. The professional manager is driven by a plan to achieve the predetermined targets to build the organisation and develop it. A manager uses managerial tools to achieve the targets like the volume of production, the profit or growth of an organisation.

He contributes on day to day operations in achieving the quality of goods produced, makes efficient use of the resources and enhancement of the standards. A manager is appointed by the organisation and paid as per the employment contract.

An entrepreneur is not a paid manager. He is great motivator to start his new business and also manage it successfully. He is the investor and takes risks in the enterprise. He is an innovator and a manager and works for his satisfaction and he is happy to get positive results. An entrepreneur appoints a manager for carrying out some of his functions, whereas the reverse is not true. An entrepreneur may also perform duties of a manager in getting done his creative activities and satisfying need of achievement.

An entrepreneur takes a venture for his personal satisfaction, whereas a professional manager has functions like setting targets, following rules, procedures, attainment of set targets. Any failure of an enterprise may be a huge loss in the career of an entrepreneur. In case of professional managers the failures may mean little. The distinction between an entrepreneur and with professional / traditional manager is detailed in to separate table 5.2:

Table 5.2 Distinctive Features of Entrepreneur and Professional Manager

Entrepreneur	Professional Manager
Risk-taking	Policy formulation
Committed	Loyal
Visionary	Planner
Motivator	Skilled, Knowledgeable
Perception of an opportunity	Setting of objectives
Interpersonal communication	Formal Communication
Planner	Implementer
Negotiating	Organising
Trouble-shooting	Motivating
Tactical Planning	Strategic Planning
Innovator	Administrator
Determined	Confident
Making it a growing concern	Controlling

An entrepreneur differs from manager with respect to the following:

Table 5.3 Managers vs. Entrepreneurs

Basis	Manager	Entrepreneur
Running of business	He runs an already existing business.	He sets up a new business enterprise.
Type of skills	He possesses the managerial skills and business know-how to operate a business enterprise.	He possesses the managerial, creative and innovative skills to launch a business venture.
Working Pattern	He works in the set up created by the entrepreneur. He performs day-to-day functions of the business.	He acts as an innovator and creates a set up for managers to work in.

Basis	Manager	Entrepreneur
Vision	He maintains the efficiency of the organisation.	He launches a new business and works for its growth and success.
Remuneration	He is paid for his services by the company. He does not assume any risk for business activities.	He assumes the risk of success or failure of an enterprise.
Functions.	He performs managerial functions on a continuous basis.	He performs entrepreneurial functions only when there is the need to launch a new enterprise or re-energise (change) the existing enterprise. Entrepreneurial functions are not performed on a continuous basis.
Accountability.	He is accountable to his superiors and also the owners of the company.	He is accountable to his own self. He does not have any boss.
Basic Motive	Want promotion and traditional corporate rewards. Power motivated	Wants Freedom, goal-oriented, self-reliant, and self-motivated.
Work Style	Delegate action, supervising and reporting take most of energy.	Gets hands dirty. May upset employees by suddenly doing their work.
Training and Development	Professional training. Often business-school trained.	Knows business intimately. More business acumen than managerial or political skill. Often technically trained if in technical business.
Degree of Courage & Destiny	Sees others in charge of his or her destiny. Can be forceful and ambitious, but may be fearful of others' ability in case of optimism.	Self-confident, optimistic, courageous.
Focus	Primarily on events inside corporation.	Primarily on technology and market place.
Background	Family members worked for large organisations.	Entrepreneurial small-business, professional or agricultural background.
Level of Education	Highly educated	Less well educated in earlier studies, some graduates work but not Ph.D
Relationship with Others	Hierarchy as basic relationship.	Transactions and deal making as basic relationship.
Orientation towards time management	Respond to quotas and budgets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer	goals of 5-10 year growth of business in view and objectives. Takes action now to move the next step along way.
Status Que	Cares about status symbols (decent office, etc.)	Happy sitting on an orange crate if job is getting done
Degree of Risk	Careful	Like moderate risk. Invests, heavily, but expects to succeed.
Decision Making	Agrees with those in power. Delays decision until he gets a feel of what bosses want	Follows private vision. Decisive and action-oriented.
Mistakes and Un success	Strives to avoid mistakes and surprises. Postpones recognising failure.	Deals with mistakes and failures as learning experiences. Please others. Pleases self and customers
View towards The system	Sees system as nurturing and protective, seeks position within it.	May rapidly advance in a system, when frustrated, reject the system and form his or her own
Problem solving Methodology	Works out problems within the system	Pushing up and dawn problems get diluted or loosed around

5.4 Owner Manager vs. Professional Manager

The differences between owner-manager and a professional manager are much deeper which can be studied with respect to the function capabilities business philosophy, and the characteristic skills which each incorporate.

Table 5.4 Owner-Manager vs. Professional Manager

Basis	Owner Manager	Professional Manager
1. Source of Authority	Traditional (ownership) Personal	Expertise Official
2. Basis of Philosophy	No diffusion between ownership and control. No conflict between personal and company objectives. No distinction between person and role. Integration of work and social values.	Control without ownership. Conflict between individual and organisational goals. Very clear distinction between the individual and the post he occupies. Values of the work-place divorced from both individual and social values.
3. Characteristic and Skills	Not subservient to economic goals. Adoptive. Diagnostic. Opportunism. Tactical facility. Pragmatic use of techniques as aid to problem-solving. Social skills applied on a personal basis.	Economic 'performance' as ultimate criterion. Predictive. Prognostic. Control of change. Strategic facility. Coordination and control of specialists.
4. Organisation	Consequences mitigating decision-making. Informal relationship. No divorce between the planners and the doers. Appointment and promotion often on the basis of birth of personal friendship. Everyone prepared to muck-is as required.. Open system of communications	Event shaping decision-making. Formal relationship. Divorce of planning from doing. Technical qualifications as basis of appointment and promotion. Precise definition of rights and obligations, duties and responsibilities. Structured communications system.

Source: Philip Clarke, Small Business: How they Survive and Succeed, David & Charles, Great Britain, 1973, pp. 109-111.

The owner-manager assumes all business risks and stands to lose not only his capital but reputation and prestige in the event of failure of business, whereas the professional manager is not exposed to such risks. The owner-manager is identified with individuality, flair, strong motivation to achieve success and the urge to grow while the professional manager conjures up a picture of organising, planning, motivating and controlling. The owner-manager exhibits a strong desire for independence, which he demonstrates through the building of an organisation.

5.5 Entrepreneur vs. Administrator

Entrepreneurship is different from administrator. It is important to note the difference and contrasting traits profiles for entrepreneurs and administrators in the following table 5.5:

Table 5.5 Entrepreneur vs. Administrator

Entrepreneurs tend to	Administrators tend to
Exhibit moderate-to-high-risk taking behaviour	Exhibit low-to-moderate risk-taking behaviour
Possess technical knowledge and experience in the innovative area	Posses managerial knowledge and experience
Focus on envisioned futures	Focus on the established present
Display a medium-to-high tolerance for ambiguity	Display a low-to-medium tolerance for ambiguity
Create wealth	Administer wealth
Involve initiating changes in production	Involve the ongoing co-ordination of the production process
Emphasize external/ market dimensions	Emphasize internal/ cost dimensions
Value self-respect, freedom, a sense of accomplishment, and an exciting lifestyle.	Value true friendship, wisdom, salvation and pleasure
Obtain motivation from a need to achieve	Obtain motivation from a need to lead others (i.e., social power)

5.6 Intrapreneurship

Intrapreneurship is more important now than ever before. No one needs to be told that the world is changing now faster than ever before. Organisations are finding it harder and harder to survive by merely competing. They are, therefore, increasingly looking towards their intrapreneurs to take them beyond competition to create new businesses in new markets.

Intrapreneurs are persons who are working in the existing organisation. They foster organisation innovation by assuming entrepreneurial roles. While entrepreneurs are persons who start their own company, intrapreneur is a person who pursues an entrepreneurial idea within a company. "Intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organisational environment." The term 'intrapreneur' was introduced by Gordon Pinchot. He defines intrapreneur as 'those who take hands on responsibility for creating innovation of any kind within an organisation. The intrapreneur may be creator or inventor but is always the dreamer who figures out how to turn an idea into a profitable reality.

The term "intrapreneur" was officially recognised in 1992 with this definition in American Heritage Dictionary: "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation."

"Intrapreneurs" are entrepreneurs who catch hold of a new idea for a product, service, or process and work to bring this idea to fruition within the framework of the organisation. Intrapreneurs with their innovations and dedicated efforts are perceived as a valuable asset by the organisation, inspiring others. He serves as a champion to others in the organisation.

New businesses which are started by entrepreneurs do well in the beginning but become stagnant over a period of time. To retransform these businesses into active and growing ones, the firms encourage the

concept of Intrapreneurship. Intrapreneur is "a person similar to an entrepreneur, except that he or she develops a new business in the context of a large organisation." It is re-emergence of entrepreneurship within large organisations. It understands the need for, initiating and carrying out innovations at every level of the organisation. "Intrapreneurship is the practice of innovating by developing new products, processes or services while one is part of an organisation."

Entrepreneur vs. Intrapreneur

Some thinkers do not make any distinction between the term 'entrepreneur' and 'intrapreneur'. However, the two terms differ from each other with respect to the following:

Table 5.6 Intrapreneur vs. Entrepreneur

Intrapreneur	Entrepreneur
He operates within the organisational environment.	He operates outside the organisational environment.
He transforms an idea into reality by focussing on innovation and creativity in the internal organisational environment.	He sees a business opportunity, obtains the necessary inputs and starts a business operation.
He brings about change in the existing state of equilibrium of organisation's operations.	He brings an organisation into existence.
Once the business enters stagnation, he re-energises entrepreneurship within large organisations.	He starts a small business and grows it to a large business house.

Both the entrepreneur and intrapreneur are innovators and both perform the function of organisation and management. But the contexts within which the two operate and the degree of risk they bear are different. To sum up the basic differences we could say firstly entrepreneurship involves huge amount of risk while there is no personal risk involved in case of an intrapreneurship. Secondly an intrapreneur is dependent on the organization in which he is working while an entrepreneur doesn't work in any confines, hence independent in every task he undertakes. While companies admire an intrapreneur who is an independent thinker, being too independent could cause problems. The biggest difference between intrapreneurship and entrepreneurship, according to Pinchot, is that an intrapreneur has to deal with authority figures.

Intrapreneurship (entrepreneurship within an existing business structure) can also bridge the gap between science and the marketplace. Existing businesses have the financial resources, business skills, and frequently the marketing and distribution systems to commercialize innovation successfully. Yet, too often the bureaucratic structure, the emphasis on short-term profits, and a highly structured organization inhibit creativity and prevent new products and businesses from being developed. Corporations recognizing these inhibiting factors and the need for creativity and innovation have attempted to establish an intrapreneurial spirit in their organizations. In the present era of hyper competition, the need for new products and the intrapreneurial spirit have become so great that more and more companies are developing an intrapreneurial environment, often in the form of strategic business units (SBU)

In the new competitive environment, it is necessary to grow out of a mindset that think only of control. Organisations have to learn to treat their employees note as mere implementers of decisions, but as entrepreneurs thus, intrapreneur who can all contribute to the growth of the company. But entrepreneurial

freedom is more than just the decentralisation or delegation of work. Gifford Pinchot III suggested that well- established companies should learn to make use of the entrepreneurial talents within to avoid stagnation and decline. Intrapreneur introduces new products, services and process which enable the company to grow and succeed in a changing environment. What is, therefore, needed to grow a system and an organisation culture within a large organisation that would allow the executives to operate like entrepreneurs. These persons are driven not by monetary gain but by a deep desire of personal achievement. Therefore, companies should provide such people with adequate financial resources and the autonomy necessary for the development and applications off their ideas. Pinchot suggested the creation of a system which will provide selected executives a status within the corporation similar to that of an entrepreneur in a society. Such people are 'intra-corporate entrepreneurs' or 'intrapreneurs'.

5.7 Ethics and Social Responsibilities of Entrepreneurs

An enterprise must earn profits for its own survival, for expansion, for bearing the risks and finally for the prestige of its management. But profit cannot be the sole objective of the entrepreneur. It is a means and not an end. No enterprise can last long unless along with earning profits, it continues to fulfil its obligations to the society. The ultimate objective of every enterprise has to be the good of the people. Business must be run by the people through the people and for the people. An entrepreneur must take risks with his or her own capital in order to sell and deliver products and services while expending greater energy than the average businessperson in order to innovate.

An entrepreneur is very much linked with society. Since any venture owes its existence to society, it has to function under the overall control and discipline of the society. Any business, which is injurious to any segment of the society, can neither be tolerated nor allowed to continue. Every enterprise is required to perform and satisfy certain obligations which it owes to the society and the performance of which is essential for its own survival and the well-being of the society. It is the obligation of an enterprise which it owes to the different segments of the society that determine its objectives. Besides earning profit, an entrepreneur has to satisfy the requirements of various other groups of people.

Faced with daily stressful situations and other difficulties, the possibility exists that the entrepreneur will establish a balance between ethical exigencies, economic expediency, and social responsibility, a balance that differs from the point at which the general business manager takes his or her moral stance. How much and what type of social responsibility an organization should pursue has been a topic of heated debate for a number of years. Social responsibility is the obligation of organizational decision makers to act in ways that recognize the interrelatedness of business and society. Social responsibility assumes the existence of stakeholders, individuals or groups of individuals who have a stake in or are significantly influenced by an organization's actions and who, in turn, can influence the organization.

According to H.R. Brown, an entrepreneur, today, has an obligation 'to pursue those policies, to make those decisions or to follow those lines of action which are desirable, in terms of the objectives and values of the society. The entrepreneur, therefore, has to include his social obligations and social values as inputs into the decision and action process, along with organisational, economic, technological and other relevant values and variables. According to Koontz O' Donnell "Social responsibility is the personal obligation of everyone as he acts for his own interests, to assume that the rights and legitimate interests of all others are not impugned."

The traditional view of social responsibility was that organizations existed solely to serve the interests of one stakeholder group: Stockholder. However, the traditional - and purely economic - view of social responsibility

has given way to a belief that organizations have larger social role to play and a broader constituency to serve than stock holders alone.

Obligations of the Entrepreneur to the Different Segments of the Society

Possible organizational stake holders are illustrated in figure5.3. Balancing the demands of these various stakeholders is, as you can well imagine, a difficult process because they often have a wide range of needs and conflicting expectations.

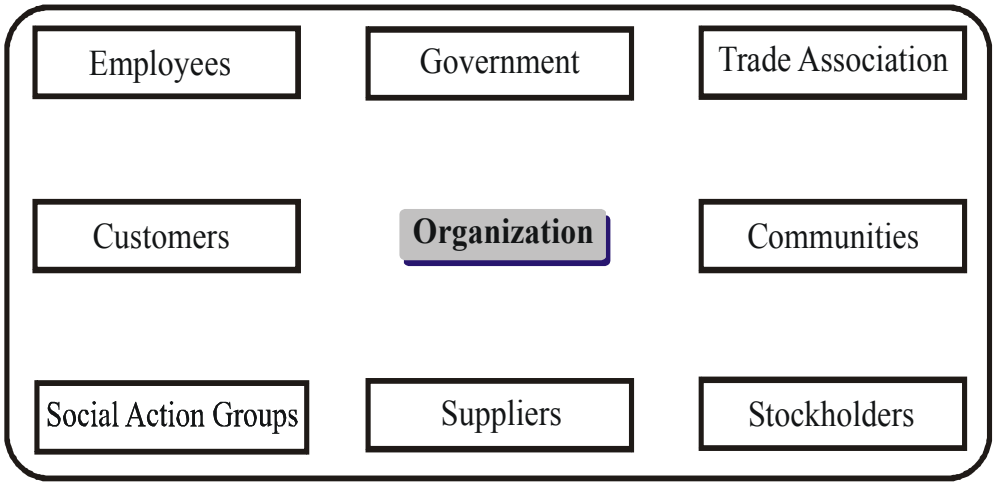


Figure 5.3 : Possible Organizational Stake Holders

According to Earnest Dale, "the manager sees himself as an arbiter among the many interests of 'public' affected by the business, the stockholders, the employees, the suppliers, the local community and the customers. It is his duty to divide the returns from the business equitably by providing a 'fair' return to the shareholders, 'fair' working conditions and pay for the employees or 'fair' prices to the suppliers and customers and to make the business, in general, an asset to the local community and the nation." The most important social obligation of an entrepreneur is to reconcile and balance the various conflicting interests in the best possible manner. The various stakeholders are:

1. **Employees:** Employees need security of job, higher wages, full employment, better conditions of work and opportunities for self-development and promotion. They also desire their work itself to be rewarding and to contribute something good to the society in general. Management, as a part of its social responsibilities, is expected to provide for their social security, welfare, grievances settlement machinery and sharing of excess profits.

2. **Stockholders:** An entrepreneur must provide safe, fair adequate and stable long-run rate of return and steady capital appreciation to the shareholders for their investments. It must also provide regular, accurate and adequate information about the working of the company.

3. **Suppliers:** Dealings with the suppliers should be based on integrity, impartiality and courtesy. Terms and conditions regarding delivery of goods and payment of prices must be reasonably fair. Producers may make available to the suppliers the benefits of their information and research so as to promote indigenous growth or for the improvement of the quality of their products.

4. **Customers:** In the words of Henry Ford, an entrepreneur must provide, "those goods and services which the society needs at a price which the society can afford to pay." Entrepreneurial ventures must meet the requirements of the customers of different classes, tastes and with different purchasing power at the right time, place, and price and in right quality. An entrepreneur should act as a friend

and guide to the customer. He must try to protect consumers' interest at all costs. He must guard against adulteration, poor quality, lack of service and courtesy to the consumer, misleading and dishonest advertisement, underweighting, supply of stale goods, etc. He must handle the complaints of the customers carefully and efficiently and cooperate to the maximum extent with the consumers associations. A customer must also be protected against the ill effects of monopolistic and restrictive business practices.

5. **Government:** Entrepreneurs must abide by the laws of the country in their true spirit. The must conduct their affairs as may cause the minimum possible social damage such as air or water pollution. They must help in the proper implementation of all social improvement policies adopted by the Government. They must pay taxes honestly and promptly.

6. **Trade Associations and Competitors:** An entrepreneur should develop healthy inter-business relationships with fellow-entrepreneurs. He must adopt fair trade practices regarding prices, quality, terms and conditions of sale and after-sales service. The policy of under-cutting or restricted trade practices should be avoided. An entrepreneur must patronise business associations to ensure development of healthy business practices.

7. **Community:** The entrepreneurs should manage their business with such competence and skill that it inspires confidence and pride in the mind of the people. They must encourage democratic institutions and assist national integration. Enterprise, on the whole, should act on the ideas of social justice without discrimination of any kind. Business must set high standards of morality and put in all efforts to minimise social damage. It must help in bringing about a cultural, social and economic revolution in the society and lead to the economic growth of the backward regions of the world.

Business Ethics:

Ethics refers to the "study of whatever is right and good for humans, business ethics concerns itself with the investigation of business practices in light of human values. Ethics is the broad field of study exploring the general nature of morals and the specific moral choices to be made by the individual in his relationship with others.

Although the English word ethics is generally recognized as stemming from the Greek ethos, meaning "custom and usage, "it is more properly identified as originating from *swedhethos*, in which the concepts of individual morality and behavioural habits are related and identified as an essential quality of existence.

Ethics involves the rules and principles that define right and wrong decisions and behaviours. In other words, as we live our lives - attend school, go to work, engage in hobbies, go out with friends, and so forth - certain decisions are ethically "right" and others are ethically "wrong". Considering the varied interpretations of right and wrong, you can see how ethics is a complex topic to address. However, ethical considerations do play a role in the decisions you make and the actions you take with your entrepreneurial venture. You need to be aware of the ethical consequences of these. The example you set, especially if you have other employees, can be significant in influencing behaviour. A manager's attitude concerning corporate responsibility is related to the organizational climate perceived to be supportive of laws and professional codes of ethics. On the other hand, entrepreneurs with a relatively new company who have few role models usually develop an internal ethical code. Entrepreneurs tend to depend on their own personal value systems much more than other managers when determining ethically appropriate courses of action. Ethics is not only a general topic for conversation but a deep concern of business people.

5.8 Summary

The concept of the entrepreneur should be understood in its broadest sense that he is a person who acts as an agent of change for the good of the people. He not only brings change in economy but is responsible for social development also. The professional manager today is young, dynamic, educated, skilled and professional to the core. At the same time they are well versed with the modern technology and well dressed. The professional manager translated the entrepreneurial vision into a reality by adopting his professional efficiency and managerial skills. The entrepreneur and professional managers are, therefore, a critical input of socio-economic development.

Owner-managers and entrepreneurs are both born and made. They have certain personal character traits that they are born with and are influenced by antecedent factors as well as the culture into which they are born. The owner-manager assumes all business risks and stands to lose not only his capital but reputation and prestige in the event of failure of business, whereas the professional manager is not exposed to such risks. The owner-manager is identified with individuality, flair, strong motivation to achieve success and the urge to grow while the professional manager conjures up a picture of organising, planning, motivating and controlling. The owner-manager exhibits a strong desire for independence, which he demonstrates through the building of an organisation.

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Entrepreneurship is a key driver of economic growth. However, entrepreneurial attributes are under threat in the wake of international competition. These threats provide immense opportunities for innovation, which holds the key to a country's ability to participate and reap the benefits of globalisation. A country that fosters innovation and supports entrepreneurs will emerge the strongest in the future.

5.9 Self Assessment Questions

1. Who is an entrepreneur? Distinguish between owner manager and entrepreneur.
2. What is professional management? Differentiate between entrepreneur and manager.
3. Put a light on the various features of professional manager and also explain how it is different from entrepreneur's features.
4. Write short not on following:
   (i) Owner Manager vs. Professional Manager
   (ii) Entrepreneur vs. Administrator

5. Define and elaborate the concept of Intrapreneurship? Also explain the difference and similarities between Intrapreneur and entrepreneur.

6. Write short note on following:

   (i) Social responsibilities of an entrepreneur.
   (ii) Ethical Perspective of an entrepreneur.

7. Explain the concept of social responsibility of business.

8. Who are the possible stake holders of organizations? How an entrepreneur can balance the various conflicting interest of these stake holders?

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Unit - 6 : Entrepreneurship and Role of Environment

Structure of Unit:

6.0 Objectives
6.1 Introduction
6.2 What is Entrepreneurship?
6.3 What is Environment?
6.4 Relationship between Entrepreneurship and Environment
6.5 Importance of Entrepreneurial Environment
6.6 Factors Affecting Entrepreneurial Growth
6.7 Summary
6.8 Self Assessment Questions
6.9 Reference Books

6.0 Objectives

After completing this unit, you would be able to:

- Understand what entrepreneurship is.
- Classify the types of environment.
- Understand the relationship between entrepreneurship and environment.
- Appreciate the importance of entrepreneurial environment.
- Learn about and appreciate the factors affecting entrepreneurial growth like economic, non-economic, governmental, social and other factors.

6.1 Introduction

Entrepreneurship has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and it is a pathway to prosper. Entrepreneurship is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. It is the process of planning, organizing, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as an ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment. The hypothesis that entrepreneurship is linked to economic growth finds its most immediate foundation in simple intuition, common sense and pure economic observation: activities to convert ideas into economic opportunities lie at the very heart of entrepreneurship. Entrepreneurship is a source of innovation and change, and as such spurs improvements in productivity and economic competitiveness. Entrepreneurship has been a subject of much debate and discussions.

6.2 What is Entrepreneurship?

Entrepreneurship is a concept, which is defined differently by different authors. Most economic, psychological and sociological research points to the fact that entrepreneurship is a *process* and not a static phenomenon. Entrepreneurship is more than just a mechanical economic factor. Entrepreneurship has to do with *change* and is also commonly associated with *choice*-related issues.

Existing definitions of entrepreneurship often relate to the functional role of entrepreneurs and include coordination, innovation, uncertainty bearing, capital supply, decision-making, ownership and resource allocation. Indeed, three of the most frequently mentioned functional roles of entrepreneurs are associated with major schools of thought on entrepreneurship:

- ***Risk Seeking:*** The Cantillon or Knightian entrepreneur willing to take the risk associated with uncertainty.
- ***Innovativeness:*** the Schumpeterian entrepreneur accelerating the generation, dissemination and application of innovative ideas.
- ***Opportunity Seeking:*** the Kiznerian entrepreneur perceiving and seizing new profit opportunities.

Entrepreneurship is also defined as an 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.

Over the last two decades, entrepreneurship has been amongst the fastest growing area of economic and business interest and research all over the world. If entrepreneurship is defined as a process of creating new and valuable things and if entrepreneur is someone who perceives and exploits opportunities then entrepreneurial process is major factor of economic development and the entrepreneur is the key figure of economic growth in the sense of Schumpeter.

We can say that entrepreneurship is concerned with the performance and coordination of the entrepreneurial functions. This also means that entrepreneur precedes entrepreneurship.

Some facts about entrepreneurs and entrepreneurship:

E:xamine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.

N: arrow the possible opportunities to one specific "best" opportunity.

T:hink of innovative ideas and narrow them to the "best" idea.

R:esearch the opportunity and idea thoroughly.

E:nlist the best sources of advice and assistance that they can find.

P:lan their ventures and look for possible problems that might arise.

R:ank the risks and the possible rewards.

E:valuate the risks and possible rewards and make their decision to act or not to act.

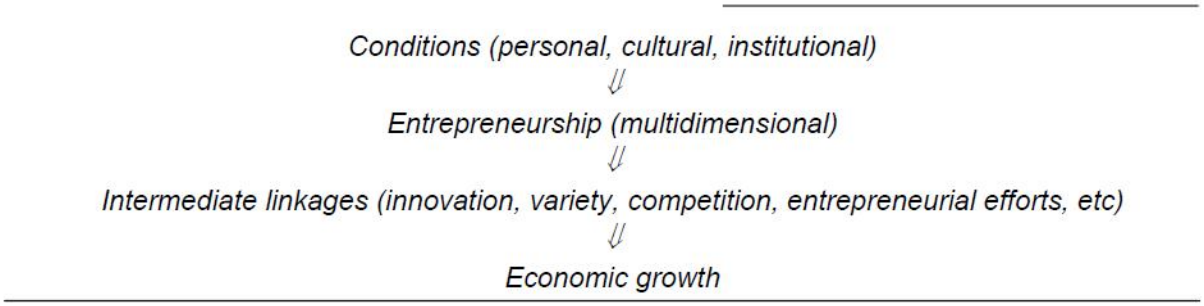
N:ever hang on to an idea, no matter how much they may love it, if research shows it won't work.

E:mploy the resources necessary for the venture to succeed.

U:nderstand that they will have to work long and hard to make their venture succeed.

R:ealize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.

Entrepreneurship is an ill-defined, multidimensional, concept. The difficulties in defining and measuring the extent of entrepreneurial activities complicate the measurement of their impact on economic performance. Understanding their role in the process of growth requires a framework because there are various intermediate variables or linkages to explain how entrepreneurship influences economic growth. Examples of these intermediate variables are innovation, variety of supply, entry and exit of firms (competition), specific efforts and energy of entrepreneurs, etc. See Figure 1 where also some conditions for entrepreneurship are provided. These conditions include personal traits that lie at the origin of entrepreneurship and cultural and institutional elements.



Source: Wennekers and Thurik (1999).

Figure 6.1 Introductory Framework

Entrepreneurship has to do with activities of individual persons. The concept of economic growth is relevant at levels of firms, regions, industries and nations. Hence, linking entrepreneurship to economic growth means linking the individual level to aggregate levels.

6.3 What is Environment?

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. Davis Keith defines the environment as "the aggregate of all conditions, events, and influences that surround and affect it". The environment imposes several constraints on an economy and has considerable impact and influence on the scope and direction of its activities. The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government polices, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components. The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

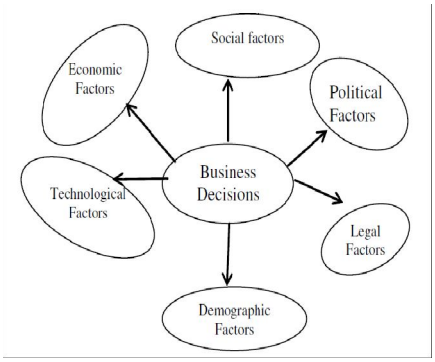


Figure 6.2 : Business Decisions and Environment

On the basis of the above discussion the features of business environment can be summarised as follows.

a. Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
b. It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
c. The business environment is dynamic in nature that means it keeps on changing.
d. The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .
e. Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

6.4 Relationship between Entrepreneurship and Environment

The emergence and development of entrepreneurship is not a spontaneous one. It depends on lots of factors which are varied. The relationship between entrepreneurship and environment is quite evident. Entrepreneurship is nurtured in an environment which has a positive individual level environment, firm level environment and macro level environment. It is dependent upon phenomenon of economic, social, political, psychological factors often termed as supporting conditions to entrepreneurship development. These all factors of environment are may have both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitating and conducive conditions for the emergence of entrepreneurship, whereas negative influences create inhibiting milieu to the emergence of entrepreneurship. There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

a. Determining Opportunities and Threats: The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

b. Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

c. Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

d. Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

e. Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

f. Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

6.5 Importance of Entrepreneurial Environment

With growing academic interest in entrepreneurship, a lot of recent research has concentrated on the reasons for the apparent spurt in entrepreneurship. The Global Entrepreneurship Monitor (GEM) report in 2007 observed very high incidence of entrepreneurship throughout the world, particularly in Asia, with Thailand and India leading the way. But, a lot of this entrepreneurship from the developing and underdeveloped countries was at a subsistence level and the result of lack of employment opportunities. Nonetheless, some of the major macro-level reasons for the current growth in entre**preneurial activities are as follows:**

- ***Industry Structure*:** Performance, in terms of economic growth, is shaped by the degree to which the prevalent industry structure efficiently utilizes scarce resources. The recent technological changes have led to an industry structure that is generally shifting towards a bigger role of small firms.
- ***New Technologies*:** This factor is related to the changes in industry structure. Fundamental changes in nature of technological development have led to diseconomies of scale.
- ***Deregulation and Privatization*:** Now companies have to deal with fewer licenses and government controls. Many state owned- enterprises have also been privatized leading to a greater role for the private sector in general and entrepreneurs in particular.
- ***Formation of New Business Communities*:** Efficiency across markets, primarily resulting from use of new technologies has led to declining cost of transactions. Recent advances in the information technology and internet have made inter-firm coordination relatively cheaper compared to intra-firm coordination. This promotes setting up of new firms in the new-age business communities.
- ***Increasing Demand for Variety*:** Increased wealth has led to the increase in the demand for variety, which in turn is advantageous to the small firms.
- ***Service sector growth*:** Increase in per capita income leads to a greater share of the services sector in the national economy.
- ***Government Incentives and Subsidies*:** Government incentives and subsidies encourage entrepreneurship.
- ***Increasing flow of Information*:** Information is the lifeblood of business and it is being increasingly democratized. The information technology has revolutionized the way business is transacted.
- ***Easier Access to Resources*:** It is easier for an entrepreneur to access debt and equity finance than ever before.
- ***Entrepreneurial Education and Education in General*:** Many universities and institutions are nowadays offering entrepreneurship education.
- ***Return on Innovation*:** Strengthening of intellectual Property Rights (IPR) has acted as a major boost to entrepreneurs willing to take a risk on an innovation.
- ***Successful Entrepreneurs as Hero*:** Dhirubhai Ambani and Naryan Murthy have become heroes to the middle class. Middle class reveres them as super-achiever and try to emulate them.
- ***High Regard for Self-Employment*:** Self employment is not looked down upon and is thought of as the best way to achieve a variety of personal goals.
- ***Rising Dissatisfaction at Job*:** Employers are finding it hard to retain talented employees. People confidence in their abilities, which in turn prompts them to find alternate employment.

- ***Acceptance of Ex-entrepreneurs in the Job Market*:** Companies are willing to re-employ people who have been entrepreneurs.

All these changes in the environment have a positive impact on entrepreneurship and entrepreneurial activities in the economy.

6.6 Factors Affecting Entrepreneurial Growth

Some of the major conditions which influence the emergence of entrepreneurship in an economy can be classified and discussed under these categories: economic, non-economic and government factors.

Economic Factors:

From the economic point of view, it can be said that that the same factors which promote economic development account for the emergence of entrepreneurship also. Some of these factors are as follows:

- ***Capital*:** Capital in finance and accounting, refers to the funds provided by lenders (and investors) to businesses to purchase real capital equipment for producing goods/services. Real Capital or Economic Capital comprises physical goods that assist in the production of other goods and services, e.g. shovels for gravediggers, sewing machines for tailors, or machinery and tooling for factories. Capital is one of the most important prerequisites to establish an enterprise and is regarded as lubricant to the process of production.
- ***Labour*:** The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. It is observed that cheap labour is often less mobile or immobile. To a certain extent problems of labour shortage can be done away with the use of capital extensive technologies as done by some of the developed economies like Japan, Germany etc.
- ***Raw materials*:** Raw material is the basic material from which a product is manufactured or made, frequently used with an extended meaning. For example, the term is used to denote material that came from nature and is in an unprocessed or minimally processed state. The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and, therefore, its influence on the emergence of entrepreneurship.
- ***Markets*:** The potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. The size and composition of market both influence entrepreneurship. Whether or not the market is expanding and the rate at which it is expanding are the most significant characteristics of the market for entrepreneurship emergence.

The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

a. Economic Conditions: The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

b. Economic Policies: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

a. Industrial Policy: The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.

b. Fiscal Policy: It includes government policy in respect of public expenditure, taxation and public debt.
c. Monetary Policy: It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.
d. Foreign Investment Policy: It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.
e. Export –Import Policy (EXIM Policy): It aims at increasing exports and bridges the gap between expert and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement.

Non-economic factors:

Sociologists and psychologists advocate that economic factors may necessary condition, but they are not sufficient condition for the enhancement of entrepreneurship. Some major non-economic factors allege to influence the emergence of entrepreneurship is as follows:

- ***Social Conditions*:** The norms and values within a socio-cultural setting have relevance for the emergence of entrepreneurship in a particular society.
- ***Legitimacy of Entrepreneurship*:** Such system is referred to as 'legitimacy of entrepreneurship' in which the degree of approval or disapproval granted by the social milieu influences the entrepreneurial behavior of individuals. Like in India, if you fail in your business, it used to bring a kind of social stigma and of course loss of capital. But that was the situation in past, now the stigma related to the failure of the enterprise is not taken as the failure of the individual.

  Entrepreneurship will be more likely to emerge in setting in which legitimacy is high. The government actions towards the development of the entrepreneurial culture can turnaround the negative or low legitimacy of entrepreneurship.
- ***Social Mobility*:** Social mobility involves the degree of mobility, both social and geographical, and the nature of mobility channels within a system. The opinion that the social mobility is crucial for entrepreneurial emergence is not unanimous. Some hold the view that a high degree of mobility is conducive to entrepreneurship. It is also pointed out that the degree and nature of social mobility alone is not likely to influence entrepreneurship but its influence is largely determined by other non-economic factors.
- ***Marginality*:** Some of the authorities on entrepreneurship believe that social marginality also promotes entrepreneurship. They believe that individuals or groups on the perimeter of given social system or between two social systems provide the personnel to assume the entrepreneurial roles. They may be drawn from religious, cultural, ethnic or migrant minority groups, and their marginal social position is generally believed to have psychological effects which make entrepreneurship particularly attractive for them. Adversity leads to the development of the entrepreneurial capacities.
- ***Security*:** Several scholars have advocated and consider entrepreneurial security as an important facilitator of entrepreneurial behavior. Security is a significant factor for entrepreneurship development. This is reasonable too because if individuals are fearful of losing their economic assets or of being

subjected to various negative sanctions, they will not be inclined to increase their insecurity by behaving entrepreneurially.

- ***Psychological and Individual Factors*:** Many of the entrepreneurial researchers and theorists have propounded theories of entrepreneurship that concentrate specifically psychological and individual factors. These factors are as follows:

- ***Need Achievement*:** Need for achievement means the drive to achieve a goal. According to McClelland, a constellation of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development. Therefore, if the average level of need achievement in a society is relatively high, one would expect a relatively high amount/ level of entrepreneurship development in that society.

- ***Withdrawal of Status Respect*:** Hagen attributed the withdrawal of status respect of a group to the genesis of entrepreneurship. Giving a brief sketch of history of Japan, he concludes that she developed sooner than any non-western society due to two historical differences. First, Japan had been free from colonial disruption and secondly, the repeated long continued withdrawal of expected status from important groups (Samurai) in her society drove them to retreatism which caused them to emerge alienated from traditional values with increased creativity. This very fact led them to the technological progress and hence entrepreneurial roles.

- ***Desire to do Something New*:** This desire of an individual takes him to the higher level of self-esteem, which leads him/her to start a new venture and provide and do something new.

- ***Educational Background and Experience of an Individual*:** An individual's decision to pursue an entrepreneurial career is dependent on various factors. The type of education, training and experience an individual has acquired influences the choice of setting up an enterprise or taking up entrepreneurship. Technically qualified persons normally set up their venture in the field of their specialization, mainly because working in one's own area of specialization provides confidence and reduces the uncertainty associated with the new venture. Other factors which can influence the entrepreneurial spirit are *family, role models and association with similar types of individuals, financial conditions to start with*.

- ***Political Factors*:** Political stability in an economy is booster of entrepreneurial activities and lead to the development of entrepreneurial climate in that economy. This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

- ***Legal Environment*:** This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the

framework of the law. The important legislations that concern the business enterprises include:

- Companies Act, 1956
- Foreign Exchange Management Act, 1999
- The Factories Act, 1948
- Industrial Disputes Act, 1972
- Payment of Gratuity Act, 1972
- Industries (Development and Regulation) Act, 1951
- Prevention of Food Adulteration Act, 1954
- Essential Commodities Act, 2002
- The Standards of Weights and Measures Act, 1956
- Monopolies and Restrictive Trade Practices Act, 1969
- Trade Marks Act, 1999
- Bureau of Indian Standards Act, 1986
- Consumer Protection Act, 1986
- Environment Protection Act
- Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

Provisions of the Constitution: The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.

Judicial Decisions: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

• **Technological Environment:** Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Nowadays infact, no firm can afford to persist with the outdated technologies.

• **Demographic Environment:** This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany,

UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

• **Natural Environment:** The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural 6

Supportive Government Action

The government keeps formulating policies and programmes to promote entrepreneurs in different fields. Tax holiday, for instance, are such a policy measure. The government by its actions or failure to act also does influence both the economic and non-economic factors for entrepreneurship. Any government that is interested in economic development can help; through its clearly expressed industrial policy promote entrepreneurship in one way or the other. By creating facilities, utilities and services and by incentives and concessions, the government can provide the prospective entrepreneurs a facilitative socio-economic setting. The conducive setting minimizes the risk which the entrepreneurs are to encounter. Thus, the supportive actions of the government appear as the most conducive steps for the entrepreneurial growth in the economy.

What makes an economy entrepreneurial, and which policy instruments can be used to form part of what is now known as *'entrepreneurship policy*?' Are traditional economic paradigms 'out' and should the government limit its involvement? With a shift towards creating the entrepreneurial economy, and increased calls for public-private partnerships to achieve this goal, what is the specific role of the government in create an environment which favours and creates incentives for entrepreneurial activity?

Audretsch, Grilo and Thurik (2007) devised a framework for public policy intervention which captures the multidimensional aspects and determinants of entrepreneurship. They argue that it is not the instruments which justify policy, but the goals the government have in creating an entrepreneurial society which will justify the means of intervention to be used. The role of the government has to go beyond the traditional economic rational of relying on the existence of market failures and distortions, but rather, intervening so that these market failures and distortions do not negatively impact on the entrepreneurial society. Rather, the authors state there exists a compelling argument to move away from traditional interventions, towards policies in areas such as venture capital markets, knowledge commercialization, Research & Development (R&D) and skills development.

Three-tier Public Intervention

The determinants of entrepreneurship can be examined at three distinctive levels of public intervention - the micro, industry and macro levels of entrepreneurship. The objects of study within each individual level of analysis are the individual entrepreneur or business, sectors of industry and the national economy.

Micro-level: Focuses on the individual's decision-making processes and their motivations for becoming self-employed. It focuses primarily on personal factors such as psychological traits, formal education and skills, financial assets, family background and previous work experience

Industry-level: Focuses on the market-side determinants of entrepreneurship such as profit opportunities and opportunities for entry and exit.

Macro-level: Focuses on the range of environmental factors such as technological, economic and cultural variables, as well as governmental regulation.

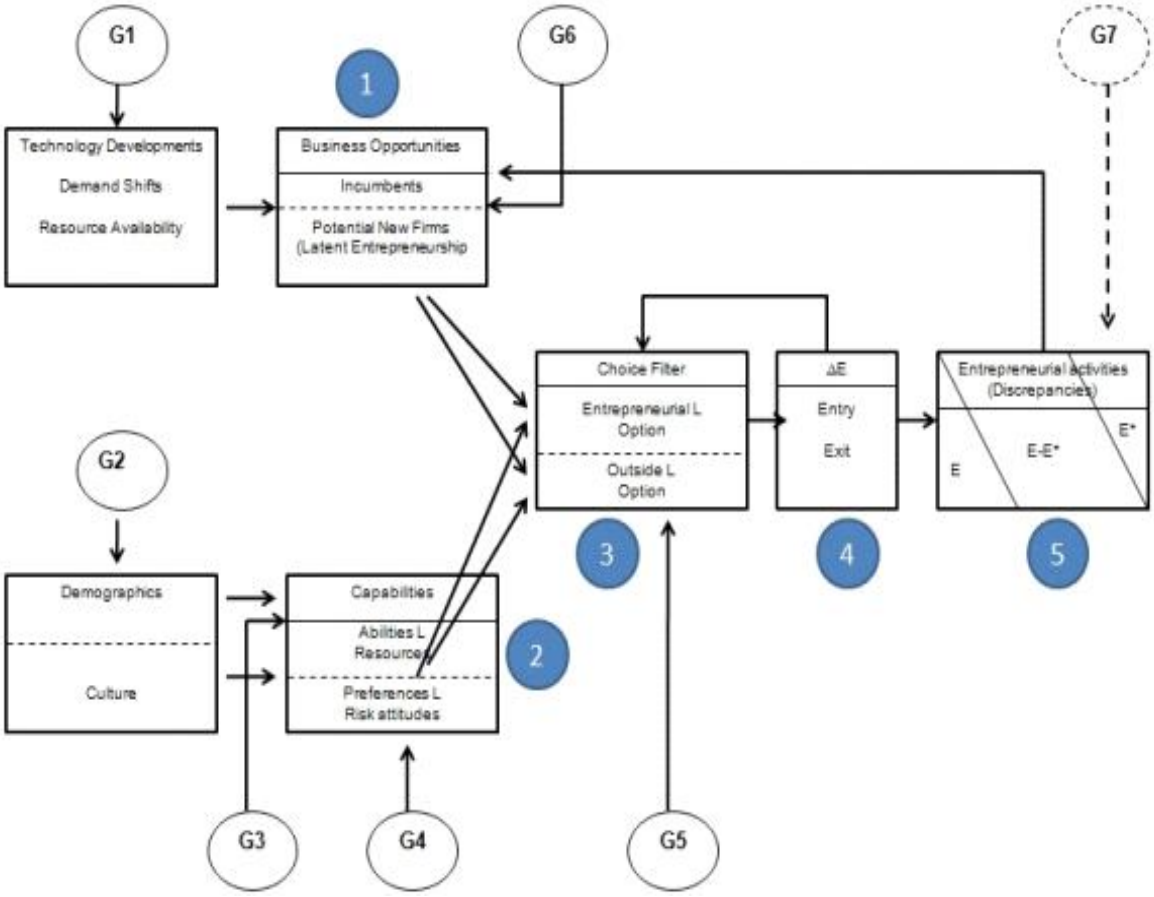


Figure 6.3 Framework for Public Intervention in Entrepreneurship Policy

Source: Audretsch, 2007

Entrepreneurial Influences

***1. Business Opportunities*:** According to Audretsch's framework, business opportunities are created by technology developments and demand shifts due to resource availability that can be exploited by existing firms or through the creation of new ventures. Government intervention can affect the extent to which incumbents rather than new firms benefit from these opportunities. Competition policy, protection of intellectual property rights, product and labour market regulatory environment are examples of government intervention which influence the exploitation of opportunities between new and incumbent firms.

***2. Capabilities*:** This represents the capabilities of entrepreneurs in recognizing opportunities, and possessing the ability and resources to pursue them.

***3. 'The Choice Filter'*:** The 'Choice Filter' box stands for the individual decision-making process when potential entrepreneurs are confronted with the choice between starting an entrepreneurial venture or another option (ex. paid employment). It outlines the risk-reward profile, which is driven by abilities and access to resources, individual preferences and attitudes to risk.

***4. Entry and Exit*:** This shows the entry and exit rates of entrepreneurs, and how occupational decisions determine the actual level of entrepreneurship. Audretsch assumes that the entry and exit of entrepreneurs will affect the 'choice filter'.

5. Equilibrium: The equilibrium can be seen as the optimal level of business ownership and entrepreneurship in relation to macro-economic growth. This affects entrepreneurial activities due to cultural forces and institutional settings such as regulations, incentive structures and the capital market. Discrepancies in entrepreneurial activities or 'disequilibrium' can be restored through market forces or government intervention.

Public Intervention

- ***G.1. Demand-side Intervention*:** This type of intervention impacts on the type, number and accessibility of entrepreneurial opportunities
- ***G.2. Supply-side Intervention*:** This type of intervention impacts policies affecting the number of potential and future entrepreneurs at the population level. This includes immigration and regional development policy, which deal with the dispersion of the population, as well as family welfare that can impact on age structures.
- ***G.3. Input-related Interventions*:** This type of intervention impacts on the resources and abilities of potential entrepreneurs. Governments can overcome finance and knowledge gaps through increasing the availability of financial and informational resources. Policies aimed at the development of a venture capital market, direct financial support and the knowledge base can be increased through access to business intelligence and directly through education.
- ***G.4. Preferential Intervention*:** This type of intervention deals directly with the individual attitudes and preferences of potential entrepreneurs, and attributed to their values and culture. Preferences are often shaped by cultural background, therefore are difficult to modify but the government can attempt to shape these by instilling an entrepreneurial culture through the education system and the media.
- ***G.5. Decision-making Intervention*:** This is directed at the decision-making processes of individual who are considering the entrepreneurial option. Relevant policies are taxation, business earnings, social security and labour-market legislation. This affects the risk-reward profile such as bankruptcy.
- ***G.6. Demand-side Intervention*:** Closely linked to G1, this is intervention which influences the accessibility of markets, which includes reducing the market power of large firms or reducing barriers to entry. It also includes bankruptcy laws, protection of property rights and the regulatory environment of product and labour markets.
- ***G.7. The Economic Rationale for Intervention*:** Audretsch added this government intervention channel that is concerned with the economic and political concerns for government intervention, and which shape the determinants of entrepreneurial equilibrium.

6.7 Summary

Like entrepreneur, entrepreneurship is also defined differently by different authors. In simple words, entrepreneurship is a process which involves various activities to be undertaken to start an enterprise. It is, thus, a process of giving birth to anew enterprise. Entrepreneurship involves innovation and risk-bearing. Entrepreneurship does not emerge and develop automatically and spontaneously. Its emergence and development depends upon the availability of certain factors also called "supportive conditions". These factors are broadly classified into two area: economic and non-economic factors. While the economic factors consists of capital, labour, raw materials and markets; non-economic factors include social and psychological factors like legitimacy of entrepreneurship, social mobility, marginality, security, need

achievement, withdrawal of status respect etc. The government actions also influence the emergence and development of entrepreneurship in a country or economy.

6.8 Self Assessment Questions

1. What is entrepreneurship? Distinguish between entrepreneur and entrepreneurship?
2. "Entrepreneurship is a process of giving birth to an enterprise". Discuss.
3. What factors do influence the emergence and development of entrepreneurship?
4. Explain how non-economic factors help in growth of entrepreneurship?
5. Explain how economic factors help in the growth of entrepreneurship in an economy?
6. Write short notes on the following:
   a. Social mobility
   b. Capital
   c. Need Achievement
   d. Markets
   e. Labour
7. Identify the types of non-economic environment in the following cases:
   a. Demand for new clothes increases during festive session.
   b. Computer has outdated typewriter.
   c. Coca-Cola is now being freely sold in the Indian market.
   d. Sugar factories are being set up where sugarcane is grown abundantly.
   e. Availability of skilled labour in a particular region.

6.9 Reference Books

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Unit - 7 : Entrepreneurship Development Programmes

Structure of Unit:

7.0 Objectives
7.1 Introduction
7.2 Need
7.3 Objectives
7.4 Course Contents and Curriculum
7.5 Phases of Entrepreneurship Development Programmes
7.6 Evaluation of Entrepreneurship Development Programmes
7.7 Summary
7.8 Self Assessment Questions
7.9 Reference Books

7.0 Objectives

After completing this unit, you would be able to:

- Understand what Entrepreneurship Development Programmes (EDPs) are.
- Appreciate the need and objectives of EDPs.
- Understand what kind of course content EDPs should have.
- Appreciate the phases of EDPs.
- Learn about and appreciate the process of evaluation of the EDPs.

7.1 Introduction

Entrepreneur is the person with a vision, with the drive and with the ability to bear risk. He or She is a pivot around which the entire industry rotates because it is foresight, knowledge, optimism, hard work, persistence and efficient management of the enterprises that brings success to the enterprises. He or She is the 'spark plug' who transforms the economy of a country. This shows how important an entrepreneur is in the economic system of the country. Hence, it is said that an economy is an effect for which entrepreneurship is the cause.

Essential Qualities of a Successful Entrepreneur:

The entrepreneurs should exhibit these under-mentioned qualities necessarily:

- **Initiative:** Initiation of any business activity should come from the entrepreneur. It is the entrepreneur who takes action that goes beyond job requirements or the demand of the situation. He does things before being asked or forced by the events.
- **Looking for Opportunities:** A successful entrepreneur is one who always is on the look for and takes action on opportunities. He must be always in readiness to exploit it in maximising the interest of the organization.
- **Persistence:** An entrepreneur should take repeated actions to overcome the obstacles that get in the way of reaching goals. He should never be disheartened by failures.
- **Systematic Planning:** Entrepreneurs develop and use logical, step-by-step, realistic and proper plans to accomplish their goals. They believe in systematic planning and its proper execution to reach goals.

- **Problem Solving:** Successful entrepreneurs are challenging by nature. They always try to find out ways and means to overcome the problems that come in their way. They also identify new and potentially unique ideas to achieve their targets.
- **Self-Confidence:** Successful entrepreneurs must have a strong belief in themselves and in their own abilities. They have full faith and confidence on their own knowledge, skill, and competency to complete a task or meet a challenge. They are not at all cowed down by difficult situations.
- **Assertiveness:** A successful entrepreneur must be assertive in nature so that he can assert his issues with others for promotion of interest of his enterprise. He tells others what they have to do and rebuke or disciplines those failing to perform as expected.
- **Persuasion:** A successful entrepreneur must be able to persuade others to do the work the way he wants them to do. He is able to convince others through his knowledge and competence. He asserts strong confidence in his own company's product or services. He must possess the ability to convince everybody - sellers, consumers, employees, creditors etc.
- **Information Seeking:** An entrepreneur is always in search of new ideas and information from various sources to help reach objectives or clarify problems. He can consult experts for business or technical advice. He personally undertakes research, analysis or investigation on his own to get information in realising his goals.
- **Concern for Quality Products:** Successful entrepreneurs always believe in high quality standards of their products with reasonable prices. They believe in excellence. They act to do things that meet or beat existing standards of excellence.
- **Commitment to Work:** Successful entrepreneurs do every sacrifice to get the task completed. They put highest priority for accomplishing their objective. They are committed to their work. They also express a concern for satisfying their customers.
- **Efficiency Orientation:** Successful entrepreneurs find ways to do things faster with fewer resources at lower costs. They are always interested in devising new methods aimed at promoting efficiency.
- **Monitoring:** Successful entrepreneurs ensure regular monitoring of the working to achieve the organization's goal in the best possible manner. They personally supervise all aspects of their project to ensure completion of the work within the schedule time and cost.
- **Concern for Employee's Welfare:** Concern for employee's welfare should be at the top of the agenda of successful entrepreneurs. They give priority to improve the welfare of the employees because it is the employees whose dedication and commitment services lead to super performance of the organization.
- **Effective Strategist:** Successful entrepreneur develops and uses varieties of effective strategies to accomplish own objectives. They also evolve relevant strategies which will safeguard and promote the interest of the organization.

It has been rightly told that entrepreneurs are not born, they are made. Entrepreneurship does not emerge and develop of its own. Its emergence and development depends upon an environment in which entrepreneur can learn and discharge his/her assigned responsibility in an efficient manner. The government can also play a positive role in the emergence and development of entrepreneurship by providing training, incentives, concessions etc. and by creating an environment conducive for the growth of entrepreneurship. All these

help the entrepreneurs to undertake creative actions thus, entrepreneurial development is essentially a process in which persons are injected with motivational drives of achievement and insight to tackle uncertain and risky situations, especially in business enterprises. But the real problem is how to develop entrepreneurship. Entrepreneurship Development Programmes (EDPs) are designed and developed to offer solutions to this problem.

Meaning of EDP

EDP may be defined as a programme designed to help an individual in strengthening his/ her entrepreneurial motive and in acquiring skills and capabilities necessary for playing his/ her entrepreneurial role effectively. An EDP stresses on entrepreneurial motivation and behaviour. Programme which aims at providing informational or managerial inputs or focus on preparation of project without a touch of entrepreneurial motivation and behaviour is not considered as an EDP. EDP helps in inculcating entrepreneurial traits into a person, imparting the required knowledge, developing technical, financial, marketing and managerial skills and building the entrepreneurial attitude. EDP has been recognised as an effective human resource development tool. It is primarily for developing the first-generation entrepreneurs who on their own cannot become successful entrepreneurs. EDP through its continuous process of training and motivation help them to set up their own profitable enterprise and become successful entrepreneurs in their own right. It is not merely a training programme, rather it is a comprehensive programme involving the following process:

- It is a process which enhances the knowledge, skill and motivation of the potential entrepreneur.
- It is a process which instills entrepreneurial behaviour in the minds Of entrepreneur in their day-to-day activities, and
- It is a process through which the potential entrepreneurs can develop and set up their own enterprise.

EDP by itself therefore, aims at achieving the specific objectives of the programmes through continuous training and motivation.

7.2 Need

Entrepreneurship Development (ED) has, therefore, become a matter of great concern in all developing and under developed countries all over the world. It refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes.

Well known behavioural scientist David McClelland at Harvard University made an interesting investigation into why certain societies displayed great creative powers at particulars periods of their history? What was the cause of these creative bursts of energy? He found that 'the need for achievement' (*nach* factor) was the answer to his question. It was 'need to achieve' that motivated people to work hard. According to him, money making was incidental. It was only a measure of achievement, not its motivation. In order to answer the next question whether this need for achievement could be induced, he conducted a five-year experimental study in one of the prosperous district of Andhra Pradesh in India in collaboration with Small Industries Extension and Training Institute (SIET), Hyderabad. This experiment is popularly known as 'Kakinada Experiment'. As a part of this experiment, young persons were selected and put through a three month training programme and motivated to seek fresh goals. One of the significant conclusions of the experiment was that the traditional beliefs did not seem to inhibit an entrepreneur and that the suitable training can provide the necessary motivation to the entrepreneurs. The achievement motivation has positive impact on the performance of entrepreneurs. The Kakinada Experiment could be treated as a precursor to the present day EDP input on behavioural aspects. In fact, Kakinada Experiment made people realize the need for and importance of the entrepreneurial training, now popularly known as EDP, to induce motivation and competence among the young prospective entrepreneurs.

Role and relevance of Entrepreneurial Development Programme (EDP) in the process of economic development and growth of a nation is immense. Various EDPs are designed to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. Different programmes are designed for different trades, industries and big projects.

Basically the EDPs are meant to train and develop new entrepreneurs who act as catalytic agents in the process of industrialization and economic growth. It is the entrepreneur who organises and puts to use capital, labour and technology in the best possible manner for the setting up of his enterprise. The entrepreneur with his vision and ability to bear risk can transform the economic scene of the country. They playa vital role in initiating and sustaining the process of economic development of a nation. It is the EDP through which the entrepreneurs learn the required knowledge and skill for running the enterprise successfully which ultimately contribute towards economic progress in the following ways:

1. **Creates Employment Opportunities:** Acute unemployment has been a chronic problem of most of the underdeveloped and developing nations of the world. EDPs help solving the problem of unemployment by creating adequate employment opportunities in setting up of their own small and big industrial unit where the unemployed are absorbed.

   EDPs also help the unemployed to opt for se employment by choosing entrepreneurship as a career. In this way EDPs help the entrepreneur to get an opportunity to lead on independent and respectable life in the society and at the same time enable others to get gainful employment. Various programmes, schemes like Prim Minister's Rozgar Yojana, NREP (National Rural Employment Programme) and IR (Integrated Rural Development Programme) etc. have been initiated by Government of In to eliminate poverty and solve the problem of unemployment.

2. **Helps in Achieving Balanced Regional Development:** Successful EDPs assist in accelerating the pace of industrialisation in the backward areas and helps in reducing the concentration of economic power in the hands of a individual. Government encourages to set up industries in the backward areas to remove wide gap of income and wealth between the rich and poor. The various concessions subsidies offered by the State and Central Governments prompted the entrepreneurs to up their own small and medium industrial units in the rural and backward areas. EDPs in setting up more and more industrial units in the backward areas lead to the development of rural sector which helps in achieving balanced regional development.

3. **Prevents Industrial Slums:** The towns and cities are highly congested and overcrowding due to the growth of industrial slums which results in overburdening of civic amenities and a lot of problems including adverse impact on the health of the people. EDPs help in solving the above problems by preventing the growth of industrial slums through dispersal of industrial units in different parts of the country including backward and rural areas. EDPs help entrepreneurs to know about the various schemes, incentives, subsides and infrastructural requirements for setting their enterprises, particularly in backward and rural areas. This checks migration of rural people to urban sector and thus controls the growth of industrial slums.

4. **Use of Local Resources:** Plenty of locally available resources remain unutilized due to absence of initiative and lack of adequate knowledge by the entrepreneurs. Proper use of these resources will help to starve out a healthy base for rapid industrialisation and sound economic growth. EDPs can help in the proper use of locally available resources by providing proper training, guidance and education to the potential entrepreneurs.

5. **Easing Social Tension:** EDPs help in channelizing on right lines the talent and energies of unemployed youth feel frustrated after completing their education without a job or source of livelihood. Unemployment and frustration amongst the young and educated people lead to social unrest Lid tension. EDPs help in diverting the talent of the youth towards self-employment careers by establishing their own enterprises and thus creating employment opportunities for the unemployed. In this way EDPs are able to defuse the social tension and unrest among the youth.

6. **Economic Independence:** The entrepreneurs through EDPs are able to achieve economic independence of a country by producing a wide variety of better quality goods and services at competitive prices. They also through export promotion and import substitution able to earn and save urge amount of foreign exchange which is essential for the growth and development of any economy.

7. **Improves the Standard of Living and Per-Capita Income:** EDPs provide the necessary support to entrepreneurs by educating them about the test innovation and techniques of production to produce a large variety of quality goods id services at competitive prices. EDPs also help in establishing more enterprises which ad to provide more employment opportunities and help in increasing the earning of the people. It will result in increase in per-capita income and thus helps in the improvement of standard of living of the people.

8. **Helps in the Overall Development of the Nation:** Entrepreneur acts as a catalyst which helps in enhancing the various activities involved a business enterprise. In recent years EDP package, have become a vital strategy for harnessing the vast untapped human skills, and put them into industrial development. It results in the emergence of entrepreneurial opportunities in various fields which leads to all-around development in a country.

7.3 Objectives

The Industrial Service Institute (ISI) under the Department of Industrial Promotion (DIP) launched Entrepreneurship Development Programmes (EDPs) to give substance to the Government's policies for stimulation of economic growth, dispersing industries to rural areas and promoting the processing of local raw materials. The programme had sought to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. The EDP was considered as a part of the Industrial Policy which was articulated in the Five Year National Economic and Social Development Plans, with the following important objectives:

- To identify and train potential entrepreneurs.
- To develop necessary knowledge and skills among the participants.
- To help in analysing the various options to select the most appropriate product suiting to the entrepreneur and the market.
- To give a clear picture about the process and procedures involved in setting up an small scale Industrial unit or a bigger unit.
- To develop and strengthen entrepreneurial quality and motivation or need for achievement.
- To motivate the entrepreneurial instinct.
- To impart basic managerial skills and understandings to run the project efficiently and effectively.
- To analyse the environmental issues to be addressed relating to the proposed project.
- To develop various business-related skills of marketing, quality management production, distribution and human resource management etc.
- To make the potential entrepreneurs know about the possible risks and failures of the project and

make them learn how to overcome these problems.

- To enable the entrepreneurs to communicate clearly and effectively.
- To develop team building, technology up-gradation, growth and above all broad vision about the business.
- To develop a passion for integrity, honesty and industrial discipline.
- To make him learn the basics of Industrial Laws, Factories Act and workers rights and expectations so that he can easily overcome the legal problems.
- To formulate the detailed Project Report or projects for the products.

7.4 Course Contents and Curriculum

The course content of an EDP are selected in line with the objectives of the EDP's. The training programme is usually for six week's duration, but these days one finds lots of variation in the time period of the EDP's, which ranges from three weeks to six months.

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

2. **General Introduction to Entrepreneurship**: First of all, the participants are exposed to a general knowledge of entrepreneurship such as factors affecting small-scale industries, the role of entrepreneur in economic development, entrepreneurial behaviour and the facilities available for establishing small-scale enterprises.

3. **Achievement Motivation Training**: Development of achievement motive is essential in order to develop human resources. The main aim of achievement motivation training is to develop the need and desire to achieve, risk-taking, initiative and other such personal behavioural qualities, the self-awareness and self-confidence can be created among the participants through an achievement motivation programme which enable them to think positively and realistically. The training under this input aims at inducing and increasing the need for achievement among the participants. It is a crucial input of entrepreneurship training. It ultimately tries to make the participants to start their own business enterprise after the completion of the training programme. Motivation training can also help the participants to expand their business activities and their business venture.

4. **Managerial/ Management Skill**: Running a business or starting an enterprise requires managerial skills. Since a small or potential entrepreneur cannot employ management experts to manage his/ her business, he/ she needs to be imparted basic and essential managerial skills in the functional area like finance, production, marketing etc. It should also involve all the managerial factors such as planning, organization, coordination, leadership, supervision, control etc. The main aim of managerial training is to enable the participants to run the enterprise successfully.

5. **Support Systems and Procedures**: The proper training relating to support systems and procedure should be imparted to participants. The participants become able to understand the functioning of various agencies like commercial banks and financial institutions, industrial service corporations and other institutions dealing with supply of raw materials, equipment, marketing etc. This session of the training programme helps the participant to understand the support system, procedures for approaching them, applying and obtaining support from them and availing of the services provided by these agencies.

6. **Market Survey**: An opportunity to actually conduct market surveys to select the project is provided to participants. This will help them to understand the actual situation of the market.

7. **Fundamentals of Project Feasibility Study and Business Plan Development**: Under this input, the participants are provided guidelines on the effective analysis of feasibility or viability of the particular project in light of marketing, organization, technical, financial and social aspects. Knowledge is also imparted related to how to prepare the Project or Feasibility Report for certain products. The aim of any EDP should be such that the participants, by end of the programme have a business plan in their hand prepared by themselves and the able guidance of the trainer, mentors and local entrepreneurs.

8. **Technical Knowledge and Skills**: After the choice of a particular enterprise by a potential entrepreneur, the in-depth knowledge about the technical aspect of the trade should be imparted to him which will enable him to well-conversant with the process of manufacturing and trading in trade.

9. **Plant Visits**: In order to familiarise the participants with real life situations in small business, plant visits are also arranged. Such trips help the participants to know more about an entrepreneur's behaviour, personality, thoughts and aspirations. A number of field trips to industrial units can be very helpful to understand the economic aspects of the technology.

10. **Meet an Entrepreneur**: One of the important content of EDP should be '*Meet an Entrepreneur*'. The local entrepreneur should be invited to share his/ her experience with the trainees as this will encourage and motivate them to emulate the entrepreneur, who is just like them.

For developing the course content and curriculum, the course organisers should begin with a clear understanding of the feasibility and objectives of the programme, focusing on the development of ventures with the potential for rapid growth. The following should be taken care of while developing course content:

- Determine from the start whether the real focus is entrepreneurship or self- employment; then decide on the objectives accordingly.
- Entrepreneurship Development should be about helping people start and grow dynamic businesses.
- It is useful to look at potential growth sectors or geographic areas and to explore criteria for selecting beneficiaries who are entrepreneurial.
- A needs assessment before programme formulation is useful.
- An analysis of high-growth economic sectors enables more focused support to potential entrepreneurs in the most promising sectors of the economy.
- To identify risks and determine the likelihood of success.
- Identify the factors that affect the levels of entrepreneurship in a country which include the perception of opportunity, degree of respect accorded to entrepreneurs, acceptance of wide disparities in income and a family environment which is oriented towards business.
- Think like an entrepreneur when designing entrepreneurship development projects, and involve private sector representatives in the design process.

11. **Develop Criteria to Select the Target Group that is the Most Entrepreneurial**

- The selection of those who are most likely to succeed as entrepreneurs should be based on clear and transparent criteria.

• Potential entrepreneurs display initiative and ambition, have business sense and foresight, and are decisive.
• Promising entrepreneurs should be nurtured and helped to serve as role models am mentors for their communities.
• Measures to target groups rather than individuals can mitigate income inequality and be effective in empowering disadvantaged groups, especially women, youth and minorities.

12. Identify the Market through an Intensive Preparation Process, Searching for Innovate and Growth Potential

• An EDP should help aspiring entrepreneurs to recognize and design unique, innovative business opportunities, based on an analysis of local conditions and their own specific skills.
• It can help the entrepreneur to diversify based on his/ her basic knowledge of a product or skill in a certain sector without distorting the local markets.
• In a truly entrepreneurial approach, innovative capacity matters more than the size of the market.
• Diversification can be accomplished by introducing a novelty or new product feature, stressing quality or value added, anticipating a new market or - even creating a market.
• Business opportunity surveys may provide advice to potential entrepreneurs, but they must be analyzed in the context of the specific market situation in each case.
• To determine market potential, it is useful to conduct a need assessment or demand survey before programme formulation.

13. Provide Support for Conduct of EDPs through Efficient Organizations

• Donors should identify those organizations that are well situated to implement innovative and cost-effective EDPs. A good Entrepreneurship Development Institute should often be characterized by being development oriented and having operational autonomy, business connections and flexibility for promotional, fund- raising and coordination tasks.
• It could be a University, Non Government Organization (NGO), a private consulting company or a specially established foundation based on public-private partnerships.
• A large enterprise which faces the prospect of large work-force reductions can soften the social costs of the resulting unemployment by sponsoring EDPs.
• Entrepreneurship Development Institutes based in a private-sector setting should have easy access to business development services that already exist in the community. The institute does not need to possess all the expertise necessary; it can call on otheravailable specialists in the fields of financing, counseling, marketing, quality assurance, and other support.

EDPs may Have to Include Support For:

- Entrepreneurship orientation and awareness, improvement of business performance for growth and competitiveness etc. Entrepreneurship Development training is usually more effective when linked to finance and other services such as marketing, quality assurance and productivity improvement.
- A balance must to be struck between overloading an EDP with numerous services needs and

providing an effective, integrated package and addressed by coordination between programmes or entrepreneurship development providers so that each provides a different and specialized service.

- Programmes usually begin with developing competencies and move on to supporting the trained candidate with counselling and other business support. One mechanism for integrated support is business incubators. An incubator nurtures early-stage businesses through continuing entrepreneurship development, counseling and administrative services and by accessing external professional support and facilities all under one roof. It is particularly relevant where intensive assistance is appropriate.

7.5 Phases of Entrepreneurship Development Programmes

An Entrepreneurship Development Programme consists of the following three phases:

1. Initial or Pre-training Phase
2. Training or Development Phase
3. Post-Training or Follow-up Phase

These three phases requires different roles to be played by the entrepreneurship development training providers. These three phases are discussed as under:

Initial or Pre-training Phase:

The activities and preparations required to launch the training programme come under this phase. Here the activities relating to the training programme which covers the identification and selection of potential entrepreneurs and provides initial motivation to entrepreneurs is basically covered. This phase accordingly includes the following:

a) Creation of infrastructure for training
b) Publicity campaign for the programme
c) Preparation of training syllabus
d) Development of application form
e) Formation of selection committee
f) Designing tools and techniques for selecting the trainees
g) Selection of trainees (potential entrepreneurs)
h) Tie up of guest faculty for the training purpose
i) Arrangement for inauguration of the programme
j) Pre-potential survey of environmental opportunities.

Training or Development Phase:

The main objective of this phase is to bring desirable change in the behavior of the trainees. In other words, the purpose of training is to develop 'need for achievement' i.e. motivation among the trainees. In this phase the training programme is implemented to develop motivation and skills among the participants. The objective of this phase is to bring desirable changes in the behaviour of the trainees. The trainer has to judge how much, and how far the trainees have moved in their entrepreneurial pursuits. A trainer should see the following changes in the behaviour of the participants:

a) Is he/ she attitudinally tuned very much towards his/ her proposed project idea?
b) Is there any change in his/her entrepreneurial outlook, role and skill?
c) How should he/she behave like an entrepreneur?
d) What kind of entrepreneurial behaviour does the trainee lack?

e) Is he/she skillful in choosing the right project, mobilizing the right resources at the right time?
f) Does he possess the knowledge of technology, resources and other related entrepreneurial knowledge?

Some of the questions listed above also answer the basic underlying assumptions in designing a suitable training programme for the potential entrepreneurs. Having trained the trainees, the trainers need to ask themselves as to how much, and how far the trainees have moved in their entrepreneurial pursuits.

Post-training or Follow-up Phase:

The ultimate objective of the EDP is to prepare the participants to start their enterprises. This phase therefore involves assessment to judge how far the objectives of the programme have been achieved. This phase is also called 'follow-up'. Follow-up indicates our past performance drawbacks, if any, in our past work and suggests guidelines for framing future policies to improve our performance. Monitoring and follow-up reveals drawbacks in the earlier phases and suggests guidelines for framing the future policy. In this phase infrastructural support, counselling and assistance in establishing new enterprise and in developing the existing units can also be reviewed.

In nutshell, the purpose behind the Entrepreneurship Development Programme Follow-up is to:

- Review the pre-training work
- Review the process of training programme; and
- Review past training approach
- Assisting and helping the budding entrepreneurs
- Counselling those participants who have certain hesitation in starting their own venture

7.6 Evaluation of Entrepreneurship Development Programmes

Developing entrepreneurship has become a movement in India in the recent past. EDPs have been considered as an effective instrument for developing entrepreneurship in the countryside. Hundreds of EDPs are conducted by around 800 organizations to impart entrepreneurial training to participants in thousands across India and in some underdeveloped and developing countries. As the main objective of the EDPs is to create enterprises, therefore EDPs are evaluated by this single objective. There is a need to have a retrospective look into how many participants have actually started their own enterprises after completing their training.

Developing entrepreneurship has become a movement in India in the recent years. EDPs have been considered as an effective instrument for entrepreneurship in the countryside. Hundreds of EDPs are conducted by more than 700 organizations to impart entrepreneurial training to participants in thousands. The main objective of these EDPs is to train enterprise creators. Having spent lot of public money and effort for organising EDPs it was also necessary to evaluate whether the objectives of EDPs are fulfilled or not. In simple words, there is a need to have a data as to how many participants of these EDPs have actually started their own enterprises after completing the training. With this feedback evaluation of EDPs was imminent. So far some 16 evaluation studies have been conducted by various organizations and individual researchers. No doubt, these studies vary in their objectives, coverage and content. But, one common thread in all of them is the assessment of effectiveness or impact of EDPs, howsoever, loosely defined. One of the earliest attempts in this direction was made by a team of researchers and experts appointed by the Gujarat Corporations to evaluate the effectiveness of EDPs. One of the most comprehensive evaluation studies on EDPs was one

carried out by the Entrepreneurship Development Institute of India, Ahmedabad (Awasthi and Sebastian, 1996). It was observed that one out of every four trainees (26 per cent) actually started his/her enterprise after undergoing entrepreneurial training. However, the expected final start-up rate was slightly higher around 32 per cent. About 10 per cent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If not helped effectively, they may join the category of those 29 per cent trainees who have already given up the idea of launching their ventures. According to the secondary sources, viz., family, friends and neighbours, out of 430 trainees who could not be contacted personally during this field survey, 17 per cent have given up the idea of venture launching as they are engaged in other activities. According to Awasthi and Sebastian (1996), the performance of EDPs across the states and across the ED organization has not been uniform. The actual startup rates are observed to be oscillating between 9 per cent and 56 per cent, bringing down the overall national start-up rate to about 26 per cent. This by any count cannot be considered as impressive performance. And in this non impressive performance lies the need for looking at the problems and constraints of EDPs.

Different studies on evaluation of EDPs have highlighted a few issues. EDPs suffer on following counts. The problems and lacunae are on the part of participants and steps in the process - should it be the trainers and the trainees, the ED organization, the supporting organizations, and the government bodies involved. The important problems EDPs face are listed as follow:

- Trainer-motivations are not found up to the mark in motivating the trainees to start their own enterprises.
- Entrepreneurship Development organizations lack in commitment and sincerity in conducting the EDPs (Patel, Trivedi and Raval, 1984). In some cases, EDPs are used as a means to generate surplus (income) for the Entrepreneurship Development organizations.
- Non-conducive environment and constraints make the trainer-motivators' role ineffective (Awasthi, 1989).
- The apathetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.
- Selection of wrong trainees also leads to low success rate of EDPs.

It is clear that the problems are not with the strategy but with its implementation. One way of evaluating the EDPs is to assess their effectiveness in developing 'need for achievement' among the entrepreneurs. This is also called 'the qualitative evaluation' of EDPs. McClelland and Winter (1969) used the following criteria to assess the effectiveness of EDPs in motivating the entrepreneurs-

- Activity level of the respondents;
- New enterprise established;
- Total investments made;
- Investments in fixed assets made
- Number of people employed;
- Number of jobs created;
- Increase in profit;
- Increase in sales;
- Quality of product/service improved; and
- Quicker repayment of loans.

In other behavioural experiments (Sah, et al, 1974) the impact of EDPs is measured with the help of

indices relating to the entrepreneurial behaviour. The entrepreneurial behaviour is measured on the following four dimensions:

- Planning orientation,
- Achievement orientation,
- Expansion orientation, and
- Management orientation.

The EDPs are to be evaluated on the following basis:

• Programme Objectives:

Evaluation of an EDP may begin with an assessment of the philosophy or the central objectives of the programme. The agency conducting the programme must be clear about the purpose underlying entrepreneurial development.The objective may be to increase production, to generate employment, to uplift certain people, etc. It becomes easier to assess the goals when they are clearly defined.

Whatever may be objectives an agency is likely to start an EDP with a certain set of assumptions. These assumptions might be based on experience, research or pure hunch. These assumptions should be evaluated along with the objectives of the programme. One agency in India has based its programme on the following assumptions.

- Everyone cannot be an entrepreneur. An individual must have certain traits in order to be successful entrepreneur.
- The traits required for successful entrepreneurship can be identified and measured through psychological test and certain social indices.
- Persons who possess these traits will be more successful than those not having.
- Persons possessing such traits can be trained to further develop them on other dimensions of entrepreneurship too.

Evaluation of some of these assumptions requires research studies. The required data might be collected from the trained and rejected candidates.However, simple indices like the number of the trained candidates who started their own industries, the number of them who gave up after some attempts towards entrepreneurship, the number of persons employed in these organizations, changes in their economic status, etc., are likely to throw light on whether the objectives set up by the agency were achieve or not.

• Selection Strategy and Procedures:

It is impossible to train each and everyone intending to be an entrepreneur. It is desirable to those candidates are selected from training who are likely to be successful in setting up and successfully running their enterprise.The success of an EDP depends largely on proper selection of trainees. Therefore, evaluation of selection strategy and procedure is necessary. The Behavioural Science Centre (India), New Delhi has been rating the selection of potential entrepreneurs, positive self-concept, initiative, independence, problem solving, hope of success, searching environment, and time bound planning.

A three-stage selection procedure is followed in this case. It begins with screening through a carefully designed application blank which collects data on dimensional mentioned above.This is followed by psychological tests and behavioural exercises and games meant for assessing certain other qualities. Finally, personal interviews are held.

Several tests may be used to judge the effectiveness of selection procedures. The proportion of those setting up enterprise from the selected group as compacted to those from the rejected group can be one such test. The 'entrepreneurial movement' in the selected group should be higher than those in the rejected group. Any occupational movement say from unemployment to service, service to trade and trade to manufacturing may be treated as entrepreneurial movement.

• Training Programme:

Another area of evaluation in the contribution of the training programme. This covers the contribution or otherwise of the curriculum and its design, the content of the programme, the faculty the sharing of practical experiences and even the follow-up. Curriculum design deals with issues like natural (full time or part time) and duration of the programme, classes schedule, components of the programme, the type of preparation required on the part of the students and the faculty.

For example, a programme for unemployed persons can be a full time one and of shorter duration. But a programme for employed person should be part time so that it does not clash with service. In order to judge the extent to which the training has increased the possibility of training he trainers into successful entrepreneurs, the following criteria may be used.

- Comparison of a random sample of entrepreneurs from the trained group with those of a random sample from untrained group.
- Comparison of a random sample of entrepreneurs from the trained group with those from the rejected group.
- Interviewing the trained group to find out their opinion on the training programme.
- Surveying the expectations and experiences of those under training.
- Examination of the curriculum content by a group of experts.
- Assessment of trained entrepreneurs in their business operations.

• Organizational Policies and Structures:

Entrepreneurial development programmes are generally institutionalized. A local, regional, national or international agency often takes the initiative in starting, funding and executing the programme. These are promotional agencies. Without an institutional support entrepreneurial development programmes are not likely to be successful.

Therefore, the assessment of such programmes should begin with the evaluation of the effectiveness of the organizations or agonies concerned with the sponsoring, funding and execution of the programme. Such assessment may cover the evaluation of the agencies resources and development needs. Such needs may relate to financial resources, faculty requirements, viable structures to attract entrepreneurs and to provide them with continuous support, physical facilities, such as a workshop, a study cell, etc.

The policies and strategies of the concerned agencies are equally significant. The training strategy of the organization concerning an EDP depends upon its overall view about entrepreneurial development. For instance, one agency might take a limited view and relate entrepreneurship to making industrial organization. Another organization on the other hand might adopt a broader view of developing entrepreneur spirit in the community as a whole. Such a view might be appropriate in cultures facing occupational stability. Such specific orientation of sponsoring of executing agencies would provide direction to the training courses. Therefore, command needs will also have to be evaluated. Like the assessment of policies, strategies,

community needs and the organizations of training courses the structure and process of the organization should also be evaluated. Creative and flexible structures and processes may set an example to the trainees. The dynamics of the organization and its working may have to be examined to see if it has requisite self-renewing characteristics.

7.7 Summary

The 'need for achievement' (n'ach) is one of the important entrepreneurial traits/ competencies. Behavioural experiments have proved that n'ach can be developed through entrepreneurship training, popularly known as EDPs. The main objective of EDPs has been enterprise creation. The course contents of EDPs, accordingly, includes inputs like general introduction to entrepreneurship, achievement motivation training, managerial/ Management skill, support systems and procedures, market survey, fundamentals of Project Feasibility Study and Business Plan Development, Technical knowledge and skills, Plant Visits and Meet an entrepreneur. The time duration of EDPs ranges from one week to six weeks. EDP is a process of 'grooming' entrepreneurs. This process involves three phases. The success of EDPs is evaluated in terms of the number of trainees launched their ventures after the completion of training programme and changes in the entrepreneurial behaviour. However, EDP suffers on many counts, be it the trainers, the trainees, the Entrepreneurial Development Organization, the supporting agencies and the state government.

7.8 Self Assessment Questions

1.. 'Entrepreneurs are made, not born'. Explain and give reasons for your explanation.

2. What do you understand by EDPs?

3. Discuss and explain the need and objectives of EDP?

4. Discuss the various phases involved in EDP?

5. 'EDP is process of 'grooming' entrepreneurs'. Explain the statement.

6. On what parameters EDPs should be evaluated?

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Unit - 8 : Women Entrepreneurship

Structure of Unit:

8.0 Objectives
8.1 Introduction
8.2 Constraints for the Development of Women Entrepreneurship
8.3 Barriers to Women Entrepreneurs
8.4 Importance of Women Entrepreneurship
8.5 Promoting Women Entrepreneurship
8.6 Process of Woman Entrepreneurship Development
8.7 Important Women Entrepreneurs of India
8.8 Schemes for Women Entrepreneurs
8.9 Summary
8.10 Self Assessment Questions
8.11 Reference Books

8.0 Objectives

After completing this unit, you will be able to:

- Understand the concept of women entrepreneurship
- Know the various constraints in the pathway of women entrepreneurs
- Come across the importance of women entrepreneurship in India
- Analyse the government schemes to promote women entrepreneurs.
- Point out various suggestion to promote women entrepreneurship

8.1 Introduction

Entrepreneurship is the process of wealth creation. When a person takes up a business or other such activity, it is called entrepreneurship. Entrepreneurship starts with the beginning of a new business or organisation. It is important to see the picture of organisation as a self sustaining unit which is able to bring together diverse units together. India is a country of diversity and it has a very rich cultural history. Although we had times, when it was difficult for women to get out of their home even, but we also had times, when women used to get higher education and they were able to participate in social and political activities with equal domination. There was a time when there was no discrimination with women on the issues of gender / sex. We can be proud of the fact that we had important women decision makers like Gargi, Brahmi, Damiyanti, Laxmi Bai and Razia Sultana. Now there is a change in the role and status of women across the globe. There has been a surge of women in key roles and they are able to break the traditional roles and are able to enter new roles and are able to perform well in new sectors. Although they face initial difficulties, but they are able to establish themselves in all those roles which were traditionally male dominated. Thus in this era of social change and transition, it is important to study women entrepreneurship and how can it be promoted further. It is also widely recognised that those countries where women are able to get an equal role and are able to play key roles in organisations, we find there is greater prosperity, greater economic and social development and development of better and more ethical institutions. Thus the entire world today welcomes women in newer roles including the role of entrepreneurship

Women entrepreneur means a person who is a female and who has started a business of her own. Women have always been working more than men. But the question is: Are they decision maker? Are women able to take important decision like establishment of an enterprise. Thus these questions take us to the issues of women entrepreneurship. In this unit we look at the issues confronting women entrepreneurship. Although women might be able to contribute more than50% of the total actual human energy being exerted, but they are hardly 10% at the top policy level or at the entrepreneurial level. There are many issues related to this. We shall explore those issues and look into the possibilities for increasing women entrepreneurship. There was a time, when people thought that government service is the best and the only best option. There was a time, when people thought that only governments only need to manage businesses and services. There was a time when the government nationalised banks and other services and people welcomed that step assuming that the government would be able to serve customers better. However, times are changing. Now there is a growing feeling that the government cannot and should not do everything. There is now recognition for the role of entrepreneurs. Entrepreneurs, who were once looked down upon are not recognised as an important factor in any economy. In this period of change, there is also a simultaneous change in social factors, social perceptions, culture, traditions and economic environment. While traditionally, the government services were considered to be a better option, the modern sentiments are different and now the entrepreneurs are considered to be better. it may seem surprising, but it is a fact that people preferred a government clerk to an entrepreneur when there was a choice for any reason - say for marriage or other such reason. The society considered stability of income and security of job to be the most important factor. The entrepreneurs used to ask their children to not to become entrepreneur in any case. However, all these have changed now. Innovation and creativity of modern generation entrepreneurs have enabled them to earn name, fame, prosperity and wealth incomparable to any of their predecessor. Thus the social system and hierarchy has also changed accordingly. The scenario has changed drastically.

Indian economy is in the process of transition, like many similar economies, this economy is also witnessing many changes. One major change is increasing role of private sector and reducing role of government sector. There are many Government institutions that are helping the private sector to increase their business capability. There has been an all round growth and development of private sector and due to this there has been increase in opportunities for business entrepreneurs. At the beginning of the 1991 immediately after starting the process of LPG (liberalisation, privatisation and globalisation), India faced a boom in entrepreneurship. Many women, both from urban and rural areas, started their business activities doing what was called “charter trade” (micro scale import / export, very active between Tashkent, Beijing and Bangkok). Many women could then open small shops and enterprises selling goods and providing services. BWA (Business Women Association), the first Indian women NGO, has contributed to the development of the private sector by encouraging Indian women initiatives.

Unfortunately, the road is long and difficult. Women still face many constraints impeding their access to self-employment. Some of these constraints are shared by both men and women, but other, like in many developing countries concern specifically woman empowerment. The solidarity chain established by the tutorship system and the women oriented activities should ensure a multiplier effect within the country and is expected to bring to the economic empowering of women at large.

8.2 Constraints for the Development of Women Entrepreneurship

There is a need of strong social and political support for development of entrepreneurship. Women face social hurdles already – because they have to cope with the social expectations and traditional family roles.

Although the changes in MRTP Act and other laws lifted some restrictions for private entrepreneurship, independent private businesses still face many administrative constraints. it is said that an entrepreneur has to take permissions from about 3 dozen government departments before starting any factory and it takes more than 3 months to just fulfill the basic requirements before starting a company to manufacture something. Thus the legal system is still not as investor friendly as it should have been. A number of resolutions and decrees have been adopted, weighting down private business development. For example, it has become very difficult for an Indian company to open a bank account in hard currency and use foreign currencies for international trade. The lack of legal knowledge of the organisations supposed to protect the rights of small entrepreneurs impeded the full recovery of entrepreneurship initiative as well as the expression of the propositional power that NGOs could and should have. However, now the situation is improving and the government is trying its best to help the entrepreneurs.

Today, women represent less than 20% of high-level business structures in India, but they are being left aside from the privatization movement and, depending on the region, only 0 to 15% of the women have access to credit. According to the Third All India Census of Small Scale Industries conducted in 2001-02 and subsequent estimates made, only 10.11% of the Micro and Small Enterprises in India are owned by women while 9.46% of the MSE enterprises are managed by women. As per the latest available estimates, the number of women owned and women managed enterprises is 12.99 lakh and 12.15 lakh respectively.

Women have been disproportionately affected by the negative aspects of the current socioeconomic transition in India: traditional societal constraints, household roles, lack of proper child care facilities, increasing poverty, rising unemployment, reduction of the financial ability to educate girls and boys, greater pressure to marry at younger ages, more visible domestic violence, etc. These problems are exacerbated by the fact that many Indian laws designed to protect and promote women's rights and gender equity are not widely known, implemented or enforced. Or if they do, they can have the opposite effect, like for example the maternity leave, adopted to relieve the pressure in the labour market and protect women's rights but that created a discrepancy in the labour market by increasing women employment costs. Although Indian legislation recognizes the equality of men and women and prohibits discrimination on the basis of sex, the reality relies more on traditions than on legislation. Indian traditional cultural and religious practices do not encourage women to have a public role in the society. This cultural pressure is a very strong deterrent to women empowerment, above all in the economic sector, preventing them from taking advantage of the equal opportunities encoded in the Indian law.

The effects of transitional economies have been particularly sensitive on women. One of the major social consequences of the economical transition was that women were left aside from the new economic development scheme. Being more vulnerable, they face specific gender sensitive barriers impeding their effective empowerment.

8.3 Barriers to Women Entrepreneurs

• **Cultural Barriers:** As mentioned, the traditional Indian society does not encourage women empowerment. The concept of gender equity is not uniformly known nor accepted. Woman entrepreneurship, above all, can be perceived as a questioning of male predominance. This barrier, though being informal, has a strong effect on women determination to undertake entrepreneurship activities. Besides, this discrepancy in the

treatment of men and women is also reflected in other sectors where women have to face prejudices and employment reluctances. There are many businesses, where we don't find any woman entrepreneur. Thus we need to create better education and understanding so that cultural barriers can break.

• **Educational Barriers:** Although women are generally more present than men in the Higher Education system, their curriculum is not adapted to the new requirements of the labour market. The specific educational programs preferred by women, such as BA, MA, are not well linked to the existing demand of the market, and thus disadvantage female professionals. To maintain a well-developed human skills base, that is a major asset for the future development of the country; a stronger link between women's higher education preferences and labour market demands needs to be established. Now women are getting better education. But in rural areas, the situation is still very pathetic. There is an urgent need to promote higher education among women. The Gujarat Government introduced free higher education for women, and this had a positive effect. Similar initiative needs to be taken up in other states as well.

• **Economical Barrier:** Women are mostly present in the less well-paid sectors of the economy. Their concentration in the public "non-productive" sectors of Health, Education and Culture has seen their wages fall further below the national average over the past 10 years. Despite efforts deployed towards economic empowerment of women, the majority of the active female population continues to be confined in the micro and small-scale enterprises and the informal sector (like cross-border trade, subcontracting work at home or street trading). Clearly, women's entrepreneurial potential remains untapped in transition countries, especially when compared to global trends. Like, for example in most countries of Western Europe, where the number of women entrepreneurs has rapidly increased during the last ten years, contributing to GDP growth and the creation of new jobs.

• **Financial Barriers:** The integration of women into the formal sector is still constrained by limited access to credit and property. This barrier, effective for many entrepreneur men and women, is even more sensitive for women. Apart from the gender prejudice limiting their access to traditional sources of funding, women are more accurately disadvantaged by their lack of; technical knowledge in the redaction of business plans, the absence of efficient high level networking (for string-pulling and guarantees). Besides, even if women are seen as more rational in their choices, they are restrained by their lack of ambitions and self-confidence.

8.4 Importance of Women Entrepreneurship

Women entrepreneurship has now been recognised as in important tool in the economic development of a country. There is a strong nexus between women entrepreneurship and women empowerment. There is a very strong positive relation between women entrepreneurship and status of women and well being of the society. Women entrepreneurship has many issues and factors which need special attention and therefore there is a need to give it a focused attention and care. There is a need of entrepreneurship training for women due to some specific problems that only women face in India in entrepreneurship.

Women's entrepreneurship needs to be studied separately for two main reasons. The first reason is that women's entrepreneurship has been recognised during the last decade as an important untapped source of economic growth. Women entrepreneurs create new jobs for themselves and others and by being different also provide society with different solutions to management, organisation and business problems as well as to the exploitation of entrepreneurial opportunities. However, they still represent a minority of all entrepreneurs. Thus there exists a market failure discriminating against women's possibility to become entrepreneurs and their possibility to become successful entrepreneurs. This market failure needs to be addressed by policy makers so that the economic potential of this group can be fully utilised. While without a doubt the economic impact of women is substantial, we still lack a reliable picture describing in detail that specific impact. Not

only have women lower participation rates in entrepreneurship than men but they also generally choose to start and manage firms in different industries than men tend to do. The industries (primarily retail, education and other service industries) chosen by women are often perceived as being less important to economic development and growth than high- technology and manufacturing. Furthermore, mainstream research, policies and programmes tend to be "men streamed" and too often do not take into account the specific needs of women entrepreneurs and would-be women entrepreneurs. As a consequence, equal opportunity between men and women from the perspective of entrepreneurship is still not a reality. In order for policy makers to address the situation the report makes a number of recommendations. In order to realise the benefits of policy changes it is important to incorporate a women entrepreneurial dimension in considering all SMEs and growth policies (e.g. meeting women's financing needs at all stages of the business continuum; take-up of business development and support services; access to corporate, government and international markets; technology access and utilisation; R&D and innovation; etc.). Better qualitative information and quantitative data and statistics are required to profile women entrepreneurs (demographic information, barriers to start-up and growth). This would also assist in promoting awareness of the role of women entrepreneurs in the economy. Using a frame of reference such as that developed in the report could be valuable for the analysis of this information. It is observed that women entrepreneur networks are major sources of knowledge about women's entrepreneurship and they are increasingly recognised as a valuable tool for its development and promotion. Policy makers must foster the networking of associations and encourage co-operation and partnerships among national and international networks and facilitate entrepreneurial endeavours by women in the economy Women's entrepreneurship is both about women's position in society and the role of entrepreneurship in the same society. Women are faced with specific obstacles (such as family responsibilities) that have to be overcome in order to give them access to the same opportunities as men. Also, in some countries, women may experience obstacles with respect to holding property and entering contracts. Increased participation of women in the labour force is a prerequisite for improving the position of women in society and self-employed women.

8.5 Promoting Women Entrepreneurship

Women are confined to traditional roles like managing household, child care etc. Even if they wish to become entrepreneurs, it is not easy task. They face many constraints. There are some policy issues. There is a need to promote institutions and organisations to help women so that they may be able to take up newer roles. In order to become successful entrepreneurs, women need to focus their attention to business planning and management, which requires them to spare some time out of their traditional roles. Thus there is a need to support institutions engaged in child care, education, house-hold care, domestic care etc. There is also a need to promote better education and support for women. There are some issues which are as under for the governments in order to promote women entrepreneurs:

- Increase the ability of women to participate in the labour force by ensuring the availability of affordable child care and equal treatment in the work place. More generally, improving the position of women in society and promoting entrepreneurship generally will have benefits in terms of women's entrepreneurship.

- Listen to the voice of w omen entrepreneurs. The creation of government offices of women's business ownership is one way to facilitate this. Such offices could have programme responsibilities such as providing women's business centres, organising information seminars and meetings and/or providing web-based information to those wanting to start and grow a business.

- Incorporate a women's entrepreneurial dimension in the formation of all SME-related policies. This can be done by ensuring that the impact on women's entrepreneurship is taken into account at the design stage.

• Promote the development of women entrepreneur networks. These are major sources of knowledge about women's entrepreneurship and valuable tools for its development and promotion. Co-operation and partnerships between national and international networks can facilitate entrepreneurial endeavours by women in a global economy.

• Periodically evaluate the impact of any SME-related policies on the success of women-owned businesses and the extent to which such businesses take advantage of them. The objective should be to identify ways to improve the effectiveness of those that should be retained. Good practices that are identified in this way should be disseminated and shared internationally.

• Improve the factual and analytical underpinnings of our understanding of the role of women entrepreneurs in the economy. This requires strengthening the statistical basis for carrying out gender-related cross-country comparative analyses and longitudinal studies of the impact of important developments and policies, especially over time. Women entrepreneurs play an important role in the entrepreneurial economy, both in their ability to create jobs for themselves and to create jobs for others. In Europe (both European Union countries and other European countries), estimates indicate that there exist more than 10 million self-employed women. In the United States 6.4 million self-employed women provide employment for 9.2 million people and create significant sales. It is also observed that women still represent a minority of those that start new firms,are self-employed, or are small business owner-managers.

8.6 Process of Woman Entrepreneurship Development

For women entrepreneurs, there are more hurdles than for men entrepreneurs. They have to be prepared to break the social expectations and social roles that are ascribed on them. They have to win confidence of their family. They cannot neglect their traditional roles completely and hence they have to continue to manage their traditional roles also. They have to take the family, friends into confidence. However, entrepreneurship is better than doing job as they are able to perform their traditional roles better with these roles. Thus entrepreneurship is preferred by women now a days. They can avail of support from the government through various schemes / financing options. They must undertake thorough market survey and get some work experience before starting their business enterprise. They must hire trained manpower to support them in the business organization. Every entrepreneur must undertake market survey and prepare detailed project report (DPR) before starting his project. The project report must be based on market surveys. Market survey or a market assessment must be made before setting up a project. The prevailing price, the level of competition and the quality of your product must be seen and examined before deciding to set up a unit. Experience has shown that SSIs do well in markets in the following conditions:-

Where markets are local and the unit can cater to local tastes As part of a larger chain whereby the SSI product is used by a larger unit. Where the SSI is able to meet a specific requirement for a specific scheme commonly known as niche requirements. Any SSI unit must try to place itself in any of these three categories. It must also register with NSIC under its Single Point Registration Scheme to take advantage of Government's Price and Preference Policy. In some States, the Small Industries Development Corporation plays an active role in promoting SSI units. SSIs can also join together and form a consortium to market their products jointly. To attain global standards "bar coding" should be adopted. To facilitate adoption of bar coding my micro and small enterprises the Government has launched a support scheme.

SSI unit must get proper guidance from marketing experts also. it must also contact NSIC, SIDO, Khadi and Village Industries Board and other government bodies for availing support.

In order to promote products, there are two essential things – proper publicity and proper brand building. for these the entrepreneur must participate in exhibitions, trade fairs, conferences, exhibitions and must take advantage of all government support system for this. MSMEs participate in a limited number of international exhibitions every year. For this purpose, Office of DC (MSME) books space, and selected SSI units are given the facility of free display space and free shipment of their exhibits from Mumbai to the fair and back. To get selected for participation, the unit must be registered and be producing goods, which are export worthy. A team of SISI Officers of your State who will recommend participation of your unit assesses export worthiness. Preference is given to units, which are ISO-9000 certified. You may also attend the fair in your individual capacity after availing shipment from O/O DC (MSME) at your own cost or through financial assistance under the Market Development Assistance (MDA) scheme of the Ministry of Commerce. O/O DC(MSME) has also launched its own scheme called SSI-MDA to encourage SSI entrepreneurs to participate more actively in international exhibitions. These schemes are available to women entrepreneurs in more number and there are more support options for women entrepreneurs. Thus there is a need for support and trainng for women entrepreneurs so that they may come to know about the different schemes available for their development and they may start their business organization in a systematic process.

There is need of entrepreneurship development programmes to be conducted in schools and colleges. There is also a need to set up funds to support the students who come up with innovative ideas and projects. IIM Ahmedabad and IIT Bombay were the pioneer in setting up such funds and they are able to convert their students into entrepreneurs. Now many business schools are setting up such incubation centres which provide funds and support to the budding entrepreneurs. These initiatives will help us in accelerating entrepreneurship. There is also a need to promote venture capitalists in our country. We must welcome venture capital firms. There is also a need to recognize women entrepreneurs, so that they may expand their busineses and present a role model to others.

The first step is to create better information about women on the market and women's entrepreneurship in particular. Despite the recent developments reported here, we still have a lack of information about the economic impact of women entrepreneurs. At the moment, we know that independent of the nature of the economy observed women represent a substantial part of the entrepreneurial part of the economy. However, they still are underrepresented relative to men and can therefore be said to represent an untapped resource. In order to better utilise this resource, we need to know why women are underrepresented.

8.7 Important Women Entrepreneurs of India

Indian women have to go a long way to achieve equal rights and position because traditions are deep rooted in Indian society. Despite all the social hurdles, many women have become successful in their works. These successful women have made name & wealth for themselves with their hard work, diligence, competence and will power. Following is the list of few top Women Entrepreneurs in India:

- **Indra Nooyi:**

Indian born American businesswoman, Indra Krishnamurthy Nooyi born October 28, 1955 is the Chairperson and Chief Executive Officer (CEO) of PepsiCo, one of the world's leading food and beverage companies. On August 14, 2006, Nooyi was named the successor to Steven Reinemund as chief executive officer of the company effective October 1, 2006. On February 5, 2007, she was named Chairperson, effective May 2, 2007. Nooyi joined PepsiCo in 1994 and was named president and CFO in 2001. Nooyi has directed the company's global strategy for more than decade and led PepsiCo's restructuring, including the 1997 divestiture of its restaurants into Tricon, now known

as Yum! Brands. Nooyi also took the lead in the acquisition of Tropicana in 1998, and merger with Quaker Oats Company, which also brought Gatorade to PepsiCo. In 2007 she became the fifth CEO in PepsiCo's 44-year history. Nooyi's key contributions include promoting and supporting socially responsible business practices, including taking on one of the planet's most pressing problems, climate change. Her commitment to global citizenship is evidenced by her multi- year growth strategy, "Performance with Purpose".

Nooyi was named on Wall Street Journal's list of 50 women to watch in 2007and 2008, and was listed among Time's 100 Most Influential People in The World in 2007 and 2008. Nooyi has been named 2009 CEO of the Year by the Global Supply Chain Leaders Group (GSCLG).

• **Dr. Kiran Mazumdar- Shaw**:

Entrepreneur Dr. Kiran Mazumdar-Shaw, Chairman & Managing Director of Bioon Ltd. She was educated at the Bishop Cotton Girls School and Mount Carmel College in Bangalore. She founded Biocon India with a capital of Rs.10,000 in her garage in 1978 - the initial operation was to extract an enzyme from papaya. Her application for loans were turned down by banks then - on three counts - biotechnology was then a new word, the company lacked assets, and (most importantly) women entrepreneurs were still a rarity. Today, her company is the biggest biopharmaceutical firm in the country. In 2004, Biocon went for an IPO and the issue was over-subscribed by over 30 times. Post-IPO, Shaw held close to 40% of the stock of the company and was regarded as India's richest woman with an estimated worth of Rs. 2,100 crore (~U.S. $ 480 million).

• **Anu Aga**

She became the Chairperson of Thermax Engineering after the death of her husband Rohinton Aga. The company's condition was critical at that time. Its share price dipped to Rs. 36 from Rs. 400. Anu Aga, the then Director of Human Resource, Thermax, was compelled to take charge of the company. In order to make the company profitable, she brought a consultant from abroad and restructured the company. The strategy worked and the company saw profit again. She stepped down from the post of chairperson in 2004. Now, she spends most of her time in social activities. Bombay Management Association awarded her Management Woman Achiever of the Year Award 2002- 2003. After retiring from Thermax, she took to social work, and 2010 was awarded the Padma Shri (Social Work) by Govt. of India.

• **Sulajja Firodia Motwani**

Sulajja Firodia Motwani is Joint Managing Director of Kinetic Engineering Ltd, she is the in charge of the Company's overall business developmental activities. She is also very well performing the role of the Director of Kinetic Motor Company Limited and Kinetic Marketing Services Limited. She as made an incredible contribution in making the firm reach heights of success. Prior to joining Kinetic Company, Sulajja worked for a period of four years with a well known investment analytics company, BARRA International, based in California. She has been an active participant in setting the operations of the company in India. Throughout her studies, she has been a rank holder. She has always cleared exams with merit. Her name appeared in the toppers list in the SSC examinations and HSC examinations. She graduated from the Pune University. Thereafter, she went to the United States for pursuing further studies. She is an MBA degree holder from the reputed Carnegie Mellon University at Pittsburgh. She is an epitome of boldness and courage.

With her strongdetermination and courage, she has been able to establish a niche for the firm in the business world. The Company has witnessed tremendous expansion during her tenure. From

being a mere moped manufacturer, today, it has set its foothold in the industry as a manufacturer offering a complete range of two wheelers right from mopeds, scooters to motorcycles.

- **Ekta Kapoor**

Ekta Kapoor, creative head of Balajji Telefilms, is the daughter of actor Jeetendra, and sister of actor Tushar Kapoor. She has been synonymous with the rage of soap operas on Indian TV, after her most famous venture 'Kyunki Saas Bhi Kabhi Bahu Thi', which started airing on STAR Plus in 2000.Ekta dominates Indian television, producing more than eight television soaps. At the 6th Indian Telly Awards 2006, she bagged the Hall of Fame award for her contributions. Most of her creations begin with the letter 'K' due to her superstition that it brings her good luck. She is `a smart woman with a definite agenda` and has also been appropriately termed as Asia`s most powerful communicator and the lady no.1 in Hindi serials and movies

- **Simone Tata**

With her visions, she changed a small unknown cosmetics company, one of the subsidiaries of Tata Oil Mills, into one of the leading cosmetic companies of India. Lakme changed the face of Indian fashion and cosmetics forever. For her success, Simone N. Tata is also known as Cosmetic Czarina of India. Simone joined Lakme in 1961 and became Chairperson in 1982.

Eyeing growth in the retails sector, in 1996 Tata sold off Lakmé to Hindustan Lever Limited (HLL), and created Trent from the money it made through the sale. All shareholders of Lakmé were given, equivalent share in Trent. The Westside brand and stores belongs to Trent.Simone Tata was the wife of late Naval H. Tata and is stepmother to current Tata group chairman Sri Ratan Naval Tata.

- **Vidya Manohar Chhabria**

The wife of late Manohar Rajaram Chhabria, is now leading Jumbo Group, a Dubai based $1.5 billion business conglomerate. She became chairperson of the company after the death of her husband in 2002. She runs the business with the help of her three daughters. She was ranked 38th most powerful women by the Fortune magazine in 2003.The interests of the Jumbo Group include consumer electronics and durables, tyres and tubes, brewing and distilling products, chemicals, machinery and equipment. The group's Indian companies have interests in brewing and supply- chain management. She manages to also attend to household chores and spend time with her daughters. A great lover of Indian cuisine and music, at present, her dream is to develop Jumbo as a focused global entity.

- **Priya Paul**

Priya Paul (born 1967), is a prominent woman entrepreneur of India, and currently the Chairperson of Appeejay The Park Hotels chain of boutique hotels. She joined the company, after finishing her studies in Economics at the Wellesley College (US) working under her father, as Marketing Manager at the Park Hotel, Delhi, at the age of 22. After the death of Surrendra Paul, she succeeded him in 1990 as the Chairperson of the Hospitality Division of the Apeejay Surendra Group. Her contributions to industry and commerce, particularly in the field of Hospitality Industry have been repeatedly recognized and she has received several awards and citations, including the following:

- The Federation of Hotels and Restaurants Association of India conferred on her Young Entrepreneur of the Year award (1999-2000),

- She was nominated for The Economic Times Awards as the Businessperson of the year (2002-2003), and

• UK's Tatler magazine rated The Park (Bangalore, India), a part of her Group, as one of the 101 Best Hotel Worldwide in 2003.

Conclusion: India is brimming with the success stories of women. They stand tall from the rest of the crowd and are applauded for their achievements in their respective field. These women leaders are assertive, persuasive and willing to take risks. They managed to survive and succeed in this cut throat competition with their hard work, diligence and perseverance. Ability to learn quickly from her abilities, her persuasiveness, open style of problem solving, willingness to take risks and chances, ability to motivate people, knowing how to win and lose gracefully are the of the Indian women entrepreneurs. In a recent survey it is revealed that the female entrepreneurs from India are generating more wealth than the women in any part of the world. The basic qualities required for entrepreneurs and the basic characters of Indian women, reveal that, much potential is available among the Indian women on their entrepreneurial ability. This potential is to be recognized, brought out and exposed for utilization in productive and service sectors for the development of the nation.

8.8 Schemes for Women Entrepreneurs

Thus now it is realized that there is a need for imparting entrepreneurship training to women. It is also realized now that training to women entrepreneurship is central for the development of the country as a whole. In order to encourage more and more women enterprises in the MSE sector, several schemes have been formulated by this Ministry and some more are in the process of being finalized, targeted only at the development of women enterprises in India.

1. Trade Related Entrepreneurship Assistance and Development Scheme for Women (TREAD)

Trade Related Entrepreneurship Assistance and Development Scheme for Women (TREAD) is a major scheme for women entrepreneurs. The scheme has following objectives :

1. To conduct training programmes for women
2. To impart training to women in entrepreneurship
3. to support NGOs which are engaged in entrepreneurship training
4. To support national level institutions which are engaged in entrepreneurship training.

In this scheme, the government gives upto 30% of the project as grant to NGOs for starting skill based training programmes. The remaining 70% of the amount is provided by lending institutions as loan. The national level entrepreneurship training institutions are provided Rs. 5 lakhs under this scheme. The NGOs are given upto Rs. 1 lakh or 75% of the programme cost for imparting training to women in entrepreneurship.

Three major components of the scheme are as under ;

(i) GoI grant upto 30% of the total project cost to the Non Government Organisations (NGOs) for promoting entrepreneurship among women. The remaining 70% of the project cost is financed by the lending agency as loan for undertaking activities as envisaged in the project.

(ii) GoI grant upto Rs.1 lakh per programme to training institutions / NGOs for imparting training to the women entrepreneurs.

(iii) Need-based GoI grants upto Rs.5 lakh to National Entrepreneurship Development Institutions and any other institutions of repute for undertaking field surveys, research studies, evaluation studies, designing of training modules etc.

Operation of the Scheme: The scheme envisages that Women Associations/NGOs/SHGs should prepare composite bankable proposals for a group of women entrepreneurs, and submitted to the bank, which are signatories to participate in the scheme, namely, Syndicate Bank, State Bank of India, Canara Bank and Allahabad Bank. A copy of the proposal submitted to the bank should be endorsed to DC (MSME). Bank examines the proposal and issues approval. On the basis of the approval proposal considered by M/o MSME and 30% of the loan amount is sanctioned as grant and made available to the bank.

2. Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

a) Existing Clusters: A cluster is defined as a group of enterprises, normally 20 or more producing same/similar products/services. The Cluster Development Programme (CDP) being implemented envisages diagnostic study of identified clusters of traditional skill-based MSEs to identify appropriate technologies and their providers and to facilitate adoption of available technology meeting the specific needs of the end users. The Cluster Development aims at enhanced competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation etc. The scheme provides assistance for capacity building, common facilities, marketing etc. the delivery, assimilation and diffusion of the identified technology from its producers to the recipient user/cluster of small enterprises. Type of interventions:

I) Soft Interventions – capacity building activities in the cluster where no fixed assets is acquired or formed. Soft interventions, inter alia, include

i. Diagnostic study
ii. Forming association-Trust building & Developing Identity
iii. Capacity building,
iv. Organising workshops, seminars,
v. Training & Exposure visits,
vi. Market development,
vii. Launch of Website,
viii. Common procurement,
ix. Common/complementary sales and branding;

In the past depending upon the type of cluster, assistance available for soft interventions has varied in the range of Rs.25 – 35 lakh per cluster. Currently we have an internal ceiling of Rs.10 lakh for soft intervention under this Scheme, Clusters of women's enterprises are entitled up to 90% assistance for soft interventions.

II) Hard Interventions – These are tangible "assets" like

i. Setting up of Common Facility Centre (CFCs),
ii. Mini Tool Rooms,
iii. Design Centre,
iv. Testing Facilities,
v. Training Centre,
vi. R&D Centre,
vii. Common Raw Material Bank/Sales depot, etc.

There can be other tangible assets that could be set up by the women's Clusters, as long as they are put to common use. For hard interventions, it is necessary to form a Special Purpose Vehicle (SPV) which could be a registered society, or a cooperative society, or company, or a

trust or any other legal entity — in which at least 20 to 30 members of the Cluster contribute and participate. Other Cluster members who do not join this SPV could also sign up as Users.

The Common Facility Centre that is set up by the SPV as a hard intervention is entitled to the highest level of assistance from the MSME Ministry i.e. upto 90% of the Project Cost. This covers the cost of machinery, plant, equipment, laboratory and other tangible assets. The balance 10% of the project cost would have to be contributed by the SPV or by the State government or the Local government. But land and building are not covered under this "Project Cost" and will have to be provided by the SPVs of the Women's Enterprises Clusters or by the State government or by some other agency.

III) Infrastructure Assistance: Infrastructure assistance includes the construction of basic amenities like power, approach roads, drainage, water supply and storage and the like. MSME Ministry's assistance for this component is presently limited to 40% of the total cost. Only one element of Infrastructure Assistance i.e. Display or Exhibition Centres (which could consist of show-rooms with attached stores) are entitled to a higher level of assistance in so far as Women's Clusters are concerned, i.e. 90%. This Display/Exhibition Centre could be built by the Women's Clusters, SPV within the Cluster, or near the Cluster or even in adjoining Markets of Towns — as long as they exhibit and market the products manufactured by the Women's Clusters.

b) Creation of Physical Infrastructure: This Ministry implemented the IID Scheme to provide developed sites with infrastructural facilities like power distribution network, water, telecommunications, drainage and pollution control facilities, roads, exhibition/display centres, raw materials, storage and marketing outlets, common service facilities and technological back-up services, etc. This scheme has been subsumed in the MSME-Cluster Development Programme.

All the features of IID Scheme have been retained. To create physical infrastructure exclusively for women enterprises central grant of 40% of the project cost subject to a maximum of Rs.2 crore is available. The Ministry of MSME is making efforts to enhance the quantum of grant to 80% in a project of Rs.10 crore.

Operation of the Scheme:

i) A Cluster Development Executive (CDL) is required for executing and monitoring all soft interventions in a cluster. Normally, a CDE can be a DIC Officer/MSME-DI officer/retired expert or even hired person from Non-Government Sector.

ii) The hard interventions in a cluster and creation of physical infrastructure require to set up a users body/special purpose vehicle which could be society/trust/company to be formed by the cluster beneficiaries.

3. Credit Guarantee Fund Scheme:

The Government introduced the Credit Guarantee Fund Scheme for Small Industries in May, 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans upto Rs. 25 lakh without collateral/ third party guarantees. The Scheme is being operated by the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up jointly by the Government of India and SIDBI. The Scheme provides for collateral free credit facility (term loan and / or working capital) extended by eligible

lending institutions to new and existing SSI units/ Small Scale Service and Business (industry related) Enterprises (SSSBEs) including Information Technology and Software Industry up to Rs. 25 lakh per borrowing unit. In the case of women enterprises, the guarantee cover is up to 80% of the credit subject to maximum guarantee limit of Rs. 20 lakh. The member lending institutions (MLI) availing of guarantee from the Trust have to pay a one-time guarantee fee of 1.5% of the credit facility (comprising term loan and / or working capital) sanctioned by the lending institution to the borrower and annual service fee of 0.75% per annum on the amount of credit facility extended by the MLI, which is covered under the scheme.

Operation of the Scheme: The entrepreneurs whose bank finance is approved by the lending bank may ask the bank to obtain guarantee from the Credit Guarantee Trust Fund. This facility is available online to the lending banks and clearance from the Trust is conveyed in a day or two.

4. Support for Entrepreneurial and Managerial Development

MSME DIs regularly conduct EDPs/MDPs for existing and prospective entrepreneurs and charge fee for such courses. To encourage more entrepreneurs from among the SC/ST, women and physically challenged groups, it is proposed that such beneficiaries will not be charged any fees but, instead paid a stipend of Rs.500/- per capita per month. 50,000 entrepreneurs will be trained in IT, Fashion Technology, Catering, Agro & Food Processing, Pharmaceutical, biotechnology etc. through specialized courses run by MSMEs. 20% of courses conducted by these Institutions shall be exclusively for women.

5. Exhibitions for Women Under Promotional Package for Micro & Small Enterprises Approved By CCEA Under Marketing Support

DC (MSME) has formulated a scheme for women entrepreneurs to encourage Small & Micro manufacturing units owned by women in their efforts at tapping and developing overseas markets, to increase participation of representatives of small/micro manufacturing enterprises under SIDO stall at International Trade Fairs/Exhibitions, to enhance export from such units. Under this scheme participation of women entrepreneurs in 25 international exhibitions is envisaged during the 11th Plan.

For the year 2007-08 a good number of prominent women entrepreneur associations have been requested to sponsor their members for participation in 5 international exhibitions scheduled during the months of Jan.-March, 2008. An advertisement has also been released in this regard in daily newspaper.

with a view to encourage women entrepreneurs to participate in the International Exhibitions it has been decided to:

i) Provide rent free space in the exhibitions
ii) Reimburse 100% economy class air fare for one representative
iii) Reimburse shipping cost upto Rs.15,000/-

The overall ceiling shall however be Rs. 1.25 lac.

8.9 Summary

There is a need of strong socio-political support for development of women entrepreneurship. There is a need of achievement motivation training and entrepreneurship training. There is also a need of technical and skill based training to enable the women entrepreneurs to start and grow their business organisation. There

are institutions that support women entrepreneurs, but there is a need to bridge information gap so that the women entrepreneurs can really access and avail of the opportunities. There is also a need to build confidence and self belief system among the women entrepreneurs, so that they are able to create powerful business brands.

8.11 Self Assessment Questions

1. What do you mean by women entrepreneurship? Explain various social and political barriers in the path of women entrepreneurs.
2. Explain the importance of women entrepreneurship and also put light on the various schemes of govt. to promote women entrepreneurship.
3. Put a light on the "Process of entrepreneurship for a women."
4. Explain the concept of women entrepreneurship and also give some suggestions to promote this.

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Unit - 9 : Small Business

Structure of Unit:

9.0 Objectives
9.1 Introduction
9.2 Meaning and Definition
9.3 Characteristics of Small Scale Business
9.4 Scope and Objectives of Small Scale Business
9.5 Classification and Types
9.6 Support for Small Scale Business
9.7 Major Problems
9.8 Small Business as a Seed Bed for Entrepreneurship
9.9 Summary
9.10 Self Assessment Questions
9.11 Reference Books

9.0 Objectives

After completing the unit, you should be able to :

- Define small scale business.
- Explain the nature and characteristics of small scale business.
- Understand the role and objectives of small scale business.
- Understand the linkage between small scale business and entrepreneurship.

9.1 Introduction

The economic reconstruction of India depends on the balanced growth of economy in the fields of agriculture and industry. Due to scarcity of capital and finance in India, the Government of India has encouraged small scale industries, as an alternative to agriculture and heavy industries, as these can operate on limited resources. A small scale industry can be operated by an entrepreneur without sophisticated machinery and modern technology. These small scale industrial units can be established in semi urban and rural areas where the infrastructure is underdeveloped. The objective is to use local raw material for raising production with the help of local skills. The small scale units need short gestation period in establishment, are less dependent on imported raw material and machinery and help in meeting a substantial part of demand of consumer goods. These units also help in balancing regional disparities in economic growth.

These units have played a very important role in the socio economic development of our country since independence. This traditional sector in India is considered to have huge growth prospect with its wide range of products. It has a significant contribution in the growth of GDP, employment generation and exports. The small scale industrial sector in India is acting as engine of growth in the new millennium. It contributes almost 40 percent of the total industrial output and 35 percent share in exports. The small scale sector has grown rapidly over the years. The number of small scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 33.70 lakhs in the year 2000 and accounts for 95 percent of the industrial units. The production of small scale sector at current prices is about Rs. 6,45,496 crores. It gives employment to 186 lakh persons.

9.2 Meaning and Definition

The definition for industrial undertakings has changed over time. Initially they were classified into two categories- those using power with less than 50 employees and those not using power with the employee strength being more than 50 but less than 100. However the capital resources invested on plant and machinery buildings have been the primary criteria to differentiate the small scale industries from the large and medium scale industries. An industrial unit can be categorized as a small- scale unit if it fulfills the capital investment limit fixed by the Government of India for the small scale sector. As per the definition which is effective since December 21, 1999, for any industrial unit to be regarded as Small Scale Industrial unit the following condition is to be satisfied:

- Investment in fixed assets like plants and equipments either held on ownership terms on lease or on hire purchase should not be more than Rs 10 million (one crore). Such plant and machinery may be owned or obtained on lease. While calculating the investment in plant and machinery items like land, building and some equipments required for quality control, pollution control etc, are excluded. However the unit in no way can be owned or controlled or ancillary of any other industrial unit.
- In case of Tiny units the cost limitation is upto Rs 5 lakhs
- In case of Ancillary units the cost limitations is Rs 75 lakhs.

The SSI units cost investment limitations have been revised gradually in tune with the changing trends of money value and the growth of small sector. The following table shows the evolution of definition of SSI in India:

Table 9.1 : Changes in the Definition of SSI in India

Year	Capital
1950	Capital assets not exceeding Rs 5,00,000
1958	Capital investment of less than Rs. 5,00,000
1959	In capital investment, the value of machinery to be taken at the original price paid irrespective of it being new or old
1960	Gross value of fixed assets up to Rs. 5,00,000
Original Value of Plant and Machinery Only	
Year	**Capital**
1966	Up to Rs. 7,50,000
1975	Up to Rs. 1.0 million
1980	Up to Rs. 2.0 million
1985	Up to Rs. 3.5 million
1991	Up to Rs. 6.0 million
1997	Up to Rs. 30.0 million
1998	Up to Rs. 10.0 million

Data source: Ministry of Small-scale Industries & Agro and Rural Industries, Government of India, Annual Report 1999 - *2000, Page 4*

Recognizing the contribution and potential of the sector, the definitions and coverage of the Small Enterprises sector was broadened significantly under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which recognised the concept of "enterprise" to include both manufacturing and services sector. As per the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the enterprises will be classified as Micro, Small and Medium Enterprises and will be defined on the basis of their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises rendering services.

The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

* Investment limit in Plant & Machinery ** Investment limit in equipment

Data source : Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, page 347

Further, the term *Village industries* has been redefined in amended KVIC Act 1956, as 'any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. 1 lakh (Rs 1.5 lakh in case of village industry located in a hilly area.)

MSMED Act, 2006:

A single comprehensive act for development and regulation of small enterprises had been a long outstanding demand of the Sector so as to free it from a plethora of laws and regulations and visit of inspectors, which it had to face with limited awareness and resources. The need has been emphasized from time to time by stake holders at different foram. In addition, recommendations to provide for a proper legal framework for small sector to relieve it of the requirements to comply with multiple rules and regulations were made by the Committees such as the Abid Hussain Committee (1997) and Study Group under Dr. S.P. Gupta (2000). While the small scale industries continued to be important for the economy, in the recent years the small scale services have also emerged as a significant sector contributing substantially to the economy and employing millions of workers. Therefore, it became necessary, as is the practice worldwide, to address the concerns of both the small scale industries and services together and recognize them as small enterprises. In a fast growing economy like ours, the natural mobility of small enterprises to medium ones has to be facilitated through appropriate policy interventions and legal framework. With these objectives in view, the Government came with an exclusive legislation for micro, small and medium enterprises known as the Micro, Small and Medium Enterprises Development Act, 2006.

This act was notified in 2006 and it to addresses policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The salient features of the Act include: classification of enterprises, setting up of a National Board for MSMEs, advisory committees to support MSMEs, measures for promotion, development and enhancement of MSMEs, etc. On 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, the Ministry of Small Scale Industries (SSI) and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (MSME). This Ministry is now responsible for promoting, facilitating, monitoring and assisting MSMEs in India.

9.3 Characteristics of Small Scale Business

Following are the characteristics of small scale business:

1. **High Labour Intensity:** Small scale industries are fairly labour-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.

2. **Less Capital Intensive:** Small scale industries can be started with very less investment. They usually have much smaller capital than larger enterprises. The term "shoe-string budget" refers to businesses that operate under very tight budgets. Small businesses are sometimes run out of a room in the business owner's home; this cuts the cost of renting office space.

3. **Use of Local Skills and Knowledge:** The Government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills.

4. **Flexibility:** Small scale industries are flexible in their operation. They adapt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing environment.

5. **Entrepreneurial Spirit:** A small scale unit is generally a one-man show. It is mostly set up by individuals. Even some small units are run by partnership firm or company; the activities are mainly carried out by one of the partners or directors. Therefore,' they provide an outlet for expression of the entrepreneurial spirit. As they are their own boss, the decision making process is fast and at times more innovative.

6. **Use of Indigenous Raw Materials:** Small scale industries use indigenous raw materials and promote intermediate and capital goods. They contribute to faster balanced economic growth in a transitional economy through decentralisation and dispersal of industries in the local areas.

7. **Localised Operation:** Small scale industries generally restrict their operation to local areas in order to meet the local and regional demands of the people. They cannot enlarge their business activities due to limited resources.

8. **Lesser Gestation Period:** Gestation period is the period after which the return on investment starts. It is the time period between setting the units and commencement of production. Small scale industries usually have a lesser gestation period than large industries. This helps the entrepreneur to earn after a short period of time. Capital will not be blocked for a longer period.

9. **Workplace Culture:** Small businesses have fewer employees. Employees of small businesses are less specialized than in larger businesses. In larger enterprises, employees have specific job descriptions, but in small businesses employees are more often expected to help with a variety of tasks, because there are fewer people to do everything.

9.4 Scope and Objectives of Small Scale Business

Since independence the Government of India has nurtured this sector with special care with the following objectives:

- To develop this sector as a major source of employment.
- To promote decentralised industrial expansion.
- To ensure equitable distribution of income.
- To mobilise capital investment and spread of entrepreneurship.

The emphasis on small scale industries has always been an integral part of the Indian industrial strategy, more so often after the Second Five Year Plan. It was envisaged that small scale industries would play an important role as producer of consumer goods and absorber of surplus labour thereby addressing to the problems of poverty and unemployment. The following are some of the important objectives fulfilled by small- scale industries in India.

1. Employment Generation:

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

The SSI sector in India creates largest employment opportunities, next only to agriculture. The generation of employment by the small scale sector is more than five times to that of the large-scale sector. It has been estimated that 100,000 rupees of investment in fixed assets in the small scale sector generates employment for four persons. The number of people employed in the small scale sector has increased from 14 million in the year 1993-94 to 19 million in the year 2000-01. In the year 2010-11, Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%). In the state-wise employment distribution, Tamil Nadu (14.5%) contributed the maximum employment. This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%.

2. Equitable Distribution of Income:

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Thus small scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by concentration of income and wealth in the organised sector keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

3. Mobilisation of Resources and Entrepreneurial Skill:

Small scale industries can mobilise a good amount of savings and entrepreneurial skill from rural and semi-urban areas. A huge amount of latent resources are also being mobilised by the small scale sector for the development of the economy.

4. Regional Dispersal of Industries:

There has been massive concentration of industries in a few large cities of some states of India. People migrate from rural and semi urban areas to these highly developed centres in search of employment. This results in many unwanted consequences like over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small- scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promoting balanced regional development.

5. Provides Opportunities for Development of Technology:

Small scale industries have tremendous capacity to generate and/ or absorb innovations. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

6. Promotes Exports:

SSI Sector plays a major role in India's export performance and have registered a phenomenal growth in export over the years. The value of exports of products of small scale industries has increased from Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% of India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reducing the pressure on country's balance of payment.

Further, it is estimated that small scale industrial units contribute around 15% to exports indirectly through merchant exporters, trading houses and export houses. The non-traditional products account for more than 95% of the SSI exports. The growth in exports from SSI sector has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.

7. Supports the Growth of Large Industries:

The small scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them.

Contribution of Small Scale Sector to India's economy:

The contribution of small scale sector over the years has been summarized as follows:

- **Production**: The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000.

- **Employment**: SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. In case of rural areas, Non-metallic products contributed 22.7% to employment generation, Food Products accounted for 21.1%, Wood Products and Chemicals and chemical products shared between them 17.5%. Whereas in case of urban areas Food Products and Metal Products almost equally shared 22.8% of employment, Machinery parts except electrical, Non-metallic mineral products, and Chemicals and chemical products accounted for 26.2% of employment. The data regarding state-wise employment distribution shows that Tamil Nadu (14.5%) made the maximum contribution to employment. This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%. Per unit employment was high - 17, 16 and 14 respectively - in Nagaland, Sikkim and Dadra & Nagar Haveli. It was 12 in Maharashtra, Tripura and Delhi.

- **Export:** SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. It is interesting to note that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products. The contribution of small scale sector to India's economy can be further summarised in form of a table, as follows:

Table 9.2 : Contribution of SSI to Indian Economy

S. No.	Year	Total units SSI/ MSME (lakh numbers)	Fixed Investment (Rs. Crore)	Production (Rs crore)	Employment (lakh person)	Exports (Rs.crore) Current Prices
1	2005-06	123.42 (4.07)	188113 (5.27)	497842 (15.83)	294.91 (4.37)	150242 (20.76)
2	2009-10	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.47)	N. A.

(The figures in brackets show the percentage growth over the previous year. The data for the period up to 2005-06 is of small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises (MSMEs) are being compiled as per the new classification of MSMED Act, 2006.)

Data source : Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, page 16

9.5 Classification and Types

The traditional small scale industries clearly differ from their modern counterparts in many respects. The traditional units are highly labor consuming with their age-old machineries and conventional techniques of production resulting in poor productivity rate whereas the modern small scale units are much more productive with less manpower and more sophisticated equipments.Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the traditional small scale industries in India. The modern small industries offer a wide range of products starting from simple items like hosiery products, garments, leather products, etc to more sophisticated items like electronics control system, various engineering products especially as ancillaries to large industrial undertakings.Nowadays Indian small scale industries (SSIs) are mostly modern small scale industries. Modernization has widened the list of products offered by this industry. The items manufactured in modern Small scale service and business enterprises in India now include rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, hardware, electrical items, transport equipment, electronic components and equipments, automobile parts, bicycle parts, instruments, sports goods, stationery items and clocks and watches.

The SSI units can be broadly classified as:

Traditional	Modern	
food processing, handlooms, coir industries, sericulture, cottage industries, handicrafts, khadi industry etc.	With Power power looms, engineering industries, chemical products, glass and ceramics, automobile parts, bicycle parts packaging units, service units, etc.	Without Power tobacco, bidi, paper covers, etc.

9.6 Support for Small Scale Business

The basic policy support of small scale sector had its roots in the Industrial Policy Resolution 1977, which laid emphasis on reservation of items. The other policy support include excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from small scale industry sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support etc. The policy initiatives taken bythe Government in India to SSI sector can be divided into the following six categories:-

a) **Financial Concessions:** Credit prescription (Priority sector lending), differential rates of interest, Excise Exemption Scheme, Exemption under Direct Tax Laws., Statutory support such as reservation and the Interest on Delayed Payments Act.

b) **Reservations:** The government provides protection to the small scale sector, through the policy of reserving items for exclusive manufacture in the small scale sector. The reservation policy is an attempt to protect SMEs from competition from big corporations and 44 goods were specified to be exclusively manufactured by SMEs (large corporations were allowed to enter this sector on condition that 50% of their produce would be exported). As a result, SMEs dominated readymade garments, leather goods, auto components, electrical appliances and the hand tool industries.

Over the years, the number of items reserved for SMEs increased and it stood at over 800 in 1989. However, the Abid Hussain Committee set up by the Government of India which submitted its report in January 1997 observed that the reservation policy was inconsistent with the current trade reforms which allow free import of a large majority of the goods and most of the remaining can be imported under the special Import License. The number of reserved items has, therefore, been coming down. At present only 20 items are in the reserved list. A list of items reserved for exclusive manufacture in micro and small enterprises sector is as follows:

Table 9.3: List of Items Reserved For Exclusive Manufacture by Micro and Small Enterprise Sector (Last revised on 30 July, 2010)

S No	Name of the Product	S No	Name of the Product
1	Pickles & chutneys	**11**	Agarbatties
2	Bread	**12**	Glass bangles
3	Mustard Oil (except solvent extracted)	**13**	Steel almirah
4	Ground nut oil (except solvent extracted)	**14**	Rolling shutters
5	Wooden furniture and fixtures	**15**	Steel chairs-All types
6	Exercise books and registers	**16**	Steel tables-All other types
7	Wax candles	**17**	Steel furniture-All other types
8	Laundry soap	**18**	Padlocks
9	Safety matches	**19**	Stainless steel utensils
10	Fire works	**20**	Domestic utensils-Aluminium

Data source : Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, page 325-326

c) **Infrastructure Support:** The government has launched a program of infrastructure development in regional and rural areas. Infrastructure facilities like power, water, communications are funded by the government and SIDBI with the government providing equity and SIDBI providing the loans. Government has implemented Integrated Infrastructure Development (IID) Scheme, is upgrading various Industrial Estates, facilitating Cluster Development and setting incubation centre etc.

d) **Technological Support:** Scheme of Capital Subsidy for investment in technology up gradation, acquisition of technical knowhow, upgrading of process technology, financial grant to units for opting ISO-9000 Certification etc.

e) **Training:** Entrepreneurship Development programmes, Capacity building programmes both for entrepreneurs as well as workers etc.

f) **Marketing and Export Promotion:** Vendor Development Programmes, Buyer-Seller Meets and Exhibitions, providing export incentives, trainings and awards for exporters etc.

There exists a strong institutional structure at the State and Central level for the promotion and development of the sector and the schemes/programmes of the Central and State Governments span across major areas of operations of MSMEs.

9.7 Major Problems Faced by Small Business

Though this sector has shown substantial progress, its major problems like inadequate credit flow from banks and financial institutions, inadequate infrastructure facilities, low quality standards of products, lack of access to technological information and consultancy, marketing problems, use of old technology and machinery and equipments and inefficient management techniques, are still inhibiting the sector. In addition to these, this sector has to face challenges of competition from the opening up of economy to globalization, need for increasing exports and to meet World Trade Organization commitments.

The major problems faced by small business are:

1. **Difficulty in Obtaining Finance**: Small businesses find it extremely difficult to obtain credit because of lack of collateral security. This further affects their operations like their ability to hire the good workers, to purchase the latest machinery and equipment or to acquire sophisticated technology.

2. **Obsolete Technology:** Most small businesses use old technologies because of financial problems and lack of awareness about sources of technological up gradation. As a result the quality of their goods is inferior and the cost of production is higher as compared to products of big businesses. This weakens the position of small businesses in local and global market.

3. **Marketing Problems:** The small entrepreneur cannot compete with products of large companies as they do not have a brand name. Lack of funds for advertising or sales promotion further makes it difficult for them to compete with big business.

4. **Poor Managerial and Organizational Skills:** Compared to big business, management in small business is more difficult and complex. The entrepreneur managing the small business have an experience in only one or two functions usually production and selling and find himself unable to effectively manage other areas like human resource, auditing and control, marketing etc.

5. **Poor Infrastructural Facilities:** Only small units in the organised sector and industrial estates get reasonably good infrastructure facilities. The majority of others are poorly served in terms of roads, electricity, drainage and water supply.

Presently, the small scale sector is associated, in public perception, with low quality standards. It is envisioned that the small scale sector will be upgraded through modern and new technologies to achieve global quality standards. Niche markets will be identified and developed for small scale products, including khadi and coir products. To make their products globally competitive Indian SMEs need to upgrade their technology and put more emphasis on innovation as innovation is an important tool for businesses to differentiate products that can compete and are cost effective. Without this, SMEs will not be able to produce competitive products globally.

9.8 Small Business as a Seed Bed for Entrepreneurship

We are living in the age of Entrepreneurship. In any developing economy entrepreneurs are always considered to be the major driving forces. Entrepreneurship and economic development are intimately related. As an Entrepreneur grows, the economy also grows. An entrepreneur acts as the engine for the economic development of the country. Entrepreneurs are the vital source of change in all dimensions of society, empowering individuals to seek opportunity and small businesses act as a seed bed for entrepreneurship

The world over, small enterprises are regarded as fountainheads of entrepreneurship and innovation. Initially the capital investment in small ventures is nominal and the technology used is low, thus it is easy for a new businessman to set up a venture. Small business mobilizes small savings, taps the latent entrepreneurial talent across regions and provides a platform for them to develop and fine-tune their entrepreneurial spirit. Many big businesses today have started their journey from a small enterprise. In the process the entire country gets benefited in the form of increased growth.

The globalization process started in India in 1991 has changed the face of industry. It has attracted new areas of development, foreign direct investments and new business areas which were unheard of prior to 90's. Since then, India has become a cradle of entrepreneurial activities. Indian entrepreneurs have created a name for themselves by starting from a small unit and taking it to great height. Many of the big businesses today for example, Siemens, Ford, Eastman Kodak, Lever Brothers, Nirma, Rasna etc, started as small business and then grew into big businesses. The entrepreneurial initiatives of people like JRD Tata, Godrej, GD Birla, Dhiru Bhai Ambani etc is also worth appreciating.

9.9 Summary

Small scale units have played a very important role in the socio economic development of our country since independence. This traditional sector in India is considered to have huge growth prospect with its wide range of products. It has a significant contribution in the growth of GDP, employment generation and exports. It contributes almost 40 percent of the total industrial output and 35 percent share in exports. The small scale sector has grown rapidly over the years and accounts for 95 percent of all industrial units. The SSI sector in India creates largest employment opportunities, next only to agriculture. Small scale industries are fairly labour-intensive, can be started with very less investment, use indigenous raw materials, operate in local areas and have short gestation period.

The basic policy support of small scale sector had its roots in the Industrial Policy Resolution 1977, which laid emphasis on reservation of items. The other policy support include excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from small scale industry sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support etc.

Though this sector has shown substantial progress, its major problems like inadequate credit flow from banks and financial institutions, inadequate infrastructure facilities, low quality standards of products, use of technology, plant and machinery and equipments and inefficient management techniques, are still inhibiting the sector. This sector is considered as a seedbed for entrepreneurship.

- **Small Scale Business:** Small Scale Business is the one having an investment of more than Rs 25 lacs and less than Rs 5 crore.
- **MSME:** Medium, Small and Micro enterprises

• **MSMED Act, 2006:** This act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector.

• **Village Industries:** The industries industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. 1 lakh..

• **Traditional Small Scale Industries:** Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the

• **Reservation Items:** The government provides protection to the small scale sector, through the policy of reserving items for exclusive manufacture in the small scale sector.

9.10 Self Assessment Questions

1 Define small scale business.

2 Define small service enterprise.

3 Explain the role of small scale industry in India.

4 Differentiate between a traditional and a modern small business.

5 Differentiate between a small scale business and an ancillary unit.

6 Narrate various facilities provided to small scale sector by the Government.

7 Give your views regarding the current status of reservation provided to small scale sector.

8 Write short notes on:

a. Classification of small business.

b. Small business as a seed bed of entrepreneurship

9 What are the main problems faced by small scale industry in India?

10 Write a note on recent trends in position of small scale businesses.

9.11 Reference Books

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Unit - 10 : Setting-up of Small Scale Unit

Structure of Unit:

10.0 Objectives
10.1 Introduction: Start up Process
10.2 Legal Framework
10.3 Business Plan Development
10.4 Raising Funds
10.5 Registering SSI Unit
10.6 Summary
10.7 Self Assessment Questions
10.8 Reference Books

10.0 Objectives

After completing the unit, you should be able to:

- Explain the start up process of a small scale business.
- Understand how to conduct feasibility analysis
- Understand the legal requirement of establishing a small scale business.
- Learn about business plan development

10.1 Introduction: Start up Process

The various steps involved in starting up of a business are as follows:

1. Idea Generation: It is the first stage of starting a business. The entrepreneur gets an idea about new products, new services, or improved products and services to satisfy existing and future demand. The idea about new product or service can be initiated by research and development, existing companies, current suppliers or customers etc.

Various techniques can be adopted for idea generation like brain storming, group discussion, data collection through a survey, data collection through internet, market research, commercialisation of invention, etc.

2. Environmental Scanning: Once an idea has been generated about a product or a service, the next step is environmental scanning. It is advisable to carry out environmental scanning as preliminary study before getting into detailed project formulation. Different variables, in the external and internal environment should be scanned so as to analyse the viability of a business. External environment variables like government, legal, socio cultural, political, economic, demographic and technological are to be scanned to identify the opportunities and threats. Internal environment variables like availability of raw material, machinery, finance and human resource, are to be scanned to identify the strength and weakness.

The information from as many sources can be collected regarding the following variables:

- ***Socio Cultural Appraisal:*** The study of social and cultural features of the society is important to understand about the level of acceptance of the product or service offered. Features like religion, beliefs, norms, fashions and fad, educational level, lifestyle, attitude towards consumerism and materialism and many other affect the level of demand of the product. For example a company

providing adventure sports will not have many takers in counties which are considered conservatives. Such company will have better prospects in western countries or societies which are not conservative.

- ***Economic Appraisal*:** Various economic parameters like rate of industrial growth, gross national product (GNP), per capita income, disposable income, rate of interest, presence of financial institutions and their networks, sources of finance available, condition of primary and secondary markets, population growth, rate of unemployment, rate of inflation, affect the viability of a business plan.
- ***Demographic Appraisal:*** To identify the target market and its size, the variables like sex, age distribution, income distribution etc, help in identifying the viability of a business.
- ***Regulatory and Legal Appraisal:*** The legal and regulatory frame work is beyond the control of a business owner yet it has the greatest impact on operations of a business. The incentives, grants, subsidies can be very beneficial in establishing a business. While choosing a business venture, the factors like price control, licensing, etc. should also be studied carefully.
- ***Raw Material:*** the access to and availability of raw material at present and in near future should be analysed. The difficulty in access and shortage in availability of raw material can bring the business to stand still.
- ***Production and Operation:*** the availability of various machinery, equipments, tools, etc. should be analysed.
- ***Market:*** presence of an attractive market having present, potential and latent demand.
- ***Human Resource:*** assessing the availability of type and number of human resources required.

3. Feasibility Study: Feasibility study is undertaken after environmental scanning. Environmental scanning gives an idea about the internal and external factors that might affect the viability of a business. It tells whether it makes sense or not to actually start the proposed business. After environmental scanning an idea might lose its attractiveness and might be dropped. If an idea seems good enough to proceed after environmental scanning, the next step undertaken is of feasibility study. Feasibility study is a detailed study conducted to analyse the feasibility of a project in a particular environment. The environmental scanning forms the platform on which the feasibility study will be build. Although, feasibility study is dependent on environmental appraisal, yet it is much more detailed.

The various dimensions of a feasibility study are:

a) Market Analysis: A business cannot succeed without effective marketing. Effective marketing can be achieved through systematic marketing research. It is important to know about the intended market. The market analysis should be carried out in a way so as to answer the following questions:

- What is the total size of the market?
- What percent share of the market will you have?
- Current demand in target market.
- Trends in target market—growth trends, trends in consumer preferences, and trends in product development.
- Growth potential and opportunity for a business of your size.
- What are the barriers to entry in this market viz. :

- High capital costs
- High production costs
- High marketing costs
- Consumer acceptance and brand recognition
- Training and skills
- Unique technology and patents
- Unions
- Tariff barriers and quotas
- How these barriers can be overcome?

b) **Technical/ Operational Analysis:** Technical/ operational analysis is done to assess the operational viability of the proposed business venture. Key questions to be answered are:

- What will be the Production techniques and costs?
- How will the Quality be controlled?
- How will the Inventory be controlled?
- What type of location will be needed? Is it important that your location be convenient to transportation or to suppliers?
- What type of Physical requirements like Amount of space and Type of building will be required?
- What will be the type of utilities like power, water etc, will be required?
- What kind of inventory will be required: raw materials, supplies, finished goods? How will it be acquired?
- Who are the key suppliers?

b) **Financial Feasibility:** After the market analysis and techno- operational analysis, financial feasibility of the proposed venture is assessed. Following costs are estimated:

- Cost of land and building
- Cost of plant and machinery
- Preliminary cost: expenses in conducting market survey and feasibility study, establishment expenses, expenses in raising capital, etc.
- Working capital estimates
- Cost of production: raw material cost, labour cost, overhead expenses, utilities.
- Profitability projections: Are achieved after determining gross profit through summation of cost of production, selling expenses, administrative expenses and expected sales.

4. Business Plan Development: After environmental scanning and feasibility analysis, a detailed business plan is developed. It is a written document that describes step by step, strategies designed for starting and running a business. Business plan development has been discussed in detail in later section.

10.2 Legal Framework

An entrepreneur should be aware of various legal aspects for setting up and running of a small business. The knowledge about the legal framework helps an entrepreneur in running business successfully. Some of the legal considerations are as follows:

1. Intellectual Property: Any resource which gives a trade a commercial advantage is called Intellectual Property. The resources may be a formula, data, compounds, new processes, compiled information, list of customers etc. The Intellectual Property laws in India have been implemented following WTO's agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

The Intellectual Property laws cover the following:

A. Trademark: A trademark is a distinguishing word, figure, symbol, design, numeral or a combination of these that identify particular goods or services. The current trade Mark Act, 1999, which replaced the Trade Mark Act, 1958 has been developed in light of TRIPS obligations. The trademark has to be registered with a Trade mark Registry, working under the Registrar of Trade Marks. The head office of the Trade mark Registry is at Mumbai and its branches are at Delhi, Kolkata, Chennai and Ahmadabad. The trademark can be filed for registration with the Trade mark Registry. Prior use of trademark is not required for filing an application. Before applying for registration of a trademark, an applicant can go for a paid search at the registrar's office to browse through their records to check out whether or not this particular trademark has been registered earlier.

The trademark gives the proprietor the exclusive right to use the trademark in relation to the goods or services for which it was registered. Trademarks can also be transferred with or without transmitting the goodwill of the business. The trademarks can be established in the market through brand building activities.

B. Copyright: The copyright laws protect the legal rights of a person for his or her work of writing or authorship. This law prevents others from reproducing the work in any other way. The intellectual property under copy right include:

- Literary work (books, articles, manuscripts etc.)
- Dramatic work (drama, dance choreography, costumes etc.)
- Musical work (lyrics, music, graphical notations etc.)
- Artistic work (drawing, painting, sculpture, photographs etc.)
- Cinematographic work (recoding, sound tracks, sound effects etc.)
- Computer work (programmes, tables, databases etc.)

C. Patents: A patent gives protection to the inventor of a new product/ process/ design to solely use the copying/ selling/ using of the invention for a limited period of time. This right acts as an incentive for the inventors who have worked hard and created something innovative. The term 'invention' is defined as 'a new product involving an innovative step and having industrial application'. In India, the rights of patents are granted to the person who first applies.

Anything, for which a patent is desired, should be:

- *New:* patents are not granted for things already well known and well established.
- *Useful:* inventions should be beneficial for people and should be capable of industrial applications.

2. Licensing: Licensing may be defined as a contractual agreement between two parties where one party having some proprietary rights agrees to transfer its rights to another party by charging some kind of fee or royalty in a proper mode. Licensing has acquired great importance in today's global world. There are many examples where a company owning the intellectual property of a product, manufactures it in its country and gives license to other businessmen in other countries to manufacture the same product.

3. Contract: A contract is a written document that is enforceable legally. Generally an entrepreneur starting a business gets into discussions with landlord, suppliers, service providers, buyers and sellers, government authorities, etc. After finalisation of the discussions, contacts will take place which binds the two parties legally. Broadly, a contract document will contain the following things:

- Name of parties involved in the contract and their roles.
- Detailed description of transaction taking place between the two parties.
- Specification of contract value in terms of price and charges.
- Signature of competent persons from each of the organization who are party to the contract.

10.3 Business Plan Development

A business plan is a written document giving in detail all relevant internal and external elements that affect business and strategy for starting a new venture. It is an important document that deals with all aspects of proposed new business. It integrates the functional areas of the organisation like marketing, production, finance and human resource. It also takes into account the time horizon for a new venture. In preparing a business plan an entrepreneur can take help of experts in different fields like finance, legal, marketing, technical consultants etc. Various governmental agencies at the state and central level also extend help in preparation of business plan to entrepreneurs starting a small business.

A business plan can be used by an entrepreneur for a variety of objectives. Some of the objectives are as follows:

- Getting debt from banks or getting equity funding from various investors.
- Attracting business partners or key alliances
- To clarify exact nature of the business

A business plan must describe the company, its product, and its management team. It should also state from where money will come and how it will be spent. A well developed business plan is an asset to an entrepreneur and helps in understanding the objectives of the business and achieving them. While writing a business plan following things should be taken care of:

- ***Defining Purpose*:** deciding the purpose of business plan in advance i.e. using the business plan for securing loan or attracting business partners, etc; helps in customising it according to the need of the audience.
- ***Information Collection:*** It is important to list out all the information that is already available with you regarding business and the industry. The gap in information should be identified and required information should be collected. Government has created specialised institutions and bodies that are entrusted with collection, dissemination and updating of correct and current information about different aspects of business and industry.
- ***Financial Analysis*:** All costs and revenues estimates have to be calculated, financial statements have to be drafted. This exercise will finally lead to sensitivity analysis, calculation of ROI (Return on Investment), break even analysis and various financial ratios. It should be taken care that financial analysis is realistic and practical.

A business plan consists of the following sections:

1. Executive summary
2. Business Description
3. Market Plan
4. Competitive analysis

5. Operations and Management Plan
6. Financial Plan
7. Appendices

1. Executive Summary: The statement should be short, may be of one or two pages. It should explain the fundamentals of the proposed business: What will be the product? Who will be the customers? Who are the owners? What future holds for the business and the industry?

It should be professional, complete, concise and above all should sound enthusiastic. If purpose of making the business plan is to get a loan, it should be clearly stated that how much loan is required, how it is going to be used, and how the money will make the business more profitable, thereby ensuring repayment.

2. Business Description: It is important to describe what business will you be in and what will you do. To describe one's business, following key elements may be included:

- **Mission Statement:** Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. Although it is not compulsory to have a mission statement, but it is a good to have one as it serves as a guiding point.
- **Company Goals and Objectives:** Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a successful company that is a leader in providing quality products. Objectives might be annual sales targets and some specific measures of quality achievement.
- **Industry Description:** Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?
- **Target Market:** Target market tells about the customers to whom the product will be marketed. It should be briefly stated here as detailed explanation will be covered under marketing plan section.
- **Competitive Edge:** Describe your most important company strengths and core competencies that will make the company succeed? It could be a better service, a wider range of products, better after sales services etc. What background experience, skills, and strengths do you personally bring to this new venture?
- **Structure:** describe the type of operation, i.e. wholesale, retail, manufacturing or service-oriented. Also state whether the business is new or already established.
- **Legal form of Ownership:** State the form of ownership adopted like - Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

3. Market Plan: A good entrepreneur with poor marketing plan will face an early disaster. Any product or service has to be marketed competently. A market plan describes the strategies to be adopted for marketing of the product. It is a result of market analysis. A market analysis helps in knowing about various aspects of the market so that the target market can be defined and the company can be positioned in order to capture desired market share. Market analysis enables the entrepreneur to establish the strategies regarding the marketing mix i.e. the four P's- product, price, place (distribution) and promotion. These strategies:

- Will allow the company to become profitable within a competitive environment.

- Provides an indication of the growth potential within the industry.
- Helps in developing estimates for the future of proposed business.

As discussed in earlier section, market analysis has enabled the entrepreneur in:

- **Defining the Market** in terms of size, structure, growth prospects, trends and sales potential.
- **Defining the Target Market:** The segmentation factors can be geographic, customer attributes or product oriented. If the distribution of the product of the proposed business is confined to a specific geographic area being a small business, the target market can be defined as number of users of that product within that geographic area.
- **Defining Total Feasible Market:** The total feasible market is the market that can be captured provided every condition within the environment is perfect and there is very little competition. Although this situation is not true in most industries. The factors that affect the share of the feasible market a business can are obtain are - structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.
- **Estimating Market Share for the Time Period the Plan will Cover:** It is calculated after considering the projected growth of the market and the expected conversions from the competitors.

After the above mentioned details have been estimated through market analysis, the strategies regarding the marketing mix i.e. the four P's- product, price, place (distribution) and promotion should be developed and included in the business plan. The key strategies should be regarding:

- **Describing Product:** Describe in depth the products or services (technical specifications, drawings, photos, sales brochures, and other bulky items are to be included in Appendices). Describe the most important features including the after-sale services provided like warranty, service contracts, support, follow-up, and refund policy.
- **Pricing of Product:** Pricing strategy should fit with what was revealed in competitive analysis. Prices should be compared with those of the competitor.

  Most small businesses go for low pricing. This is not a good strategy as it decreases profit margin; customers may not care as much about price if they have a good quality product. The better strategy will be to have average prices and competing on quality and service.
- **Distribution:** includes the entire process of moving the product to the customer. The type of distribution set up chosen will depend on the structure of the industry and the size of the business. The business plan should clearly indicate how products or services will be sold (Retail, Direct mail order, Web catalog, Wholesale, Sales force, Agents, Independent representatives, etc.)
- **Promotional Plans:** promotional plans will have to be initiated over a period of time. Promotion strategy regarding advertising campaigns, seasonal discounts or improved packaging have to de described in detail like: What media, why, and how often? Cost effectiveness of various methods to get the most out of the promotional budget? Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals? What image do you want to project? What will be the promotional Budget? How much will be spend on what all items listed above, before startup and after startup?

4. Competitive Analysis: The purpose of the competitor analysis is to determine the strengths and weaknesses of the competitors within the market, strategies that will provide business with a distinct advantage, the barriers that can be developed in order to prevent competition from entering the market, and weaknesses that can be exploited within the product development cycle. The questions to be answered are: What products and companies will compete with you? List your major competitors and state whether competition is full or just for certain products, certain customers, or in certain locations? Will you have important indirect competitors from businesses? (For example, mobile phones manufacturing companies compete with cameras making companies, although they are different types of businesses). Strategies should be so designed that they are primarily based on competitive advantage and that they set the product or service apart from the competitors.

5. Operations and Management Plan: This section will describe:

- Operational procedures, manufacturing equipment, level of production required, locations, licensing and other aspects related to providing the product or service.
- The organizational structure has to be well defined and based within a realistic framework given the parameters of the business. Organize tasks into departments that produce an efficient line of communications between staff and management. Establish the function of each task and how it will relate to the generation of revenue within the company.
- Human resource requirement: Determine the number and type of personnel required to perform each task, where the right employees will be found, what will be the pay structure, what type of labor (skilled, unskilled, and professional) will be required? Determine who does which tasks and prepare schedules and written procedures. If the business seems to have more than 10 employees, it is good to create an organizational chart showing the management hierarchy and who is responsible for key functions. Include position descriptions for key employees.
- If purpose of business plan is to secure loans from investors, resumes of owners and key employees should be included. List of following should also be included: Board of directors, Management advisory board, Attorney, Accountant, Insurance agent, Banker, Consultant or consultants, Mentors and key advisors.

6. Financial plan: The enterprise should have sound financial regulations. An exact assessment of the revenue, costs, profits and losses, cash-flow dynamics, stock of raw materials and finished products, loans etc. has to be reflected in the financial profile. Critical assessment of the finances and its dynamics help in the holistic assessment of the enterprise. More important, the process of thinking through the financial plan will improves insight into the inner financial workings of the company.

The three common financial statements need to be prepared are - cash flow statement, profit and loss account and the balance sheet. Together they constitute a reasonable estimate of the company's financial future.

- The profit and loss statement tells how much money the business earns over a given period of time. A twelve month profit and loss projection and a four-year profit and loss projection (optional) are to be prepared.
- The cash flow statement is an information tool telling how much cash is needed to meet obligations, when will it be needed and where is it coming from. If the profit projection is the heart of a business plan, cash flow is the blood. Every part of the business plan is important, but none of it means a thing if the business run out of cash. Businesses fail because they cannot pay their bills. It is important to plan how much cash is needed before startup, for preliminary expenses, operating expenses, and

reserves. It will enables to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan.

The cash flow projection is just a forward look at the checking account. For each item, determine when actual receipt of cash (for sales) will happen or when actually the cash will be needed. Essential operating data, should be kept track of, which may not be the part of cash flow as it allows controlling items that have a heavy impact on cash flow, such as sales and inventory purchases. Cash outlays should also, be kept track of, prior to opening in a pre-startup stage. Cash flow shows whether the working capital is adequate.

- Balance sheet is a summary of all the financial data giving a macro view of the company at a given point of time. It is one of the fundamental financial reports that any business needs for reporting and financial management. It shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.
- Break-Even Analysis can be prepared. It predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

7. Appendices: It includes details and studies used in the business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

10.4 Raising Funds

The various external sources of raising funds available to an entrepreneur for setting up of a business are:

1. **Debenture:** it is a form of long term loan obtained by a public limited company for a large sum and paid back over several years. It is usually borrowed from specialised financial institutions.
2. **Share Issue:** it involves a business selling new shares that entitle the shareholder to share in the control of the business. There are two types of share: equity and preference.
3. **Commercial Banks:** Banks provide two types of funds: overdrafts and loans. Overdraft mean drawing more than what is present in your account. This credit is provided for a short duration of time. Bank Loans is a long term source of finance. Interest is charged for the loan provided which has to be deposited as per the rate and terms.

4. **Venture Capital:** It is a contemporary method of raising finance. It is the money provided by professionals who invest in rapidly growing companies that have high potential to grow. Venture capitalists generally purchase equity securities and also actively participate in managing the company.

10.5 Registering SSI Unit

The scheme of voluntary registration of Small Scale, Village and Cottage Industries with the State Directorate of Industries was introduced in 1960 and such registered industrial units were made eligible for different types of assistances by the Governmental Agencies. Initially a uniform norm for registration were not laid down with the result that some of the States had granted different registration numbers to different lines of manufacturing processes to the same unit thereby resulting in multiple registration.

Small Scale units should seek registration with the Director of Industries of the concerned State Government as a small industry is basically a state subject. States have generally adopted the uniform registration procedures. However, there may be some modifications done by States. It must be noted that States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

• **Benefits of Registering:** There is no statutory compulsion for registration. Units normally get registered to avail benefits, incentives or support extended either by the Central or the State government. The regime of incentives offered by the Centre generally contains the following:

- Credit prescription (Priority sector lending), differential rates of interest etc.
- Excise Exemption Scheme
- Exemption under Direct Tax Laws.
- Statutory support such as reservation and the Interest on Delayed Payments Act.

It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI.

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

• **Objectives of the Registration Scheme:** The objectives of registration are as follows:

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSI.

• **Features of the Scheme:** Various features of the registration scheme are as follows:

- DIC is the primary registering centre
- Registration is voluntary and not compulsory.
- Two types of registration are done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.
- PRC is normally valid for 5 years and permanent registration is given in perpetuity.

• **Provisional Registration Certificate (PRC):** Provisional registration is granted to a unit at its pre-investment period to enable it to take necessary steps to apply for financial credit, land or an industrial set, water, power or telephone connections, etc.

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
- Obtain facilities for accommodation, land, other approvals etc.
- Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

• **Permanent Registration Certificate:** Provisionally registered industrial unit when it is about to go into production is to apply for grant of Permanent / Final Registration. An existing and functioning industrial unit is eligible to apply for Permanent / Final Registration without going into provisional registration processes. The permanent registration certificate enables the unit to get the following incentives/concessions:

- Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after 5 years.

• **Procedure for Registration:** Features of the present procedures are as follows:

- A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licensing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
- Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued. PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
- Once the unit commences production, it has to apply for permanent registration on the prescribed form.
- The following form basis of evaluation:
- The unit has obtained all necessary clearances whether statutory or administrative, e.g., drug license under drug control order, NOC from Pollution Control Board, if required, etc.
- Unit does not violate any location restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

• **De-Registration**

- A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration:
- It crosses the investment limits.
- It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.

- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

10.6 Summary

The various steps involved in starting up of a business are: Idea Generation, Environmental Scanning, Feasibility Study and Business Plan Development. An entrepreneur should be aware of various legal aspects for setting up and running of a small business. Some of the legal considerations are: Intellectual Property, Trademark, Copyright, Patents, Licensing, and Contract.

A business plan is a written document giving in detail all relevant internal and external elements that affect business and strategy for starting a new venture. A business plan can be used by an entrepreneur for a variety of objectives like getting debt from banks or getting equity funding from various investors. A business plan consists of the following sections: , Executive summary, Business description, Market Plan, Competitive analysis, Operations and management plan, Financial Plan and Appendices. There is no statutory compulsion for registration of a small scale unit. Units normally get registered to avail benefits, incentives or support extended either by the Central or the State government.

• **Environmental Scanning :** Scanning of different variables, in the external and internal environment so as to analyse the viability of a business.

• **Feasibility Study:** Feasibility study is a detailed study conducted to analyse the feasibility of the project in a particular environment. Feasibility study is undertaken after environmental scanning.

• **Business Plan Development:** It is a written document prepared after environmental scanning and feasibility analysis that describes step by step, strategies designed for starting and running a business

• **Trademark:** A trademark is a distinguishing word, figure, symbol, design, numeral or a combination of these that identify particular goods or services.

• **Copyright:** The copyright laws protect the legal rights of a person for his or her work of writing or authorship.

• **Patents:** A patent gives protection to the inventor of a new product/process/ design to solely use the copying/ selling/ using of the invention for a limited period of time.

• **Licensing:** Licensing may be defined as a contractual agreement between two parties where on party having some proprietary rights agrees to transfer its rights to another party by charging some fee or royalty.

• **Contract:** A contract is a written document that is enforceable legally.

• **Executive summary:** It should explain the fundamentals of the proposed business.

• **Business Description:** Describe what business will you be in and what will you do.

• **Market Plan:** Describes the marketing strategies regarding product, price, place and promotion

10.8 Self Assessment Questions

1. Define business start up process
2. Discuss the types of environmental analysis.

3. Is intellectual property an asset?

4. Write short notes on:
   a. Copyright
   b. Patents
   c. Trademark
   d. Contract

5. What is a business plan? Describe in detail.

6. What are the objectives of preparing business plan?

7. What are the essentials of a good business plan?

8. What are various financial statements that need to be included in a business plan?

9. Make a business plan for your intended business.

10. Explain the procedure for registration of a small business.

11. What are various sources of raising funds?

10.9 Reference Books

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Annexure 1

A suggestive outline of a business plan:

1) Business Plan Cover page-
   - Business name,
   - Company Logo,
   - Address,
   - Tel & Fax No. and email id

2) Table of Contents

3) Executive Summary

4) Vision, Mission Statement

5) Summary Description of Business- size, production and performance levels

6) SWOT Analysis

7) Detailed Description of Product/Service – what value the customer gets, what need it fulfills

8) Marketing Plan-
- Target market and demand forecast
- Industry analysis
- Competition analysis
- Marketing strategy- 4ps, service delivery

9) Organisation
- Location
- Capacities
- Legal structure of the enterprise, legal requirements (licenses ,clearances, NOCs etc.)
- Procurement of services, like water, power, communication facilities etc.)
- Operations
- Projected Cost of goods sold
- Accounting methods
- IP Protection and Insurance (if required)

10) Management and Team Composition

11) Financials
- Personal financial statement
- Start –up expenses- capital expenditure and working capital
- Sources of funds
- First 12 months profit and loss projection
- First 4 year projection of profit and loss, cash flow and balance sheet and break- even analysis
- Major assumptions made

12) Exit Strategy

13) Appendices
- Questionnaires
- Surveys, market research studies.
- Detailed list of equipment to be purchased
- Copies of lease agreements, offers for equipments and important inputs.
- Letters of support from potential customers
- Any other material needed to support the assumptions made in the plan

Unit - 11 : Forms of Ownership

Structure of Unit:

11.0 Objectives
11.1 Introduction
11.2 Meaning and its Characteristics
11.3 Forms of Business Organization
11.4 Sole Proprietorship
11.5 Partnership
11.6 Company (Joint Stock Company)
11.7 Franchising
11.8 Summary
11.9 Self Assessment Questions
11.10 Reference Books

11.0 Objectives

After completing this unit you will be able to:

- Explain the meaning of business organization and various forms of business organization,
- Identify and understand the different forms of business organization,
- Discuss the meaning and characteristics of Sole Proprietorship, Partnership, Company and other uses or application of these forms of organization,
- Identify the advantages and disadvantages of the forms of organization,
- Distinguish between different forms of organization.

11.1 Introduction

The business units which undertake business activities are known as business organizations and are also called business undertakings, enterprises, concerns or firms. In order to understand how to organize a business and to choose right form of business organization entrepreneur must look into the formation, as choosing right form of organization determine the success of an enterprise. Starting, owning, and operating business is a complicated process for entrepreneur as it involves taking decisions for choosing suitable form of the business organization and it must be made in the backdrop of a multitude of legal and practical considerations.

One of the important decisions an entrepreneur must make is to determine the legal structure i.e. sole proprietorship, partnership, company, etc. that is right for the business objectives of the company. Such decision considered to be complex because business law incorporates various aspects of statutory law, case law, procedural rules, and common law concepts. Other than all the legal aspects, there are also many practical considerations need to be examine such as management and control of the business which also influence decision of entrepreneur. There are also different filing and regulatory obligations that accompany almost every form of business organization. In this unit the information is provided for basic understanding of the various forms of business available and it does not provide professional legal advice. It is encouraged that entrepreneur contact an attorney to discuss these aspects for options available.

11.2 Meaning and its Characteristics

Meaning:

The resource of the organization needs to be properly combined to conduct the business successfully. This is because the term Business Organisation itself utter that all the necessary arrangements required for conducting a business which includes all those steps that need to be undertaken for establishing relationship between four M's i.e. Men, Material, Money and Machinery in order to earn profits through carrying the activities of business efficiently. This is called the process of organizing through which all the arrangements are made for grouping the resources and activities in the organization and relationship is developed between them. The understanding of business organisation requires gaining knowledge of various characteristics which help in better understanding of organisation.

Characteristics of Business Organisation:

Distinct Ownership: Ownership is the right of an individual or a group to acquire and make the use of legal title of assets or properties for the purpose of running the business. In order to enjoy the gains or profits from such possessions of title to assets or properties and its rational or optimum use, a business firm may be owned by one individual or a group of individuals jointly and control the business.

Separate Status and Management: Every business undertaking is considered as having an independent body; has its own assets and liabilities; has its unique way of functioning and are accountable for its outcomes. The profits earned or losses incurred by one firm cannot be accounted for by any other firm.

Continuity of Business Operations: Any business unit having just one single operation or transaction is not a business unit. On a continuous basis all business enterprises needs to engage its resources in specific operation needed for particular business.

Lawful Business Activities: Every business enterprise must undertake lawful business activities and the business must not involve activities which are illegal in nature.

Business Activities Deals with Goods and Services: Every business undertaking is engaged in the production and/or distribution of goods or services in exchange of money.

Risk Involvement: Risk and uncertainty are attached with business undertakings and are always providing opportunities as well as threats. Future conditions are related with environment especially external environment which are unpredictable and uncertain and influence the business operations. This makes business decisions risky, thereby increasing the chances of loss arising out of business.

11.3 Forms of Business Organization

The perspective entrepreneurs need to identify the legal structure that will best suit the demands of the venture before deciding how to organize an operation for business. For establishing a business the most important task is to select a proper form of organization as the conduct of business, its control, acquisition of capital, extent of risk, distribution of profit, legal formalities, etc. all depend on the form of organisation. The necessity for choosing a suitable form derives from changing tax laws, the availability of capital or fund, liability situations, and the complexity involved in formation of business. The most important forms of business organisation are as follows:

- Sole Proprietorship
- Partnership
- Company
- Other Application of these forms (Franchising)

Sole Proprietorship: A sole proprietorship is owned by only one person. This is the most common form of business ownership.

Partnership: A business owned by two or more people. The partners share ownership and control of the business.

Company: A company is a business which is considered a separate entity from owner; even having the legal rights of a person.

Franchising: Franchising is a business arrangement in which the owner of a trade mark, trade name, or copy right has licensed others to use it in selling goods or services. It can be sole proprietorship, partnership or company form.

Each form has its advantages and disadvantages. And the choice of form of business ownership will directly affect how much taxes owner have to pay and what business licenses and documents are required. In majority of cases and is perfectly acceptable that small businesses start as one form of ownership and changes to another with its growth. Entrepreneur is not bounded by their first choice of form of business. Entrepreneur can decide to hire help form a lawyer or an attorney who specializes in small businesses and will help an entrepreneur to choose a form of business ownership and ensure him about getting all the required permits and license.

Factors for Comparing Forms of Business Ownership:

- **Concept of Limited Liability**- The concept of limited liability is an important factor for ensuring that personal assets or properties of owner of the business are not at stake to cover debt or liabilities of the business. For example in a sole proprietorship ownership form businessman do not have limited liability and if someone sues his/her business their own properties of assets like car, house, and money etc. are at stake. In a Company ownership form businessmen do have limited liability and his/her personal assets are not at stake.
- **Burden of Paying Taxes**- Some forms of business ownership are taxed more than others as the individual owner is separate from business organisation. To illustrate, Company form of business organization are subject to double taxation i.e. the business and shareholders pay their tax individually for same business income.
- **A Possibility of Raising Capital-** For certain business structures it is not difficult to raise money considering other business structures. For example, in a company form of business organization the capital can be raised by issuing shares to the public and required arrangement of money can be made. However whenever company is issuing shares to the public they are selling a portion of ownership to the buyer of shares.
- **Licenses and Permits**- The complexities involved in setting up or initiating business is different from one form of business organization to other form of business organization. A Company form of business organisation for example needs more paperwork and is more expensive to set up than a sole proprietorship.

Activity A:

Make a list of various organizations available nearby your location and identify their characteristics and relate it with various important factors related with its form of organisation.

11.4 Sole Proprietorship

Meaning:

When the ownership and management of business are in control of one individual, it is known as sole proprietorship or sole trader-ship. In every country, every state, every locality Sole Proprietorship id seen everywhere. For example, the shops or stores which one see in his/her locality i.e. the vegetable store, the sweets shop, the grocery store, the chemist shop, the paanwala, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship. It is not necessary that a sole trader-ship business must be a small one but, it is also possible that the volume of activities of such a business unit may be quite widespread or large. In general, since such business is owned and managed by one single individual, often the size of business remains small.

Characteristics:

1. **Ownership of Business:** One single individual got legal title to the assets and properties of the business and the business enterprise is owned by the individual. The sole proprietor bears the entire risk or loss of the firm and entire profit arising out of business goes to the owner.
2. **Managing the Business Activities:** The sole proprietor is the sole decision maker for managing all the aspects of business. As the manager of the business is the owner of the enterprise he enjoys absolute right to plan for the business and execute them without any interference from anywhere or from any person.
3. **Supply of Capital:** The entire capital requirement of the business is endow with the owner and if required in addition to his own capital he may raise more funds from outside through loans from banks or other financial institutions and through borrowings from close relatives or friends.
4. **Lawful Standing:** The proprietor and the business enterprise are one and the same in the eyes of law and enjoy no separate legal existence. The business assets and the private assets of the sole proprietor are same. The business comes to an ends in the absence of the owner.
5. **Unlimited Liability:** So far as the liability of sole proprietor is concerned he carries entire responsibility of business and hence the liability is unlimited. Personal property of the sole proprietor can be used to meet liabilities in case he fails to pay for the business obligations and debts arising out of business activities.
6. **Stability of the Business:** The capacity, competence and the life span of the proprietor determine the stability and continuity of the sole proprietor business.
7. **Legal Formalities Involved:** No legal formalities need to be followed in setting up, functioning and dissolution of a sole proprietorship business. Only for setting up a particular type of business few legal restrictions may be there and needs to be followed. For example, for opening a chemist shop, the individual must have a license from the Government; to open a restaurant, the sole proprietor needs a license from the local municipal authority.

Advantages of Sole Proprietorship:

1. **Easy Formation:** The major advantage of a sole Proprietorship form of business is no formalities or uncomplicated formalities needed. Any person who wishes to start such a business can easily do so in many cases without any legal formalities.
2. **Flexibility in Operations:** To bring changes in any process or system of business the owner can do it as many times as required as he is not required to take permission or approval others. One man ownership and control makes it possible for change in operations to be brought about as and when necessary. In addition to this, the owner is not required to submit the results of the business to the prescribed authorities.
3. **Maintenance of Business Secrets:** The owner of a sole proprietorship business enjoy another important advantage, that is, he is in a position to maintain absolute secrecy regarding his business activities as he is not expected to report about performance of his business.
4. **Better Control on Business:** Since the Sole Proprietor has all authority in formulating plans, in organizing and coordinating various activities he as an owner has full control over his business. He develops and implements effective control mechanisms.
5. **Prompt Decision Making:** Quick and timely decision making becomes possible as the sole trader takes all the decisions himself which enables the owner to take care of or grab available opportunities immediately and also help in identifying and formulating immediate solutions to problems.
6. **Direct Incentive**: The owner can easily see the incentives available to him for carrying risk of doing business. Therefore, owner is directly motivated to put his best efforts as he alone is the beneficiary of the profits earned. The sole trader is the only person to whom the profits belong. This always acts as a stimulant to personal incentive.
7. **Better Care of Consumer Needs:** Personal Attention to Consumer Needs is possible for sole proprietor. One generally finds the sole proprietor taking personal care of consumer needs as he normally functions within a small geographical area. Due to the limited scope of business the customer care is facilitated.
8. **Employment Opportunities**: The Sole Proprietor form of business promotes and motivates entrepreneurial skill among the individuals. A sole Proprietorship form of business facilitates self employment and also generates employment for many others.
9. **Social Benefits:** As the sole proprietor is the master of his own business; enjoy absolute freedom in taking decisions, he can use his skill and capabilities for maintaining and developing his/her business. Through this he is able to satisfy his high self-esteem needs and able to earn self-respect in the society. Such process will gradually help him in acquiring several social qualities like self-determination, self- reliance, independent thought, initiative, action, hard work etc,. Thus, he sets an example or become a benchmark for others to follow.
10. **Distribution of Wealth in Society:** A sole proprietorship form of business is generally in the form of a small scale business, there is opportunity for many individuals to own and manage small business units. Hence, it leads to widespread dispersion of economic wealth and diffuses concentration of business in the hands of a few capitalists.

Disadvantages of Sole Proprietorship:

1. **Unlimited Liability:** All the liabilities of business are recovered from the personal assets of the owner as the owner and firm are not different in sole proprietorship form of business. This unlimited liability aspect of business restricts the sole trader to take more risk and increases the volume of his business.
2. **Limited Capital/Financial Resources:** For the growth of sole proprietorship the inadequacy of finance is a major handicap. The ability to raise and borrow money by one individual is always limited hence such business remains as a small scale business.
3. **Limited Capacity of Individual:** As one individual is responsible for managing business this form of business organization face several limitations such as an individual has limited knowledge and skill; his capacity to undertake responsibilities is restricted by his limited knowledge and skills; his capacity to manage and take decisions in all the areas of business is restricted, and his capacity to take or to bear the risks of business are also limited.
4. **Uncertainty of Duration:** The life of the proprietor and the existence of a sole trader-ship are linked together. The illness, death or insolvency or bankruptcy of the owner brings an end to the business. The continuity of business operation is, therefore, uncertain as it is closely related with existence of owner.

Suitability of Sole Proprietorship:

Sole proprietorship business is suitable where the scope of business is not wide. It is suitable where the market is localized, limited; where customers give importance to personal attention given by the trader to customers; where the nature of business is simple and requires quick decision; and where capital required is small and risk involvement is not heavy. It is also considered suitable for the production of goods which involve manual skill e.g. handicrafts, filigree works, jewellery, tailoring, haircutting, etc.

11.5 Partnership

Where two or more persons are associated to run a business with a view to earn profit is called partnership form of organization. Persons from similar background or persons of different aptitude and skills, may join together to carry on a business known as partnership firm. Each member of such a group is individually known as 'partner' and collectively the members are known as a 'partnership firm'. These firms are governed by the Indian Partnership Act, 1932.

In India there is Limited Liability Partnership Act of 2008 in which the liability of partners are limited but, till date it does not have a widespread use in the form of business organization.

Characteristics:

1. **Restriction for Number of Partners**: There is restriction to minimum and maximum number of members in partnership firms. To start a partnership business minimum of two persons are required and the maximum membership limit is 10 in case of banking business and 20 in case of all other types of business.
2. **Contractual Relationship between Partners**: The relationship between the partners of a partnership firm is created by contract. When the partners enter into partnership firm through an agreement which may be verbal, written or implied the firm come in to existence. If the partners enter in to a written agreement it is known as a 'Partnership Deed' which governs the operation of all the business activities.

3. **Competence of Partners**: In partnership form of business organization the individuals have to enter into a contract to become partners, and therefore, they must be competent enough to do so. Thus, minors, insolvent persons and lunatics are not eligible to become partners. However, a minor can be admitted to the benefits of partnership i.e. he can have a share in the profits with consensuses of all the partners.

4. **Sharing of Profit and Loss**: The partners can share profit of partnership firm in any ratio as per the agreement i.e. as agreed in their 'Partnership Deed'. But, in the absence of an agreement, partners can share the profits equally.

5. **Unlimited Liability**: The partners of the partnership firms have unlimited liability. Partners are liable jointly and severally for the debts and obligations of the partnership firm. The creditors of the partnership firm can put down their claim on the personal properties of any individual partner or all the partners jointly.

   In many cases even a single partner may be called upon to pay the debts of the firm. Of course, he can get back the money due from other partners. In case of dissolution of a firm the liability of minor is, however, limited to the extent of his share in the profits.

6. **Relationship of Principal-Agent among Partners**: The business activities of a partnership firm may be carried on by all the partners together or any one of them acting for all the partners. It means there is dual relationship between partners i.e. every partner is an agent when he is acting on behalf of others and he is a principal when others act on his behalf. It is, therefore, essential that there should be mutual trust and faith among the partners in the interest of the firm.

7. **Transfer of Interest**: Without the consent of other partners no partner can sell or transfer his interest in the firm to anyone or any other partner. The partner can give his interest to others with the consent of all the partners.

8. **Legal Status**: The partnership firm means partners and the partners mean the partnership firm. A partnership firm is just a name for the business as a whole. In the eyes of Law partnership firm does not enjoy separate recognition i.e. the firm does not enjoy a separate entity distinct from the partners.

9. **Voluntary Registration**: Registration of partnership firm is voluntary and not compulsory. But registration of the partnership firm gives the rights to enjoy several benefits, and hence, it is considerably desirable to register the partnership firm. For example, if it is registered, any partner can file a case against other partners, or an outside firm and outsiders can file a suit against partnership firm in case of any disputes, disagreements claims, etc.

10. **Dissolution/Closure of Partnership Firm**: Dissolution/Closure of partnership implies two aspects. First, it shows complete closure or termination of partnership business, and second it also shows any change in the existing agreement among the partners due to a change in the number of partners or changes in the conditions of the agreement.

Advantages of Partnership Firm:

1. **Easy Formation**: As there is no need for every partnership firm to register it can be formed without many legal formalities and with less expenditure. Even if partners would like to register their firm the expenditure is restricted to only developing an agreement. Even the registration of a partnership is not compulsory. All that is required is an agreement among the partners, stating the terms and conditions of business. It is not even compulsory to have this agreement in writing. It is, however, advantageous to get the partnership registered and have a written agreement.

2. **Larger Financial Resources**: A partnership firm can pool larger financial resources as compared to sole proprietorship because it has more number of partners to contribute to meet financial requirement of partnership firm and further these partners may raise more funds from outside through loans from banks or other financial institutions and through borrowings from close relatives or friends. Thus it can enter into bigger operations and can have more credit facilities.
3. **Flexibility in Operation**: Due to a limited number of partners change in operations of the firm and amendment objectives if necessary can be easily done by mutual consent of all the partners. So there is flexibility to make changes in operation in partnership business.
4. **Better Management**: Partners often meet to discuss the affairs of business and can take prompt decision by their mutual consent. As there is a direct relationship between ownership, control and profit partners take more interest in the affairs of business and operate the business smoothly.
5. **Sharing of Risk**: In partnership, in case of probability of risk of loss or actual loss in business partners can easily share it and one individual is not accountable for such loss like sole proprietor bear entire loss.
6. **Protection of Minority Interest**: In partnership firm every partner has an equal right to contribute or say in decision making which affect firm's operation. If any decision adversely affects interests of a partner he can prevent a decision being taken and in extreme cases a dissenting partner may withdraw from partnership and can dissolve the partnership firm.
7. **Better Public Relations**: In a partnership firm the group consists of small number of partners who manage the affairs of the firm which facilitates cordial relationship with the public. Compared to company form of business the better cordial relation with the public is possible.
8. **Diversification of Management:** A partnership firm permits diversification of management through division of labour and specialization on the part of the owner. In big partnership firms, one often finds one partner handling production problems, another in-charge of sales and finance, and so on. The distribution of duties and responsibilities promotes specialization and each partner performs those functions for which he/she is best qualified.

Disadvantages of Partnership Firm:

1. **Instability of Firm**: Like Sole Proprietorship the death, insolvency or lunacy of a partner may bring about an unexpected end to partnership. It means partnership firm does not continue to exist indefinitely but its existence depends upon existence of all the partners. Further, the partnership business can be brought to a close if any partner demands its termination for any reason.
2. **Unlimited Liability of Partners**: In partnership firm there is joint and several liability of partners to an unlimited extent, and therefore, any one of the partners can be called upon to pay all the debts even from his personal properties. Every partner has a right to take part in the management of the partnership firm and any wrong decision by a single partner commit the resources of the firm which may lead to heavy liabilities for others. This discourages many persons, with money and ability, to accept membership of a partnership firm.
3. **Lack of Harmony**: There are greater possibilities of resistance and quarrel among the partners as every partner has equal right and voice in the firm's operation leads to differences of opinion. Differences of opinion may lead to mistrust and disharmony which may ultimately result in disruption and closure of the firm. Lack of centralized authority and conflicts in policy can disrupt the organization.

4. **Limited Capital:** The capital which can be raised for partnership firm is limited as there is a restriction on the maximum number of partners i.e., 10 in case of banking business and 20 in case of all other types of business. A partnership is good insofar it can be started with limited capital. However, it becomes a handicap in the growth and expansion phases of the business. There is a limit beyond which it is almost impossible for partners to collect capital. This limit is generally up to the personal properties of partners.

5. **Lack of Public Confidence:** As there is no legal mechanism to enforce the registration of a partnership firm and the disclosure of its affairs it may suffer from lack of public confidence. In case of mismanagement in company form of business the Central Government has the absolute powers to order investigation of company affairs. This is almost totally lacking in case of a partnership and hence general public is reluctant to deal with a partnership firm, both in financial and other matters.

6. **Difficulty in Withdrawing Investment:** Investing in a partnership firm is simple but its withdrawal may be difficult or costly aspect when this aspect is considered from the point of view of individual partners. This is because no partner can withdraw his interest from the firm without the consent of all partners.

Suitability of Partnership Firm:

In a partnership firm, persons possessing different background; having different experience of life; having varied abilities, managerial talent and skill join together to carry on a business. Members from varied background add to the administrative strength of the organization; the financial resources, the skill and expertise, and reduce risk attached with operation of business. Such firms are most suitable for comparatively small business such as mercantile houses and small manufacturing units, retail and wholesale trade, professional services etc. in reality it has been observed that initially many organizations are started as partnership firms and later, when it is economically viable and financially attractive for the investors, it is converted into a company form of business organisation.

Activity B:

1. Take few selected organizations considering Sole Proprietorship and Partnership forms of organization and find out whether these organizations enjoy the benefits available to such organization and face the hurdles considering theoretical limitations of these forms of organisation.

11.6 Company (Joint Stock Company)

Meaning:

Joint Stock Company form of business organisation is given a legal status; is subject to certain legal regulations; is a voluntary association of persons to carry on business. Joint Stock Company is an association of persons who generally contribute money for some common purpose and such contribution is called the capital of the company. The persons who contribute capital are its members of Joint Stock Company. Every member contribute money as per their own ability and desire and the proportion of capital to which each member is entitled is called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital. The total share capital is divided into a number of units known as 'shares'. One may have heard of the names of joint stock companies like Birla Group of Companies, Reliance Industries Limited, Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Larson & Tubro Steel Authority of India Limited, Balsara, Ponds India Limited etc. The companies are governed by the Indian Companies Act, 1956. The Act defines a company as an artificial person created by law, having separate entity, with perpetual succession and a common seal.

Characteristics:

1. **Artificial Person**: A Joint Stock Company is created by law and does not possess physical attributes of a natural person and therefore called as an artificial person. However, it has a separate legal status and it can sue or can be sued by any person.
2. **Separate Legal Entity**: The major advantage is that being an artificial person, a company has an existence independent of its members. Joint Stock Company can own property, enter into contract and conduct any lawful business in its own name and can sue and can be sued in the court of law.

   A shareholder cannot be held responsible for the acts of the company like sole proprietorship or partnership firms.
3. **Common Seal:** As Joint Stock Company is created by law and does not possess physical attributes of a natural person every company has a common seal by which it is represented while dealing with outsiders and all its stakeholders. Company is responsible for use the company seal. Any document with the common seal and duly signed by an officer of the company is binding on the company.
4. **Perpetual Existence:** A Joint Stock Company is created by law and its survival is not affected by the death, lunacy, insolvency or retirement of any of its members. Company once formed continues to exist as long as it fulfills the requirements of law. The owner of the firm may change due to transfer of ownership of shares to others but it does not affect existence of the company.
5. **Limited Liability**: In case of payment of debts by the company, a shareholder is held liable only to the extent of the face value of share. The liability of a member of a Joint Stock Company is limited by guarantee or the shares he owns and his personal property are not at stake for payment of company's liability.
6. **Transferability of Shares:** The members/shareholders of a company are free to transfer the shares held by them to anyone else and there is no restriction to own shares.
7. **Formation**: When company has been registered by completing the formalities prescribed under the Indian Companies Act 1956 it comes into existence. A company is formed by the initiative of a group of persons known as promoters who complete all the legal formalities and submit required documents to the Registrar of the Companies in their respective territories.
8. **Membership:** There is difference between number of members for Private Limited Company and Public Limited Company. For Private Limited Company there should be minimum two persons as a member and maximum limit is fifty members excluding present employees as members and ex employees as members. But in case of a Public Limited Company, the minimum is seven and the maximum membership is unlimited.
9. **Number of Directors:** In case of Public Limited Company there should be minimum 03 board of director & maximum 12, and there is provision for appointing more number of directors provided permission is taken from central Government for the same. In case of Private Limited Company minimum 02 directors and for maximum number of directors there is no limit.
10. **Management**: Joint Stock Companies follow the democratic management and control where only elected directors manage the business. In other words, the company is managed by the elected representatives of shareholders known as Directors. Even though the shareholders are the owners of the company, all of them cannot participate in the management process.
11. **Raising of Capital**: A Joint Stock Company generally raises a large amount of capital through issue of shares to public at large. Company can collect required finance through issue of different

types of shares such as Equity Shares, Preference Shares, and Debentures. Company can also collect deposits from public to meet the financial requirement.

Advantages of Joint Stock Company:

1. **Limited Liability**: The liability of members in a Joint Stock Company is limited to the extent of face value of shares held by them. Such limited liability concept helps the company to raise huge capital by attracting a large number of small investors to invest in the company.

   The risk talking ability of company is more due to limited liability of its members and their personal properties are not at stake in case of inability of company to meet its debt repayment.

2. **Continuity of Existence**: Company has a perpetual existence as company is an artificial person; created by law and possesses independent legal status; and its survival is not affected by the death, insolvency etc. of its members. The stability of company organization permits it to undertake projects of long duration, and also offers a great attraction to the creditors and investors to put their resources in the business.

3. **Benefits of Large Scale Operation**: It is only the company form of organisation which can provide huge capital for large scale operations and it further leads to increase in efficiency and reduction in the cost of operation through large scale production. It further opens the scope for expansion of business.

4. **Professional/Efficient Management**: Due to complex nature of activities and operations and large volume of business, the Company form of business requires professional managers at every level of organization to handle such complexities. The company's financial strength permits them or can afford to appoint such professional managers.

   Professional managers are able to show better business results by adapting themselves to newer, better, unconventional, and even more risky methods of organization and management. The dynamism and adventurism on the part of professional managers is possible because they are trained that way and also because they do not have much financial stake in the company.

5. **Social Benefit**: A joint stock company provides many benefits to society such as it offers employment to a large number of people; it facilitates promotion of various ancillary industries, trade and auxiliaries to trade. Sometimes donation come in the form of money and various facilities from various industries for education, health, community service and also renders help to charitable and social institutions.

6. **Research and Development**: Considering their specialization different companies company generally invests a lot of money on research and development for designing and innovating new products for satisfying needs of people in a better ways; for improving processes of production, for improving quality of product, and identify new ways of training its staff, etc.

7. **Public Confidence:** A company organization greatly enjoys the confidence and trust of public as the affairs of company are open to public and not secrete. A company is under statutory obligation to make its activities and open for public through accounts and annual reports. Progressive and enlightened managements even voluntarily disclose to the public its activities in wider dimensions than what is required under the law. Such confidence of public helps in raising additional capital, selling its products and undertaking growth and expansion programs.

Disadvantages of Joint Stock Company:

1. **Formation is Complex**: The formation of a company involves preparation of many documents

(like Memorandum of Association, Articles of Association and Prospectus) in order to ensure compliance with a number of legal formalities under the companies Act of 1956 and compliance with several other Laws. Such compliance with many legal formalities make the task of starting a company more complex compared to sole proprietorship or partnership business. These legal formalities are not only time consuming but also costly and even it does not end with formation of a company, but extend to the operation stage of business.

2. **Control by a Group**: Companies are controlled by a group of elected persons known as the Board of Directors. Directors and paid officials are not as sincere and honest in managing company affairs as owners would be.

   In practice it has been observed that company's directors are not in a position to control the organizational activities properly, may be due to lack of interest on the part of the shareholders who are widely dispersed; ignorance, indifference and lack of proper and timely information about operation of the company. Thus, the democratic virtues of a company do not really exist in practice.

3. **Speculation on Company's Shares**: The value or price of a share is determined in terms of the dividend expected and the reputation of the company and the shares of a company are bought and sold in the stock exchanges. These values of the shares can be manipulated and there exists excessive speculation in the stock market about shares of the companies which is regarded as a social evil.

4. **Excessive Government Control**: Smooth functioning of the companies is affected by heavy penalty imposed by the Government for Non-compliance with the provisions of several Acts enacted by Government from time to time. A company has to file regular returns and periodical statements of income as each and every activity of company is regulated by annoying legal provisions. The result of all these is that either competent and dynamic entrepreneurs have to spend a lot of their precious time in complying with theses legal formalities or they have to spend lot of money in creating a separate position or department for this purpose.

5. **Delay in Policy Decisions Making and Implementing**: As per Companies Act of 1956 and many other Laws, company has to fulfill certain procedural formalities before making any policy decision. These formalities consume more time and, therefore, policy decisions may be delayed which many affect the performance of business. Decisions are not taken by one person alone but through the committee of directors and it cause delays because of the time interval between meetings and difficulty of getting requisite quorum. Implementation is also delayed because instructions are to pass through several levels in the line of command from top to middle to operating management.

6. **Social Abuses**: Company operating as a large scale business organization possesses huge resources, which in turn provides lot of power to them. Company holds power over certain community in terms of supply of required products and services, providing employment to various sections of society etc. Any misuse of such power creates unhealthy conditions in the society e.g. having monopoly of a particular business, industry or product; exploiting workers, consumers and investors; influencing politicians and Government in getting their work done etc.

7. **Conflict of Interest:** Unlike the sole proprietorship or partnership where the interest of proprietor or partners is dominant, a company organization displays a sense of conflicting interests among those who deal with it. The interests of preference shareholders is for more reserves come in conflict with equity shareholders who are interested in more dividends and interest of directors and

managers in more remuneration and full control over company affairs. The continuous warfare between different groups of people destroys the unity of purpose and makes difficult to realize organizational objectives.

8. **Corruption of Political System:** In many democratic countries of the world, it is found that a big company tries to corrupt or destabilize political system to harvest short-term personal gains. This is done by making unofficial, illegal financial contributions to political parties, supporting political candidates in elections and other similar practices.

Suitability of Company:

A joint stock company form of business organisation is suitable in certain situations where the volume of business is quite large; where the area of operation is widespread; where the risk involved is heavy; where there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management and flexibility of operations.

In certain businesses like banking and insurance, business can only be undertaken by joint stock companies. The company organization is most suitable is for larger businesses. For small business this form is too burdensome and may be too expensive. The company form of business organization is found in large-sized manufacturing, trading, and service activities as such organization need huge amount of capital outlay in fixed and other assets which can be collected by an entrepreneur by the company form of organization. For example, large construction plants; fabricating plants and various trading enterprises like big departmental and chain stores and services organizations like big transportation and engineering firms are also organized in the form of companies.

Activity C:

Study the particular Company considering its area of Business list out and discuss kind of legal formalities needs to followed for formation of business; acquiring required finance; and for its development and expansion activities.

11.7 Franchising

Meaning:

Franchising is not a separate form of business organisation but it is the business arrangement and it may be a sole proprietorship or partnership or company. Over the past few years franchise contract is becoming more and more popular. With the growth of service sector the opportunities in India for franchising are going to be multiplied. As per the study by Anderson Consulting, franchising inn India accounts for 4 per cent of the Nation Gross Domestic Product. In US the global franchise economy accounts for 17 per cent of the world's business. The franchising in India is growing in various sectors like, Food, Healthcare, Education, and Entertainment etc. over and above the traditional franchising business like petrol, auto dealers and soft drink bottles the rapid expanding industries for franchising is training, education, and recreation and leisure activities. The franchising would be catalyst to give a forward push to entrepreneurship. The word franchising comes from the French word "franchir" which means "to free". It originally meant "to free from slavery". Today the franchise is an agreement between a buyer (franchisee) and a seller (franchisor).

"Franchising is the transfer of rights to sell a trademarked product or service through a system prescribed by a franchisor (seller of right) who owns the trademark. Franchising is a business arrangement in which the owner of a trade mark, trade name, or copy right has licensed others to use it in selling goods or services. It can be sole proprietorship, partnership or company form. Franchise also means expanding the business in the new market by transferring trademark and goodwill to franchisee by charging fees.

In general it can be said that Franchise is a local representative of any organization who markets and conducts the entire marketing activity under complete guideline and support of franchisor in the area allotted to the franchisee. It is a kind of authorization granted to an individual or corporation by a franchisor to sell its goods or services in a defined way. Franchise is a system of distribution through which the owner of product approaches independent businessmen in selected territories, appoint them as sole franchisee for particular areas and encourage them to distribute the product within the area assigned. The owner called as franchisor retains control over the technique or style with which the product is merchandised. The franchisees are given certain areas and as per the contract the franchisees are expected to promote the sale in a specific manner. The franchisor provides equipment, gives his brand name, undertakes publicity, provide managerial and technical assistance. The franchisee has to adopt selling techniques and see that maximum sale is promoted through his local network.

Characteristics of Good Franchise:

1. Consistency: The franchised business must lend itself to replication i.e. consistent in providing goods and services similarly. It should offer the same goods or services in the same way by using the same financial, marketing and accounting systems. This is not a matter of each outlet being broadly similar to every other but it should be as near as possible in terms of identical offers made by them. It should use the same brand, logo and image for all of its business outlets. Take McDonald for example, arguably the most public face of franchising, not just in this country, but across the world.

2. Unique Offer: Unique offer is the main heart of all franchise business and franchisor's marketing efforts. It assumes an ideal, some special quality that marks out a product or service different from all the competition and the same cannot be imitated. Such unique selling propositions must have the unique difference in relation to offers made by rivals. Often this difference is expressed in branding in terms of bundle of qualities comprising name, logo, colour, reputation, recognition and reputation that is the unique property of one franchisor and no any other franchisor. But behind the brand it delivers up to customer expectation i.e. for a brand to have value it must be associated in the customer's mind with quality, service, reliability and predictability.

3. Ease of Operation: The operation of franchise business is simple and can be taught easily to franchisee. Every method or skill taught by a franchise should be quite easy to learn. Though every reputable franchise offers training to new recruits, in practice the quality and duration of the induction process vary quite widely, and franchisor should investigate how thoroughly franchisee will be trained in the processes of running a new business. What franchising can do better than any other way of running a business is to take people from a wide variety of backgrounds and with varying experience, skills and abilities and train them to do something quite different from what they have done in the past.

4. Reward Based on Margin on Sales: The franchised outlet is like a hard-working business unit who work to support demanding franchisor. Both the franchisee and the franchisor are interested in earning a share of the profits for their efforts. This is because franchisee and franchisor put in their money; they applied themselves diligently during the training process; and, most importantly, they continue to strive daily to make their franchise a success. The reward will be growing businesses that are measurable in terms of Gross Margin on Sales. And after all franchisor and franchisor are in business to make money through more margins on sales.

5. Risk Aversion: Many people think that to succeed as a franchisee, they need to be a gambler

but it is not true. Successful franchisees are risk averse. They are willing to take some risk but want that risk to be as small and controlled as possible. Any business start-up involves some risk of failure, but a strong franchise with a proven track record of success will minimize this risk. Successful franchisees do their homework, so they know what they're getting into.

Advantages of Franchising:

1. Financial Gains/Assistance: Another source of income for the franchisor is created by Franchising. It is through payment of franchise fees, royalty & levies in addition to the possibility of sourcing private label products to franchisees. It improve cash flow, a higher return on investment and higher profits and provide other financial benefits that the franchisor enjoys such as reduced operating, distribution and advertising costs.

The franchisor may also be able to help the new owner to secure the financial assistance necessary for running the operation. In many cases it was observed that some franchisors have helped the franchisee to get started by lending money and not requiring any repayment until the operation is running smoothly.

2. Operational Control: Compared to developing and owning locations and searching the kind of business at their own, franchisor can have a smaller central organization. Franchisee work hard to bring in better organizational and monetary results as franchisee is usually self motivated and he has invested much time and money in the business, which means. Franchising ensures standardization of events/procedures, which reproduces effective quality control, consistency, better quality and enhanced productivity levels. This also reflects on more satisfied customers and improved sales effectiveness. If franchisor believes that it is critical for each unit's success as well as that of the system as a whole that each unit follow recommended marketing and operational guidelines, franchising provides one of the strongest methods of achieving that objective.

3. Training and Guidance: The franchisor will usually provide both training and guidance to the franchisee and as a result, the likelihood of success is much greater for national franchisees who have received this assistance.

4. Cost Effective Administration: The franchise business maintains a more cost effective labour force, reduction of turnover of important staff and can make more effective recruitment with a smaller central organization.

5. Strategic: So far as the franchisor is concerned, franchising means multiplying the number of locations through other people's investment which help them in spreading risks. Through franchise the better opportunity could be focused with changes in the market which leads to faster network expansion and reduced entry of competitors.

6. Ownership Mentality: Where the franchise agreement is long-term Franchisee will have an attitude of being a business owner and is more likely to devote attention, capital and time, to grow the business, and follows the approved system and willing to face from occasional business challenges.

7. Image: Considering other distribution approaches franchise systems generally have a superior image over both among prospective owners and with the consuming public. This is because there is uniformity as to retail presentation, marketing methodology, compliance with operational aspects, and one can see very precisely that these things are easier to achieve within a franchise framework.

8. Brand-Name Appeal: Person who buys a well-known national franchise has a good chance to

succeed as the franchisor's name is an earning card for the franchisee. This is because people are more aware of the product or service offered by a national franchise and preferred it to those offered by outlets which are not known.

9. Franchisee Participation and Support: The well managed franchise model often incorporates valuable Franchisee input and creative participation by Franchisees as all of the participants are part of a single franchise system with a common identity. Franchisees are more likely to participate in initiatives for the proper operation of the entire enterprise; expansion; sometimes producing new ideas. Franchisees also help in alerting the Franchisor to operational non-compliance problems created by other Franchisees in the systems.

10. System-wide Marketing Support Paid by Franchisees: Franchisees are required to contribute to advertisements; promotions; public Relations; participate in local marketing; supporting retail marketing and contributing in a national marketing fund, as a part of franchise systems. Such an ability of franchise system to pool the advertising money produces obvious competitive advantages which help in raising barriers to entry by potential competitors as well as in leveraging an already leading position in the industry.

11. Reduce Trial and Error Period for Initiating and Operating Business: Franchising business arrangements help in avoiding the unnecessary trial and error period in starting and operating a new business. Franchisee starts his business operation by making agreement with franchisor and use the name and/or process of well established brands and image of franchisor.

12. Verified Track Record: Franchisor has already proved the business as a successful operation. It is not difficult to see how successful the operations have been when organization has been around for five to ten years in business and has large number of units in operation. Franchisor has proved that the location and layout of the franchisees store, the pricing policy, quality of goods and services, and the overall management system are successful.

Disadvantages of Franchising:

1. Franchise Fees/Higher Legal Expenses: The larger and successful franchisor, the franchisee needs to pay higher franchise fees. Typically, franchise buyer pays an initial franchise fee, spends own money to build a store, buy the equipment and for inventory, and then pays a continuously royalty based sales. The necessity of preparing franchising agreements; preparation of related documents and agreements, and filing them in various authorities represents a significant expense, although the year-to-year expenses are generally less than those initially incurred in setting up the structure and related documents. Additional legal costs will be incurred if company form of business is used to get the advantage of a separate legal entity is used for the franchising program.

2. Control Issues: As with dealerships, there may be quality control and related issues in franchise operations. To what extent the franchisees follow the established standards in terms of product, service or process of operation remain a major concern for franchisor. The franchisor generally exercises a fair amount of control over the operation in order to achieve a degree of uniformity. If entrepreneur do not follow franchisor directions, they may not have their franchise license renewed when the contract expires.

3. Business Relationship Issues: To some degree in the development and possible success of the franchise system franchisees typically view themselves as partners with the franchisor. A Franchisor

must be psychologically comfortable working with Franchisees in terms of charting strategic directions, implementing marketing plans, etc. If properly managed, a sense of team participation can benefit the entire system.

4. Potential for Loss of Freedom: When a Franchisor hunt for expansion through alternative channels of distribution the act of awarding exclusive territories to franchisees may generate legal and other problems if enough care is not taken. Appropriate provisions in the franchise agreement; proper education of franchisees, and management of expectations of franchisees, can largely help in avoiding these issues.

5. Finding Qualified Franchisees: An important aspect is, since the franchise relationship is long term finding and educating good franchisees is vital. The key qualification of the ideal franchisee combines entrepreneurial energy with the willingness to follow systems of franchisor and act as a team player.

Summary and Suitability of Franchising:

The term 'franchising' can describe some very different business arrangements. Franchising is the most common form of business arrangement. Franchising can be in the form of sole proprietorship, partnership or company form and is considered as a true business format franchise occurs when the owner of a business (the franchisor) grants a license to another person or business (the franchisee) to use their business idea - often in a specific geographical area.

It is suitable where two different business entities arrive at an mutually beneficial agreement in which the franchisee sells the franchisor's product or services, trades under the franchisor's trade mark or trade name, and benefits from the franchisor's help and support. In return, the franchisee usually pays an initial fee to the franchisor and then a percentage of the sales revenue. The franchisee owns the outlet they run. But the franchisor keeps control over how products are marketed and sold and how their business idea is used. One of the well-known businesses that offer franchises world-wide include McDonald.

A business man interested in franchising form of business need to assess carefully whether he/she got the right skills and attitude to run a successful franchise; how much he/she enjoy managing people, selling to the public or working alone because these are common requirements of different types of franchise. He/she need entrepreneurial flair as they must be prepared to sell and franchise gives only a business blueprint but it won't automatically give customers. As an entrepreneur working under franchising agreement to grab good business opportunity need to work hard, probably for long hours with necessary dedication as such business can be stressful.

To assess if a franchise represents a sound business opportunity there is a need to consider what the business is and how it operates; the location of the franchise; the success of the franchise business; the length of time in business and how financially successful they are; the amount and strength of competition from other businesses in the same market sector at both a local and national level; any market research that has analyzed the public perception of the franchisor's brand; levels of initial and ongoing costs; how much training and support franchisee get in setting up and running the business, and conditions and restrictions in the franchise agreement, including how long it will run and whether is there any option to renew the franchise agreement.

Activity D:

Consider any firm or local franchising dealers in your town and identify its characteristics; advantages and disadvantages available to it in relation to other forms of business organisation.

11.8 Summary

Entrepreneurs should always seek professional guidance in order to avoid misunderstanding, mistake and added expenses. In formation of venture entrepreneur encounters many diverse problems as entrepreneur does not have a thorough knowledge of legal aspect/laws, real estate, taxes, accounting, Governmental regulations, and therefore, he/she needs an understanding of the same. In this unit an attempt is made to examine the three major form of legal organization and other practical application of these forms. The highlight about advantages and disadvantages of each form is provided and compared with each other.

The selection of a suitable form of ownership organization is an important entrepreneurial decision because it influences the success and growth of business. It means the right choice determines the division of profits, the risk associated with business, the availability of finance, the degree of control, the longevity of business, and so on. As discussed in this unit the different forms of private ownership organization differ from each other in respect of division of profit, control, risk, legal formalities, flexibility etc. Therefore, a thoughtful consideration should be given to this problem and only that form of ownership should be chosen that can help in realizing business objectives most efficiently and effectively. For that, it is imperative for an entrepreneur to undertake a comparative study of the various forms of ownership organization. Since the need for selection of ownership organization arises both initially at the time starting of business and at a later stage for meeting the needs of growth and expansion. It is desirable to keep in mind this issue while selecting form of business organization.

11.9 Self Assessment Questions

1. What do you mean by business ownership? What are the different forms of business ownership? Briefly outline the structure of ownership in these forms.
2. Define the sole proprietorship form of business and discuss its merits and demerits.
3. "The one man control is the best in the world if that man is big enough to manage everything" Discuss.
4. Examine the nature of a partnership business and indicate its essential merits, and demerits.
5. Examine the chief characteristics of partnership organization and discuss its importance from the social and economic points of view.
6. What do you mean by registration of partnership firms? Discuss the consequences of non-registration.
7. "A Joint Stock Company is said to be an artificial person created by law, having separate entity with a perpetual succession and common seal". Discuss the above statement in details.
8. Write Short Notes on following;
   (a) Advantages and Disadvantages of Company form of organization.
   (b) Public versus Private Company.
   (c) Partnership and Joint Stock Company.
   (d) Reasons for the popularity of Public Limited Company.
   (e) Comparison between Sole Proprietorship and Partnership.
   (f) Factors for choosing form of business organization.
   (g) Discuss the suitability of different forms of organization.
   (h) Characteristics of Joint Stock Company.
   (i) Advantages and Disadvantages of Partnership form of organization.

11.10 Reference Books

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Unit - 12 : Management Process in Small Business

Structure of Unit:

12.0 Objectives
12.1 Introduction
12.2 Business Plan: Meaning, Objectives, and Benefits
12.3 Business Planning Process
12.4 Significance and Process of Profit Planning for Business
12.5 Financial Analysis
12.6 Production and Operation Management
12.7 Office Management
12.8 Leading and Motivating
12.9 Communication
12.10 Summary
12.11 Self Assessment Questions
12.12 Reference Books

12.0 Objectives

After completing this unit you will be able to:

- Explain the meaning of business plan, and the steps involved in preparation of a business plan.
- Identify and understand the how the profit planning and business planning is useful to an entrepreneur,
- Identify and understand how the small business go for production and operation management,
- Discuss the meaning and nature of office management,
- Discuss the meaning of leading and motivation of an how it is used by an entrepreneur,
- Express the meaning, importance and process of communication.

12.1 Introduction

One of the important and fundamental segments of the industrial sector is Small Scale enterprises and its contribution in the manufacturing sector and also in total direct exports is significant. Small Scale enterprises play important economic, social and political roles in employment creation, resource utilization and income generation, which may bring about change in a gradual manner, in the patterns of capital formation and employment creation in the country. In India, as in most developing countries, an effective development policy needs to attempt to increase the use of labour relative to capital, to the extent that it is economically efficient. Small scale enterprises are generally more labour-intensive than larger organizations and include small but relatively modern manufacturing industry. In India, focus has been mainly on small scale industries and policies and programs put emphasis on promotion of Small Scale industry.

12.2 Business Plan: Meaning, Objectives, and Benefits

Concept of Planning:

The word "plan" originated from then Medieval Latin word 'planus' which meant a level or flat surface. This evolved in French into being a map or a drawing of any object made by some kind of projection upon a flat

surface. In English this has become a more general sense of a scheme of action, design or method. Planning in its current usage in business implies a consciousness of what is happening in the business. It does not preclude creativity or instinct, but it does add a layer of awareness that spells the difference between survival and extinction in a changing environment. Planning does involve: an understanding of the business' history; an examination of the business' environment; an assessment of the business' mission, goals; a process for reaching those goals; a process for gathering information; and a realization that planning is a continuing process that is constantly evolving. Planning does not necessarily mean trying to project the future, but being aware of a range of likely futures and being prepared for them as occur.

Planning is the first and most crucial step not only for starting a business but it is also essential to the success of any undertaking and is a never ending process. Planning as a part of the business operation is extremely important in the early stages of any new venture when the entrepreneur will need to prepare a preliminary business plan. The plan helps the entrepreneur in providing better sense of group of customers/markets, the product or service to be marketed, the financial needs of the venture and the management team. Planning will continue from early start-up business to a mature business as entrepreneur seeks to meet its short-term and long-term goals of business. Plans may be short-term or long-run; strategic or operational and depending upon the type of business and anticipated size of the start-up operation the scope of plan differ. Though plan helps an entrepreneur to serve different purposes, all these plans have one important purpose of providing guidance and framework for successfully handling business in rapidly changing market environment. A carefully and thoroughly prepared plan can convert a simple idea or innovation into a successful business venture.

Meaning of Business Plan

The business plan is written document prepared by entrepreneur that describes all the relevant external and internal elements involved in starting a new venture. The business plans combines many functional plans such as finance, marketing, human resources and manufacturing.

A business plan is a written statement of what entrepreneur hope to achieve in his/her business and how he/she is going to achieve it. It is a course of action that has been developed in order to reach the destinations determined by an entrepreneur.

A business plan, also known as venture plan, loan proposal, investment proposal, is the written document that details the proposed venture. Business plan must describe the current status, expected needs, and projected results of the new venture. Every aspect of the new venture needs to be covered i.e., the project, marketing, research and development, manufacturing, management, critical risks and financing. A description of all these aspects of the proposed new venture is necessary to demonstrate a clear picture of what the new venture is where it is projected to go and how entrepreneur proposes to reach there. It can be said that business plan is the entrepreneur's roadmap for a successful enterprise.

Business plan is the minimum document required by any financial source. The business plan allows the entrepreneur entrants in to the investment process. Although it should be used as a working document once the venture is established, the major thrust of business plan is to summarize the strategic development of the project in a comprehensive document for outside investors. The business plan describes all of the events to investors and financial sources that may affect the proposed venture.

Objectives of Business Plan:

A business plan is outline of the step-by-step procedure that would be followed to convert a business idea in to a successful business venture. Before preparing a business plan an entrepreneur identifies an innovative idea, followed by identification of opportunities and threats through scanning of external environment and identify the internal strength and weaknesses by evaluating internal environment, and finally assess the feasibility of idea so that proper allocation of resources is achieved and the business plan get success.

Following purposes/objectives are served through business plan.

- Vision formulated by entrepreneur gets direction.
- Prospects of business evaluated neutrally.
- Help in identifying resources required to implement the plan.
- Provide guidelines to an entrepreneur for implementation of business plan.
- Implementation of plan could be monitored through follow-up.
- Others find incentive to join the business.
- Financial institutions grant the loan easily to entrepreneur.
- Organizational, operational and financial feasibility and market availability can be easily visualized.
- Strength, Weakness, Opportunities and Threats could be identified y scanning internal and external environment.
- Help in identifying gap in information required about competition and market.
- Ownership arrangement, future prospects and projected growths of the business venture can be documented.

Importance of Well-Conceived Business Plan:

One of the important reasons for preparing a business plan is the realization it brings to entrepreneur about the amount of financing that entrepreneur will need and the times at which he/she will need it. Whenever entrepreneur go to a financial institutions or a tender to borrow money, financial institutions would certainly want to see how investment worthy an entrepreneur are, by taking a look at entrepreneur's business plan or the project report. Having a plan also enables an entrepreneur to look ahead and prepare for future developments. In accordance with these planned developments than, entrepreneur would need to start activating the enterprise in the direction that would lead him to realize those future plan.

The business plan must be read by different groups for different purposes and such groups includes bankers, investors, employees, suppliers, customers, advisors and consultants. An entrepreneur must prepare himself and concern to address to the requirement of all these groups in order to satisfy their needs. It is agreed by many that well-conceived business plan can gather the required support from these groups. The important perspective should be considered while preparing business plan are (a) New venture's creativity and technology (b) New venture's Marketability – Customer orientation (c) Investor orientation. Entrepreneur should have clear understanding of the technology or the creativity involved in new venture. Entrepreneur must be in a position to express very clearly about what the new venture is all about. Such understanding is most common and essential viewpoint along with customer and investor orientation. The creativity inproduct or use of technology will not serve the purpose of an entrepreneur if they failed in considering who would buy it. Entrepreneur should be market driven to demonstrate benefits of new venture to its users and ensure existence of substantial market. Entrepreneur must try to view their business through eyes of their customers. For the new venture success the valuable consideration is establishing actual market of the product or the service and documenting the forecast of the actual market available to new venture. The investor perspective is concerned with financial forecasts. An entrepreneur should try to view his/her business through eves of the investor. In order to help the investor in evaluating the worth of their investment the sound financial projections are necessary for entrepreneur.

The business is valuable to entrepreneur, potential investors and for those who are trying to familiarize themselves with goals, objectives and venture itself, because business plan help in determining viability of the venture considering its market, provide guidance to entrepreneur in planning and organizing activities and act as an important tool in obtaining required finance for new venture.

Benefits of Business Plan:

A business plan describes every major aspect of the business, including products, services, marketing, staffing, and finance facilities. Financial projections are also central to any business plan. Since business plans summaries operations of proposed business, lenders and investors demand to see them as tools for evaluating requests for financing.

Benefits to Entrepreneur:

Benefits of developing business plan available to entrepreneur are given below.

1. Path for Business Success: Entrepreneurs often ask, "Why do they need a business plan?" Because, writing a well-thought-out and organized business plan dramatically increases their odds of succeeding as an entrepreneur. Running or starting a business without a business plan is like walking through the dark without a flashlight. Entrepreneur can probably go a long way using just his/her senses and relying on basic instincts. But operating in such a manner leaves them wide open to the risk that something will get in their way, like a competitor, and entrepreneur probably won't see it until it is too late.

2. Provides Information for Business Operations and its Smooth Functioning: The benefits of having a business plan include: help an entrepreneur in clarifying their vision and deciding whether or not to proceed ahead with the idea; help in determining if entrepreneur product and/or service has a sufficient market to support it and whether or not it will be profitable; providing an estimate of venture's start-up costs and how much entrepreneur need to invest or finance; convincing investors and lenders to fund your business; help in defining entrepreneur target market (who are or will be the customers) and how to best reach them through strategic marketing actions or expanding market coverage or reach; help in establishing or re-evaluating entrepreneur competitive position within the marketplace by conducting a thorough analysis of the competition ; help in defining corporate objectives and programs to achieve those objectives; help business how to make money from the starting by developing effective operational strategies; help in understanding the risks involved and anticipating potential problems so entrepreneur can solve them before they become disasters.

3. Ensure Analysis and Evaluation of All Aspects of Business: The entire business plan process compels the entrepreneur to analyze all aspects of the new venture and to prepare effective strategy to deal with uncertainties that arises. Entrepreneur view the venture critically and objectively as the time, effort, research and discipline needed to put the formal business plan together compel him to do so. The entrepreneur does close scrutiny of his or her assumptions about the venture's success as the competitive, economic, and financial analyses done by an entrepreneur in business plan compel him to monitor success of plan.

4. Monitoring of Business Plan Success: Since all aspects of the business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results for outside evaluators. The business plan quantifies objectives, and therefore providing measurable benchmarks for comparing forecasts with actual results. Business plan provides the entrepreneur with a communication tool for outside financial sources as well as an operational tool for guiding the venture towards success.

5. Provide Direction Towards Goals: Business plans provide a guideline for employees by outlining a company's best practices and mission statement. Employees can reference the business plan when unclear about what direction the company is headed. Business plans inspire employees to act in conjunction with the goals of the organization.

Benefits to Financial Sources/Investors: The financial sources are interested in evaluating business plan and able get following details from business plan. Benefits of developing business plan available to investors are given below:

1. Market Potential: Business Plan provides details about the market potential and plans for securing a share of that market.

2. Venture's Ability to Overcome Debt: Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.

3. Indentify Critical Aspects: Business plan identifies critical risks and vital events with a discussion of contingency plans that provide opportunity for the venture's success.

4. Provide Information for Financial Evaluation: Business plan provides comprehensive overview of the entire operations and gives financial sources a clear, concise document that contains the necessary information for a thorough business and financial evaluation.

5. Evaluation of Managerial Ability: The financial source does not have prior knowledge of entrepreneur or the venture; it is the business plan that provides a useful guide for assessing the individual entrepreneur's planning and managerial ability.

Errors to be avoided in Formulating Business Plan: A number of critical factors must be addressed when planning and the pitfalls in the business plan should be avoided.

1. Avoid Errors in Setting Realistic Goals: The entrepreneur should avoid a situation of lacking any attainable goals, lack of time frame to achieve goals, lack of priorities and lack of action steps. The goal should be realistic in a sense that it should be specific, measurable and set within the time frame parameters.

2. Failure to Recognize Future Problems: Many times an entrepreneur is so engrossed in their idea that that objectivity goes out of consideration and entrepreneur failed in recognizing the possible future problems associated with goals and there is no room for contingency or alternative plans. What is needed is that obstacles must be anticipated, and alternative strategies must be formulated.

3. No Commitment: Many entrepreneurs found lacking commitment to their venture which is reflected in their desire for not to invest personal money in business; would like to initiate the business as a hobby and not as passion and avoidance of professional appointments etc. What is needed is that the venture must be supported by all involved i.e. family, partners, employees, team members etc.

4. Lack of Knowledge/ Experience of Business Idea: It is very important that entrepreneurs must demonstrate their background especially with reference to their knowledge and experience in the area of business idea. Many ideas fail because many beginners of business attempt to promote ideas for which they lack any knowledge; lack of experience; lack of understanding of the venture's industry etc. to avoid this entrepreneur needs to provide evidence of his/her personal experience, knowledge and skills related with proposed venture.

5. No Clarity about Market Segment: Many ideas are proposed by an entrepreneur without identifying the potential customer groups because the product or service is the liking of entrepreneur and it does not guarantee that others will also like the same product. The only possible way to avoid

this is to have a market segment specifically targeted and entrepreneur must demonstrate that why and how the specific product or service will meet the needs of this target group.

Activity A:

1. Visit any bank or financial institute and learn how the project evaluation is made by them in practice. Prepare a report based on your learning by highlighting the difference between theoretical criteria and criteria practically used to evaluate by financial institutions.

12.3 Business Planning Process

Entrepreneur does the business planning in many forms, but it requires creativity, independent thought and strategic planning skills. Many times, if required, learning from a professional entrepreneur is the best option for an entrepreneur, when it is available. Starting with a feasibility plan, a business plan and a proposal will be useful in the preliminary process. These will provide a blueprint, and the ability to convey the message of the business. The planning process should follow the sections of a feasibility study, which investigates whether the idea is capable of becoming successful. The business plan shows the details of why, and the proposal is the pitching portion of the planning process. All materials can help get investors or funding. Once the business is in operation, the planning does not end. Entrepreneurship requires constant innovation and change. Subscribe to Entrepreneur Magazine, and others to get more strategic insight. If required, stay informed by local, national, and global media outlets to plan ahead for the next year or quarter.

A plan which looks feasible at the first instance might actually not be when its details are referred. Before preparing the plan entrepreneur should make an effort to do preliminary review starting should be from making review of the available plans; followed by drawing key assumptions about competition, growth of market economic variables; SWOT analysis by scanning internal and external environment; and if required get the professional advice from a person engaged in a similar business activity. Therefore, documenting business plan is important activity and preparation of business plan needs to follow process which is given below.

(1) Identifying and Generating the Idea
(2) Assessment of Environment
(3) Analysis of Idea's Feasibility
(4) Preparation of Project Report
(5) Evaluation and Monitoring

(1) Identifying and Generating the Idea: The basic function of an entrepreneur is not only to do innovation in the form of creating a new product, service but they need to offer concept, product and service to customers, employees and shareholders with major or key value addition in its offerings. Hence, an entrepreneur keep in mind the key word of value addition right from the first activity he initiate for his venture. An entrepreneur as a creative person work on entirely new innovative idea, add the value to the idea and come out with a product as a solution to the needs of people. Even if idea is not new only value addition to existing product is also considered as creation of innovative product or service. So idea generation is the first stage of planning process involves creation of new ideas, or service to satisfy existing demand, latent demand or future demand of the market. If entrepreneur does not have idea he can use various sources of idea generation which includes consumers; employees; intermediaries such as dealers and retailers; existing companies offerings; laboratories; research and development activity etc.

In order to get ideas from such sources entrepreneur use various methods of generating new ideas such as Brainstorming, Reverse Brainstorming, Brain writing; Group discussion; Collection of information through questionnaires from existing customers, dealers, retailers; Ideas are invited through Advertisements, Mails and use of Internet; Market research; addition of value to the current product/service etc. Many times entrepreneur organize contest to identify ideas through TV channels and other Medias to invite participation to get best business ideas. Entrepreneur should do screening of these new ideas to eliminate impractical ideas.

(2) Assessment of Environment: After generating ideas the next step is to assess the environment for analyzing prospective strengths, weakness, opportunities and threats of the business enterprises. In order to know whether opportunity exists for the idea generated it is advisable to scan both external and internal environment which help in collecting information about the possible opportunities, threats from the external environment and strength and weaknesses from the internal environment. Various variables to be scanned includes economic, socio-cultural, technological, Governmental and demographic changes taking place in external environment and variables of internal environment includes availability of finance, machinery, raw material manpower etc. Entrepreneur fulfill the objective of collecting maximum information from informal sources such as friends, family, colleagues etc. and formal sources such as newspapers, magazines, Government records, seminars and conferences, dealers, competitors, suppliers etc.

The appraisal of socio-cultural environment includes variables such as norms, beliefs, values, fashions of a particular society which help in understanding the level of flexibility and rigidity of a given society towards a new product or service or concept. Technological assessment includes appraisal of available technological know-how and future technologies to convert an idea in to a product. Appraisal of economic environment includes assessing the economic status in terms of per capita income, inflation, consumption pattern, and balance of payments, fiscal and monetary policies which help in identifying whether opportunities for growth and development exists in economy. Such knowledge provides confidence to entrepreneur for success of their business venture. The appraisal of various policies, incentives, legislation, grants, and procedures formulated by Government help an entrepreneur to decide whether to run or establish the business or wait for favourable approach form the Government. The demographic environment assessment includes apprising overall population pattern in a particular geographic region considering variables like age profile, population distribution, income distribution etc. which help in identifying size of market available for product or service of an entrepreneur.

Assessment of internal environment includes assessment of availability of required raw material; production machinery, equipments, techniques, tools; availability of required finance in terms if start-up expenses, fixed and running expenses etc. It also includes assessing the present, potential and latent demands of the market as well as assessing kind of human recourse required and its availability in the labour market. The basic objective of environmental scanning is to collect as much information as possible to from as many sources as possible to meet the information requirement for enhancing the probability of success in this business.

(3) Analysis of Idea's Feasibility: Considering the scanning of the environment entrepreneur is interested in knowing whether the entire project of new venture is feasible or not. For this reason entrepreneur would conduct feasibility study considering various variables or dimensions or areas such as analysis of market; analysis of technical and operational aspect; financial feasibility and

drawing various functional plans such as marketing plan, production plan, ownership plan and financial plan.

The market analysis includes estimating demand and market share of the proposed product or service in future based on factors like availability of substitute goods, consumption pattern, competition etc. For estimating demand preliminary discussions were made with intermediaries, consumers, suppliers, competitors etc. and consumer preferences and potential demands estimation is made.

Analysis of technical and operational aspect includes assessment of operational ability of proposed business considering the cost and availability of technology which is critical for business. For technical /operational analysis information is collected considering parameters such as availability of material; planning of required material; feasible/economic location of business; production capacity of proposed business; machinery and equipment and plant layout etc. Analysis of financial feasibility includes carrying out cost estimates of land and building; plant and machinery; preliminary estimates of marketing and administrative expenses; provision for contingencies; working capital estimates; cost of production and projection of profits. Thus, financial analysis includes projection of Break-Even Point, Cash Flow Statement, and Balance Sheet Statement.

After positive indication form feasibility study the functional plans are drawn. The marketing plan includes formulating potential strategies in terms of marketing mix based on target market identified by market feasibility study. Production plan is drawn by entrepreneur involved in a manufacturing sector and entrepreneur involved in service sector prepare operational plans. These production and operational plan includes strategies related with suitable location of business; physical layout of plant; availability and cost of raw material, machinery, and equipment; cost of manufacturing and operations, production capacity; production planning and scheduling; inventory management; quality management and control and expansion of business.

The organizational plan includes choosing ownership pattern form various forms of business organization such as sole proprietorship; partnership; company of franchising. It will determine the organization structure in which the relationship between human resources and other resources are developed. Financial plan indicates the financial requirements of the proposed business considering costs related with marketing, operations, human resources and smooth functioning of business. In covers preparation of projected cash flows, income statement, break-even point, ratios and balance sheet.

(4) Preparation of Project Report: After assessing environment and feasibility of idea entrepreneur now start preparing report which is a written document describes the strategies involved in starting and running the business. Report helps entrepreneur to monitor whether the business is growing as projected in business plan. Project report can be an evaluation tool for investors and financial institutions to provide required finance to proposed business. Project report ensures utilization of resources and put the organization on a path of sustainable growth. The project report should be arranged in a sequence; cover all the details about the proposed venture; should not be very lengthy; should be logical and subjective; should justify financial needs, market prospects and should be professionally made to demonstrate that promoters of business possess entrepreneurial insight and sound experience.

(5) **Evaluation and Monitoring:** It is important to continuously review and evaluate the business because technology is changing continuously and business is facing intense competition in globalized world. The dynamic environment compels an entrepreneur to evaluate, control and review the business at regular interval to introduced changes and match with dynamic environment.

12.4 Significance and Process of Profit Planning for Business

Concept of Profit Planning:

A lack of accurate cost estimation and analysis results in profits of unknown quantity and often loss. Some companies who are profitable still fail because profits are not necessarily in the form of cash, such as accounts receivable, and focusing just on net income can be a mistake unless contingent variables are considered. It is vital that a company sets and monitors certain benchmarks in its strategic planning from which performance can be measured and tracked.

The relationship between components related with profit shows that profit is excess of revenue over expenses [Net Income (Profit) = Revenue (Income) minus Expenses (Costs)] and revenue comes in the form of cash and accounts receivable and there are two types of expenses i.e. fixed and variable. The fixed expenses includes periodical expenses regardless of operational effect and include items such as rent, insurance and depreciation etc. whereas variable expenses vary according to the level of operations and includes items such as product labor and material, sales promotion and cost of delivery etc. The expressions of profitability indicate a certain relationship between revenue and expenses. A decline in profit margin should be the catalyst to search for a cause, such as an increase in expenses; discounting or pricing errors caused a decline in per unit sales revenue; or a change in business operations.

Planning for profit required to consider important fundamental aspects such as developing an understanding that liquidity provides maximum flexibility; income statement needs to be viewed in relation to the balance sheet and the cash flow statement; and managed, under control growth leads to planned growth.

Profit Planning Process/Steps:

A brief explanation of profit planning process is given below.

(1) **Determine the Goal of Profit:** The target value for profit should be based on the realistic and planned results of Entrepreneur Company's strategic plan.

(2) **Determine Planned Sales Volume Required for Achieving the Profit Goal:** Planned sales volume to achieve profit goal can be determined by utilizing operating and sales budget forecasts. This is because these forecasts influence decisions on materials purchasing, production schedules, financial resource acquisition, plant and equipment procurement, personnel enumeration, along with employment and inventory planning. Such forecasts should be derived from well developed, realistic determinations of market conditions, market trends, industry trends, competitive analysis, competitive edge, market segmentation, promotion strategies, pricing strategies, distribution, inflation and so forth.

(3) **Estimation of Expenses for the Planned Sales Volume:** Entrepreneur should make the use of previous years' figures if it is an existing company. For start-ups, analyze similar companies in the industry and tap published research to come up with realistic estimates of Expenses. Entrepreneur should make adjustment in expense projections based on, change in economic conditions; ratio of expenses to sales level change; production methods improvements and efficiencies; reasonable

salary levels; materials to produce products; and labor to produce products. Once he arrived at cost of goods entrepreneur needs to compare it to the industry average for accuracy.

(4) Profit Estimation: Entrepreneur should subtract the expected expenses from estimated / projected sales income and arrive at projected profit.

(5) Compare Estimated Profit with Profit Goal: If there is a wide discrepancy between estimated profits and profit goal continue with the following steps.

(6) Determine Alternatives to Improve Profits: Entrepreneur should identify the alternatives to improve profits and such alternatives may be in the form of Changes in Planned Sales Income; Increasing Sales Promotion; Improve Product Quality; Improve Access to Product's Availability; identify Alternative Product Uses; Analyze Unit Pricing Strategy to determine Best Pricing Policy for defined Target Markets; improve Service; work for improving Product Reliability; establish more Integrity in Sales Process; Better Updating / Upgrading Strategies; improve After Sales Strategy.

An alternative should also be considered for reducing planned expenses planned expenses and such alternatives may be in the form of identifying better control systems for product development; minimizing losses; increased productivity of people & machines; product re-design, re-branding, re-packaging, product improvements; reduce unit costs; add other products in the mix to offset costs; use idle capacity and assets innovatively; make certain parts internally if more efficient than purchasing from vendors; sets specific cost reduction plans for each quarter for each department; subcontract certain work and outsource and so on.

(7) Determine How Expenses Vary With Sales Volume Changes: Entrepreneur should Experiment with expense levels in selling fewer or more units against planned sales, and develop his/her understanding of the relationship of fixed and variable expenses to find the optimal mix of products and the unit sales of those products. Entrepreneur should be aware that limited changes in sales volume could be preferred as high sales volumes are costly and expend a lot of effort and low sales volumes results in extra costs due to idle capacity, lack of volume discounts, underutilized highly trained and expensive labor force, and so on. Entrepreneur should also consider changing conditions such as economic shifts, inflation, deflation, customer shifts, competitive products, market shifts and other factors causing changes in unit costs.

(8) Understand How Profits Vary With Sales Volume Changes: Entrepreneur should Use different Sales Volumes to determine the resulting Break Even Point and the Profitability.

(9) Analyze Profit Alternatives: Entrepreneur should analyze profit alternatives by using the information generated in Steps 6, 7 and 8 and take in to consideration profit increasing alternatives, such as Sales Price Changes; Change Advertising / Promotion Strategy; Reduce Variable Costs; Increase/ Decrease Quality of Products; Find the right mix of Products; Eliminate Low-Margin Products; Bundle High Margin Spare Parts with New Equipment and so on.

(10) Finalize and Implement the Strategic Plan: Entrepreneur should Measure the effectiveness of Strategic Plan's implementation over time to keep track of company's resulting Return and Profit Margin. Entrepreneur should also try to Implement Tax Savings Strategies to retain more Earnings for future Opportunities and Expansion.

Activity B:

1. Choose any organization of your choice and draw a hypothetical business plan by assuming required information.

12.5 Financial Analysis

Entrepreneur operates in a business environment characterized by the constraining forces of Government regulation, competition and resources. To operate efficiently in competitive environment entrepreneur must allocate its human, material and financial resources effectively through proper planning to ensure profit. Entrepreneurs who fail to develop workable plans and strategies for earning profit within a reasonable time will failed in their business. Thus they need to formulate financial plans.

Financial Plans:

One of the most important aspects for launching a new business venture is preparation of well-designed and logical financial plan. Before putting money the potential lenders and investors demand a realistic financial plan from an entrepreneur. The financial plan is based on information and the financial information pulls together all the information related to marketing, distribution, manufacturing and management of business. It quantifies all the assumptions and historical information concerning business operations. The set of assumptions on which projections are based should be clearly and precisely presented because this will help entrepreneur to assess the validity of financial projections. Proper financial management provides entrepreneur with relevant financial information in an easy to read format on a timely basis and allows entrepreneurs to know not only how their businesses are doing financially but also why they are performing that way. To reach profit objectives, entrepreneurs must be aware of their firm's overall financial position and changes in the financial status that occur over time. The entrepreneurs need to develop a workable financial plan which enables them to plan for profit. Profit planning techniques involved understanding financial statements and preparing pro-forma statements, conducting ratio analysis and performing break-even analysis.

Financial Statements:

In order to manage the ventures entrepreneur make the use of financial statements which would be helpful to review the basic financial reports and measure a company's financial position. The basic financial statements an entrepreneur needs to be familiar with are the balance sheet, the income statement and the cash-flow statement.

1. The Balance Sheet: The balance sheet is a 'snapshot' of a business financial position as on a given date. The balance sheet is divided in to two parts i.e., financial resources owned by the firm (Assets) and the claims against these resources (Owner's equity and Liabilities). The claims creditors have against the company are called liabilities and remaining interest of the firm's owner is known as owner's equity. The assets are placed on the left side of the balance sheet and liabilities and owner's equity are listed on the right side of the balance sheet. It is built on the fundamental accounting equation i.e., Assets = Liabilities + Owner's equity. It is called a balance sheet because any increase or decrease on one side of the equation must be offset by an increase or decrease on the other side.

The assets are divided in to current assets and fixed assets. Current assets are cash and other items to be converted in to cash within one year or within normal operating cycle of the company such as accounts receivables, inventory, prepaid expenses etc., and fixed assets are those acquired for long-term use in the business consists of land, building, equipment and also includes intangible assets such as, goodwill, copyrights and patents. The liabilities are divided in to current liabilities and long-term liabilities. The current liabilities are those debts that must be paid within one year or within the normal operating cycle of the company such as accounts payable, taxes and bank loan to be paid in cycle year etc. Long-term liabilities are those that are not due and payable within current cycle year such as mortgage on a building, five to ten years bank loan and also include the owner's

equity (value of owner's investment) plus all company's accumulated or retained earnings not distributed to owners.

2. The Income Statement: The income statement, also called profit and loss statement, compares expenses against revenue over a period of time to show the firm's net profit or loss. It represents a moving picture of a firm's profitability over a period of time. Income statement shows the change in a firm's position or success or failure of business as a result of its operations over a specific period. Income statement shows whether revenues were greater or less than expenses. It means income statement can be reduced to three primary categories i.e., revenue, expenses and net income. Revenues are the gross sales the business made during the particular period, expenses are the cost of resources used to obtain the revenue or costs associated with producing goods or services including the costs of acquiring, selling, and delivering the merchandise during the accounting period. Net income is the excess of revenue over expense during period under consideration.

To calculate the net profit or loss, entrepreneur records sales revenue (gross revenue) which includes all income flow from sales and income from other sources such as rent, investments, interest etc. cost of goods sold represents the total cost including shipment of the merchandise sold during accounting period. To determine net sales revenue entrepreneur subtract the value of returned items and refund from value gross revenue. Net sales revenue minus cost of goods sold results in company's gross profit. Dividing gross profit margin by net sales revenue entrepreneur gets gross profit margin, i.e. a percentage that every small business owner should watch closely and if margin is low it is likely that business will operate at a loss.

3. The Cash-flow Statement: The effect of the company's operating, investing and financing activities of its cash balance is shown in the cash flow statement. The information about a company's cash receipts and cash payments during a particular period is shown and it is the basic purpose of cash flow statements. The cash flow statement is a supplementary to income statement and balance sheet as it answers to how much cash did the firm generates from operations and is it sufficient to finance fixed assets? How much new debt did the firm add? Operating cash flows refer to cash generated from or used in the course of business operations of the firm. Investing activities refer to cash flow effects from long-term investing activities such as purchase or sale of plant and equipment. Financing activities refer to cash flow effect of financing decisions of the firm, including sale of new securities (stock and bonds), repurchase of securities, and payment of dividends.

The statement of cash flow can also be understood as the changes in the firm's working capital from the beginning of the year by listing sources and uses of funds. The company adds the sources of funds (borrowed funds, owner contributions, decrease in accounts receivables, decrease in inventory, depreciation etc.) and subtracts the uses of funds (plant and equipment purchase, dividends to owners, repayment of debt decreases in accounts payable, increases in inventory etc.) and the difference between the total sources and the total uses is the increase or decrease in working capital. By investigating such changes in working capital owners can create a more practical financial action plan for the future of the enterprise.

Only preparation of these statements is not enough, the entrepreneurs and employees must understand and use information contained in them to make the business more effective and efficient.

Projected Pro-forma Financial Statements:

The small business entrepreneur can transform business goals in to reality by developing projected financial statements. These projected pro-forma financial statements project a firm's financial position through the end of the forecasted period, and therefore, they are crucial component of every business as they estimate

the profitability and the overall financial condition of a company; can be used to convenience potential lenders and investors to provide the needed finance, and are the route to improved financial strength and healthy business growth. Only the requirement is such forecast must be realistic, inspiring as well as logical and defensible. Entrepreneur launching the new enterprise should determine the funds needed to begin operation and meet the requirement of initial growth period the factors which determine the funds requirement are type of operation required, location of business, inventory needs to be maintained, sales volume, and other factors. Entrepreneur should also include how much reserve of capital required until it begins to make profit.

As the pro-forma statements are projections of a firm's financial position over a future period (pro-forma income statement) or on a future date (pro-forma balance sheet), the pro-forma income statement is prepared followed by pro-forma cash flow statements and pro-forma balance sheet.

For creating the **pro-forma income statement** entrepreneur has two options, i.e. develop a sales forecast and set a profit target and then work up or determine target profit figure and then determine the sales level they must achieve to reach target profit. Sales forecast for a business start-up is not easy tasks. While preparing income statement sales by month must be calculated for which marketing research, industry sales, and some trial experience might provide the basis for sales forecasts. To develop projections of sales various forecasting techniques may used such as buyer's intensions, composite of sales force opinions, expert opinions, or time series etc. The next step is to estimate the expenses the business will incur in securing those sales. It provide projections of all operating expenses for each months during the first year and each of the expenses should be listed and carefully assessed to make sure that any increases in expenses are added in the appropriate month. For example, selling expenses such as travel, commissions, and entertainment should be expected to increase as sales territories are expanded. In any small business, the annual profit must be large enough to produce a return for owners operating expenses and return on his investment. An entrepreneur who earns less in his own business than he could earn working for someone else must weigh carefully the advantages and disadvantages of choosing the path of entrepreneurship.

Pro-forma cash flow is the projected cash available calculated from projected cash accumulations minus projected cash disbursement. Cash flow statement results from the difference between actual cash receipts and cash flows only when actual payments are received or made. One of the major problems that new ventures face is cash flow and profitable firms fail because of lack of cash flow. Thus, using profit as a measure of success for a new venture may be deceiving if there is a significant negative cash flow. It is important for the entrepreneur to make monthly projections of cash like the monthly projections made for profits. Entrepreneur must understand that like pro-forma income statement, the pro-forma cash flow is based on best estimates. As the venture begins, it may be necessary to receive cash flow projections to ensure that their accuracy will protect the firm from any future failure.

Entrepreneurs should prepare a **projected balance sheet** listing every asset their businesses will need and all the claims against these assets. The balance sheet will require the use of the pro-forma income and cash flow statements to help justify some of the figures. Pro-forma balance sheet reflects the position of the business at the end of the first year. Pro-forma balance sheet summarizes the projected assets, liabilities and net worth of the new venture. An asset represents items that are owned or available to be used in the venture operations. To complete the projected balance sheet, the owner must record all of the firm's liabilities, the claim against its assets. A pro forma balance sheet is similar to a historical balance sheet, but it represents a future projection. Pro forma balance sheets are used to project how the business will be managing its assets in the future. For example, a pro forma balance sheet can quickly show the projected relative amount of money tied up in receivables, inventory, and equipment. It can also be used to project the overall financial soundness of the company. For example, a pro forma balance sheet can help quickly pinpoint a high debt-to-equity ratio.

Uses of Pro-Forma Statements:

A company uses pro forma statements in the process of business planning and control. Because pro forma statements are presented in a standardized format, and management employs them to compare and contrast alternative business plans. By arranging the data for the operating and financial statements side-by-side, management analyzes the projected results of competing plans in order to decide which best serves the interests of the business.

In constructing pro forma statements, a company recognizes the uniqueness and distinct financial characteristics of each proposed plan or project. Pro forma statements allow management to Identify the assumptions about the financial and operating characteristics that generate the scenarios; Develop the various sales and budget (revenue and expense) projections; Assemble the results in profit and loss projections; Translate this data into cash-flow projections; Compare the resulting balance sheets; Perform ratio analysis to compare projections against each other and against those of similar companies; Review proposed decisions in marketing, production, research and development, etc., and assess their impact on profitability and liquidity.

Simulating competing plans can be quite useful in evaluating the financial effects of the different alternatives under consideration. Based on different sets of assumptions, these plans propose various scenarios of sales, production costs, profitability, and viability. Pro forma statements for each plan provide important information about future expectations, such as sales and earnings forecasts, cash flow; balance sheets, proposed capitalization, and income statements.

If management considers a flexible budget most appropriate for its company, it would establish a range of possible outcomes generally categorized as normal (expected results), above normal (best case), and below normal (worst case). Management examines contingency plans for the possible outcomes at input/output levels specified within the operating range. During the course of the fiscal period, management evaluates its performance by comparing actual results to the expectations of the accepted plan using a similar pro forma format. Management's appraisal tests and retests the assumptions upon which it based its plans. In this way pro forma statements are indispensable to the control process.

Break – Even Analysis:

An analysis to determine the point at which revenue received equals the costs associated with receiving the revenue. A calculation of the approximate sales volume required to just cover costs, below which production would be unprofitable and above which it would be profitable. Break-even analysis focuses on the relationship between fixed cost, variable cost, and profit.

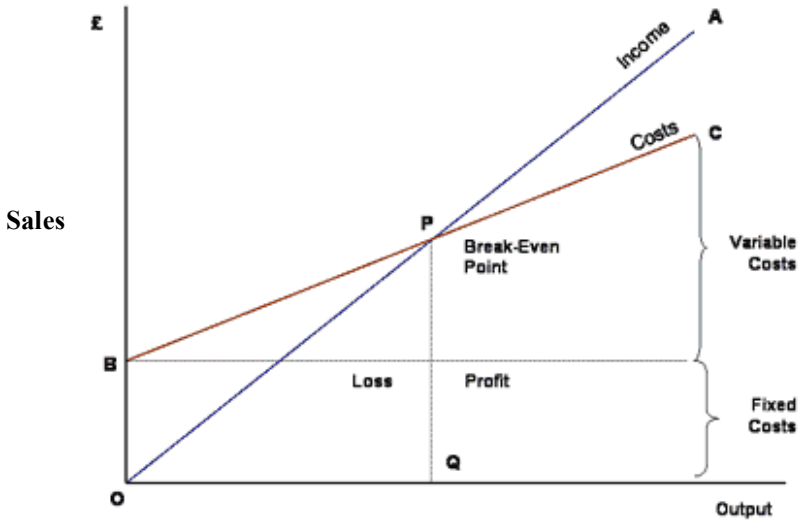


Figure 12.1 Break – Even Analysis

The information used to determine and analyze the breakeven point includes fixed, variable and total costs and the associated sales revenues. A breakeven chart is a strategic tool used to plot the financial revenue of a business unit against time or sales to determine the point when sales output is equal to revenue generated.

This is recognized as the breakeven point. The information used to determine and analyze the breakeven point includes fixed, variable and total costs and the associated sales revenues. Fixed costs are the costs that do not vary in relation to the level of sales output, for example rent. Variable costs are the costs that vary in proportion to the level of sales output, for example materials. Total costs are the sum of all costs, including fixed and variable. Associated sales revenues are the total revenue made by the company from sales. It can be derived by multiplying price by output.

The analysis of a breakeven chart considers whether a venture runs at a profit or a loss. Sales above the breakeven point indicate continued and profitable growth. The principle of break-even theory is that during the early stages of a business venture, total costs, both fixed and variable, exceed sales. As output increases, sales begin to rise faster than costs and, eventually, they become equal (breakeven point). If sales continue to rise and exceed total costs, the business achieves profitability. The tool assumes that all the goods which are produced will be sold and that costs, namely the price, will remain constant. Likewise, it also relies on the capacity in terms of output to remain unchanged.

Breakeven charts are universally applied to simply and graphically illustrate and forecast a company's projected revenue, and to calculate the time for profitability to be reached. It is used by financial and marketing strategists to predict the effect that changes in price will have on the percentage change in sales over time. It is also a useful tool to analyze the relationship between fixed and variable costs and to predict the effect on profitability of changes to those costs.

In the initial stages of the new venture, it is helpful for the entrepreneur to know when a profit may be achieved will further provide insight into the financial potential for the start-up business. Break-even analysis is a useful technique for determining how many units must be sold or how much sales volume must be achieved in order to breakeven. The break -even sales point indicates to the entrepreneur the volume of sales where the venture neither makes a profit nor incurs loss. Sales in excess of the break-even point will result in a profit as long as the selling price remains above the per unit variable costs. The major weakness is calculating the breakeven lies in determining whether a cost is fixed or variable. For new ventures these determinations will require some judgment. However, it is reasonable to expect such costs as depreciation, salaries and wages, rent, and insurance to be fixed. Materials, selling expenses such as commissions, and direct labour are most likely to be variable costs. The variable costs per unit can usually be determined by allocating the direct labour, materials, and other expenses that are incurred with the production of a single unit.

For the potential small business owner, especially when approaching potential lenders and investors for funds break-even analysis is a useful planning tool. With the help of a very simple, easy to understand, preliminary screening device like break-even an entrepreneur gets an opportunity for integrated analysis of sales volume, expenses, income, and other relevant factors. With just a few calculations, the small business owner can determine the effects of various financial strategies on the business operation. It is a useful tool for evaluating the impact of changes in investments and expenditures.

Ratio Analysis:

Financial statements report both on a firm's position at a point of time and on its operations over some past period. However, the real value of financial statements lies in the fact that can be used to help predict the firm's earnings and dividends. From an investor's standpoint, predicting the future is what financial statement analysis is all about; from an entrepreneur's standpoint, it is useful both as a way to anticipate conditions and, more important, as a starting point for planning actions that will influence the course of events.

Financial statement analysis is a judgmental process. One of the primary objectives is identification of major changes in trends, and relationships and the investigation of the reasons underlying those changes. The judgment process can be improved by experience and the use of analytical tools. Probably the most widely used financial analysis technique is ratio analysis, the analysis of relationships between two or more line items on the financial statement.

Financial ratios are usually expressed in percentage or times. Generally, financial ratios are calculated for the purpose of evaluating aspects of a company's operations and fall into the following categories:

- **Liquidity ratios** measure a firm's ability to meet its current obligations.
- **Profitability ratios** measure management's ability to control expenses and to earn a return on the resources committed to the business.
- **Leverage ratios** measure the degree of protection of suppliers of long-term funds and can also aid in judging a firm's ability to raise additional debt and its capacity to pay its liabilities on time.

Activity C:

1. Choose any organization of your choice and prepare functional plans in support of the business plan by assuming required information.

12.6 Production and Operation Management

Meaning:

Production management is the process of converting the input into output through a conversion process. Production Management is not only associated with manufacturing but it also covers a large variety of other activities concerned with the conversion of inputs into outputs using physical resources to provide the desired utility/utilities to the customer at the same time meeting the organizational needs of effective operations. Production and Operation Management activities extend not only to manufacturing but also to various service providers such as educational institutions, transportation like rail, road or air and its maintenance workshops, hospitals, banks etc. Improving productivity is the main mission of Production and Operation Management and entrepreneur can do this only if they produce more. Productivity is concerned with the efficiency of converting the inputs such as materials, equipment (machines), finances, labour, time and space, technology and management skills into tangible outputs such as goods, services, enhanced sales or exports, greater customer satisfaction and higher operating efficiency. Mathematically productivity is the ratio of output to input.

Key Decisions of Production and Operation Management:

The various key decisions related with production/operational plan include:

(1) Selection of Product/s, its Development and design

(2) Selection of process and plant and machinery

(3) Plant Location

(4) Plant Layout

(5) Industrial Engineering

(6) Production planning and control

(7) Work Services, Maintenance and Its Management

(8) Quality Control.

(1) Selection of Product/s, its Development and Design:

As the organization attempts to match the changes in environment, technology and consumer requirements for entrepreneurs finalizing the product design; selection of product/s are the key strategic decisions which commits themselves for a long time to come. Selection can be through many processes. One aspect is the market research for existing products where entrepreneur very carefully evaluate the economic viability keeping in view the target market segment an entrepreneur wish to capture. Another aspect is the laboratories concerned with research for product development (like National Research & Development Corporation) who are continuously involved in developing new products and come up with improved versions, good product variations, and even newer products to serve better the same consumer needs. Such products have by far the least risk and good pay off. Entrepreneur can go for product development in detailed, as various environmental factors internal as well as external, particularly the market reaction such as test marketing, publicity, demonstrations, etc. should be, thoroughly evaluated. More the time you spend on product development, better become entrepreneur's chances of success. Final selection of product design and characteristics require considerations of effectiveness of test; quality corresponding with cost and market sustainability; product's maintainability and reliability; product servicing; ease of production; safety & security; environmental hazard etc.

(2) Selection of Process and Plant and Machinery:

An entrepreneur develops product prototypes and is generally the handmade models which are based on product ideas and are thoroughly evaluated and detailed costing is done. For which an entrepreneur make choice of raw materials and its estimates are drawn. Various manufacturing processes are studied; estimates of the requirement of work force; skills; Work norms; labour costs; is made. Entrepreneur sees the development of prototypes is a very vital before going ahead with the manufacture and launching of a new product and if required entrepreneur can have the value analysis or value engineering. After selection of product/s entrepreneur go for the selection of plant and machinery and may go in for a conventional manufacturing process, or can manage with standard machinery available in the open market or even select a high tech process, where machines may even be based on robotics. After this the product development require pilot production where checking and re-evaluation of various functional aspects such as tooling, material estimating, rate of production, cost of production, quality control techniques reliability and maintainability are done. After selection of process plant and machinery entrepreneur is ready to launch free flow production.

(3) Plant Location:

Every entrepreneur is faced with the problem of deciding the best site for location of his plant or factory. Plant location refers to the choice of region and the selection of a particular site for setting up a business or factory. But the choice is made only after considering cost and benefits of different alternative sites. It is a strategic decision that cannot be changed once taken and if at all changed it should be at considerable loss. An ideal location is one where the cost of the product is kept to minimum, with a large market share, the least risk and the maximum social gain. It is the place of maximum net advantage or which gives lowest unit cost of production and distribution. For achieving this objective, small-scale entrepreneur can make use of analysis location for this purpose.

The location of the plant can have a crucial effect on the profitability of a project, and the scope for future expansion and many factors must be considered when selecting a suitable site. Plant location is a strategic decision and has to be arrived at after careful deliberations of various considerations such as nearness to raw materials; proximity to market; adequate power and water arrangements and other infrastructural facilities;

transportation facilities and their costs; availability of labour at reasonable wages; applicable government laws, taxation, incentives, subsidies for backward areas; land costs; climatic condition of location; related ecological and environmental factors and political conditions.

Entrepreneur can adopt any qualitative and quantitative, techniques to arrive at a logical decision for plant location and the simplest and most commonly adopted method is weight rating method for all consideration listed.

(4) Plant Layout:

Plant layout and design is an important component of a business's overall operations, both in terms of maximizing the effectiveness of production processes and meeting employee needs and/or desires. The physical arrangement of everything needed for the product or service, including machines, personnel, raw materials, and finished goods. The criteria for a good layout necessarily relate to people - personnel and customers, materials - raw, finished, and in process, machines, and the interactions of all these.

With a view to achieving optimum utilization of space available, the plant layout arrangement is made in an analytical and economic manner of various facilities like workmen, machines, equipment, materials, and incoming-outgoing services for materials in the plant; intermediate storage and inspection areas. The plant layout is a strategic decision since a layout once implemented cannot be changed easily. Some of the advantages of a good layout includes higher/improved productivity; economic utilization of floor space and other operating areas such as loading & unloading; better supervision and control; better working environment and employee safety; minimum material handling, and lower investment in plant and building with better maintenance facility.

Small business owners need to consider many operational factors when building or renovating a facility for maximum layout effectiveness. These criteria include ease of future expansion or change to meet changing production needs; recognition of the importance of smooth and coordinated process flow; possible to handle materials in an orderly, efficient and preferably simple manner; conducive to helping the business to meet its production/output needs; utilization of space available; ease of communication and support with vendors and customers; impact of layout on employee morale and job satisfaction by providing for light-colored walls, windows, space; layout should have promotional value by making it more attractive to visitors, investors, customers. and above all, the facility layout should enable the business to effectively operate in accordance with occupational safety and health association guidelines and other legal restrictions. Entrepreneur should also keep in mind that offices and manufacturing facilities are typically designed in much different ways and also differ dramatically if it is a service-oriented business.

(5) Industrial Engineering:

Production and operation management further require the knowledge of industrial engineering commonly called Work Study. It is the techniques of study of methods and work measurement which are employed by an entrepreneur to ensure the best possible use of human and material resources in carrying out specific activities involved in business. Work Study is related with method study and work measurement which lead to a systematic investigations of all the factors which affect the efficiency and economy of the situation being reviewed in order to effect improvements. Method study is the systematic and scientific evaluation of existing or proposed plans & performance of any work system and the evaluation of improvements through the analytical process of critical examination. Work Measurement is the application of techniques designed to establish the time for a qualified worker to carry out a specified job at a defined level of performance. Aim is the reduction of the ineffective time and the subsequent establishment of time standards for the operations

based on the work content evaluated by method study. Work measurement involves use of time and motion study to eliminate unnecessary movements and reduce the time of operations. Now a day Industrial Engineering has gained importance because it tells the ways to improve productivity by reducing labour input costs; establishing work norms; wage settlements with workers and also developing incentive schemes.

(6) Production Planning and Control:

Production Planning consists mainly of the evaluation and determination of production inputs such as labour machinery and equipment, materials and utilities to achieve the desired goals.

The ultimate objective of production planning and control, like that of all other manufacturing controls, is to contribute to the profits of the enterprise. As with inventory management and control, this is accomplished by keeping the customers satisfied through the meeting of delivery schedules. Specific objectives of production planning and control are to establish routes and schedules for work that will ensure the optimum utilization of materials, workers, and machines and to provide the means for ensuring the operation of the plant in accordance with these plans. The process of Production Planning can be divided into the following three phases i.e. allocation, routing and scheduling

Allocation: Allocation is the organizing of all the resources of production which will be required to perform the task and is concerned with the provision of space, the supply of labour; availability of machines and equipment and the provision of materials and spaces. Allocating of resources is done taking all the other commitments into consideration and the priorities allotted to various products.

Routing: Routing includes planning of where and by whom work will be done, determination of both the path work will follow and the necessary sequence of operations. Routing as applied to manufacturing is the application of predetermined orderly logical and economical sequence of operations through which materials, parts and sub assemblies must pass to prepare them during each successive operation for their subsequent development into larger sub assemblies or completed products.

Scheduling: Scheduling involves many areas related with manufacturing cycle. Entrepreneur should prepare master schedules for various periods of time that forecasts accurately specific items and the quantities to be produced daily, for the maximum number of days. The purpose of scheduling is to ensure all variable inputs to be available at the right time and right quantity. Production Plan is drawn in advance, maybe three to six months or as per the requirement of business.

Production Control: Production Control is concerned with the updating and revising procedure where according to the requirements of the implementation, the labour assignments, the machine allocations, the job priorities, the rates of lines flows, the schedule routes etc, may be critically examined and changed. It is basically a monitoring and correcting mechanism which goes on throughout the production process of the already drawn production plan and schedule.

(7) Work Services, Maintenance and Its Management:

In order to achieve efficiency in production, entrepreneur needs to consider the efficiency and effectiveness of important work services such as materials, procurements and personnel training, plant maintenance, quality control, research & development, health, safety, fire fighting supervision, etc. Due to advancements in production techniques due to technological development the costs of works services have gone higher than purely production costs. But these high costs are offset against increased productivity. Some of the important functions related with works services and its maintenance includes materials management and plant maintenance. Materials management involves use of various material and inventory management techniques to reduce the costs of the organization and add to the profitability. Plant maintenance involves

actions taken in a planned manner to prevent breakdowns and ensure operational efficiency in an economical manner.

(8) Quality Control:

Quality assurance is total organizational effort, is a strategic decision and is the responsibilityof all functional managers' viz. purchase, production, operations, warehousing (storage) and the transportation and packaging. Quality is the performance of the product as per the commitment made by the producer to the consumer. A product is called a quality product only when it satisfies certain criteria for its functioning. A product should not only satisfy the criteria at the time of manufacturing but the same performance should be available over a reasonable length of time. Entrepreneur should use various techniques of quality control to ensure delivery of right kind of goods and services to its customers.

Activity D:

1. With respect to any small organization that you are familiar with, discuss the considerations affecting the choice of product design, plant location, and plant layout.

12.7 Office Management

Meaning:

Advances in business knowledge and technology have radically changed business systems, organization structures and processes. As a result, critical to today's businesses is the ability to get the right information to the right people at the right time, so that both strategic and operational decisions are made properly and quickly. Entrepreneurs should learn to recognize the pivotal role that information plays in the business world and to use their knowledge to increase business competitiveness. This can be done through proper office management.

An "Office" is a convenient place where all clerical work is carried out. The clerical work may be handling of incoming and outgoing mail, writing and typing of letters, reports, receipts and payments by cash or cheques, filing, indexing, etc. The office is a service organization of any business and its function of management may be planning, organizing, directing or controlling of activities and involves paper work. Office work or paper work deals with information, i.e., facts and figures. It provides the service of communication and record. It is the place where managers of an organization determine plans and policies (Sherlekar, 2003).

Office Management:

As the entrepreneur and managers in the organization wants relevant facts, promptly and accurately, for their decisions, e.g., in production, in marketing, in purchasing, in finance or in any other area of business management, the office management is essentially for the management of information. The office manager supplies the information and this is the main function of office management. An office manager is regarded as the "information officer" or paper work manager and office management is called paper work management. Office is a central decision-making and directing agency of any organization.

Office management can be defined as the process of planning and organizing all activities; directing and motivating persons working in the office, and controlling both the office activities as well as office employees for the tasks related to collection, processing, storage and supply of information in proper form to all executives necessary for decision making. Office management has also to protect the assets of the business. In order to ensure that office can provide efficient service to all other departments such as production, purchase, sales and finance an office manager assigned responsibility to organize resources in the form of

men, money, materials, machines and methods. The office manager is one who knows how to handle other peoples' thought, emotions and willingness to work, not only to his profit but also to their profit. Management is an art of getting things done through and with other people and accordingly the office work consists of collecting, processing, recording and communicating information in such a way that proper people receive accurate and timely information. The human mind is in charge of recording and storing adequate and accurate information about all relevant and important matters and our memory preserves the information and makes it readily available at our will. In the same manner an office of any organization performs such functions the secretary of the manager is, therefore, called the diary or memory of his boss. As a manager of an office, the secretary is, therefore, expected to play the role of an information bureau or a paper-work officer in the organization (Sherlekar, 2003).

Relationship of Office and General Management:

As the branch of the art and science of management the office management is a function concerned with the efficient performance of office work, irrespective of when and where that work is to be done. Office work is concerned primarily with making records, using records, and preserving them for future reference and such records may become the history of transactions of the enterprise, represented by the accounts, by correspondence, by contracts, by orders, by inventories, by plans and schedules, by reports, and by written and printed memorandums of all kinds. Office management is responsible for providing the necessary facilities and equipment for making and preserving records which includes records made on paper, cards, photographic film, or punched cards and may be preserved in binders, drawers, boxes, or shelves may be made by hand or by machine and are kept in a place called "the office." The essential feature is the work itself, not who does it or where it is done. It is office or clerical work everywhere, regardless of where the work is done or who does it. The principles applicable to the improve performance of office work in one place are usually applicable to the performance of the same work elsewhere.

Few of the records kept at office include many aspects as given in following table. (Source: William H. Leffingwell and Edwin M. Robinson (1979)

- **ACCOUNTING RECORDS OF:** Purchases and Sales; Receipts and Payments; Changes in Capital Assets; Costs of Operation; Profits and Losses etc.
- **CARD LISTS OF CUSTOMERS AND PROSPECTS:** Calls made; Letters written; Sales literature sent out; Orders taken; Shipments made Complaints received; Adjustments made etc.
- **LISTS OF SUPPLIERS AND VENDORS:** Items for sale (catalogues, price-lists quotations); Purchases made; Deliveries received; Bills received and paid; Complaints made; Adjustments received etc.
- **LISTS OF EMPLOYEES:** Information about them (application blanks and references); Rates of pay; How they do their work; Progress in the company etc.
- **LISTS OF MATERIALS (INVENTORIES):** Stock of Raw material, Semi-finished goods, finished goods, Scrap and other items.
- **LISTS OF EQUIPMENT (CONDITION, REPAIRS, ETC.)**
- **INSURANCE RECORDS:** Dates when policies expire Extent of insurance coverage
- **PRODUCTION RECORDS:** Plans and schedules; Orders of work etc.
- **ADVERTISING RECORDS:** Schedules of insertions; Results obtained from advertisements etc.
- **SALESMEN'S RECORDS:** Routes, Expenses, Sales, Commissions etc.

In order to run business more smoothly entrepreneur needs to determine and track which furniture, equipment, technologies and supplies are required or needed to equip the organization for better management of office activities. In case of office furniture and equipment there is a need to ensure about desk; comfortable chair/s; file cabinets; overhead and work lighting arrangements; client seating; fireproof safe; desktop and pocket calculators; bookcases; postage facilities; worktable(s); office decorations; labeling machine; wall whiteboard and markers; radio; paper shredder; photocopier; wastebasket; recycling bin; alarm system; fire extinguisher; first-aid kit etc. In case of Computer Hardware and Accessories there is a need to ensure about desktop computer/s and monitor/s; keyboard and mouse; printer; modem; notebook computer; CD writer; power point projector; digital camera; computer locks; scanner etc. In case of Computer Software there is a need to ensure about word processing software; virus protection software; accounting software; desktop publishing software; contact management software; website building and maintenance software; payment processing software; e-commerce software; inventory management software etc. For facilitating communication there is a need to ensure about telephone line; internet connection; toll-free line; desk telephone; fax machine; cordless telephone; answering machine/service; cordless headset; speakerphone; pager; tape recorder; cellular telephone with internet features etc.

Other Responsibilities of Office Management:

Since records are made by human beings, office management also includes the function of personnel, that is, determining what abilities are needed for doing the office work effectively, providing those abilities in the form of competent individuals, and directing and supervising their efforts.

1. Good Working Conditions: Likewise, since one of the factors contributing to effective performance is comfortable working conditions; office management also includes providing good air, adequate light, comfortable working temperatures, enough space to move around in, clean surroundings, and the absence of disturbing factors, such as noise.

2. Transmission of Communication: One of the most important kinds of records which form the basis of office work is written communications, such as letters, telegrams, memorandums, and messages of all kinds are received at intervals during the day from the post office, the telegraph company, and from individuals in all parts of the organization. In order that prompt and adequate attention may be given to these communications, office management is responsible for seeing that they are received early, taken immediately to those individuals who are concerned, and handled promptly and adequately.

3. Tele-Communication/ Internet Connectivity Services: Because the telephone is a very important form of communication, office management is responsible for providing satisfactory telephone service. Now a day with the development of Information Technology the office should also consider providing fast and continuous internet connectivity for communication.

4. Record/s Duplicating Services: Nearly every organization from time to time has occasion to make copies of records or communications. Office management is responsible for providing adequate and satisfactory duplicating service such extra copy through computers, photocopies, scanner, CDs, storage hard drives etc.

5. Enough Office Supply: Various kinds of stationery and office supplies are used for performing in the office work. Office management is responsible for specifying the most suitable items for the purpose, keeping an adequate supply on hand, disbursing them as needed, and guiding their use without waste.

6. Writing, Computing and Classifying: If any office the work is analyzed and further divided into one or more simple, yet fundamental, tasks such as writing or interviewing, which includes records and communication; computing, and classifying the records and its fling. It means all writing is considered as office work, regardless of who does it or how or where it is done. All work done in office is communicated and involves computing, classifying, and flings. Furthermore, without exception, all office work grouped in the form of three fundamental tasks of writing, computing and classifying, even though the performance of the work may have been accelerated through the application of various kinds of machines and devices. A brief consideration of the three fundamental office tasks will show that clerical work permeates every activity of business and that office work is, therefore, inseparably bound up with all business activities. If all this clerical work is regarded as a mere heterogeneous mass of duties, the task of controlling them may well seem impossible; but if office work is regarded as the linking, connecting, or coordinating function in production and distribution, the possibility of its control is immediately noticeable (William H. Leffingwell and Edwin M. Robinson, 1979).

Functions of a Modern Office:

Entrepreneur must understand that information is the product of the office of the organization and therefore, major services and functions of the office centre round in: (1) Continuous collection of information. (2) Proper records of information. (3) Orderly arrangement of information. (4) Prompt supply of information. (5) Due protection of assets of the business.

(1) Continuous Collection of Information: The office is not only in charge of continuous collection of relevant information from all available sources such as reports, letters, orders, invoices, telephone calls, emails, fax etc. but in addition to receiving such information, the office also collects any other information which managers may need for making decisions and taking actions for completion of tasks.

(2) Proper Record of Information: The record constitute the memory of the office and includes correspondence, accounts, orders, progress reports of work, price lists, attendance of employees, etc. The records may be required by law or for the efficient conduct of the business and therefore, there is need that information should be received or collected and must be recorded in a suitable form and should be made readily available to the manager when required to make decision.

(3) Orderly Arrangement of Information: Information needs to be arranged in an appropriate order as the information received and collected is subjected to further processing proper classification. All information in the form of facts and figures has to be organized and arranged in a suitable form and then only it can be supplied to the manager or taking decisions on various managerial problems. Financial and trading statements, costing and accounting records, charts, tables, reports, etc., are the examples of well arranged information on the basis of which managers can take accurate and quick decisions.

(4) Prompt Supply of Needed Information: As the office is the main source of information it has to supply information verbally or in writing in a proper form, may be routine or special information to the managers for all decisions, instructions and guidelines to the various departments for the guidance of departmental managers. The office also provides information to the third party, e.g., buyers, sellers, debtors, creditors, etc. As a clearing house, office is called upon to collect or assemble information, process it by arranging, classifying and analyzing the information and put it in a readily understandable form. Office needs to communicate, present or supply the required

information to managers to take decisions. To perform management functions of planning, organizing, controlling and supervising the diverse activities of an enterprise the prompt and accurate decisions are necessary and are mainly depend upon up-to-date, adequate, accurate, reliable and readily available information. The office is in charge of fulfilling all these essentials of good information. But if information supplied by the office to management is in complete, wrong, misleading, unreliable or bogus, out-of-date or stale, and it is not presented promptly when required, it is quite obvious that decisions and actions of the managers on the basis of such poor and defective information are bound to be wrong and unsound. Errors or mistakes in the decisions and actions of the managers may cause losses and create bad reputation of the organization.

(5) Due Protection of Assets: As a clearing house of information the office performs the functions of collection, recording, arrangement and supply of needed information and in addition the office performs the vital function of safeguarding the assets of the business. Cash and stocks are the most important business assets and office must see that both these assets are protected, and their proper accounts are maintained. All important and valuable records need to be kept in safe custody as it ensure due collection of debts. It must exercise detailed control and supervision over cash and other assets of the business. In short, every office performs a dual function Clearing house of information, and Warehouse of business assets.

Duties and Responsibilities of the Office Manager:

The entrepreneur must consider he office manager as important part of management team as office manager is the head of the administrative section; links in the chain of command from top management. The duties and responsibilities of the office manager are as follows:

(1) To ensure that office work is done properly office manager duty involves supervision and control of office staff. (2) To supervise and control the activities of all the sections in charge of various office services, such as mailing, communications, filing, recording, office stationery and supplies, etc. (3) To provide valuable advice to the heads of other departments on planning and organizing their sectional clerical/administrative activities. (4) To maintain up to-date office manual, various forms used and procedures of the organization. (5) To lay down the policies and procedures for all types of office activities. (6) Make an attempt to become familiar and study the methods applied in organization to introduce improvements and simplification in the office work. (7) To ensure that planning of the office work, its fair distribution among employees, is done so that tasks are accomplished in time and with accuracy. (8) To facilitate communication as well as coordination. (9) To recruit, select and provide training to subordinates and office employees. (10) To ensure that proper delegation is made; give credit where due, maintain discipline; ensure teamwork and maintain good human relations with the office staff. (11) To exercise due care for installation of office machines, their repairs and maintenance, and replacement of machines, where necessary. (12) To provide office equipment and supplies to all other departments and advises the departmental heads in order to secure economy in cost and uniformity in office work.

In short, the office manager has the responsibility of giving recognition to human values and treating office employees as human beings and not merely as mechanism in a machine. This will help in reducing smoking, absences, grievances, indiscipline, in organization and help improving punctuality, regular official dress wearing habit, proper delegation, training, motivation, among employees. Another major responsibility of office manager is related with proper availability and use of material resources and methods such as, costing, organization, checking on accuracy, stationery, office equipment and machinery, physical facilities in the office, work output, etc.

Managerial Functions in the-Office:

Management is the planning, organizing and controlling of the total business activities and the directing or motivating (leading) of the people working in the organization so that the use of 6 "M's" such as men, money, materials, machinery, methods and minutes, i.e., time, which results in the efficient achievement of planned goals or objectives.

(1) Planning of Office Activities: Office manager lay down objectives or goals in each area of office management; communicate these objectives to his subordinates; plan a suitable office layout and necessary organization structure based on objectives, policies, organization and its operations. The objective of office work is to offer economical, accurate, speedy and timely most efficient clerical services to all the executive departments costly. They also involved in formulating policies and procedures regarding all office activities.

(2) Organizing Office Work: Office manager will analyze office activities and then the work is classified or divided into manageable activities and jobs. These jobs/activities are grouped into an organization structure and then office manager will select people for performing different office work and management of the same will be done in different units or departments and he train them for jobs to be done in each department. Office manager also have to organize the physical facilities and equipment for performing the office work, such as office layout, furniture, equipment, office machines, etc.

(3) Motivating and Directing: Office manager must have leadership qualities to motivate and communicate different team who are responsible for various jobs. The power of an office manager exists for working with or through people but not over them. Office manager needs to induce people to offer voluntary co-operation in office work by making use of the means such as incentives and rewards for successful work; sound promotion policy; proper motivation and leadership to get things done through and with other people.

(4) Communicating: The office manager should ensure constant flow of information through suitable communication techniques and process. The communication may be horizontal and vertical or upward and downward in an organization but the effective communication is necessary to maintain adequate job knowledge, to carry out methods of instruction and to keep employees up-to-date on current information and possible changes.

(5) Controlling Office Activities: Office manager must prepare a budget remain accountable for quality and quantity of work as per budget. Office manager need to maintain speed, accuracy and duality of work; must meet deadline by following set standards and by measuring and comparing the results. He also make an attempt to control the cost factors of office services by checking the execution of plans and apply corrective measures to remove deviations and deficiencies found in the performance of employees. Effective control can reduce the cost of office services (Sherlekar, 2003).

12.8 Leading and Motivating

Meaning:

An entrepreneur must assume a wide range of roles, tasks, and responsibilities. But over and above all these roles the role of leader is very much important to become successful entrepreneur. Some entrepreneurs initially are uncomfortable in this role, but they must learn to be effective leaders if their companies are to grow and reach their potential.

Leadership is the process of influencing and inspiring others to work to achieve a common goal and then giving them the power and the freedom to achieve it (Thomas W. Zimmerer (2008).

According to Koontz and O'Donnel, leadership is generally defined as influence, the art and process of influencing people so that they will strive willingly towards the achievement of group goals. Thus, it can be said that leadership is the ability to secure desirable actions from a group or followers voluntarily without the use of coercion.

The leaders, while influencing the subordinates, perform some important functions such as taking initiative to lead the business by taking all steps to achieve predetermined targets; consider guiding as primary duty and communicate instructions and orders throughout the organization; act as a representative of the organization; encourage employees as the captain of the team to build team work; win the confidence of his colleagues; act as arbitrator and mediator to settle disputes so as to create a smooth relationship among employees, and prove to be a good planner: and administrator of rewards and punishments.

Challenges of Being a Leader:

Challenges involved in role of leader must be understood by an entrepreneur. In the past, many small business managers relied on fear and threats as leadership tools. Leadership skills are not easy to learn because without leadership ability, entrepreneurs-and their companies-never rise above their weaknesses; the work force today is more knowledgeable, has more options, is more skilled, and consequently demands a more sophisticated style of leadership. New demands on leaders are also placed by the raid pace of change in the new economy. The ways in which people work, the ways in which the various parts of an organization operate and interconnect is affected by changes in technology is changing, which further affect the ways in which competitors strive for market and in acquiring dominant position in market. A new style of leadership is required to survive or remain in the game as company must be operated by entrepreneur at new speed of business. For this leaders of small companies to become effective must gather information and make decisions with greater speed; give workers the resources and the freedom to solve problems and exploit opportunities as they arise; need to empower employees to act in the best interest of the business; trust in their employees and respect for their ability to make decisions. Due to such challenges many entrepreneurs have understood that the old style of fear and threats of leadership has lost its effectiveness and that they must develop a new, more flexible style of leadership that better fits the needs of modern workers and competitive conditions. Today's successful entrepreneur, however, is more like the leader who are known for their improvisation innovation, creativity, and freewheeling leadership style (Thomas W. Zimmerer (2008).

Leadership	Management
gets a small business going	keeps business going
leaders are the architects of small businesses	managers are the builders of small businesses
Some entrepreneurs are powerful leaders but are weak managers	Some entrepreneurs are good managers yet are poor leaders
Leadership deals with people; entrepreneur lead the people	Management deals with things (work, tasks); manager manage the things
Leadership deals with vision	Management deals with logistics toward that vision
Leadership deals with doing the right things (Effectiveness)	Management focuses on doing things right (Efficiency)
Leadership deals with examining the models/ standard on which managers are operating	Management operates within those models/ standard

Management and Leadership:

Management and leadership are essential to a company's success but are not the same. Leader hip without management is uncontrolled and management without leadership is without any inspiration or direction. The best bet for the entrepreneur/leader is to hire people with solid management skills to help them execute the vision they have for their companies. The difference (as given by Stephen Covey, author of Principle-Centered Leadership) between management and leadership is given below.

Leadership	Management
Concerned with dynamics of a situation, which provides hints on how to leverage or shape; concerned with setting or changing the culture	Concerned more with technique; sometimes preoccupied with maintaining order and the status quo, but otherwise with adapting to the culture
More concerned with positive possibilities	More concerned with negative consequences
Understand their strengths and weaknesses, and are willing to learn from their mistakes and grow; able and interested in helping others do the same	Tend to avoid risks for self protection, and hence growth is more limited; might understand strengths and weaknesses, but unaware of how to manage them to achieve goals
See relationships as opportunities for growth; personal goals in alignment with organizational goals; recognize that interdependence is the best way to achievement	See a more limited web of relationships in terms of immediately adjacent areas; tend to focus mostly on goals set by others, and work more independently within organizational limitations
leader innovates; develops; focuses on people; inspires trust; concerned with what and why; challenges status quo; does the right thing (effectiveness)	manager administers; maintains; focuses on systems and structure; relies on control; concerned with how and when; accepts the status quo; does things right (efficiency)

Source: Adapted from Thomas W. Zimmerer, (2008); www.seeta.com; pmcrunch.com; guides.wsj.com.

Leadership and management is not the same thing but both go together; are necessarily linked, and complementary to each other. Both are necessary but leadership comes first, then management, and are intertwined, one without the other means that a small business is going nowhere. Leadership is especially important for companies in the growth phase in order to keep the company and everyone to focus on its mission. At this stage, selling everyone in the company on the mission, goals, and objectives for which the leader is aiming is crucial to a business's survival and success (Thomas W. Zimmerer (2008).

Behavioural Pattern of Effective Leader:

Effective leaders exhibit certain behaviors discussed as below.

- For their employees, entrepreneur should **create a set of values and beliefs** on which they founded their companies and its vision is based on such values, and ensure that employees follow the same.
- Entrepreneurs not only define but constantly **reinforce the vision** of the firm and concentrate on communicating the firm's vision to every employee.
- Entrepreneur need to **respect and support** their employees not only to get respect but to get their employees to be dedicated to work and make the employees as most valuable resource.
- Entrepreneur should **become role model** through setting the example for their employees by

transmitting set of values and principles and demonstrate the importance of integrity for leader's effectiveness.

- Entrepreneur should **create a climate of trust** in the organization by demonstrating integrity; open communication and following a consistent pattern of behavior so that company can tackle the problem when encountered with a crisis.
- Entrepreneur should **convince employees to follow a path** so that **employees** efforts directed towards achieving challenging goals and keep employees driving toward those goals.
- Entrepreneur should **provide the resources** employees need to achieve their goals by not only providing the physical resources but also the necessary intangible resources such as training, coaching, and mentoring.
- Entrepreneur should **ensure effective communicate** with their employees and encourage employees for their feedback by becoming effective listener and promoting open communication.
- Entrepreneur should **value the diversity of their workers** by channelizing workers' varied skills, abilities, backgrounds, and interests in the right direction of adapting innovation and maintaining a competitive edge.
- Entrepreneur should **give recognition to their workers' successes** by celebrating and rewarding winners' performance and do everything that encourages employees towards top performance.
- Entrepreneur should **encourage creativity** among their workers by expressing his/her willingness to accept failure as a natural part of innovation and creativity and considering it as a key to future success.
- Entrepreneur should **maintain a sense of humor** to make the work interesting and exciting for everyone in the organization.
- Entrepreneur should **create motivating work climate** by providing the training and the freedom to their employees to achieve the predetermined goals and maximum performance.
- Entrepreneur should **adapt change agent** when change is needed by making sure that with the change company should be willing to change their policies, procedures, and processes within their businesses so that company moves in the right direction.
- Entrepreneur should **keep their eyes on the prospect** of business by remaining proactive and never expressing their satisfaction with present achievements and by focusing on building and maintaining sufficient momentum to carry their companies to the next benchmarks.

Entrepreneur must clearly **envisage the future** of the business in the light of uncertainties and the challenges by sharing repeatedly and forcefully vision for the firm with employees. To be effective, a small business leader must perform few vital tasks such as hire the right employees and constantly improve their skills; build an organizational culture and structure that allow both workers and the company to reach their potential; motivate workers to higher levels of performance and develop a management succession plan for a smooth transition of leadership to the next generation of leadership. Leading an organization, whatever its size, is one of the biggest challenges any manager faces. Yet, for an entrepreneur, leadership success is one of the key determinants of the company's success (Thomas W. Zimmerer (2008).

Leadership Styles:

Entrepreneurs need to adapt a suitable style of leadership. Leadership styles are the patterns of behavior

which a leader adopts in influencing the behavior of his followers or subordinates in the organizational context. These patterns emerge in the leader as he begins to respond in the same fashion under similar conditions or he develops habits of actions that become somewhat predictable to those who work with leader. Various researchers have proposed different leadership styles. These styles are either based on behavioral approach or situational approach. Based on behavioural approach various theories of leadership are available in literature which provides idea about models such as Power generation; Leadership as a continuum; Employee-production orientation; Likert's management system; Managerial grid etc. Based on situational approach various theories of leadership are available in literature such as Fiedler's contingency model; Hursey and Blanchard's situational model; Path-goal model etc.

Leadership styles are also broadly classified based on Motivation, Authority and supervision view points. On the basis of motivation leadership style can be positive or negative style. In positive style a leader motivates his followers to work hard by offering them rewards, for example, higher bonus. In negative styles, a leader forces his followers to work hard and punishes them for lower productivity. On the basis of Authority, leadership styles are divided into three types namely autocratic, democratic and laissez-faire or free-rein.

Autocratic leadership style is one in which leader dominates and drives his subordinates through coercion, command and the instilling of fear in his followers. The autocratic leaders tends to make decisions without involving subordinates, spells out work methods, provides workers with very limited knowledge of goals, and sometimes give negative feedback. An autocratic leader alone determines policies, plans and makes decisions. He demands strict obedience. Such leaders love power and love to use it for promoting their own ends. They never like to delegate their power for they fear that they may lose their authority. The merits of autocratic leadership is that, it can increase efficiency, save time, and get quick results under emergency conditions, chain of command and division of work are very clear. The demerits are people are treated machine-like cogs without human dignity, one way communication without feedback and the leader receives little or no input from his sub-ordinates for his decision-making which is dangerous in the current dynamic environment.

Democratic leadership style is the style of leadership also known as participative leadership, in which the entire group is involved in goal setting and achieving it. Democratic leader consults the subordinates on proposed actions and encourages participation from them. Democratic leaders let the group determine work methods, make overall goals known, and use feedback to help subordinates. A democratic leader follows the majority opinion as expressed by his group. Subordinates have considerable freedom of action. The leader shows greater concern for his people's interest, is friendly and helpful to them. He is always ready to defend their subordinates individually and collectively. This type of leadership encourages people to develop and grow, receives information and ideas from his subordinates to make decisions, and boosts the morale of employees. The demerits of this type of leadership are that some leaders may use this style as a way of avoiding responsibility and can take enormous amount of time for making decisions. **Laissez-faire or free-rein style** is the style in which the leaders exercise absolutely no control. Laissez faire leaders use their power very rarely. They give the group complete freedom and depend largely upon subordinates to set their own goals and the means of achieving them. He only provides information, materials and facilities to his subordinates. They see their role as one of aiding the operations of followers by furnishing them with information and acting primarily as a contact with the group's external environment. This type of leadership is employee centered avoid giving feedback to their subordinate. This type of leadership can be disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

Motivation:

A manager gets work done through others. Getting the work done depends mainly on whether a person has been motivated to do it. This can be done by creating in him a sense of responsibility and feeling of special interest in his work. Motivation is the degree of effort an employee exerts to accomplish a task; it shows up as excitement about work. Motivating workers to higher levels of performance is one of the most difficult and challenging tasks facing a small business entrepreneur or business manager. Motivating an employee is to create a need and a desire on the part of employee to better his performance. Motivation concern itself with will to work. It is a behavioural concept by which a manager tries to understand why people behave as they do. Motivation is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals. Performance of an employee depends on two factors, ability to work and willingness to work. Mathematically, Performance = Ability x willingness, and motivation is concerned with enhancing the willingness to work which improves the performance. Non-motivated workers create friction because entrepreneurs are themselves almost always highly motivated achievers.

Aspects of Motivation:

Motivation is an indispensible function of management. A person cannot work like a machine as he has dignity, self-respect, values, sentiments and aspiration apart from economic status. The efficiency of enterprise not only related with sophisticated machines but also upon satisfaction and desire of a person to involve him in work. Motivation encompasses complex aspects of human behavior. Motivation concept has its roots in motives within a person which induce him to behave in a particular manner.

The important aspects or features related with motivation are empowerment, job design, rewards, compensation and feedback.

Empowerment is the process of giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives. Empowerment of employees requires different style of management and builds the business as the people who work bring with them an amazing array of talents, skills, knowledge and abilities. Empowered workers become more successful on the job and at the same time entrepreneur becomes successful. For business empowerment brings benefits includes significant productivity gains, quality improvements, more satisfied customers, improved morale, and increased employee motivation to work.

Empowerment works best when an entrepreneur - is confident enough to give the entire authority and responsibility entrepreneur handle; plays the role of coach and facilitator; recognizes that empowered employees will make mistakes; hires people who can blossom in an empowered environment; trained workers continuously to upgrade their skills; trusts workers to do their jobs; listen workers when they have ideas, solutions, and suggestions; shares information with workers and recognizes workers' contribution.

Job design involves strategies to offer intrinsic rewards and motivation to workers. In an attempt to do the job simplification, manager break the work down into simple and standardized form, which organize the work in a extremely narrow, impersonal, monotonous and boring form that creates little challenges for motivation for workers; provide little opportunity for excitement, enthusiasm or pride in their work, and it leads to indifferent and unmotivated employees. To overcome such boring cycle entrepreneur/managers go for job enlargement, job rotation, job enrichment, flextime, and job sharing strategies. Job enlargement (horizontal job loading) is the type of job design that adds more tasks to a job to broaden its scope with an idea to make job more varied and to allow

employees to perform a more complete unit of work. Job rotation involves cross-training of employees so they can move from one job in the company to others, giving them a greater number and variety of tasks to perform. Cross-trained workers are more valuable because they give a company the flexibility to shift workers from low demand jobs to those where they are most needed. Job enrichment (vertical job loading) involves building motivators into a job by increasing the planning, decision-making, organizing, and controlling the functions workers perform. Flextime is an arrangement under which employees work a normal number of hours but have flexibility about when they start and stop work. Job sharing is the work arrangement in which two or more people share a single full-time job.

Rewards and compensation involves what an employee gets from the job itself are intrinsic rewards and the extrinsic rewards offered by entrepreneur/manager to motivate workers. Rewards and compensation must be based on offering incentives that are really important to people. The diversity of today's workforce requires entrepreneurs to be highly flexible and innovative in the compensation and benefits they provide. To attract and retain quality workers, the creative entrepreneurs offer employees a set of benefits designed to appeal to employees' needs and preferences. Beside, wages, salaries and attractive benefits used as a motivator, creative entrepreneurs have started offering intangible incentives such as praise, recognition, feedback, job security, promotions etc.

Feedback to employees is also used as motivator. Business owners must motivate employees for better performance in their job they provide feedback on progress towards targets and cab be a powerful motivator. For each critical element of the organization's performance areas such as quality of product or service, financial performance, status in market, productivity etc., and an entrepreneur should measure specific measures that connect daily operational responsibilities with the company's overall strategic direction. These measures become the benchmarks for measuring employees' performance and company progress (Thomas W. Zimmerer (2008).

What Motivates to Become an Entrepreneur?

When an individual face question of choosing a career he have options available such as to work for someone else, be self-employed in a profession or be an entrepreneur. An entrepreneur is one who initiates and establishes an economic activity and when he takes decision to start he strive for its success. Entrepreneurship is one of the fastest growing disciplines in colleges all over the world and also of increasing interest as career field for graduates. Entrepreneurship is the dream of millions of individuals around the world. There are number of reasons as well as changes occurring in the country which encourage entrepreneurship are given below.

- Growing unemployment in the country.
- Massive industrial sickness.
- Retirement at an early age through Voluntary Retirement Scheme.
- Growing realization is not just the province of a few superstars/business owners.
- Realization that owing one's own business still represents one of the pathways left for the middle and lower classes to build wealth.
- Important aspect is that anyone can become entrepreneur.
- There is no law against starting one's own venture.
- The type of venture to be created is subject to the entrepreneur's vision.
- Entrepreneurship has at least three benefits for society. It fosters (i) Economic Growth (ii) Increases productivity (iii) Creates new technologies, products and services.
- The psychological, social and economic factors also have an influence in becoming an entrepreneur.
- Apart from earning a livelihood and making profit, the entrepreneur is motivated by his/her social

standing, gaining social recognition, and to provide something to society.

- The motivational factor varies from place to place, time to time, entrepreneur to entrepreneur.
- The traits and motivation are moulded by the socio, economic, political and psychological environment and varies from country to country.
- Owing a business, investing one's personal capital, making final decisions, all have the thrill of risk and challenge.

Activity E:

1. Consider two to three small organizations discuss the leadership style followed by the top authorities of this organization and also critically examine the motivation activities adopted by this organization.

12.9 Communication

Meaning:

The process of communication is as old as man himself. It is hard to name human activity in which communication does not play an important role. This is truer in formal organizations in which people assemble to achieve their common objectives through coordinated efforts. Individuals placed in various departments may perform different activities but they are functionally interrelated. The working and maintenance of these relationships is possible only through communication. In addition, communication establishes connections of the organization with external community.

Communication means the process of passing information and understanding from one person to another. It is defined as the process of exchange of information, which brings about integration of interests aims and efforts among the members of a group organized for achievement of predetermined goals. Communication may be defined as a process of sharing facts, ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons.

Importance of Communication in Business:

The purpose of communication is to effect change, to influence action towards the welfare of the enterprise. Communication is essential because, it integrates the managerial function. Every aspect of manager's job may it be planning, organizing, staffing, directing and controlling involves communication.

Business persons share their business information with employees, suppliers, customers, distributers, Government, banks, insurance companies, etc. This sharing of information regarding business activities and their results is known as business communication. Business communication plays a very important role in the success of any business enterprise. The importance of communication in business is discussed below.

1. Provide Information: Business communication helps in providing information to the customers regarding the products and services of the business organization.

2. Quick Decision Making: Effective communication facilitates quick-decision making. In today's world of competition, quick-decisions are necessary. Proper Communication saves times, reduces wastage and cost and induces prompt action.

3. Effectively Managing Business Affairs: Proper communication helps businesspersons in managing the affairs of the business more efficiently. If the right type of information is made available at the right time through proper communication then the management can utilize it in the best possible manner.

4. Handling Grievances: In any organization where communication is proper, employees are motivated to work more because their complaints, suggestions and grievances are taken care of properly.

5. Improved Offerings of Business: In every field, technology is continuously changing. Proper communication places a business person in a better position to improve his products, relationship with employers, customers and others.

6. Achieving Objectives and Implementing Policies: Management of an organization is effective only when its communication machinery is effective. The very existence of management depends upon an effective machinery of communication. Effective communication machinery is important because it communicates, and helps in implementing, the policies and objectives of the organization on the one hand, and also helps in understanding the nature and behaviour of the people at work.

7. Sharing of Views between Management and Subordinates: Management communication is a two-way process. It means that the management must allow both the parties i.e., the management and the subordinates to convey their feelings, ideas, opinions, facts, grievances etc. to the other party. Communication is said to be a continuous process of exchange of views and ideas, but it should be both ways - downward and upward.

The communication machinery or process should not only provide the manager with a privilege of communicating orders and directions to the workers to get the work done towards the achievement of organizational objectives. This two-way traffic is advantageous to both the management and the workers. Managers, very often, like that the subordinates must listen to them and follow their orders and directions whatsoever. On the other hand, managers are not prepared to listen to their subordinates regarding what they think about them and of their suggestions, ideas or directions. They are not bothered about their subordinates' likes and dislikes and how they can contribute to the organizational objectives. Management, in this way, cannot be effective. Without giving subordinates an opportunity to be heard, their feelings will remain suppressed and they may breakdown at any time.

8. Correct Interpretation of Messages: A message can be interpreted by the recipient according to the image of the communicator in the mind of the recipient. If the image is bad, the version of the message may be distorted and interpreted differently. The bad image can be erased through proper communication from the other side, which is possible only when there is two-way communication in the organization.

9. Morale of Organizational Members: Thus, creation of organizational systems allowing two-way traffic will improve the morale of the workers on the one hand because they think that they have a say in the management, and will improve the working of the organization on the other hand, because management-worker relations develop in a cordial atmosphere. Thus, two-way communication is necessary for effective management.

Types of Communication:

Based on the direction of flow of information communications are classified as upward, downward and horizontal communication. Downward communication flows from people at higher level to those at the lower levels in the organizational hierarchy. The purpose of downward communication is to communicate policies, procedures, programs and objectives and to issue orders and instructions to subordinates. Upward

communication travels from subordinates to superiors. Upward communication is generally nondirective. Typical means of upward communications are suggestion systems, appeal and grievance procedures, complaint systems etc. Horizontal communication refers to transmission of information among positions of the same level. Horizontal communication helps to coordinate the activities of different departments. The production foreman and the maintenance foreman communicate directly without going through their managers. In this way horizontal communication avoids the much slower procedure of directing communication through a common superior.

Communication Process:

The communication process is the guide toward realizing effective communication. It is through the communication process that the sharing of a common meaning between the sender and the receiver takes place. Individuals that follow the communication process will have the opportunity to become more productive in every aspect of their profession. Effective communication leads to understanding.

The communication process is made up of four key components. Those components include encoding, medium of transmission, decoding, and feedback. There are also two other factors in the process, and those two factors are presented in the form of the sender and the receiver. The communication process begins with the sender and ends with the receiver. Communication process involves the sender, the transmission of a message through media and the receiver receives message as show in following figure 12.2:

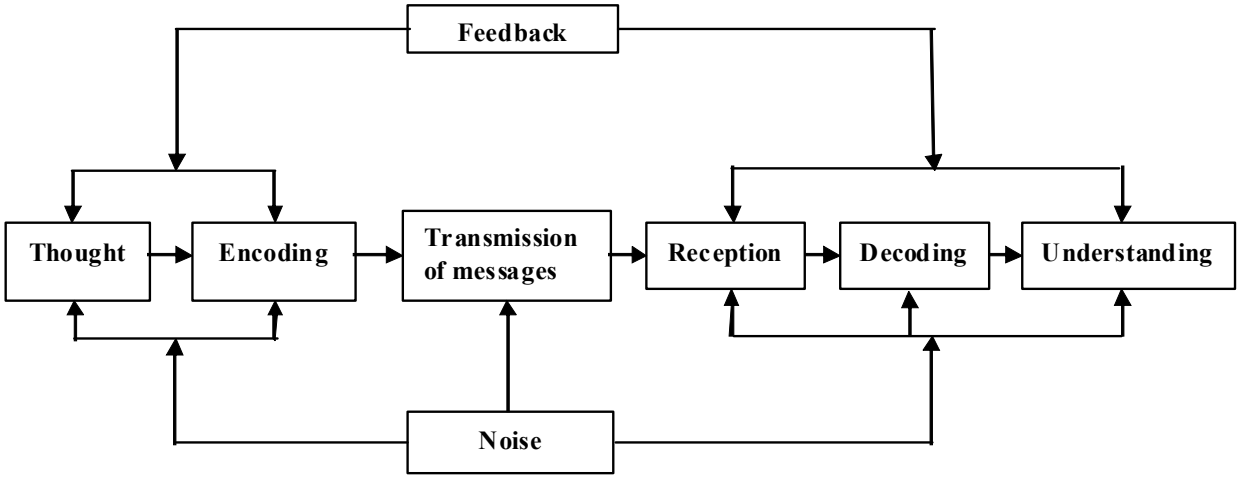


Figure 12.2 Communication Process

This process of communication always contains messages, which are to be transmitted between the parties. There are two parties, one is 'Sender', who sends the message and the other 'Receiver', who receives it. Generally the process of communication is said to be complete when the receiver understands the message and gives the feedback or response. At road-crossings red light of the traffic signal sends the message to stop the vehicle. When people stop their vehicles by seeing the red light, it is the feedback or response. This feedback may be in any form. Even while talking to your friend 'nodding of the head' is treated as feedback. Thus, feedback becomes an essential element in the process of communication along with message, sender and receiver.

1. Sender: Sender is the person who sends the message, also known as the source of information. Communication begins with a sender, who has a thought or idea which is then encoded in a way that can be understood by both the sender and the receiver. It is usual to think of encoding a message into the English language but there are many other ways of encoding such as translating thought into computer language. The sender may be an individual, group, or organization who initiates the

communication. This source is initially responsible for the success of the message. The sender's experiences, attitudes, knowledge, skill, perceptions, and culture influence the message. "The written words, spoken words, and nonverbal language selected are paramount in ensuring the receiver interprets the message as intended by the sender". All communication begins with the sender.

2. Message and Channel: Message is the subject matter of communication and contains facts, ideas, feelings or thoughts. The information is transmitted over a channel that links the sender and receiver. The message may be oral or written and it may be transmitted through a memorandum, a computer, telephone, telegram or television. Television of course also facilitates the transmission of gestures and visual clues.

At times, two or more channels are used. In a telephone conversation, for instance, two persons may reach a basic agreement that they later confirm by a letter. Since many choices are available, each with advantages and disadvantages, the proper selection of the channel is vital for effective communication. For example, when immediate feedback is necessary, oral communication channels are more effective because any uncertainties can be cleared up on the spot. In a situation where the message must be delivered to more than a small group of people, written channels are often more effective. Although in many cases, both oral and written channels should be used because one supplements the other.

3. Receiver: The receiver has to be ready for the message so that it can be decoded into thought. The next step in the process is decoding in which the receiver converts the message into thought. Accurate communication can occur only when both the sender and the receiver attach the same or at least similar meanings to the symbols that compose the message. Thus, it is obvious that a message encoded into French required the receiver who understands French. Similarly, a message in technical or professional jargon requires a recipient who understands such language. So communication is not complete unless it is understood. Understanding is in both the sender and the receiver.

4. Noise and Feedback in Communication: Unfortunately, communication is affected by 'noise' which is anything whether in the sender, the transmission or the receiver that hinders communication. For example, encoding may be faulty because of ambiguous symbols, inaccurate retention because of inattention of the receiver, decoding may be faulty because of wrong meaning attached to the words and symbols by the receiver or transmission may be interrupted which may be experienced in a poor telephone connection.

To check the effectiveness of communication, a person must have feedback. Feedback is receiver's response or reaction or reply to the message, which is directed towards the sender. One is never sure whether or not a message has been effectively encoded, transmitted and decoded or understood until it is confirmed by feedback. Similarly, feedback indicates whether individual or organizational change has taken place as a result of communication. Feedback is a key component in the communication process because it allows the sender to evaluate the effectiveness of the message. Feedback ultimately provides an opportunity for the sender to take corrective action to clarify a misunderstood message. Feedback plays an important role by indicating significant communication barriers: differences in background, different interpretations of words, and differing emotional reactions.

Activity F:

1. Make a list of various means of communication available at your locality. Give priority to any one means as per your requirement. Consider the cost involved and the benefits you derive from that means of communication while giving priority.

12.10 Summary

A business plan is used when one is starting a new business or a new process or product within a business. It includes not only a description of the new business, process or product, but also a discussion of how one plans on managing the marketing, development, production, and financing of this new venture. A business plan is a written description of your business's future. It is to a document that describes what entrepreneur plan to do and how he plans to do it. Business plans can help to perform a number of tasks for those who write and read them.

They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better. A business plan conveys business goals, the strategies use to meet them, potential problems that business may confront and ways to solve them, the organizational structure of business, including titles and responsibilities, and finally, the amount of capital required to finance venture and keep it going until it breaks even.

A good business plan follows generally accepted guidelines for the business concept, where entrepreneur discuss the industry, its business structure, particular product or service, and how it was planned to make business a success. It also covers the marketplace section, in which entrepreneur describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, entrepreneur also describes the competition and how entrepreneur position his business to beat competition. It also cover financial section contains business income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses.

Business plan is dynamic in nature and act as a guiding tool to the entrepreneur and therefore, it needs continuous review and updating to keep the plan viable in continuous changing environment. The concepts of productivity, product selection, location, layout decision, value engineering and quality awareness are as important determinants of success for a small enterprise. Business plan is an outline of a business and provide details of the finance, assets, staff, products or services and markets of proposed business venture. Business plan guides entrepreneur by identifying possible problems and sets out how entrepreneur intends to realize its objectives. Steps in business plan includes identifying and generating the idea; assessment of environment; analysis of idea's feasibility; preparation of project report and evaluation of and monitoring of business plan. Entrepreneurs thinking process is solidified through the business planning process. Bank or financial institution will need to be convinced of the viability of business, or business expansion and the same are done by business plan. The business plan also provides some guideposts in running business.

Pro forma statements are an integral part of business planning and control. Managers use them in the decision-making process when constructing an annual budget, developing long-range plans, and choosing among capital expenditures. Pro forma statements are also valuable in external reporting. Public accounting firms find pro forma statements indispensable in assisting users of financial statements in understanding the impact on the financial structure of a business due to changes in the business entity, or in accounting principles or accounting estimates. Although pro forma statements have a wide variety of applications for ongoing, mature businesses, they are also important for small businesses and start-up firms, which often lack the track record required for preparing conventional financial statements. As a planning tool, pro forma statements help small business owners minimize the risks associated with starting and running a new business. The data contained in pro forma statements can also help persuade lenders and investors to provide financing for a start-up firm. Break-even analysis (BEP Analysis) and techniques are the tools that finally tell the business owner or manager when he/she is making a profit or loss. Break-even charts and analysis will be part of

every budget the business owner put out. They enable entrepreneur to gauge the business' production rate accurately. They will tell whether an increase or a slowdown in production is called for. They are a vital part of the business owner's life. From these projections the break-even of the company can be calculated and ratios can be analyzed to study the financial feasibility of the proposed business venture. Ratio analysis is an analytical tool that entrepreneur can use to see how their business's financial affairs compare year to year and to other business firms in the same industry. The information and data gained from ratio analysis will help entrepreneur to make more informed business decisions and help to keep business economically viable.

Location of a plant is an important entrepreneurial decision because it influences the cost of production and distribution to a great extent. Therefore, an appropriate location is essential to the efficient and economical working of a plant. A firm may fail due to bad location or its growth and efficiency may be restricted. Plant layout may be defined as a technique of locating machines, processes and plant services within the factory so as to achieve the right quantity and quality of output at the lowest possible cost of manufacturing. It involves a judicious arrangement of production facilities so that workflow is direct.

The office can be likened to the eyes and ears of managers as it receives information on their behalf. It can be considered as the voice of management as it communicates with other departments and with the outside world on their behalf. It is also the mind of management as it acts as an organized warehouse of information. It also represents the hands of management as it is responsible to execute orders, instructions, plans and policies of management. The office is a reliable and dependable servant of management. It is the only visible contact between the business unit and the external world, e.g., office of banks, insurance companies, transport agencies, electricity companies, professional services like solicitors, chartered accountants, etc.

Leadership is generally defined as influence, the art of process of influencing people so that they will strive willingness towards achievement of group goals. A leader is a guide, planner, arbitrator and administrator. On the basis of authority, leadership styles are categorized as autocratic, democratic and laissez faire. Motivating is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals. Becoming an entrepreneur can create fear or anxiety for many people because of the risks involved when working for oneself. You don't start out with a certain income and you also don't know whether your venture will succeed. But even though there may be risks involved, some of the benefits of becoming an entrepreneur look more appealing than the benefits of working at a conventional job.

Communication can best be summarized as the transmission of a message from a sender to a receiver in an understandable manner. The importance of effective communication is immeasurable in the world of business and in personal life. From a business perspective, effective communication is an absolute must, because it commonly accounts for the difference between success and failure or profit and loss. It has become clear that effective business communication is critical to the successful operation of modern enterprise. Every business person needs to understand the fundamentals of effective communication.

12.11 Self Assessment Questions

1. What is Business Planning? Explain the process of business planning by relating it with real life examples considering any organization of your choice.
2. What is profit planning? Discuss the process of profit planning.
3. 'Financial statements report both on a firm's position at a point of time and on its operations over some past period'. Discus the statement.
4. Discuss the key decisions of production and operation management along with suitable examples.

5. What is office management? Discuss the managerial functions of office.

6. What do you mean by leadership? Explain various styles of leadership.

7. What do you understand by motivation? Why people are to be motivated? What motivates an entrepreneur to start venture?

8. What is Communication? Why communication is very important in business? With block diagram explain the communication process.

9. Write Short Notes on following;
   (a) Importance of Well-Conceived Business Plan
   (b) Elements of business plan.
   (c) Importance of Ratio analysis in making financial analysis of organization.
   (d) Functions of a Modern Office
   (e) Duties and Responsibilities of the Office Manager
   (f) Management and Leadership
   (g) Behavioural Pattern of Effective Leader
   (h) Aspects of Motivation
   (i) Importance of Communication in Business
   (j) Types of Communication

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Unit - 13 : Marketing Management for Small Business

Structure of Unit:

13.0 Objectives
13.1 Marketing Problems of Small Scale Units: Introduction
13.2 Pricing Policy
13.3 Channels of Distribution
13.4 Advertising
13.5 Government Purchase Programme
13.6 Industrial Sickness
13.7 Summary
13.8 Self Assessment Questions
13.9 Reference Books

13.0 Objectives

After computing this unit, you would be able to:

- Understand Marketing Problems faced by Small Scale Units.
- Know about Pricing Policy
- Classify the Channels of Distribution
- Learn the Significance of Government Purchase Programme
- Know about Advertising and Types of Advertising
- Get knowledge about Industrial Sickness
- Point out various Signals and Symptom of Industrial Sickness.

13.1 Marketing Problems of Small Scale Units : Introduction

In a small business, the marketing function come across entire company, affecting entry aspect of its operation from production to marketing.

With increasing competition small business owners face many problem related to finance, bargaining, cost, quality etc. Small business faces the following problems in the field of marketing:-

1. **Low Product Quality :** It is very difficult for small units to have quality testing equipments. Therefore small units are compelled to compete in terms of product price than quality.
2. **Problem of Brand Image :** Large scale units formulate their strategy and create brand image with the help if advertisement and media. But small scale units face a problem of brand image due to their limited propaganda.
3. **Limited Market:** Small scale units lack transport, storage and ware housing facilities. Thus generally they cater to the needs of the local and limited market.
4. **Lack of Bargaining Skill:** These are forced to sell their products at very low prices.
5. **Problem of Credit Sales:** Small units have to borrow excessive working capital than what is really needed. Therefore cost of production is increased due to interest lost.
6. **Lack of Market Research:** Due to the less capital small scale units take less interest in market research.

7. **Competition from Large Scale Units:** Small scale units face a fierce competition from their counterparts medium and large scale industries. Small units are unable to compete with large scale units as their size and scale of production are small and less cost effective.

8. **Lack of Trained Personnel**: Most of the employees are untrained and inefficient having less knowledge of marketing.

9. **Other Problems:**
   a) Poor customer satisfaction
   b) Outdated technology
   c) Slow speed of market communication

Activity A:

1. According to you what is the other marketing problems faced by small scale enterprises?

13.2 Pricing Policy

Pricing is the policy by which a company determines the wholesale and retail prices for its products or services. **Pricing** is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. It is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. The other three aspects of marketing mix are product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers.

Objectives of Pricing

Some of the more common pricing objectives are:

- maximize long-run profit
- maximize short-run profit
- increase sales volume (quantity)increase monetary sales
- increase market share
- obtain a target rate of return on investment (ROI)
- obtain a target rate of return on sales
- maintain price leadership
- desensitize customers to price
- discourage new entrants into the industry
- match competitors prices
- encourage the exit of marginal firms from the industry
- survival

Factors of the Pricing Policy

The following factors are to be considered while fixing the prices of the product.

1. **Profit Maximization in the Short Term**: The primary objective of the firm is to maximize its profits. Pricing policy as an instrument to achieve this objective should be formulated in such a way as to maximize the sales revenue and profit**.** Maximum profit refers to the highest possible of profit. In the short run, a firm not only should be able to recover its total costs, but also should get excess revenue over costs. This will build the morale of the firm and instil the spirit of confidence in its operations. It may follow skimming price policy, i.e., charging a very high price when the product is

launched to cater to the needs of only a few sections of people. It may exploit wide opportunities in the beginning. But it may prove fatal in the long run. It may lose its customers and business in the market. Alternatively, it may adopt penetration pricing policy i.e., charging a relatively lower price in the latter stages in the long run so as to attract more customers and capture the market.

2. **Profit Optimization in the Long Run:** The traditional profit maximization hypothesis may not prove beneficial in the long run. With the sole motive of profit making a firm may resort to several kinds of unethical practices like charging exorbitant prices, follow Monopoly Trade Practices (MTP), Restrictive Trade Practices (RTP) and Unfair Trade Practices (UTP) etc. This may lead to opposition from the people. In order to overcome these evils, a firm instead of profit maximization, aims at profit optimization.

3. **Price Stabilization**: Price stabilization over a period of time is another objective. The prices as far as possible should not fluctuate too often. Price instability creates uncertain atmosphere in business circles. Sales plan becomes difficult under such circumstances. Hence, price stability is one of the pre requisite conditions for steady and persistent growth of a firm. A stable price policy only can win the confidence of customers and may add to the good will of the concern. It builds up the reputation and image of the firm.

4. **Facing Competitive Situation**: One of the objectives of the pricing policy is to face the competitive situations in the market. In many cases, this policy has been merely influenced by the market share psychology. Wherever companies are aware of specific competitive products, they try to match the prices of their products with those of their rivals to expand the volume of their business. Most of the firms are not merely interested in meeting competition but are keen to prevent it. Hence, a firm is always busy with its counter business strategy.

5. **Maintenance of Market Share**: Market share refers to the share of a firm's sales of a particular product in the total sales of all firms in the market. The economic strength and success of a firm is measured in terms of its market share. In a competitive world, each firm makes a successful attempt to expand its market share. If it is impossible, it has to maintain its existing market share. Any decline in market share is a symptom of the poor performance of a firm. Hence, the pricing policy has to assist a firm to maintain its market share at any cost.

6. **Capturing the Market:** Another objective in recent years is to capture the market, dominate the market, command and control the market in the long run. In order to achieve this goal, sometimes the firm fixes a lower price for its product and at other times even it may sell at a loss in the short term. It may prove beneficial in the long run. Such a pricing is generally followed in price sensitive markets.

7. **Entry into New Markets:** Apart from growth, market share expansion, diversification in its activities a firm makes a special attempt to enter into new markets. Entry into new markets speaks about the successful story of the firm. Consequently, it has to bear the pioneering and subsequent risks and uncertainties. The price set by a firm has to be so attractive that the buyers in other markets have to switch on to the products of the candidate firm.

8. **Deeper Penetration of the Market**: The pricing policy has to be designed in such a manner that a firm can make inroads into the market with minimum difficulties. Deeper penetration is the first step in the direction of capturing and dominating the market in the latter stages.

9. **Achieving a Target Return**: A predetermined target return on capital investment and sales turnover is another long run pricing objective of a firm. The targets are set according to the position of individual firm. Hence, prices of the products are so calculated as to earn the target return on cost of production, sales and capital investment. Different target returns may be fixed for different products or brands or markets but such returns should be related to a single overall rate of return target.

10. **Target Profit on the Entire Product Line Irrespective of Profit level of Individual Products:** The price set by a firm should increase the sale of all the products rather than yield a profit on one product only. A rational pricing policy should always keep in view the entire product line and maximum total sales revenue from the sale of all products. A product line may be defined as a group of products which have similar physical features and perform generally similar functions.

11. **Long Run Welfare of the Firm**: A firm has multiple objectives. They are laid down on the basis of past experience and future expectations. Simultaneous achievement of all objectives is necessary for the overall growth of a firm. Objective of the pricing policy has to be designed in such a way as to fulfill the long run interests of the firm keeping internal conditions and external environment in mind.

12. **Ability to Pay**: Pricing decisions are sometimes taken on the basis of the ability to pay of the customers, i.e., higher price can be charged to those who can afford to pay. Such a policy is generally followed by those people who supply different types of services to their customers.

13. **Ethical Pricing:** Basically, pricing policy should be based on certain ethical principles. Business without ethics is a sin. While setting the prices, some moral standards are to be followed. Although profit is one of the most important objectives, a firm cannot earn it in a moral vacuum. Instead of squeezing customer, a firm has to charge moderate prices for its products. The pricing policy has to secure reasonable amount of profits to a firm to preserve the interests of the community and promote its welfare.

Activity B:

1. Present the factors that influence the pricing strategy of an organization. Which among them are non-controllable? Why?

13.3 Channels of Distribution

Meaning

Channel of distribution are mainly concerned with the physical distribution of goods and services. It is the pipeline through which products move from producer to consumer. It consists of all the middlemen who participate in the distribution of goods and services.

Every small scale entrepreneur requires a channel that can distribute his products to the right customers at right place at the right time and at the right cost.

Kinds of Channels of Distribution

Depending on the number of middlemen involved, channels of distribution may be categorized. A channel symbolizes the path for movement of title, possession and payment for goods and services. Channels of distribution may be classified as follows:

(i) **Manufacturer – Customer – Channel (Direct Sale) :** This is a shortest and simplest channel a product can follow to the market. A producer may sell directly through his retail stores (e.g. Bata),

through mail or through door to door selling. But a small scale manufacturer rarely uses this channel as it requires investment and expertise for direct selling. Hence this channel is not popular for a wider market. This is more common in the distribution of industrial goods like heavy machinery, industrial chemicals etc.

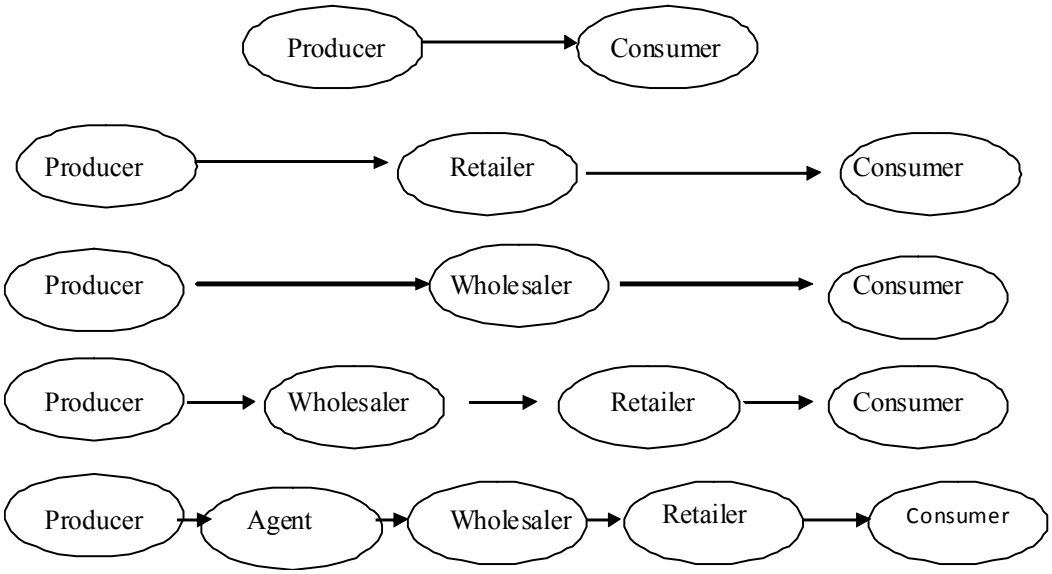


Figure 13.1 : Channels of Distribution

(ii) Manufacturer – Retailer – Customer: This channel option is preferable when buyers are large retailers, e.g. a department store, discount house or cooperative stores. This channel is very popular in the distribution of consumer durables like, TV sets, Washing Machines, Mobiles etc. The wholesaler can be by passed in this trade route. It is also suitable when products are perishable and speed in distribution is essential. However, the manufacturer has to perform functions of a wholesaler such as storage, insurance and transport.

(iii) Producer – Wholesaler – Consumer: Wholesaler may by – pass retailer when there are large and institutional buyers e.g., business buyers, government, consumer cooperatives, educational institutions etc.

(iv) Producer – Wholesaler – Retailer – Consumer: This is a normal, regular and popular channel option used in groceries, drugs, cosmetics etc. It is quite suitable for small scale producers under the given conditions: (a) He has a narrow product line. (b) He has limited finance. (c) Wholesalers are specialized and can provide strong promotional support. (d) Products are durable and not subject to physical deterioration or fashion change.

(v) Producer – Agent – Wholesaler – Retailer – Consumers: In this channel the producer uses the service of an agent middleman such as a sole selling agent, for the initial dispersion of goods. The agent may distribute to wholesalers, who in turn sell to retailers. Agent middlemen generally operate at wholesale level. They are common in agricultural marketing.

Choice of Channel of Distribution:

Selection of distribution channel is a difficult decision. Channels decisions also require special attention as these involve long term commitments to other firms with whom marketer enters into a contract, chosen channel cannot be terminated overnight. While choosing a distribution channel, the producer should compare

the costs, sales volume and profit expected from alternative channels of distribution. A small scale manufacturer has to consider a number of factors for selection of right channel for distribution. The following are the factors:

1. **Product:** (a) If a commodity is perishable of fragile, a producer prefers few and controlled levels of distribution. (b) For durable goods longer and diversified channel may be necessary. (c) When product is technically complex dependable installation and maintenance services are required. Therefore computers and such other products are sold directly. (d) Standardized and highly branded products like tooth paste soap, detergents etc. can better be sold through a long channel.
2. **Nature of Market:** (a) For consumer market, retailer is essential, whereas in business market we can eliminate retailer. (b) If the market size is large, we have many channels, whereas in a small market direct selling may be profitable. In case of mass market and geographically scattered customers, a longer channel becomes necessary. Customers' requirements for credit, home delivery, etc. also influence choice of channel of distribution.
3. **Middlemen :-** (a) Middlemen who can provide wanted marketing services will be given first preference (b) The selected middlemen must offer maximum co-operation particularly in promotional services (c) Legal restrictions are important. For example liquor and drugs are to be marketed through licensed shops only.
4. **Competitors:** Marketers closely watch the channels used by rivals. Sometimes marketers deliberately avoid customary channels which are dominated by rivals and adopt different channel strategy.
5. **Nature of firm:** Direct selling is possible only when the manufacturing is financially strong and possesses marketing expertise. For a single product firm, direct selling is not economical. Distribution policy of the firm also influences the choice of distribution channel.

Activity C:

1. Present a scheme of your choice of the distribution channels for a low price, low tech domestic consumption product. Margins could be small but sales quantum will be huge. Justify each channel option.

13.4 Advertising

Advertising can be defined as communicating with target audiences through paid, non-personal messages, usually placed in a mass medium. Advertising is the easiest but absolutely, more expensive alternative for marketing communications. That is, the initial outlay for an advertising campaign may be the most expensive option for promotion. However, advertising may possibly provide the lowest 'cost per contact.' Advertising is the promotion of a company's products and services carried out primarily to drive up sales of the products and services. It is also done to build a brand identity and communicate changes in old products or introduce new product/services to the customers.

Advertising has become an essential element of small scale industries and hence SSI's allot a considerable amount of resources towards their advertising budget. There are several reasons for advertising, some of which are as follows:

- Increasing the sales of the product/service.
- Creating and maintaining a brand identity or brand image.
- Communicating a change in the existing product line.

- Introduction of a new product or service.
- Increasing the buzz-value of the brand or the company.

The Main Features of Advertising are as Under:

1. It is directed towards increasing the sales of business.
2. Advertising is a paid form of publicity
3. It is non-personal. They are directed at a mass audience and nor at the individual as is in the case of personal selling.
4. Advertisement is identifiable with their sponsor of originator which is not always the case with publicity or propaganda.

Functions of Advertising

The purpose of advertising is nothing but to sell something -a product, a service or an idea. The real objective of advertising is effective communication between producers and consumers. The following are the main functions of advertising:

1. **Preparing Ground for New Product:** New product needs introduction because potential customers have never used such product earlier and the advertisement prepares a ground for that new product.
2. **Creation of Demand:** The main objective of the advertisement is to create a favorable climate for maintaining of improving sales. Customers are to be reminded about the product and the brand. It may induce new customers to buy the product by informing them its qualities since it is possible that some of the customers may change their brands.
3. **Facing the Competition:** Another important objective of the advertisement is to face to competition. Under competitive conditions, advertisement helps to build up brand image and brand loyalty and when customers have developed brand loyalty, becomes difficult for the middlemen to change it.
4. **Creating or Enhancing Goodwill:** Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company. This, in turn, increases the market receptiveness of the company's product and helps the salesmen to win customers easily.
5. **Informing the Changes to the Customers:** Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc., they must be informed to the public by the producer through advertisement.
6. **Neutralizing Competitor's Advertising:** Advertising is unavoidable to complete with or neutralize competitor's advertising. When competitors are adopting intensive advertising as their promotional strategy, it is reasonable to follow similar practices to neutralize their effects. In such cases, it is essential for the manufacturer to create a different image of his product.
7. **Barring New Entrants:** From the advertiser's point of view, a strongly built image through long advertising helps to keep new entrants away. The advertisement builds up a certain monopoly are for the product in which new entrants find it difficult to enter.

In short, advertising aims at benefiting the producer, educating the consumer and supplementing the salesmen. Above all it is a link between the producer and the consumer.

Importance of Adverting

Advertising broadens the knowledge of the consumers. With the aid of advertising, consumers find and buy necessary products without much waste of time. This speeds up the sales of commodities, increases the

efficiency of labour in distribution, and diminishes the costs of selling. The main benefits of advertising may be narrated as follows:

1. Benefits to Manufacturers:

1. It increases sales volume by creating attraction towards the product.
2. It helps easy introduction of new products into the markets by the same manufacturer.
3. It helps to create an image and reputation not only of the products but also of the producer or advertiser. In this way, it creates goodwill for the manufacturer.
4. Retail price, maintenance is also possible by advertising where price appeal is the promotional strategy.
5. It helps to establish a direct contact between manufacturers and consumers.
6. It leads to smoothen the demand of the product. It saves the product from seasonal fluctuations by discovering new and new usage of the product.
7. It creates a highly responsive market and thereby quickens the turnover that results in lower inventory.
8. Selling cost per unit is reduced because of increased sale volume. Consequently, product overheads are also reduced due to mass production and sale.
9. Advertising gives the employees a feeling of pride in their jobs and to be in the service of such a concern of repute. It, thus inspires the executives and worker to improve their efficiency.
10. Advertising is necessary to meet the competition in the market and to survive.

2. Benefits to Wholesalers and Retailers:

1. It increases the rate of the turn-over of the stock because demand is already created by advertisement.
2. It supplements the selling activities.
3. The reputation created is shared by the wholesalers and retailers alike because they need not spend anything for the advertising of already a well advertised product.
4. It ensures more economical selling because selling overheads are reduced.
5. It enables them to have product information.

3. Benefits to Consumers:

1. Advertising stresses quality and very often prices. This forms an indirect guarantee to the consumers of the quality and price. Further large scale production assumed by advertising enables the seller to seller product at a lower cost.
2. Advertising helps in eliminating the middlemen by establishing direct contacts between producers and consumers. It results in cheaper goods.
3. It helps them to know where and when the products are available. This reduces their shopping time.
4. It provides an opportunity to the customers to compare the merits and demerits of various substitute products.
5. This is perhaps the only medium through which consumers could know the varied and new uses of the product.
6. Modern advertisements are highly informative.

4. Benefits to Salesmen:

Salesmanship is incomplete without advertising. Advertising serves as the forerunner of a salesman in the distribution of goods. Sales is benefited the advertisement in following ways:

1. Introducing the product becomes quite easy and convenient because manufacturer has already advertised the goods informing the consumers about the product and its quality.
2. Advertising prepares necessary ground for a salesman to begin his work effectively. Hence sales efforts are reduced.
3. The contact established with the customer by a salesman is made permanent through effective advertising because a customer is assumed of the quality and price of the product.
4. The salesman can weigh the effectiveness of advertising when he makes direct contact with the consumers.

5. Benefits to Community or Society:

1. Advertising, in general, is educative in nature. In the words of the late President Roosevelt of the U.S.A., "Advertising brings to the greatest number of people actual knowledge concerning useful things: it is essentially a form of education and the progress of civilization depends on education."
2. Advertising leads to a large-scale production creating more employment opportunities to the public in various jobs directly or indirectly.
3. It initiates a process of creating more wants and their satisfaction higher standard of living. For example, advertising has made more popular and universal the uses of such inventions as the automobiles, radios, and various household appliances.
4. Newspapers would not have become so popular and so cheap if there had been no advertisements. The cheap production of newspapers is possible only through the publication of advertisements in them. It sustains the press.
5. It assures employment opportunities for the professional men and artist.
6. Advertising does provide a glimpse of a country's way of life. It is, in fact, a running commentary on the way of living and the behaviour of the people and is also an indicator of some of the future in this regard.

Types of advertising:

There exist various media which can be effectively used for advertising. Mentioned below are the various categories or types of advertising:

1. Print Advertising - Newspapers, Magazines, Brochures, and Fliers: Print media has always been a popular advertising option. Advertising products via newspapers or magazines is a common practice. In addition to this, the print media also offers options like promotional brochures and fliers for advertising purposes. Often, newspapers and magazines sell the advertising space according to the area occupied by the advertisement, the position of the advertisement in the publication (front page/middle page, above/below the fold), as well as the readership of the publications. For instance, an advertisement in a relatively new and less popular newspaper will cost far less than an advertisement in an established newspaper that has a high readership. The price of print ads may also depend on quality of the paper and the supplement in which they appear. For example, an advertisement in the glossy (and popular) supplement of a newspaper costs more than one in a supplement which uses mediocre quality paper.

2. Broadcast Advertising - Television, Radio and the Internet: Broadcast advertising is a very popular advertising medium that constitutes several branches like television, radio or the Internet. Television advertisements have been very popular ever since they were introduced. The cost of

television advertising often depends on the duration of the advertisement, the time of broadcast (prime time/lull time), sometimes the show on which it will be broadcast, and of course, the popularity of the television channel itself. The radio might have lost its charm owing to new age media. However it remains the choice of small-scale advertisers. Radio jingles have been very a popular advertising medium and have a large impact on the audience, which is evident in the fact that many people still remember and enjoy old popular radio jingles.

3. Outdoor Advertising - Billboards, Trade-shows and Events: Outdoor advertising is also a very popular form of advertising. It makes use of several tools and techniques to attract the customers outdoors. The most common examples of outdoor advertising are billboards, kiosks, and also events and trade-shows organized by the company. Billboard advertising is very popular. However it has to be really terse and catchy in order to grab the attention of the passersby. Kiosks not only provide an easy outlet for the company's products but also make for an effective advertising tool to promote the company's products. Organizing special events or sponsoring them makes for an excellent advertising opportunity and strategy. The company can organize trade fairs, or even exhibitions for advertising their products. If not this, the company can organize several events that are closely associated with their field. For instance a company that manufactures sports utilities can sponsor a sports tournament to advertise its products.

4. Public Service Advertising - Advertising for Social Causes: Public service advertising is a technique that makes use of advertising as an effective communication medium to convey socially relevant messages about important matters and social causes like AIDS, energy conservation, political integrity, deforestation, illiteracy, and poverty and so on.

Activity D:

1. Advertising expenses are usually wasteful, with no guarantee of enhanced sales or higher loyalty from among the target audience." Do you agree with this statement? Present your view point.

13.5 Government Purchase Programme

Government provides marketing assistance to small scale firms to enable them to overcome the problem as small scale firms face several problems in marketing their products. Some of the agencies which provide marketing assistance and their schemes of assistance are described as follows:

Central Government Stores Purchase Programme

The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56. NSIC (National Small Scale Industries Corporation) registers Micro & small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases.

Benefits of Registration

- Issue of tender sets free of cost.
- Advance intimation of tenders issued by DGS&D.
- Exemption from payment of earnest money.
- Waiver of security deposit up to the monetary limit for which the unit is registered.
- Issue of competency certificate in case the value of an order exceeds the monetary limit, after due verification.

Small Enterprises registered with the Director of Industries (DI) / having acknowledgement of Memorandum (EM) from the Office Of Commissioner of Industries (Registration) and are in continuous production of stores for a minimum period of ONE YEAR as manufacturing small enterprises as well as Small Enterprises engaged in providing or rendering services who own workshop of their own or on lease basis and have the commercial and technical competence to produce stores/provide services for supply to the Central/State Government Departments and Central/State Government Public Sector Undertakings etc. conforming to BIS or such standards as required by the Government buying agencies.

Small Enterprises shall have to apply on the prescribed application form in Duplicate and to be submitted to the concerned Zonal/Branch Office of NSIC located nearest to the unit. In case of any difficulty in filling the application form and completing the documentation, they have to consult any of the Zonal / Branch office of NSIC. The application form containing Terms & conditions are available free of cost from all offices of the NSIC.

The guidelines attached with the Application Form provide a checklist for the documents that are required to be submitted along with the application

Government's Purchase Preference Policy for SSI Products

Realizing that small scale units face the problem of marketing their products at remunerative prices, government stores purchase programme was initiated to assist small-scale industries in obtaining a fair share of the total purchases made by the government and its departments. bulk and departmental buyers such as the railways, defence and communication ministries and companies are invited to participate in buyer-seller meets to enrich ssi unit's knowledge regarding terms and conditions, quality standards, etc required by the buyer.

Canteen Stores Department (India)

This is yet another Government undertaking to purchase small sector products. Its Head office is located at Mumbai. Its canteens are established at various cantonments and defence places. The CDS (I), Mumbai purchases consumable articles in large quantities. The entrepreneurs who desire to market their products through this organization need to contact the canteen Stores Department in its head office at Mumbai.

Purchase by State Government

Small scale units also get help from DGSD (Director General of Supplies and Disposals) in marketing their products. The State Government have given price preference to small scale units ranging from 10to 15 per cent in their purchase programme. The price preference is generally given to small scale units located in particular State. The highest price preference up to 17% is given by Himachal Pradesh to its small scale units in India.

Reservation of Products

The Government of India recognizes the vital role of small scale industries in industrial and economic development. Thus it has come forward to rescue of small scale units in variety of aspects. The reservation of items for exclusive purchase from small scale industries is also one such measure initiated by Government. Small scale industries suffer from shortage of capital and financial resources thus they lack in staying capacity and are often forced to sell their products at unreasonable price. The number of reserved items for exclusive purchase from small scale units has been continuously increasing.

Activity E:

1. What was the basic thrust of policies for small scale industries in previous five years?

2. Visit a ssi unit-
   a) Which government institution/agency plays a dominant role in buying the Products manufactured by it for government use?
   b) What are the new initiatives taken by the government to help SSI's?

13.6 Industrial Sickness

Definition

In common parlance, a sick unit is one which is not healthy. Financial institution considers a unit sick when it fails to meet its contractual obligation.

According to Sick Industrial Companies (Special Provisions) Act, 1985, a sick industrial undertaking means, "an industrial company (registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year."

Signals and Symptoms of Industrial Sickness

Common symptoms of industrial sickness include failure to pay statutory liabilities like provident funds and E.S.I. contributions, failure to pay timely installment of capital and interest or loans taken from financial institutions and through public deposits, increase in inventories with a large number of slow or non moving item, high rate of rejection of goods manufactured, low capacity utilization and frequent industrial dispute.

Industrial units may become sick at different stages. Some industrial units are 'born sick' some achieve sickness and some of them have sickness thrust upon them. Following factors may cause the **signals** of the industrial sickness -

1. **Failure to Pay Statutory Liabilities**: Financial management causes failure to pay statutory liabilities like provident funds and E.S.I. contribution.
2. **Increase in Inventories**: Poor inventory management in respect of finished goods as well as inputs put unit in a trouble and the result is sickness inventories.
3. **Failure to Pay Loan:** Industrial units fail to pay timely installment of capital and interest on loans taken from financial institution and through public deposits. It is a major symptom of industrial sickness.
4. **Rejection of Goods:** Due to the declaiming in technical efficiency rejection of the goods in possible.
5. **Others:**
   (i) Dealing in capacity utilization
   (ii) Non submission of data to banks and financial institutions.
   (iii) Frequent breakdowns in plants and equipments.
   (iv) Irregularity in maintaining bank accounts.
   (v) Frequent turnover of personnel in the industry.

Symptoms of Industrial sickness

The persistence of various signals over a long period of time becomes symptoms of industrial sickness. The various symptoms ultimately reflect on plant performance, ratios, share market price and capacity utilization. Some of the major symptoms which characterize industrial sickness are as follows.

(i) Persisting shortage of cash.
(ii) Widespread use of creative accounting.
(iii) Deteriorating financial ratios.
(iv) Continuous tumble in the price of the shares.
(v) Delay in the audit of annual account.
(vi) Degradation of employee morale and desperation among the management team.
(vii) Delay in payment of statutory dues.

13.7 Summary

All types of business enterprises face marketing problems. But the problems like competition from large scale sector, lack of sales promotion, weak bargaining power, are more serious in case of small scale industries. Small scale units do not always follow full cost pricing. Rather these firms often adjust price according to changes in the market conditions. Selection of distribution channel is a crucial decision. For this small scale enterprises may use wholesaler, retailer, and agent as middleman. Advertising helps small scale units to face competition. Types of Advertising are print advertising, broadcast advertising internet outdoor advertising. Government provides marketing assistance to small scale firms to enable them to overcome these problems. Failure to pay statutory liabilities Increase in inventories, persisting shortage of cash, and delay in the audit of annual account are some of the signals and systems of industrial sickness.

13.8 Self Assessment Questions

1. Explain the marketing problems of small scale units in India. What agencies have been set up at Central and State levels to offer marketing assistance?

2. Enumerate the pricing policies in detail.

3. 'Wholesalers perform so many important functions that it is not possible to eliminate them from the channels of distribution.' Do you agree with it? Critically evaluate the statement considering the types of wholesalers & functions performed by them?

4. "Sickness in small scale sector is growing at an alarming rate." Critically examine the factors responsible for this and suggest a suitable strategy to lower the mortality rate?

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Unit - 14 : Policy Framework for Small Business

Structure of Unit:

14.0 Objectives
14.1 Introduction
14.2 Problems of Small Entrepreneurs
14.3 The Micro, Small & Medium Enterprise Development Act (MSMED), 2006
14.4 Government Agencies and Institutional Support to Entrepreneurs
14.5 Summary
14.6 Self Assessment Questions
14.7 Reference Books

14.0 Objectives

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

- Understand the policies of the Government to promote entrepreneurship in India.
- Know about the provisions of the Micro, Small and Medium Enterprise Development Act, 2006
- Learn about the Government Agencies and institutions supporting and facilitating entrepreneurs in the country.

14.1 Introduction

Micro, small and medium entrepreneur's problems vary from big entrepreneurs. This is more relevant to tiny and small enterprises. They are like toddlers in the play school and to step up into the nursery or higher classes nurturing is very important. The Government is expected to nourish them.

What kind of nurturing and support system is needed ?

The question assumes crucial significance because of the policy on development of micro, small and medium scale industries through self-employment oriented entrepreneurship development programmes. Firstly, such programme inevitably ends up with a mixed bag of potential entrepreneurs with varying socio-economic backgrounds, and therefore, requires varying levels of inputs from the support system. The nature and extent of help required by a potential entrepreneur with business family background or with engineering education background, will be different from the one who does not have any business background or any technical education. The only common denominator of these new entrepreneurs is supposed to be their enthusiasm and determination, which again vary between person to person depending on various factors. Secondly, by its very nature, small entrepreneurs tend to have some inherent inhibitive factors operating against them. The vicious circle of week capital base, easy vulnerability to environmental pressures, and lack of organisation. Quite often an entrepreneur operating at a small level appropriate is an owner-manager performing the roles of technician, production-line manager, marketer/seller, financial manager all simultaneously. The manifestation of vulnerability of the small and medium scale units to the pressures of these inhibitive factors, of course, vary greatly depending on product line chosen, its environment and the background of the entrepreneurs.

14.2 Problems of Small Entrepreneurs

Given the variations in degrees, the most frequently encountered problems of small scale entrepreneurs pertain to the following are as:

- **Management :** Poor working capital management; lack of organisation.
- **Marketing:** Too competitive a market; dependence on one buyer or very small number of buyers.
- **Finance:** Inadequate bank finance; financing, capital or non-productive expenditure out of working funds;
- **Production:** Raw material shortage; power shortage.

These problem areas, infact, not only emphasise the need of a support system, but also indicate its anticipated character. The input to be provided through the support system is a continuous service required by entrepreneurs. Whereas the kinds of inputs that need to be provided, there extent and their timing have to be tailored according to the needs of various stages of entrepreneurial development process. The process starts right from the selection of entrepreneurs and moves towards setting up of the industry, bringing it up to the point of break-even in production. For the convenience of tailoring a need-based (or problem-based) support, the process of entrepreneurial development could be divided into four sequential stages: (i) selection and training; (ii) pre-investment stage; (iii) operational (construction/installation production) stage; and (iv) post-investment stage. As shown in figure 14.1 different kinds of inputs or services are needed with varying degrees of emphasis at different stages of development.

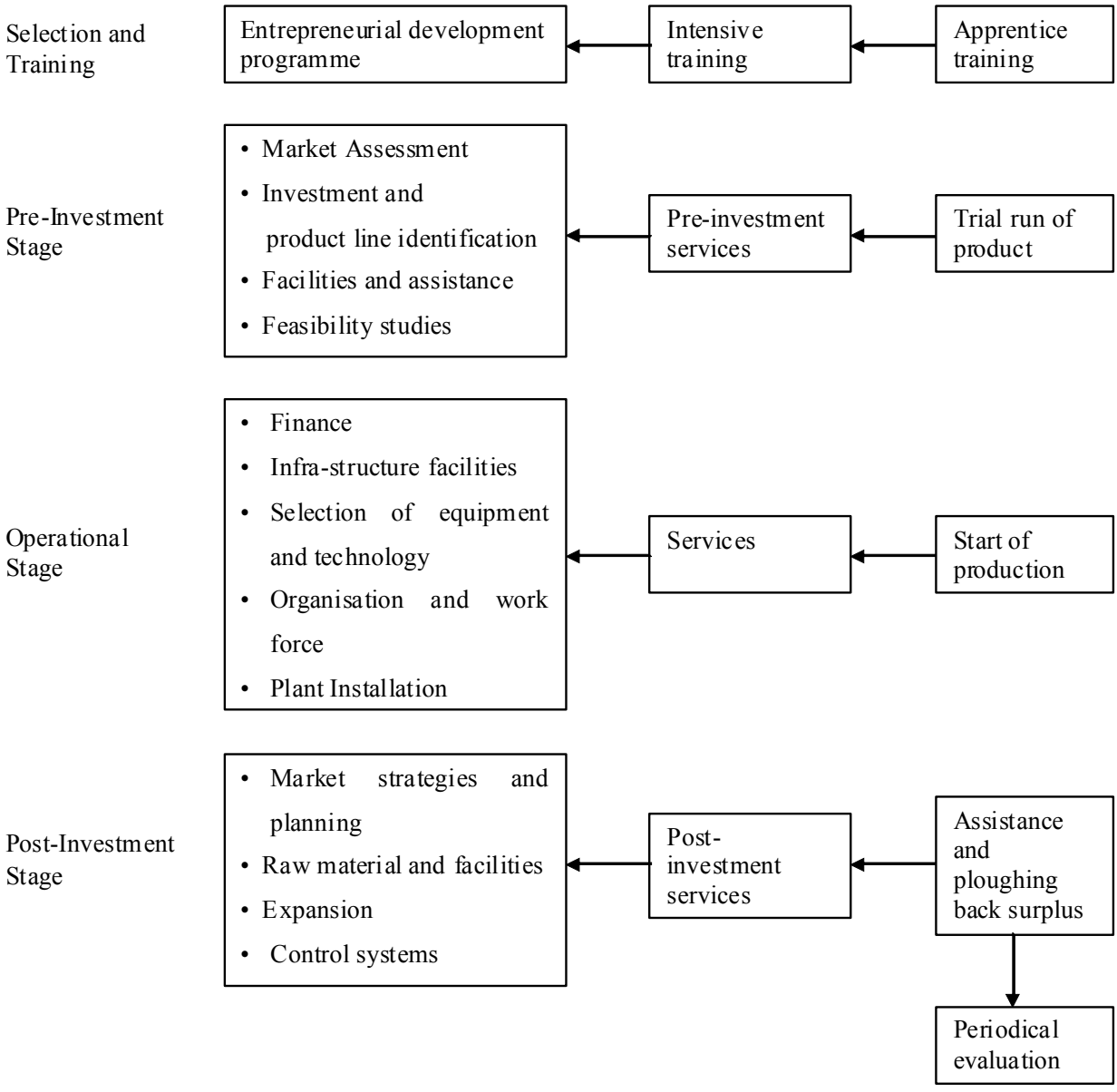


Figure 14.1 Screening and Selection of Potential Entrepreneurs

14.3 The Micro, Small & Medium Enterprise Development Act, 2006

Introduction:

MSMED Act was established to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto. The Act is operational from October 2, 2006.

The MSMED Act is superior as compared to the provisions for SSI under the IDRA in many ways. The scope of the promotion and protection measures under the IDRA was restricted only to SSI. However, during last 60 years of independence, the norms for the promotions and development have changed and the requirement to motivate the higher and different various of SSI is felt. The MSMED Act not only addresses these issues but it also takes care of Micro, Small and Medium Scale enterprises ("MSM enterprises"). Another major highlight of the MSMED Act is that the MSM enterprises in the service sector are also covered under the Act. Separate investment limit for plant and machinery has been prescribed for MSM enterprises in the service sector. The MSMED Act was framed with the following objects :

- To facilitate the promotion and development of micro, small and medium scale enterprises (MSM enterprises);
- To enhance the competitiveness of MSM enterprises;
- To concentrate on the related matters of MSM enterprises;
- To extend the scope of benefits from SSI undertaking and ancillary industries to MSM enterprises.

MSMED Act, 2006 and Its Impact

Clause	Salient Features	Impact
1. Establishment of National Small and Medium Enterprises Board – Women Maximum No. of members 47	1. Specific representation for 2. Mandatory Quarterly Meeting	Statutory Status, compact board and quarterly meetings with address problems of SMEs immediately to take corrective action
2. Concept of Enterprises	Clear-cut demarcation of manufacturing / production and rendering services	Facilitates SMEs to enter into service enterprises aggressively
3. Definition of Enterprises	Specific ceiling limit for manufacturing / production and service enterprise definition for Medium enterprises	Existing small units can graduate into Medium units and avail facilities under the act.
4. Filing of memoranda optional for Micro and Small enterprises in manufacturing and service sector Medium enterprises in Service Sector but mandatory for Medium enterprises in manufacturing sector	Replacement of registration with memorandum	Facilitates SMEs to avail the benefits of the act immediately after setting up of the unit.

5. Procurement Policies	Notification of preference policies by central or State Governments for goods and services provided by Micro & Small enterprises	Facilitates opportunity for supply of goods / services without any hassles.
6. Delayed Payment Penalty & dispute resolution	Period of payment by the procuring organizations – 45 days Penal interest 200% of PLR	SMEs can plan their cash flow / financial requirement
7. Dispute Resolution	Establishment of MSE facilitation Council; 90 days framework for disput resolution	Easy financial planning and no waste of human resources for chasing / follow up.
8. Delayed Payment – allowable deduction under IT Act 1961	Deduction disallowed u/s 23 of MSMED Act. [Clause 17a of tax audit]	This will encourage procurement agencies to ensure timely payment to SMEs.
9. Closure of Business	Statutory notification of scheme for closure	Facilitates expendition of liquidation
10. Notification of guidelines or instructions for promotion of SMEs – wrt. Funda appropriation and release	Statutory	Mandatory on all facilitating development of SMEs ensuring fast growth
11. Facilitating Credit	Statutory	Mandatory on all providing credit. Guidelines for credit for 20% year on year growth

Classification of MSME:

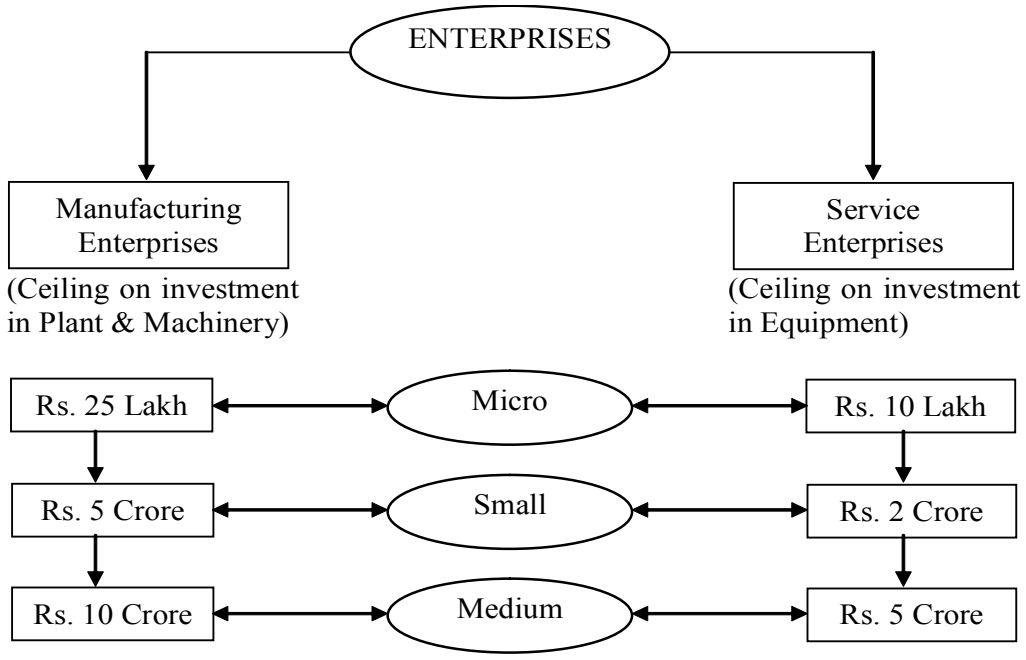


Figure 14.2 : Classification of MSME

Benefits to MSMEs under the Act

Sr. No.	Benefits Available Under the Act	Whether available to Micro enterprises	Whether available to Small enterprises	Whether available to Medium enterprises
1.	Protection against delayed payment by buyers of goods / services (Chapter V of the act) and right to interest for delayed payments and time-bound settlement of payment-related disputes through conciliation and arbitration	Yes (See Note 1 below)	Yes (See Note 1 below)	No
2.	Central Governments' measures for promotion and development [Sec 9 of the act]	Yes	Yes	Yes
3.	RBI's progressive credit policies for ensuring timely and smooth flow of credit [Sec 10 of the act]	Yes	Yes	Yes (see Note 4 below)
4.	Reservation of items for manufacture and production u/s 29B of the 1951 Act	Yes (see Note 2 below)	Yes (see Note 2 below)	No
5.	Preference policies (preference to micro enterprises in respect of goods and services procedure by Government Departments / aided institutions / PSEs) notified by Central / State government [Sec 11 of the Act].	Yes	Yes	No
6.	Simplified exit scheme (winding up the business) u/s 25 of the Act.	Yes (see Note 3 below)	Yes (see Note 3 below)	Yes (see Note 3 below)

Note 1: This benefit shall be available only if the micro/small enterprise has filed memorandum u/s 8 of the act.

Note 2 : This benefit is available only to enterprises engaged in manufacturing or production of goods in any scheduled industry. There is no provision under any law which permits the government to reserve any services for exclusively being rendered only by micro and small enterprises.

Note 3 : This scheme shall not apply to companies.

Note 4 : As per RBI's master circular, dated 2-7-2007 lending by banks to medium enterprises is not considered as "priority sector credit".

As per Ministry of small scale industries notification dated 5th October, 2006, the investment in Plant & Machinery to in respective limits is the original price, irrespective of whether the plant & machinery are new or second hand. In respect of imported machinery, the following is to be included in calculating the value :

- Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
- Shipping charges;
- Customs clearance charges and
- Sales tax or value added tax

Further, as per the said notification, the following are excluded while calculating the investment in plant & machinery :

- Equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;
- Installation expenditure for plant & machinery;
- Research & development equipment and pollution control equipment;
- Power generation set and extra transformer installed by the enterprise as per the regulations of the state electricity board;
- Bank charges and service charges paid to the national small industries corporation of the state small industries corporation;
- Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant & machinery or for safety measures;
- Gas producer plants;
- Fire fighting equipment;
- Transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise;
- Charges paid for technical know-how for erection of plant & machinery and
- Such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process.

Further, investment in land, building, vehicles, furniture & fixtures, office equipments etc. shallnot be considered in determining the threshold limits of plant & machinery or equipment as the case may be.

Registration

As per Sec 8(1) of the act, registration of micro or small enterprise (both manufacturing and rendering of services) or a medium enterprise engaged in providing or rendering of services in option. However, a medium enterprise engaged in manufacturing or production of goods pertaining to any industry specified in the First schedule to the IDR act, 1951 is required to file the memorandum with the General manager, District Industries Centre or any District level officer of equivalent rank in the Directorate or the Department dealing with Micro, small and medium enterprises of the state government or union territory administration.

The Memorandum should be filed in the form 'Entrepreneurs Memorandum' notified by the central government. It is in two parts i.e. Part-I and Part-II and is to be filed with the respective District Industries Centre.

Any person who intends to establish Micro, Small & Medium enterprise engaged either in manufacturing of products or providing or rendering of services shall file Part-I. Once Enterprise starts the production or starts providing or rendering services then they shall file Part-II of the Entrepreneur Memorandum. Validity of Entrepreneur's Memorandum (Part-I) is two years. No Renewal shall be granted.

Existing enterprise shall file Part-II of Entrepreneurs Memorandum. The units which are presently registered under SSI or Medium Category are required to file Entrepreneurs Memorandum in case of following changes:

(a) Change of Status from Small Scale to Micro Scale due to revisions in definitions in Investment Limits.

(b) Change of Status from Medium Scale to Small Scale due to revisions in definitions in Investment Limits even if the unit has previously filed an I.E.M.

(c) Any change in other contents like Name of the Unit. Address / Location, Addition / Deletion / Change of Activity, Nature of operations, Nature of Constitution (Proprietary / HUF / Partnership / co-operative / Private Ltd. Co. / Public Ltd. Co. / Self Help Group / Others) etc.

In case of change in investment in Plant & Machinery or in equipments, the enterprises, which have already filed Entrepreneurs Memorandum, shall inform the District Industries Centre about the same in writing within three month of the change in investments. Failure to do so is contravention of law and is punishable as specified in section 27 of MSMED Act.

The code numbers mentioned in the Entrepreneurs Memorandum viz. NIC Code ASICC Code, Codes for Thesil / Taluka / District and State will be filled by the officials of District Industries Centre.

In case of change of products & that of services or addition in product or services, the enterprises which have already filed Entrepreneurs Memorandum should inform the District Industries Centre about the same in writing within three months of the change. Failure to do so is contravention of law and is punishable as specified in section 27 of MSMED Act.

Advantages / Benefits of Registering a Micro or Small Enterprise With the State Government :

A part from getting other benefits, if a micro or small enterprise has filled a memorandum with DIC of its area, then it stands to gain as to timely payment in respect of supply of goods or rendering of services to any buyer.

With the enactment of MSMED Act, 2006 the interest on delayed payments to small scale and ancillary industrial undertaking act 1993 is repealed w.e.f. 2.10.2006.

As per this Act, if the buyer has purchased goods or availed services from micro or small enterprise, which has filed a memorandum with the authority, then the buyer shall make the payment on or before the date agreed upon between him and the supplier in writing. If no agreement is there in writing, then within a period of 15 days from the day the goods are delivered or services are rendered. The Act further stipulates that even if the buyer and supplier is agreed in writing, such period shall not exceed 45 days from the day of delivery of goods or rendering of services.

In brief, any credit term from a micro or small enterprise stipulating payment terms beyond 45 days, shall be in violation of the MSMED Act, 2006.

14.4 Government Agencies and Institutional Support to Entrepreneurs

India rated at second position among all nations in Total Entrepreneurship Activity as per the Global Entrepreneurship Monitor Report of 2002. But after several years of data, India appears to have a TEA level rather close to the world average.

India is ninth in the Global Entrepreneurship Monitor (GEM) survey of entrepreneurial countries. It is highest among 28 countries in Necessity based entrepreneurship, while 5th from the lowest in opportunity based entrepreneurship.

The liberalization, which was started in 1991, and the Information Technology boom of the mid-late 90's, has been significant factors, leading to a wave of entrepreneurship sweeping through the country.

Indians have entrepreneurial capacity. However the society and government are not very encouraging towards entrepreneurship. To a large extent, the Indian society is risk average. People usually seek secure and long-term employment, such as government jobs. The physical infrastructure needs to be improved. Social Attitudes, lack of capital, inadequate physical infrastructure and lack of government support are major factors of hindrance India is the fifth largest economy in the world (ranking above France, Italy, the United Kingdom, and Russia) and has the third largest GDP in the entire continent of Asia. It is also the second largest among emerging nations. The liberalization of the economy in the 1990s has paved the way for a huge number of people to become entrepreneurs.

Over the years India and China have followed opposing strategies for development. While China's growth has been fuelled by the heavy does of foreign direct investment, India has followed a much more organic method and has concentrated more on the development of the institutions that support private enterprise by building a stronger infrastructure to support it.

Its corporate and legal systems operate with greater efficiency and transparency than do China's. The Government has encouraged entrepreneurship by providing training and also the facilities to succeed, particularly in the rural areas. One style of innovation that really works in a country as large and diverse as India, is grassroots innovation this includes inventions for a milieu that is quiet essentially Indian.

Moreover, in India, the post-liberalization and globalization era has brought with it a growing middle class – roughly estimated to be 250 million – and rising disposable incomes. This presents a huge potential, which if tapped can be a veritable gold mine. Entrepreneurs can make the best of this by catering to various demands of this segment. India, with its abundant supply of talent in IT, management, and R&D, has become the hot bed of outsourcing of services from all parts of the globe where companies can reduce their costs, but not their quality [if the foreign company chooses the right Indian partner].

In terms of improvement, there needs to be an increase in the quality and quantity of VC / Angle Investors in India. Also, the Governments need to still continue reducing the administrative burden on entrepreneurs, and coordinate among their agencies to ensure that the necessary resources are directed where they are needed. The physical infrastructure needs to be improved. Socially, the Indian Society is adapting to a more risk friendly environment and also looking for jobs in the private sector.

Usually bankers and Government agencies have a belief that the borrower must be possessing requisite entrepreneurial competencies. Fact is that this subject is never seriously included in any school / college curricula. That is why we observe almost all the graduates (even engineering graduates) running to search a job after completion of their education and hesitate to set up an enterprise, in fact, not only new entrepreneurs but also existing entrepreneurs need continuous education / training to enhance their entrepreneurial competencies and skills. Recognizing this need, the Central Government and several State Governments

have setup various training institutes which are engaged in providing entrepreneurship development trainings. Given below is a list of such institutes. The bankers should make all efforts to ensure that their borrowers are made ware of these facilities and get training from time to time.

Institutes Providing Varied Support Activities for Entrepreneurs

Name of Institute	Place	Activities
National Institute of Small Industry Extention and Training (NISIET)	Hyderabad	Training, research and consultancy services
Indian Institute of Entrepreneurship	Guwahati	Training, research and consultancy services
National Institute of Entrepreneurship and Small Business Development (NIESBUD)	New Delhi	Coordinating and overseeing activities of various institutes / agencies engaged in entrepreneurship development
Integrated Training Centre (Industries)	Nilokheri	Conducts EDP course
Institute for Design of Electrical Measuring Instrument (IDEMI)	Mumbai	Render services to the instrumentation industry
Central Institute of Hand Tools	Jalandhar	Aims at rapid growth of the hand tool sector
Hand Tool Design Development and Training Centre	Nagaur	Assistance for improvement in productivity, bettement in quality, high value addition
Central Tool Room	Ludhiana	Provides services in the area of consultancy, tool design and manufacture and technical training
Central Tool Room and Training Centre	Kolkata	Training, design and manufacture of complicated precision tools for the telecom industry and other common facility services
Central Institute of Tool Design (CITD)	Hyderabad	Training, CAD/CAM centre to train post-graduate trainees, automatic process control unit, and so on
Product-cum-Process Development Centre for Sports Goods	Meerut	Training, process and product development of sports goods, R & D
Product-cum-Process Development Centre for Essential Oils	Kannauj	Modernise and upgrade technology status for the essential oils and perfumery industry
Product-cum-Process Development Centre	Agra	Provide better technology to small-scale foundry and forging units, process and product development, and provision of design for melting equipment, testing facilities
Electronic Service and Training Centre	Ramnagar	Training, technical and consultancy services
Centre for the improvement of Glass Industry	Firozabad	Development and adoption of new technologies and products
National Small Industries Corporation	New Delhi	Supply of machinery, marketing assistance, training

Some other organizations engaged in providing support to SME Entrepreneurs are :

- Indo-German Tool Room at Ahmedabad, Aurangabad and Indore

- Indo-Danish Tool Room at Jamshedpur
- Hand Tool Design, Development and Training Centre, Nagore, Rajasthan
- Central Machine Tool Institute at Bangalore
- Central Institute of Plastics Engineering and Tools at Chennai & Ahmedabad
- National Institute of Foundry and Forge Technology at Ranchi
- DICs at District level Small Industries Development Corporations set up by various State Governments.

A brief of important institutes engaged in entrepreneurial support is given below :

1. The National Institute for Entrepreneurship and small Business Development (NIESBUD):

NISEBUD was established in 1983 by the Ministry of industry (now Ministry of Small Scale Industries), Govt. of India, as an apex body for coordinating and overseeing the activities of various institutions / agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. The Institute which is registered as a society under Govt. of India Societies Act (XXI of 1860) started functioning from 6th July, 1983. Its website can be accessed through www.niesbud.nic.in

Major Activities of the Institute are :

- Evolving effective training strategies and methodology
- Standardising model syllabi for training various target groups
- Formulating scientific selection procedure
- Developing training aids, manuals and tools
- Facilitating and supporting Central / State / Other agencies in organising entrepreneurship development programmes Conducting training programmes for promoters, trainers and entrepreneurs.
- Undertaking research and exchange experiences globally in development and growth of entrepreneurship. The Institute is actively involved in creating a climate conductive to emergence of entrepreneurship.

The trainings Conducted by the Institute Include :

- Training of Trainers / promoters
- Accreditation Programme for Entrepreneurial Motivation Trainers.
- Trainers' Training Programme for Enterprise Launching & Management
- Trainers / Promoters Programme for support organisations such as SISIs, DICs, Development Corporations etc.
- Small Business Promotion Programme
- Entrepreneurship Orientation Programme for HoDs and Senior Executives.
- Evolves Standardized Material and Research Publications

2. National Institute of Small Industry Extension Training (NISIET):

NISIET since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and modernization of the SME sector. An autonomous arm of the Ministry of Small Scale Industries (SSI), the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services. It has been renamed as National Institute of Micro Small and Medium Enterprises (NIMSME) (www.nimsme.org) from April 2007. The Primary objective of the institute was to be the

trainer of trainers. Today, with the technological development and ever-changing market scenario, their involvement has undergone changes too. From being merely trainers they have widened their scope of activities to consultancy, research, extension and information services. Its website can be accessed through www.nisiet.gov.in

3. Indian Institute of Entrepreneurship (IIE):

With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the Ministry of Industry (now Ministry of Small Scale Industry), Government of India as an autonomous national Institute. The institute started its operations from April 1994 with North East Council (NEC), Govt. of Assam, Arunachal Pradesh and Nagaland and SIDBI as other stakeholders.

The activities of the Institute include identification of training needs, designing and organizing programmers both for development functionaries and entrepreneurs; evolving effective training strategies and methodologies for different target groups and location; organize seminars, workshops and conferences for providing foram for interaction and exchange of views by various agencies and entrepreneurs; undertaking research on entrepreneurship development, documenting and disseminating information needed for policy formulation and implementation on self-employment and entrepreneurship.

The institute acts as a catalyst for entrepreneurship development by creating an environment for entrepreneurship in the support system, developing new entrepreneurship, helping in the growth of existing entrepreneurs and propagation of entrepreneurial education. Its website can be accessed through ww.iie.nic.in

4. Entrepreneurship Development Institute of India (EDII):

The Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for-profit institution, set up in 1983, is sponsored by apex financial institutions, namely the industrial Development Bank of India (IDBI), IFCI Ltd. ICICI and State Bank of India (SBI). The Institute is registered under the Societies Registration Act 1860 and the Public Trust Act 1950.

An acknowledged national resource institution, EDI is committed to entrepreneurship education, training and research. The institute strives to provide innovative training techniques, competent faculty support, consultancy and quality teaching & training material. EDI has been spreading entrepreneurship movement throughout the nation with a belief that entrepreneurs need not necessarily be born, but can be developed through well-conceived and well-directed activities. Its website can be accessed through www.ediindia.org.

5. The Institute of Small Enterprises and Development (ISED):

The Institute of Small Enterprises and Development (ISED) stands for 'Sustainable development through enterprise'. It is a multi-faceted Centre for advanced learning and practice in the area of development. For the past decade, the Institute for Small Enterprises and Development has focused on research, education, innovative program design and entrepreneurship development initiatives, advocacy and networking dedicated towards sustainable development through enterprise certain. Among the similar institutions ISED's leading-edge is the identification of methodologies and processes that empower one to break out of existing 'mental models' in order to identify new opportunities, while exploiting the emerging niche. ISED's interest in linking research, policy, and action is realized through the programmes of its Activity Centers. The integration of the outcomes takes place at the Centre for Policy integration. In realizing its vision and fulfilling its mission, the institute also collaborates with like-minded institutions and individuals. Its website can be accessed through www.isedonline.org.

14.5 Summary

A Micro, Small or Medium entrepreneur needs various resources and support activities. Most of them find it difficult to have them at their own. Some business units are to be promoted by first generation entrepreneurs. They lack technical and managerial skills, adequate knowledge pertaining to government facilities and incentives and required financial background.

The gap necessitates the need for required push and nurturing from the government(s) in terms of policies, enactments, establishment of government agencies and institutions. Through them required nourishment and help may be give to the beginners in and existing entrepreneurs in establishment of new enterprises and their smooth functioning.

In October 2006 a new legislation came into force named as "The Micro, Small & Medium Enterprises Development Act" which has number of features which benefits SME's in the country.

14.6 Self Assessment Questions

1. What are the problems of Small entrepreneurs in India ?
2. Discuss the provisions of The Micro, Small & Medium Enterprise Development Act, 2006.
3. Describe the objectives features and benefits given to SME's under The Micro, Small & Medium Enterprise Development Act, 2006.
4. What do you meant by "Institutional Support" to SME's ?
5. Which are the government agencies established in India to support SME's ? Discuss their activities and role.

14.7 Reference Books

- Promoting Entrepreneurship and Innovative SMEs in a Global Economy, OECD paper-2004.
- Effective Small Business Management by Richard M. Hodgetts.
- Fundamentals of Entrepreneurship by G.S. Sudha.

Unit - 15 : Institutional Support for Small Business

Structure of Unit:

15.0 Objectives
15.1 Introduction
15.2 National Level Institutions
15.3 State Level Institutions
15.4 Fund-Based Institutions
15.5 Summary
15.6 Self Assessment Questions
15.7 Reference Books

15.0 Objectives

After going through this unit you would be able to :

- Explain the role of various institutions operating in the country in assisting the small scale business.
- Discuss various schemes and incentives relevant for SCB's

15.1 Introduction

Entrepreneurial Development may be considered as sine qua non in the process of industrialisation of developing economics. Two most important inhibitory factors which restrict the supply of local entrepreneurs in developing economies can be stated, thus: (i) supply or availability of capital; and (ii) managerial skill. In the traditional social structure of a developing society the entrepreneurial culture remains confined to a very small group of people in whom the capital and managerial skill are concentrated. Some governments of developing countries, therefore, as a matter of policy deliberately initiate measures to promote indigenous entrepreneurship through ensuring availability of capital and other facilities for improvement of skills to wider selection of people who could be considered as potential entrepreneurs. Government of India, for instance, has adopted such a deliberate policy of entrepreneurial development, particularly with reference to small scale industries sector. The legal, institutional, structural and organisational measures initiated from time to time by the government aim at creating a support system which succeeds in attracting more and more people to entrepreneurial ranks, irrespective of their class, caste or creed; thereby helping to diffuse the entrepreneurial culture to wider segments and sections of the society.

15.2 National Level Institutions

To support the growth of small scale sector, the central and state governments have created an elaborate institutional framework in the country. The institutions providing assistance to small scale industries are broadly classified as "All India Institutions", "State Level Institutions" and "Fund-Based Institutions".

Small Scale Industries Board:

The Board is the top level non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the Small Business. It provides a forum to its members for interaction to facilitate co-operation and inter-institutional linkages and to render advice to the Government on various policy matters, for the development of the sector.

The Board was first constituted in 1954. Its term is for two years. The Board was last constituted on 18th January 2003, with 101 members and held its 48th meeting on 17 January, 2004.

Ministry of Small Scale Industries:

Market reforms and liberalisation created wide-ranging opportunities of the development of small scale industries. At the same time, changing world scenario has thrown up new challenges to the very existence of this sector. The need of the hour is to suitably strengthen the sector so that it could adapt itself to the changed environment and face the challenges boldly and effectively.

To execute various policies and various programmes/schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely the Small Industries Development Organisation (SIDO), statutory bodies/other organizations like Khadi and Village Industries Commission (KVIC) & Coir Board, National Small Institute of Small Industry Extension Training (NISIET), Hyderabad, Indian Institute for Entrepreneurship (IIE), National Institute for Entrepreneurship and Small Business Development (NIESBUD).

Small Industry Development Organization (SIDO):

The Development Commissioner (Small Scale Industries) office is also known as the Small Industry Development Organization (SIDO). It is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring policies and programmes for the promotion and development of small scale industries. It has over 60 offices and 21 autonomous bodies under its management, including Tool Rooms, Training Institutions and Project-cum-Process Development Centres etc. Functions of such main bodies are as follows:

- Small Industries Service Institutes (SISIs) are operational one in each state. They provide technical support and consultancy services, conduct entrepreneurship development programmes, an export promotion and liaison activities Emphasizes is also placed on implementation of programmes on modernization, energy conservation, quality control / up gradation and pollution control for the benefit of entrepreneurs.
- Regional Testing Center (RTC) provides Testing facilities for product quality up gradation.
- Tool Rooms/Tool Design Institutes (TRs/TDI) assist SSIs in technical up gradation and provide good quality tooling by designing and producing tool, moulds, jigs & fixtures, components, etc.
- Product-cum-Process Development Centres (PPDCs) took into their specific problems and render technical service.
- Central Footwear Training Institutes (CFTIs) develop footwear designing to promote exports.
- Sub-Contract Exchange for Ancillary Development (SCXs) register and create database of the spare manufacturing/service capacity of SSI; create database of requirements of large/medium units and match the requirements with the spare capacity available with small units; and arrange Buyer-Seller Meets, organise vendor exhibitions, seminar, workshops for large-small units coordination, quality up gradation, export promotion, etc and facilitate flow of data on vendor development.

The services rendered by DC SSI office includes:

- Advising the Government in policy formulation for the promotion and development of small scale industries.
- Providing techno-economic and managerial consultancy, common facilities to small scale units.
- Providing facilities for technology up gradation, modernisation, quality improvement and infrastructure.
- Developing Human Resources through training and skill up gradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Government, Financial Institutions and other Organisations concerned with development of Small Scale Industries.
- Evolving and coordinating policies and programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.
- Monitoring of Prime Minister Rozgar Yojna (PMRY) Scheme.

Activity A:

(i) Interact with an entrepreneur who has just set up a unit, to find out the assistance received by him/her for the development of product.

(ii) Discuss with an entrepreneur who has attached vendor exhibitions or seminars organized by SIDO for large-small units coordination. Write his/her experience.

National Small Industries Corporation (NSIC)

The NSIC was constituted in the year 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of the these functions. NSIC continues to implement its various programmes and projects throughout the country to assist the SSI units. The Corporation has been assisting the sector through the following schemes and activities :

- **Composite Term Loan Scheme:** To promote small-scale sector, NSIC has launched a Composite Term Loan Scheme for the benefit of existing and prospective entrepreneurs to acquire land and building, machinery and equipment and working capital under one roof to the tiny units.
- **Hire Purchase Scheme:** Supply of indigenous and imported machinery and equipment on each financial terms with special focus on women entrepreneurs, weaker sections, handicapped and ex-servicemen and SC/ST entrepreneurs.
- **Equipment Leasing:** It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.
- **Working Capital Finance:** This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements in enable them to pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.
- **Raw Material Assistance:** It facilitates availability of scarce raw material either through the domestic market or by importing.
- **Marketing Support Programme:** NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies with the intending of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality economic prices and adherence to agreed delivery scheduling.

- **Tender Marketing:** To participate in bulk global tender on behalf of Small Scale Industrial Enterprises. It is a immediate assisting SSI's with the ability to manufacture quality products but which lack brand equity & credibility or have limited financial capabilities.
- **Integrated Marketing Support:** NSIC has been operating an Integrated Marketing Support Programme in which bills pertaining to supplies made by small scale units to eligible purchasers are discounted by NSIC up to a certain specified limited.
- **Government Stores Purchase Programme:** The units registered with the Corporation for participation in government purchase programme are considered at or with individual purchase organisations and derive all the benefits like free supply of tender forms, exemption form payment of earnest money, security deposits, etc.
- **Technology Up gradation:** Excellent technical support is provided to SSIs/SMEs through five NSIC-Technical Service Centres. These centres have been recognised by Council of Scientific and Industrial Research for in-house R&D. NSIC has set up a Technology Transfer Centre. The latest information is provided to on-line connections and networks of computers on matching technology seekers and technology providers are arranged through the Technology Transfer Centre.
- **Software Technology Parks:** NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI). Software Technology Parks facilitates small scale units to establish their units for the 100% export of software and also act as the major point activate software exports directly through NSIC.

NSIC-STP Complex at Okhla, New Delhi is one of such Parks set up by the National Small Industries Corporation under the Software Technology Parks of India to promote small entrepreneurs in software development. NSIC-STP provides high speed better communication facilities through VSNI/SATCOM networks, built-up office space and uninterrupted power supply break-up and other administrative support.

- **Exports:** NSIC is providing a complete package of export assistance, testing facilities, pre-shipment credit facility, export incentives etc. apart from exposure to the products of SSFC in trade fairs, buyer and seller meets etc. the corporation has been endeavouring to increase share of India. Industries in purchases to United Nations Organisation, it being the largest single buyer in the world.

5. The Khadi and Village Industries Commission (KVIC):

The Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957. The KVIC is supposed to do the planning, promotion, organisation and implementation of programmes for the development of khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

6. Coir Board:

It is a statutory body established by the Government of India under a legislation enacted by the Parliament namely Coir Industry Act 1953 for the promotion and development of Coir Industry in India as a whole.

7. Training Institutes:

At National Level we are having three Training Institutes. These are:

- National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.

- National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, which conducts national and international level training programmes in different fields and disciplines.
- Indian Institute of Entrepreneurship (IIE), Guwahati was established to act as a channel for entrepreneurship development with its focus on the North East.

Activity B:

Contact manager of NSIC and collect information about the followings:

(i) How does the institution provide financial assistance to small scale industry.

(ii) In the era of globalisation, which steps are taken by the institution to upgrade the technology of SSIs to make them competitive ?

Seed Capital refers to capital provided to entrepreneur to meet equity gap and to meet cost over- runs. Discounting of bill implies that when entrepreneur, if is in need of money immediately, may get the bill discounted with NSIC. NSIC gives cash equal to the amount of the bill less some amount (popularly known as discount). Incentive is a general term and includes concessions, subsidies and bounties. Subsidy denotes a single lump sum, which is given by a government to an industry.

15.3 State Level Institutions

These Institutions execute different promotional nd developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States. These are executed through State Directorate of Industries, who has District Industries Centres (DICs) under them implement Central/State Level schemes. The State Industrial Development Corporations also look after the needs of the small-scale sector. The major institutions have been discussed below:.

1. State Industrial Development Corporations (SIDCS):

SIDC's were set up in different states as wholly owned companies and incorporated under the Companies Act, 1956 to promote industrial development in respective states. The main functions of SIDC's are as follows:

- Providing term financed to all small, medium and large industrial enterprises set up in state.
- Underwriting and directly subscribing to shares and debentures of debentures of industrial enterprises being set up in the state.
- Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state.
- Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.
- Implementing scheme of 'Industrial Development Bank of India' of seed capital in the state.

2. State Directorate of Industries (SDIS):

Promotion and development of small scale industries is a State subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each State. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub-division and block level respectively. The main functions of Directorate of Industries are as follows:

- Registration of small scale units.
- Providing financial assistance
- Distributing scare and indigenous raw materials to industrial units.
- Granting essentiality certificates for import of raw material
- Establishing industrial estates and industrial co-operatives
- Developing industrial infrastructure
- Undertaking industrial surveys and collecting information
- Arranging concessions and incentives for industries
- Overall administration of village and small scale industries
- Maintaining liaison with other agencies for industrial development.

3. District Industries Centres (DICS):

The programme (DIC) was launched in 1973 for effective promotion of college and small scale industries widely dispersed in rural areas and small towns. These centres are the focal points providing all the services and support required by small scale and village entrepreneurs under one roof. These serves as an integrated administrative framework at the district level for industrial development.

The main functions of DIC's are as follows:

- It conducts surveys to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand etc.
- It prepares an action plan for industrial development.
- It appraises the various investment proposals received from entrepreneurs.
- It guides and assists entrepreneurs in buying appropriate machinery and equipment and raw material.
- It suggests appropriate marketing strategies to entrepreneurs.
- It maintains likes with research and development institutions for up gradation of technology, quality improvement, industrial training etc.
- It conducts artisans training programmes.
- It has been assigned operation responsibility for special schemes to provide self employment to educated unemployed youths.

15.4 Fund-Based Institutions

For establishing any business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise & operational requirements but also for diversification, modernisation/up gradation of facilities, capacity expansion etc. In respect of SSIs, the problem of credit becomes all the more critical when ever any event occurs such as a large order, rejection of consignment, inordinate delay in payment etc. In general, SSIs operate on tight budgets, often financed through owner's own condition, loans from friends and relatives and some bank credit.

The union Government recognised the need for a focused credit policy for SSIs in the early days of promotion of SSIs and RBI has been instrumental in devising a multi stage approach/financial system for credit

dispensation to different sectors of the economy, for example, agriculture, industry, exports, SSIs etc. This section focuses on the role of SIDBI, SFCs and commercial banks in granting credit to small scale and tiny sector.

1. Small Industries Development Bank of India (SIDBI):

The Bank (SIDBI) was established in the year 1990 as the apex refinance bank. The SIDBI is operating different programmes and schemes through 5 Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small scale sector is channelized through the two routes direct and indirect.

(a) Indirect Assistance:

- SIDBI's financial assistance to small sector is primarily channelised through the existing credit delivery system, which consists of state level institutions, rural and commercial banks.
- SIDBI provides refinance to and discounts bills of Primarily Lending Institutions (PLI).
- The Assistance is available for
  - Marketing of SSI product
  - Setting up of new ventures
  - Availability of working capital
  - Expansion
  - Modernisation
  - Human resource development
  - Diversification of existing units for all activities

(b) Direct Assistance:

- The loans are available for new ventures, diversification technology up gradation, modernization and expansion of well run small scale enterprises. Assistance is also available for private sector.
- Small scale sector is eligible for maximum debt equity ratio of 3:1
- Foreign currency loan for import of equipment are also available to export oriented small scale enterprises.
- SIDBI also provide venture capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage and a potential for above average profitability leading to attractive return on investment.

(c) New Initiatives of SIDBI:

- Two Subsidiaries viz. SIDBI Venture Capital Limited and SIDBI Trustee Company United formed to oversee venture capital.
- Technology Bureau for Small Enterprise formed to oversee Technology Transfer, Match Making, Services, Finance Syndication and Facilitating Joint Ventures.
- SIDBI Foundation for Micro Credit has been launched to provide financial assistance to the poor and to meet emerging needs of the micro finance sector especially in rural areas.

2. Commercial Banks:

Credit requirement of SSIs is basically of two types - long term loans and working capital. Commercial banks with their extensive network of branches operating nationwide are primary channel for working capital requirement.

Banks are required to compulsory ensure that defined percentage (currently 40%) of their overall lending is made to priority sectors as classified by RBI. These sectors include agriculture, small industries, export etc. The inclusion of small industries in this list makes them eligible for this earmarked credit. With the liberalisation of the Indian economy, greater emphasis was placed on meeting the credit needs of SSIs. This was manifest through the following initiatives taken by RBI.

- Credit for tiny sector has been earmarked within overall lending to small industries. In order to ensure that credit is available to all segments of SSI sector, RBI has issued instructions that out of the funds normally available to SSI sector, 40% be given to units with investment in plant and machinery up to Rs. 5 lakhs, 20% for units with investment between Rs. 5 lakhs to Rs. 25 lakhs and remaining 40% for other units.

  It shows that the share of credit to tiny sector out of the total credit available to SSIs is continuously increasing, from 30% in the year 1995 to 51% in 2003. The table also focuses that in 1999 the entire credit share of tiny sector was allocated to units with investment in plant and machinery up to Rs. 5 lakhs. Similarly, in the year 2000 the slice of credit received by tiny sector was directed towards units having investment in plant and machinery up to Rs. 25 lakhs.
- Public sector banks have been advised to operationalise more specialised SSI branches at centres where there is a potential for financing many SSI borrowers. As on March 2002, 391 specialised SSIs.
- Laghu Udyami Credit Card (LUCC) Scheme was launched by Public Sector Banks for providing simplified & borrower friendly Credit facilities to SSI, tiny enterprises retail traders & artisans.
- Composite loan limit was enhanced to Rs. 50 lakhs from Rs. 25 lakhs.
- Limit on collateral free loans was increased to Rs. 25 lakhs in deserving cases.

It shows that the banking system over the year has played a major role in the development of SSIs in the country. Analysis of the data reveals that while the overall flow of credit from banking sector to SSIs continuously increased from 15% in 1999 to 17% in 1999. After that declining trend in bank credit to SSIs is observed. It came down to 11% in 2003. This may be attributed to increase in non-performing assets of SSIs.

3. State Financial Corporation's (SFCS):

State Financial Corporation Act 1951 was brought into force to enable all the state governments (except Jammu and Kashmir) to set up State Financial Corporations as regional development banks. Presently following assistance is provided to small scale and medium scale entrepreneurs or units:

- Providing long term finance to industrial enterprises having sole proprietary, partnership, company and co-operative society form of business organization.
- Subscribing equity and debentures of industrial enterprises.
- Providing financial assistance to small and medium enterprises engaged in service sector.
- Provide working capital loans and meeting various short-term needs of their clients.

Working Capital is the amount obtained by subtracting current liabilities from current assets. Micro Credit scheme has emerged as a powerful tool for empowering the poor to alleviate their poverty. Micro credit programme envisage extending small loans to poor entrepreneurs for undertaking income generating enterprises, which have the potential to make a dent on poverty. Primary lending institutes includes State Financial Corporations, State Industrial Development Corporation, Commercial Banks, State cooperative

Banks, and regional Banks etc. Venture Capital refers to the risk capital supplied to growing entrepreneurs for long term purpose.

15.5 Summary

The government in our country is primarily focussing its strategy on industrialization, with special emphasis on small sector. In order to accelerate the small industries development Government at the Central and State levels have set up a number of development agencies / institutions. The apex institution is Small Scale industry Board. The Ministry of Small Scale industries was set up in 1999. The ministry implements policies and various programmes / schemes for providing infrastructure and support services to small enterprises through its attached office, namely the Small Industries Development Organization (SIDO), statutory bodies / other organisations like Khadi and Village Industries Commission (KVIC) & Coir Board, a Public Sector Undertaking, National Small Industries Corporation (NSIC) and three training institutes National Institute of Small Industry Extension Training (RISIET), Hyderabad, National Institute for Entrepreneurship (NIE) National Institute for Entrepreneurship and Small Business Development (NIESBUD).

As per our constitution promotion and development of small scale industries is a state subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each state. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub division and block level respectively. These institutions provide not only financial facilities but other types of assistance also, such as, availability of raw material, marketing of products, training of personnel, developing infrastructure, facilitating exports.

The network of institutions, such as, SIDBI, SFCs and commercial banks with main emphasis on long and short term credit needs of SSIs, is also available in the country.

The various key words, which arise in this unit, are:

- Assets are the economic resources owned by the entity. They possess service potential or utility in the owner that can be measured and expressed in money terms.
- Current Assets are those assets that will be converted to cash in one year.
- Current Liabilities are the debts or liabilities, usually due in one year, the payment of which will require the use of current assets.
- Debt equity ratio is a ratio of long term debt to shareholders equity.
- Factoring means sale of account receivable to a bank or financial company.
- Financial Syndication implies an arrangement in which two or more credit lending institutions come together to provide financial assistance to a unit/product, thereby sharing the risk, if any.
- Industrial Estate is an attempt to provide, on a rental basis good accommodation with electricity and roads to group of entrepreneurs who would otherwise find it difficult to secure at reasonable price.
- Non Performing Assets are non coverable outstanding loans or credit given by banks.
- Research and Development Costs refers to costs of developing new products of processes.

15.6 Self Assessment Questions

1. Name the various institutions at national and state level available to assist small scale industries.
2. Why the development of small scale industry is important for the economy ?
3. Explain the role of Ministry of Small Scale Industries for the development of this sector.
4. What is the difference in the functions of SIDO and NSIC for small scale industry ?
5. Describe the support system available at state level for entrepreneur.
6. How Khadi and Village Industries Commission (KVIC) assist in development of village and cottage industries ?
7. Explain in brief the objectives of "training institutes".
8. How the credit requirements of SSIs are fulfilled by government ?

15.7 Reference Books

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Unit - 16 : Export Promotion, Import Substitution and Small Business

Structure of Unit:

16.0 Objectives
16.1 Introduction
16.2 Foreign Trade Policy as the Background of the Export Promotion and Import Substitution
16.3 Promotional Measures and their Implementation: Role of TPOs
16.4 Export Promotion
16.5 Levels of Export Promotion Strategies
16.6 Export Promotion Bodies
16.7 Significance of the Export Promotion to the Entrepreneurs
16.8 Limitations of Exporting from the Perspective of the Small and Medium Enterprises
16.9 The Role of Entrepreneurs in Export Promotion and Import Substitution
16.10 Export Promotion Schemes for Small and Medium Enterprises By NSIC
16.11 Import Substitution
16.12 Summary
16.13 Self Assessment Questions
16.14 Reference Books

16.0 Objectives

After completing this unit, you will be able to:

- To provide conceptual understanding of the imports and exports;
- To determine the role of the entrepreneurs in the economy and country's trade;
- To provide the brief outline of the trade policies, listing of the components of the foreign trade and trade promotion, along with the other factors affecting the foreign trade;
- To provide the conceptual understanding of the export promotion and export development, along with the various levels of export promotion;
- To provide the conceptual understanding of the import substitution;
- To provide the importance of the export promotion and import substitution to the entrepreneurs;
- To explain various export promotion schemes announced for the entrepreneurs in the small scale sector.

16.1 Introduction

Exports:

The goods and services available across the various countries of the world are traded amongst, generally by the export or the import strategy. Exporting refers to the process of the sending or transporting the merchandise, i.e., the goods and services abroad, especially for the purpose of the trade or sale. In International trade, the term exports refer to the selling of goods and services produced in the home country to the other markets. The export goods or the services are provided to the foreign consumers by the domestic producers. In other words, export includes the selling of the commodities, the good and the services, to the foreign country, in the legitimate fashion, typically for use in trade. Thus, the term export has been derived from the conceptual meaning as to ship the goods and services out of the port of a country and the seller of such merchandise is called as exporter, who is based in the country of export whereas, the overseas buyer is

referred to as an importer. Therefore, the export of the commercial quantities of the goods normally requires the involvement of the customs authorities in both the country of export and the country of import. However, with the introduction of the small trade over the internet, such as the through the Amazon and e-Bay, having low individual values of these trades, the involvement of the Customs in many countries have largely been bypassed. Nonetheless, these small exports are still subject to the legal restrictions applied by the country of the exports.

Exporting is the appropriate strategy in the following conditions:

1. The volume of the foreign business when not attractive reasonably even for setting up fully owned manufacturing units in such foreign markets.
2. When the cost of production in the foreign markets high enough to affect the profitability of the enterprises adversely, along with the existence of the various production bottlenecks, such as, the infrastructural problems, problems with materials supplies etc.
3. When there is existence of the political or other risks of investment in the foreign country, exporting is more comfortable and safe alternation, in comparison to the other.
4. When the foreign country's government is not in favour of foreign investment in the various sectors of the country.
5. When the enterprisers orientation in the foreign country or the foreign market is of the temporary in nature and not permanent, generally in the case when there is no guarantee of the future business opportunities in such markets.

Advantages of Exporting:

The advantages of the exporting as the strategy to sell the goods in the foreign country are as listed below:

1. The exporter receives the ownership advantages which proves to be the specific assets of the exporting firms, which further enables the exporting firm to apply the gained international experience and ability for developing either low-cost or differentiated products within the contacts of its value chain. Thus, the exporting provides the management with the operation control.
2. Moreover, many times the exporting firms or in general the exporters also receive the locational advantages of the particular market which are as a whole the contributions of the market potentials and the investment risk.
3. The exporters retains the core competence and threading it through the value chain, rather than to obtain the license, outsource, or sell it, which enables the exporters for the advantages of the internationalization.
4. Exporting requires significantly, the lower level of the investments than the other modes such as the exporting, expansion, such as the foreign direct investment. But, at the time same time, it is but obvious that the lower risk of exporting typically results in a lower rate of return on the sales in comparison to that possible through the other modes of the international business. In other words, although the usual rate of return of export sales may not be tremendous, but it neither is the risk.
5. The companies having low levels of the ownership advantages generally do not enter the foreign markets in relation to the Eclectic paradigm, but, if such company and its products are equipped

with the ownership advantage and internationalization advantage, they do enter through the low-risk models such as the exporting.

Disadvantages of Exporting:

1. The exporting does not provide the managers the option to exercise as much marketing control.
2. As exporters usually resides far from the end consumer has to often involve various intermediaries for the management of the marketing activities.

Imports:

Imports are the counterparts of the exports. Importing refers to the process of bringing or carrying from an outside source or especially to bring in the merchandise, i.e., the goods and services from the foreign country, for the purpose of the trade or sale. In other words, it is referred to as the buying or bringing in the goods or the services from a foreign country. Thus, the Exports on one country or the entrepreneurs in one country, becomes the imports of the another country or the entrepreneurs of that country.

However, although the exporting may turn out to be the best alternative under a given set of conditions or environmental factors, there are several sets of conditions which make exporting less attractive than one or more of the other alternatives. But, with the policies of some foreign governments discriminating against imports; in some countries imports are even banned. Such hostility of the governments against imports have been encouraging the substitution of the exports by production in the foreign markets. A number of foreign companies have set up the production facilities in the European Community to overcome the import barriers. The Japanese transplants in the North America have also been caused to a considerable extent by the hostility towards the imports.

16.2 Foreign Trade Policy as the Background of the Export Promotion and Import Substitution

The policies and practices that affects and regulates the import and export operations; foreign investments, and the international relations, of the country is referred to as the foreign trade policy, which includes many laws, decrees, regulations and procedures for the different purposes.

The aspects of the foreign trade policies are as presented diagrammatically in the figure no. 16.1 below:

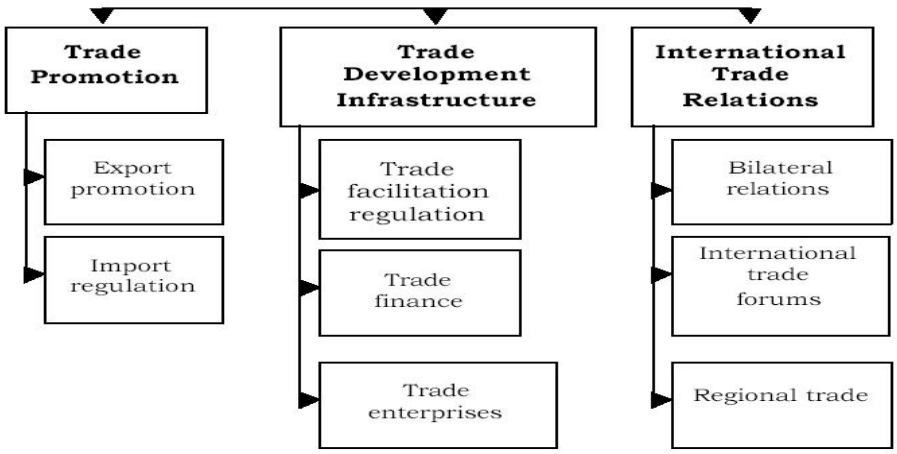


Figure 16.1 : Outline of the Foreign Trade Policy

The contents of the foreign trade policies are as outlined below:

- **Trade Promotion:** The foreign trade policy of the country should include the trade promotion policy for the successful design and implementation of the trade promotion and the developmental programmes by achieving the objectives of the trade promotion policy. The trade promotion policy of the country comprises of the programmes and measures that promote and develop trade with other countries, with the focus on the various issues related to the imports and exports.
- **Trade Development Infrastructure:** Trade development infrastructure concentrates on developing and upgrading the nation's trading ability to develop trade, by trade facilitation and administration, trade finance support and development of trading enterprises.
- **International Trade Relations:** International trade relations involve developing strong trade diplomacy with other countries in order to safeguard a country's commercial interests and ensure market access for its exports. It also involves participating in international and regional trade forums to promote and ensure a fair, more open international trading environment.

However, the foreign trade policy is also affected by the various other policies, which not directly regulating the country's foreign trade but are the part of the framework in which the foreign trade policy must be designed and executed, such as, national development plan; monetary policy; fiscal policy and practices; private investment regimes; production and price controls and investment policies.

16.3 Promotional Measures and their Implementation: Role of TPOs

The intensity and range of the various export promotion activities are influenced by the various factors such as, the human and the financial resources; the nature of products that can be exported; the characteristics of foreign markets and the experience of the organizations responsible for implementing these activities.

Among the various organizations, the government's TPOs are the main entities, while the other entities may carry out related, complementary activities. However, certain activities require specialization in export promotion and development, and should be undertaken by the TPOs, which are also called as the fundamental activities, which cannot be assigned to any other entity or organization, unless the activities can be implemented with the same professionalism as a TPO.

The TPOs are established for the development and implementation of the export promotion and development programmes by the government. The TPOs performs the dual role, i.e., to provide specialized support to the producers of product for exports and the, to serve as the catalyst for related services provided by other entities in the public and private sectors.

The TPOs start their activities by creating the conditions required for the successful, dynamic export promotion programme, with the objective to identify and develop products and markets; locate new investment possibilities; provide trade information and specialized support services such as assistance with export procedures, product quality issues, export financing and transportation; and carry out promotional activities abroad through trade fairs and missions. However, TPOs and other specialized entities should have links with each other and try to co-ordinate, since all activities have some direct or indirect influence on overall export promotion and development and on the responsibilities of the TPOs. Apart from this, the TPOs should also give full support to such specialized activities. The efforts should be taken for the proper co-ordination and collaboration, as and when required, to enable the entities to gradually accept and assume their responsibilities.However, it is advisable to avoid the assignment of the trade control functions to the organizations responsible for the trade promotion development, as it counteract with the promotional and development efforts as well as may have adverse effect on their relationships with the business sector. But, the TPO representatives must be able to give their viewpoints as and when required by the government

during the decision making on the trade control activities. This will also further avoid the adoption or implementation of the decisions and regulations that oppose export developments.

Thus, the TPOs act as the adviser to the government on foreign trade and related matters, which enables in developing the close ties between the TPOs and the export community. This further will result into the availability of the first-hand knowledge of policies and procedures that supporting or hindering the development of exports. In this way, the TPOs also act as a bridge between the export community and the government.

Apart from this, the TPO can also be an effective bridge between the export community and the foreign markets, if it can call on the services of other specialized institutions. In this way, the TPO also serves as a catalyst for the use of specialized services.

It is also possible for the export community to establish direct contacts with foreign markets and with the government through channels other than the TPO. However, these other contacts should not prevent the TPO from acting for the benefit of exporters.

While, the Export promotion and development activities should be carried out by specialized institutions devoted to this task, thus, making the TPOs as the key actor, which receives the support and relies on the other specialized institutions.

16.4 Export Promotion

The sustainable export growth has been considered crucial for maintaining and accelerating the GDP growth impetus, which also contributes to the increase in the employment opportunities and eradication of poverty. Also, it is impossible for any country to frame the strategy to cover all the export products simultaneously, due to the lack of available human and financial resources. Export promotion, one of the important components of a country's foreign trade policy focuses on the promotion and development of the best potential markets for the industry.

Export Promotion refer to the various incentive programs designed to attract more firms into the exporting by offering the help in product and market identification and development, pre-shipment and post-shipment financing, training, payment guaranty schemes, trade fairs, trade visits, foreign representation, etc.

Various Export Promotional Schemes have been introduced by the government of India as a result of the expected delay in the implementation of the liberalization of the imports and reduction in the transaction costs, with the focus of the small, medium and long terms periods of the strategy. The government of India provides assistance to the private sector businesses through the wide array of the services, from simply providing information about current opportunities in the world market to providing specialized assistance to design and implementation of the marketing programmes and sales campaigns abroad, often described as the 'export promotion' or 'export development'.

The basic objective of export promotion activities is to encourage increased sales of the products available currently available for export, by concentrating all promotional efforts on the existing production with the aim to increase the value of foreign sales by a given target. These activities are usually carried out by the trade promotion organizations, i.e., the TPOs. TPOs, in most of the countries, concentrate their effort on export promotion, comprising of the set of the actions and activities to encourage increased sales of products that are currently available for export.

Thus, it can be said that the export promotion policies reflects the interest of the national governments to stimulate the exports. The main instruments of the export promotion are subsidies, tax exceptions, and

special credit lines. However, in the late twentieth century, the regulatory aspects of export promotion have changed significantly, but, since the creation of the World Trade Organization in 1995, some export promotion activities have been identified as the trade distorting practices, as the consequence of the devised rules by the WTO, allowing the countries, affected by the export promotion practices of their trading partners, to use the WTO's dispute-settlement procedure and in some cases retaliate.

The export promotion schemes, which allow access to external markets, are sometimes also used as the complementary development strategy to import protection, which encourages the development of the infant industry. But, for this, the foreign demand is often required by the domestic markets with limited size which requires the attainment of the economies of scale for the various productive activities.

However, recently, some of the governments have also focused on the programmes of export development, by responding to the greater liberalization of foreign trade regulations and increased competition from abroad. The government expects that the sustained export promotion and development efforts will help earn additional foreign exchange needed to cover the cost of imports, solve balance of payments problems, help reduce the burden of the increased foreign indebtedness and create additional employment for the people.

Export development is different from export promotion, as export development aims at producing new export products and/or penetrating new markets that were not accessible before. The aim of export development activities is to identify existing opportunities and encourage new industries or production facilities to be set up in order to meet newly identified demands in the international market. Thus, export development concentrates on the product adaptation, which involves, the use of existing production capacity to manufacture new products when better markets are found for those products than for traditional products. Relatively, the export development approach requires more effort, resources, and determination. However, due the country specific limitations, the export development cannot always be fully adopted. Therefore, the export promotion and development are at priority by most of the developing countries for the attainment of the economic development goals.

The Export Promotion and Development can succeed through orderly distribution of responsibilities, adequate co-ordination of policies at the formulation and implementation stages and definition of an appropriate and realistic strategy. The Export Promotion and Development

Strategy of the developing country have the scope to set up the stage for determining the level and types of the trade linkages within various international markets.

Activity A:

1. Discuss the importance of the export promotion and its requirement in India.

16.5 Levels of Export Promotion Strategies

As outlined earlier, the export promotion activities are the part of the trade promotion activities, which focuses on the enterprise, industry and the national levels, and has been explained below:

A. Export Promotion Strategies at the Enterprise Level: The transitional economies need a lead agency to drive the effort towards becoming the exporters. Moreover, the transition to a market economy does compel the enterprises to look beyond the domestic markets which are the sources of earning the foreign exchange and generate employment. But, the International marketing is much more complicated process than marketing and selling in a domestic economy. In the developing countries, certain business firms, or the business community have been unable to significantly increase the export volumes on their own due to the following reasons:

- Availability of the limited number of the commodities for the exports which affects the developments of the international markets;
- Limited industrial products of goods due to the lack of downstream activities which further unable export diversification to the exporting firms;
- Lack of marketing knowledge abroad;
- Dependence on one or two export markets and supply sources curtailing the opportunities for the development of the products of the international standards;
- Unwillingness of the enterprise for the export readiness as being habituated with the comfort and security in the domestic market.

B. Export Promotion Strategies at the Industry level: It focuses on the two types of the export dimensions, which are:

- **Increasing the Export of Existing Products:** It reviews the current produces of the domestic industries that could be exported to the world's markets. Exports comprises of the commodities and the primary products for many of the transitional and emerging economies. Therefore the initial focus of the export strategy should be on enhancing and consolidating the volume of exports into existing markets as well as diversifying to the other exports markets.
- **Developing the New Exportable Products:** The development of the new exportable products for the developed for export markets has to be focused in this dimension of the export promotion strategies at the industry level which emerges often from the spin-offs or downstream activities from existing core industries. For example, the oil industry supports petrochemical industries and oil equipment manufacturing. Therefore, with the help of the industrial cluster planning the governments could assist the development of the industry to become ready in overall for exporting.

Apart from the above dimensions of the activities, the Industry Councils or Associations can also play the major role for the development of the export strategies by advising and working with the government or its designated trade body. These strategies should be based on comprehensive study of the export potentials for selected products, which may involve the following:

- Clear identification of what is produced, planned production in the near future and the most suitable markets for such products;
- Concurrent study of foreign market purchases as the guideline for production in the domestic countries in order to satisfy the needs and opportunities of foreign markets;
- Clear indication of constraints or problems for exports in terms of production or market conditions, leading to recommendations on problem solving or counteracting any constraints.

C. Export Promotion Strategies at the National Level: The government sets the overall economic direction and trade development strategy. Establishing the export dimension of this strategy in terms of appropriate economic instruments and export promotion measures is critical to national export performance. Therefore, the design of relevant trade policies is the key to a successful national export promotion programme with the help of the SWOT Analysis. The SWOT analysis for the export promotion strategies at the national level is as described below:

A Brief of the SWOT analysis for the Export Promotion Strategy at the National Level:

The strength, weakness, opportunities, and threats (SWOT) analysis approach can be used to outline national export strategy. SWOT analysis reveals a country's competitive advantage as well as its prospects for successful exporting.

It combines analysis of the country's critical success factors, shortcomings and potential markets and international and regional trade trends. It involves, assessment of the strengths and weaknesses:

i. Assessing Strengths and Weaknesses:

A TPO assesses the country's strengths and weaknesses from the obtained information at the product identification stage, which enables them to evaluate and review the country's production capabilities and the readiness of its exporters. The TPO can assess the country's ability to penetrate a market based on a possible list of critical success factors. Refer to figure below.

Factor	Strength	Neutral	Weakness
Technical competitiveness			
• Technology level			
• Productivity level			
• Capital intensity			
• Quality management			
Export strength			
• Knowledge of market			
• Trade contacts			
• Reputation of products			
• Competitiveness			
Human resources			
• Level of technical skills			
• Training support			
Natural resources			
• Factor endowment			
• Quality level			

Figure 16.2 : Strength/ Weakness Analysis

ii. Identifying Opportunities and Threats:

Threats refer to the possible events or occurrences that may have severe implications on a country's trade. Countries need to identify the key threats with the highest probability of the occurrence and develop contingency plan to cope.

Therefore, scanning the external environment is also inevitable for the TPO while identifying the opportunities and threats with the help of the SWOT Analysis. It must be also aware of the current international, regional and bilateral market developments. As outlined above, with the subsiding of the Asian regional crisis, the imports of the cotton from South-East African countries may increase subsides, thus, resulting into an opportunity to expand imports of cotton from South-East Asian countries may increase, so there is an opportunity to expand the markets for cotton. The TPO will have to assess which opportunities can be pursued successfully based on current strengths.

Thus, with the help of the SWOT analysis the country determines likely external opportunities and threats, as well as its impact on the strength and weaknesses of the country, with the help of the SWOT matrix as shown in the figure below, which has highlighted some of the likely occurrences.



Figure 16.3 : Figure Showing SWOT Matrix

Thus, on the basis of the SWOT analysis, as exemplified above, the TPO's export strategy should focus on the following elements:

- The development of the export promotion programme with the objective to expand the exports to the various Asian regions;
- Up gradation of the local food processing industry to meet the international demand, along with the other agencies;
- Promotion of the quality of the local products;
- Exploring of the niche markets for the high-value organic food products.

The national export strategy should be considered as part of foreign trade policies, the formulation and implementation of a national export strategy, which is the part of the foreign trade policy, requires the following:

- A mechanism to co-ordinate policy formulation;
- Active participation and a sense of responsibility by the various bodies, institutions and officials involved,
- Persistent application of regulations, since frequent changes in regulations can be the one factor that is most detrimental to the success of export promotion and development programmes.

The keys to successful national export promotion and development programmes are government policy decisions that affect export trade. A country's export development policy established in terms of appropriate economic instruments and export promotion measures is critical to national foreign trade performance. It demands the two sets of the policies, affecting the foreign trade management in general, and export promotion and development in particular, which are, the foreign the trade policies and other policies with the direct influence on foreign trade and the policies that regulates the various other economic activities, but at the same time influence the general performance of foreign trade.

16.6 Export Promotion Bodies

As the governments have many institutions responsible for various foreign trade activities and wide assortment of the policies, procedures and practices that affect the foreign trade performances, an effective mechanisms to co-ordinate among the trade-related institutions and organizations. Irrespective of the nature and responsibilities of the each institution, the three basic conditions to be fulfilled in order to enable the successful operations and effective implementation of the foreign trade policy, are that clear and well-defined responsibilities, formulation and description of the responsibilities and efficient mechanism for the co-ordination among these institutions.

The various kinds of the structures and ways to achieve such co-ordination are as explained below:

In most of the countries, the council of the ministers, co-ordinate the foreign trade policy, with participation by ministries dealing directly with trade-related matters. Few countries have a foreign trade council, which is responsible for defining policy issues and coordinating the way in which foreign trade matters are related to other policy areas. There are two different general types of councils:

i. Policy-Making Councils:

Several countries have established a high level trade policymaking body in their governmental structure, composed exclusively of the public sector officials, usually at the ministerial level. Although they are somewhat similar to a council of ministers or cabinet, they involve only ministers who deal with economic matters. In several instances, the policy-making council also includes the top-level official of the Planning Board and the Central Bank.

A policy-making council emphasize on the achievement of the objective of forming a policy making structure that can focus on export development. The functions of such high level policy-making councils are:

a. Formulation of the foreign trade policy,

b. Co-ordination with other policies,

c. Propose/adoption of the adequate mechanisms for implementation,

d. Formulation of the recommendations in particular trade-related areas,

e. Defined requirements for imports and exports, and

f. Define policy for international agreements.

ii. Advisory Councils:

Some countries have chosen to create advisory councils in which both the public and private sectors participate. The International Trade Center (ITC) has published details about their composition, functions, frequency of meetings and the role of a technical secretariat in its publication, Institutional Mechanisms for Foreign Trade Policy Making in Developed and Developing Countries, (1992).

The advisory councils have generally relatively less power than the policy-making council, as they are composed of the public and private sector representatives. However, the recommendations of the advisory councils form the basis for formulating various parts of the government's foreign trade policies. Some countries for instance, Colombia, Ecuador, Paraguay, and the United States of America, have set up both types of council in order to enhance and facilitate the role played by high-level policy-making bodies.

16.7 Significance of the Export Promotion to the Entrepreneurs

The country's export trade is also promoted by the entrepreneurs, which is an important ingredient to the economic development. The entrepreneurs make the economic systems dynamic, stimulated the progress by means of their entrepreneurial activities and thus, act as the mainspring of the economic development. They do possess the potential of transforming the underdeveloped economies into the developed economies.

But, the size and scale of the entrepreneurs and the complexities of the international marketing and international business many times adds to the difficulties and limitations of the small and medium enterprises/ entrepreneurs which are as discussed is 16.8:

16.8 Limitations of Exporting from the Perspective of the Small and Medium Enterprises

1. For the small and medium enterprises/SME, with less than the 250 employees, selling goods and services to the foreign markets seems to be more difficult than serving the domestic market.
2. The lack of knowledge for the trade regulations, cultural differences, different languages and foreign exchange situations, as well as, the strain of resources and staff interact like a block of exporting to the entrepreneurs.
3. No matter the small and medium entrepreneurs does export, but about nearly two –third of them sell only into one foreign market.
4. In order to minimize the risk of exchange-rate fluctuation and transactions processes of export activity, the financial management efforts needs to be strengthened by the small and medium enterprises which further enables coping the major efforts in such processes.
5. At times, the exporting becomes the tedious transaction, especially for the small and medium enterprises, when the international customers demand more services from their suppliers, i.e., the exporters, like, installation and start-up facilities for the equipment, maintenance or more services at the time of the delivery of the product.
6. The developments in the communication technologies in the recent years has enabled the customers to broaden their opportunities of interaction widening the network of the suppliers, apart from receiving more information and cheaper communications cost at the same time like 20 years ago. This has resulted into the increased transparency, followed by the vendors' duty to follow the real-time demand as well as to submit all transaction details.
7. There are chances that the management may get tapped in some of the organizational pitfalls, such as the poor selection of overseas agents or distributors or chaotic global organization, which may further adversely affect the functioning of the small and medium enterprises.

Thus, the viable export strategy for the entrepreneurs, the exporters, must be framed on the bases of the following two premises:

- Firstly, to be competitive in the international market, the export product must match, if not better, the competition in terms of pricing and quality.
- Secondly, the exporter must have an incentive to enter the highly uncertain export market.

16.9 The Role of Entrepreneurs in Export Promotion and Import Substitution

Government of India, like almost all the other nations, has been endeavouring to develop the exports.

Moreover, the export development is important to the firm and to the economy as a whole. The Government measures aim, normally at the general improvement of the export performance of the nation for the general benefit of the economy. Such measures help exporting firms in the several ways.

Apart from this, the above objectives of the export strategies can be achieved with the help of the wide ranging facilities, infrastructure, financing, income tax relief, trade facilitation, etc., as well as by granting exemptions of the indirect taxes, involving the granting of the customs and central excise duty exemptions on the raw materials, inputs, etc. which are used in the export products. Moreover, on the customs side, it leads to the availability of the internationally high quality raw materials, inputs, etc. at the international prices, which is both beneficial and advantageous to the exporters of the country, in comparison to the competitors abroad. This ensures that the price of the export product is not loaded with any of the tax element. The method of neutralizing the tax element in the export products has been an internationally accepted methodology, for example, Drawback, DEPB, Advance Licence/DEEC, DFRS, EPCG and EOU, however, all of these schemes are not necessary. Moreover, besides creating difficulties in administration, these multiple schemes tend to be misused. Therefore, it is recommended that such multiple export promotion schemes through taxes should be done away with, and the new export strategy should rest basically upon two schemes as outlined below:

- SEZ and EOU schemes, which is for the entrepreneurs firms dedicated to the exports, generally comprising of the tax reliefs for the varied goods, such as., the capital goods, raw materials, etc.
- Other Schemes, involves those schemes which focuses on the capital goods and other on the raw materials, inputs, etc. However, it involves the relief from the tax in two ways, i.e., exemption from the duties subject to the post-clearance intelligence and audit-based verification checks as well as the refund of duties paid through Drawback route.

A. EXPORT INCENTIVES:

The export incentives are the widely employed strategy for the export promotion with the aim to increase the profitability of export business. The important export incentives in India, include, rebate of duties, cash compensatory support, income tax incentives. The export incentives are, however, observed by the Abid Hussian Committee, as more of the compensation for the comparative disadvantages faced by the Indian exporter than the incentives. The brief account of these incentives which provide service to the first rational of export promotion that compensates the exporters for the high domestic costs are as explained below, which can be considered by the entrepreneurs in improving their exports:

1. **Duty Exemption/Duty Drawback:** In order to avoid the incidence of commodity taxes, like, excise duty and customs duties on the exports the scheme of Duty Exemption/Duty Drawback, so as to make the exports more price competitive, which is straight forward. Customs duties and excise duties on inputs raise the cost of production in export industries and thereby affect the competitiveness of exports. Therefore, the exporters need to be compensated for the escalation in their costs attributable to such customs and excise duties.

   The Duty Exemption scheme had its origin in India during the Second plan, as an export promotion, which had been enlarged and modified over the years. The exporters are either exempted from the

payment of duty while procuring inputs like raw materials and intermediaries or, in cases where the duty is paid on the inputs, the duty is refunded. Thus, under the duty drawback scheme, the exporters are reimbursed for the tariff paid on the imported raw materials and intermediates and central excise duties on the domestically produced inputs entering into the export production.

Because of the series of modification to the import policy for registered exporters, particularly with respect to the introduction of advance licensing system, which have enabled the exporters' to make the imports of inputs without payment of the customs duty. However, the eligible exporters are entitled to the interest-free bank credit against the duty drawback applicable to them upto a period of 90 days or upto the time they realize the drawback, whichever is earlier. Similarly, with the application of MODVAT, a large number of the products, covered by the MODVAT, can be exporter in bond and in that event, the duty relief in the form of drawback would be restricted only to basis customs and auxiliary duties suffered, if any, by the inputs.

There are two types of the drawback rates, viz., all industry rate applicable to a group of the products and brand rate applicable to the individual products not covered by the industry rate. The all industry drawback rates are derived from the estimates of average quantity of value of materials or excisable materials used in the manufacturing of these goods, and the average amount of duties paid on the materials wasted in the manufacturing process. Such average industry rates are fixed by the Drawback Directorate in the Ministry of Finance.

2. **Income Tax Concession:** Besides, the exemption/rebate of indirect taxes, a special fiscal treatment granted to the exports is the income tax concession according to which the earnings from the exporters are either partially exempted from income-tax, or taxed at a lower rate. Such income tax rebates have been provided to exporters in India since the early 1960s.

3. **Awards:** A number of awards have been instituted to encourage the exports and to recognize the excellence in exports, for the varied categories of exporters, on the basis of the certain specific criteria, such as, the development of market for products which has not been exporter previously, substantial increasing in exports, successful introduction of new products, product development, successful break-through in the foreign markets where conditions have been especially difficult etc.

4. **Other Incentives:** Some important incentives were terminated consequent to certain measures taken as the part of the economic liberalization which is outlined below:

a. The Cash Compensatory Support (C.C.S): It is the cash subsidy scheme designed for compensating the exporters for un-rebated indirect taxes and to provide the resources for product/ market development. The CCS enabled the exporter to increase the profit or to reduce the price content to the extent of the subsidy without incurring a loss. With the devaluation of the Rupee in July 1991, the CCS was abolished.

b. Another important incentive was the system of Import Replenishment (REP) licenses, which were related to the F.O.B value of exports. The REP was for the most part, a facility as it enabled the exporters to import inputs where the domestic substitutes were not adequate in terms of the price, quality or delivery rates; it was also an incentive in so far as there was a premium on REP license which were transferable. The new trade policy announced in July 1991 which renamed the REP as EXIM Scrip significantly modified the scheme. The EXIM Scrip Scheme was, however, abolished with the introduction of the partial convertibility of Rupee since April 1992.

c. The International Price Reimbursement Scheme (IPRS) was designed to make available the specified inputs to the exporters at the international prices, which was initially available to the

steel, was later extended to the aluminum with the proposal to extend it to the other limits. The IPRS has been replaced by the Engineering Products Exports (Replenishment of Iron and Steel Intermediates) Scheme.

B. PRODUCTION ASSISTANCE:

Exports depend, inter alia, on the exportable surplus and the quality and price of the goods. Government has therefore, taken number of the measures to enlarge and strengthen the production base, in order to improve the productive efficiency, quality, and cost effectiveness of the products. These includes, providing of the raw materials and other inputs of required quality of reasonable prices; facilities to establish and expand productive capacity, including import of capital goods and technology; facilities to modernize the productions facilities provision of infrastructure for the growth of the export oriented industries, etc.

C. MARKETING ASSISTANCE:

The government has also taken various measures with respect to the marketing assistance to assist the exporters in their marketing effort, which includes, conducting, sponsoring or otherwise assisting market surveys and research; collection, storage and dissemination of marketing information, organizing and facilitating the participation in the international trade fairs and exhibitions; credit and insurance facilities; release of foreign exchange for export marketing activities; assistance in exports procedures; potential; quality control and pre-shipment inspection; indentifying the markets and products with export potential; helping buyer and seller interaction, etc. Some of these schemes and facilities which assist in export marketing are mentioned below:

1. **Market Development Assistance:** An important export promotion measure taken by the Government is institution of the Market Development Assistance (MDA). Assistance under the MDA is available for market and commodity researchers; trade delegations and study teams; participation in the trade fairs and exhibitions; establishment of the offices and branches in the foreign countries; and grants-in-aid to EPCs and other approved organizations for export promotion on Export Credit by the commercial banks and approved co-operative banks enjoyed a subsidy out of the MDA. Most of the MDA expenditures in the past were absorbed by the CCS. The CCS helped the exporters to increase the price competiveness of the Indian products in the foreign markets.

2. **Foreign Exchange:** Foreign Exchange is released for undertaking the approved market development activities such as the participation in the trade fairs and exhibitions, foreign travel for export promotion, advertisement abroad, market research, procurement of samples and technical information from abroad.

3. **Trade Fairs and Exhibitions:** As trade fairs and exhibitions are effective media of promoting products, facilities are provided for enabling and encouraging participating of Indian exporters/ manufactures in such events. As mentioned earlier, the foreign exchange is released for such purpose, the cost of participation is subsidized.

4. **Export Risk Insurance:** As international business in fraught with different types of risks, measures have been taken to provide insurance covers against such risks. The Export Credit Guarantee Corporation (ECGC) has policies covering the different political and commercial risks associated with the export marketing, certain types of risks associated with the overseas investments and risk arising out of the exchange rate fluctuations. Further, ECGC extends the export credit risks to cover

the commercial banks. Marine insurance is also provided by General Insurance Corporation and its subsidiary companies.

5. **Finance:** The export-import bank and commercial banks and certain other financial institutions like specified co-operative banks provide pre-shipment and post-shipments finance to exports. Some of these institutions also provide suppliers' credit, including line of credit, to promote the Indian exports. Export credits generally carry concessional interest rates.

6. **Quality Control and Pre-shipment Inspection:** The government has also taken the number of steps to improve the quality of exports and ensure that the only goods of appropriate quality are exported from the country. The Export (Quality Control and Inspection) Act empowers the government to make the necessary regulations in this respect.

7. **The Institutional Assistance:** As mentioned earlier, export marketing is assisted in different ways by the number of the organizations like the ITPO, EPCS, Commodity Boards, various Export Development Authorities, Indian Mission Boards etc.

8. **India Brand Equity Fund:** Government of India initiated steps to establish an India Brand Equity Fund with the objective of promoting the made in India image abroad. It was also proposed to set up a Brand Acquisition Fund to help Indian corporates to acquire big international brands put up for sale and build them up as Indian brands in the international markets.

D. IMPORT FACILITIES FOR EXPORTERS:

1. **Export Promotion Capital Goods Scheme:** Under this scheme, a manufacturer exporters, merchant exporters tied to supporting manufacturers and service providers are eligible to import the capital goods (CG), both new and second hand, including spares up to specified limit, and computer systems at a concessional/zero rate of customs duty subject to the export obligation.

1. **Duty Exemption Scheme:** Duty Exemption consists of the Duty Free License and Duty Entitlement Pass Book (DEPB), which are explained below:

   a. Duty Free License: The Duty Free License includes, the Advance License, Intermediate License and the Special Imprest License.

   Import of inputs like raw materials, intermediates, components, consumables, parts, accessories, mandatory spares (not exceeding 5 per cent of CIF value of a duty free license) and packing materials may be permitted against a duty free license.

   An Advance License is granted to a merchant/manufacturers exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. However, such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import.

   An Advance Intermediate License (AIL) is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter holding an Advance License/Special Imprest License.

   A Special Imprest License is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the specified categories like certain deemed exports.

   The Deemed Exports refer to those transactions in which the goods supplied do not leave the country and the payment is made in India by the recipient of the goods. They are as good as exports

in the sense that they earn foreign exchange or prevent outflow of foreign exchange. Examples include supply of goods against duty free licenses issued under the Duty Exemption Scheme; supply of goods to EOU units in EPZs/EHTPs/STPs; supply of CGs to holders of licenses under the EPCG Schemes; supply of goods to the specified projects financed by the multilateral or bilateral agencies; funds under the international competitive bidding or under limited tender system etc. Deemed exports are eligible for certain benefits like Special Imprest License/ Advance Intermediate License, deemed exports Drawback Scheme, refund of terminal excise duty and Special Import License at the specified rates.

b. Duty Entitlement Pass Book: Under the DEPB scheme, an exporter is eligible to claim credit as a specified percentage of FOB value of exports made in freely convertible currency. Any item, except those in the negative list, is allowed to import without payment of customs duties against the credit under a DEPB. Third party exports are also admissible for grant of DEPB. Third party exports are also admissible fro grant of DEPB.

E. EPZs, EOUs, and SEZs:

As the part of the export promotion drive, government has, from time to time, introduced several schemes to promote units primarily devoted to exports. These include Export Processing Zones (EPZs), Hundred Per cent Export-Oriented Industrial Units (EOUs), and different categories of Technology Parks (TPs). In the year 2000, a scheme of Special Economic Zones (SEZs) was also introduced. These schemes are explained below, the benefits of which can also be taken by the entrepreneurs:

1. **Export Processing Zones:** Export Processing Zones (EPZs) are industrial estates which form enclaves from the national customs territory of a country and are usually situated in near seaports or airports. Then entire production of such a zone is normally intended for exports. Such zones are provided with well developed infrastructural facilities. Industrial plots/sheds are normally made available at concessional rates. Units in these zones are allowed foreign equity even up to 100 per cent. EPZ units can import capital goods, raw materials, etc. for export production without payment of duty. Domestically procured items are also eligible for duty exemption.

   The main objective of the EPZ are, to earn the foreign exchange; to generated employment opportunities; to facilitate transfer to technology by foreign investment and other means and to contribute to the overall development of the economy.

2. **Free Trade Zones:** A Free Trade Zone (FTZ) is different from an EPZ. Goods imported to a free trade zone may be re-exported without any processing, in the same form. But, goods exported by units in an EPZ are expected to have undergone some value addition by manufacturing or other processing. A Free Port is one in to which imports and from which exports are free from trade barriers. A FTZ may be a part of or adjacent to a port; the rest of the port being subject to the national customs regulations.

3. **Export Oriented Units:** Hundred per cent export-oriented unit (EOU) refers to an industrial unit which offers for exports its entire production, excluding permitted levels of rejects. EOUs were allowed in industries in respect of which the export potential and export targets were considered by the relevant Export Promotion Council. EOUs were not normally encouraged in respect of the industry. Thus, the scheme of 100 per cent export oriented units has been designed to great additional export capacity; units which results in mere substitution for the existing units' production were not to be permitted.

However, being outside the EPZs, the EOUs did not get the benefits of the built in facilities of the zones. EOUs enjoyed most other facilities and incentives as were available to the EPZ units. An EPZ/EOU unit had to be a net foreign exchange earner. The level of foreign exchange earnings as the percentage of exports (NFEP) was calculated annually and cumulatively for a period of 5 years since the commencement of commercial productions. The NFEP requirement for different products varied from 10 per cent for plain gold jeweler to 60 per cent for computer soft ware and tissue culture plants. However, electronic hardware units were allowed to be set up without stipulation of a positive NFEP.

The following supplies were also allowed to be counted towards fulfillment of the export obligation:

a. Supplies effected in domestic tariff area (DTA – all parts of the country where the national tariff laws are applicable) which are eligible to be regarded as the deemed exports,

b. Supplies effected in DTA against payment in foreign exchange,

c. Supplies, with the permission of the Development Commissioner, to other EOUs/EPZs/EHTP/STP units, as per the Policy.

T**he entire production of the EOUs/EPZs/EHTP/STP units can be exported except:**

a. Rejects up to 5 per cent or such percentage approved by the Development Commisioner in consultation with the local customs authority. Rejects could be sold in the DTA, subject to the payment of the appropriate duties.

b. 25 per cent of the production in value terms was allowed to be sold in the DTA subject to the fulfillment of NFEP and payment of applicable duties. No DTA sale was permissible in respect of the certain items like motor cars and alcoholic liquor.

c. However, unit in agriculture and related fields were permitted to sell upto 50 per cent of the production in value in terms in the DTA subject to the positive NFE earnings.

d. Electronics hardware products could be sold in the DTA subject to the conditions laid down in the Policy.

An EOUs/EPZs/EHTP/STP unit could export goods manufactured by it through an Export house/Trading House/Star Trading House/Superstar trading houses even, which are recognized under the Exim Policy or any other EOUs/EPZs/EHTP/STP unit. This permission is extended only to the marketing of the goods by the above category of exporters. The manufacturing of the goods shall be done in the EOU/EPZ units.

4. **SEZs:** While, announcing the Exim Policy for the year 2000-2001, the Commerce Minister stated that India would develop Special Economic Zones to boost the country's exports. Any State Government or corporate body may set up an SEZ. The only laws which will operate in these zones will be the labour laws and the banking laws. The SEZs are different from the EPZ, as in the SEZs there will not be any inspector raj and once commodities go in, nobody will ask any questions until they come out, clarified the Minister. Units in the SEZs may also do domestic sales by paying all relevant duties. However, they have to be net foreign exchange earners.

The first two SEZs were set up in Positra in Gujarat where the State Government has made available 880 hectares of land and in Nangunery in Tamil Nadu where over a thousand hectares of land was allocated. According to the Commerce Minister, the minimum size of the zone should be 400-500

hectares. However, the proposals have already come up for the establishment of SEZs in various other states too. Moreover, there were also the plans for converting the existing EPZs into the SEZs. The move to develop SEZs was inspired by the success of the SEZs in China which contribute about 40 per cent of her exports. The Indian EPZs have contributed hardly four per cent of the country's exports. The SEZs are expected to bring about a major breakthrough.

Activity B:

Review the latest EXIM Policy and prepare a summarized report on the various export promotion measures as discussed above.

16.10 Export Promotion Schemes for Small and Medium Enterprises By NSIC

The various export promotion schemes being operative in India, for the small and medium enterprises in specific. The benefits under the scheme as announced by National Small Industries Corporation (NSIC), is as presented below for your understanding:

NATIONAL SMALL INDUSTRIES CORPORATION (NSIC):

NSIC is a brand name for the development and promotion of the micro and small enterprises worldwide. Hence, the participation of Indian Micro and Small enterprises under the NSIC banner facilitates them to grow and expand their business, as it creates the base for the Micro and Small enterprises in varied foreign fairs, which enable them to obtain the credibility about their competency and capability to supply good/ technologies to foreign buyers matching or competing with the international standards, as the case may be.

NSIC is associated with the exports of small scale industries products to the other countries, which includes, Builders Hardware; Garden Tools & Accessories; Handicrafts; Electrical Products & Accessories; Sports Goods; Sanitary Fittings; Textile and Textile Products; Leather Products; Auto Components; Light Engineering Goods; Hand Tools; Castings and Forgings.

NSIC provides any Indian small scale manufacturers of the above listed items, are provided with the following export assistance by marketing the products in the international market, by adopting single window assistance approach for export of small industries products abroad.

1. **Exhibitions/Trade Fairs and Buyer Seller Meet** through which the products of the small scale sector are displayed in the specified Trade Fairs/Exhibitions at concessional charges. Participation in these events provides exposure to MSE units in International market and enhances their business prowess. Enquiries, specifications and samples received directly or through its specified indenting agents are passed on to the concerned small scale units for development and final offer. NSIC also assists the small and medium scale units in costing and pricing of the products for the international markets as well as assists them by providing technical information.

   The NSIC also showcase the competencies of Micro and Small Enterprise and to capture market opportunities at the international level, NSIC, participates in the International Exhibitions every year. As well, NSIC also facilitates the participation of small enterprises by providing the special discount on the various aspects of the exhibition participations, such as, the stall rental, airfare and freight.

2. **Absorption of Marketing Overheads and Export Promotion** by providing assistance in negotiations with the overseas buyers by sending the sample of the products followed by the

subsequent correspondence for the procurement of the export orders at the pre-decided cost.

3. **Raw Material Assistance Programme** by passing over the export orders received by the corporation to the concerned associate units for shipment, for which the NSIC also provides raw materials assistance at the concessional rates of interest as notified by RBI within the specified norms and conditions of the corporation.
4. **Assistance under Leasing for Technology Up gradation** by considering on priority the small scale units which requires technological up gradation for executing the export orders by NSIC for providing necessary machines etc. under our leasing scheme.
5. **Assistance for Shipping by Assisting the Small Scale Units in Making Shipments** and also assisting them in prepare all related shipping documents
6. **Export Incentives** by passing on the claimed exports benefits to the export unit without any deductions, as well as also provides the option to the export units to claim the benefits themselves.
7. **Export Documentation** is completely done by the NSIC, with respect to the shipping, claiming incentives, negotiations of documents and post shipment activities, for which the units need to register itself with the other export related agencies.
8. **Assistance for Project Export for the export units** interested in exporting the small industrial projects is provided by NSIC, with the emphasis on relevant technology to the developing countries. However, the project formulation is carried out in-house by NSIC and plant & machinery are supplied from quality manufacturers after due inspection. NSIC undertakes the export of the various industrial projects under the exports of the various Small Scale Industries products to other countries on the turnkey basis.
9. **Service Charges are levied at** 3 per cent on the FOB value.

For the foreign buyer worldwide interested in procuring the above items at the competitive prices, through the NSIC, by responding to the enquiries invited by the NSIC, with the specifications and details. Under this, the NSIC makes the products of the small scale industries of India available at the competitive prices. Moreover, the buyer may also request for samples of the products for the approval before placement of the regular orders. NSIC has already exported the quality goods of the small scale industries of India to the various countries, such as, USA; UK; USA; UK; Europe; Australia; Middle East; Latin America; African Countries.

Apart from this, NSIC provides a package of services for setting up of the Industrial projects to the other countries, generally on the turnkey basis, as outlined earlier, which includes, identification of viable projects; conduct of feasibility studies; preparation of project profiles and brief project reports; selection and supply of plant and machinery from India; deputation of experts for installation, commissioning and initial operation; specialized training in India and at project site.

16.11 Import Substitution

The government to the considerable extent has also emphasized on the Import Substitution to control the adverse conditions of the imports by the varied firms and companies. The Import Substitution can be defined as the substitution of domestic source of the supply for the foreign source of supply. It has been clear from this definition that the import substitution implies that:

a. Development or creation of the new source of supply or productive capacity if there is no domestic supply;

b. Expansion of the domestic production/supply if the domestic supply is insufficient; and

c. Protection of the domestic industries from the foreign competition if competitive disadvantage of the industries, especially the infant ones, is encouraging the foreign source of supply.

Import Substitution is one of the important planks of the commercial economic policy of the developing countries. The foreign exchange scarcity, created by the import-export gap, prompts these countries to emphasize on the import substitution in a bid to reduce the import requirements and thereby to narrow down or remove the trade deficit.

Import Substitution assumed importance in the Indian economic policy since the Second Five Year Plan. The large-scale imports necessitated by the development requirements of the nation gave rise to what may be called as the development disequilibrium in the balance of payments. Export promotion and import substitution are the two important measures to narrow down and ultimately to wipe out the balance of payments deficit. Industries and other sectors with the potential for import substitution have been given high importance in our development programmes. At the beginning of the planning era, India was relying very heavily on the foreign sources of supply for her requirements of the capital goods and a number of basic and other important inputs. In the past five decades, considerable import of substitution has taken place in many important areas, such as, the capital goods, cement, organic chemicals, pharmaceuticals, dye stuffs, etc. Today, imports account for only less than 10 per cent of the total supply in many vital sectors.

However, the manner in which the policy of import substitution has been carried forward has been subject to the criticism from certain corners. For example, S.V.S Raghavan opines that in from the Indian context, the emphasis on import substitution has often run counter to the objective of the technology development. To substantiate his view, the following aspect of a policy of emphasizing import substitution, rather than technology development has been cited below:

a. It had led to a multiplicity of collaboration for the same basic product, however simple it may have been.

b. It has led to the repeated renewal of the same collaboration usually without any up-dating of technology.

c. Proposals for up-dating technology were evaluated as if the complete production envisaged was substitution of imports.

d. The claims of import substitution were often exaggerated or other manipulations hidden.

16.12 Summary

Exporting refers to the process of the sending or transporting the merchandise, i.e., the goods and services abroad, especially for the purpose of the trade or sale. The success of the export promotion measures shall be assessed by the growth of the exports and the dynamism of the export sector. No doubt, India's total exports have been growing and the export sector has achieved some diversification and sophistication. But, however, the exports of the country have not reached to the achievements and potentials as expected from the economy in comparison with those of several developing countries. The benefit of the export promotion to the exporters, to the entrepreneurs, however, shall make efforts to take the optimum advantage of the export promotion measures, in order to contribute it to the objective of designing the export promotion

measures. However, an effective export promotion should compensate for the disadvantages of the national exporters and should make the export business profitable enough to lure entrepreneurs to this sector and achiever the ultimate objective of boosting the exports.

One of the limitations of the export incentives regime in India is that it is largely transparent in character. The export promotion measures shall also be such which do not only remain as the motivating force for the importing to the importers. Moreover, the effectiveness and purposiveness of the incentives of the export promotion measure thus, lye in the true character of the export promotion schemes, which can be achieved by designing the policy framework with the inherent and inbuilt, albeit latent, promotional incentives.

Apart from this, the country's critical situation with respect to the balance of payments also has compelled the government authorities to re-view the objectives of the EXIM policy, over the period of time, which has, thus, led to the announcement of the Import Substitution policy. Import substitution policy refers to the development of the technology, the manufacturing units, and all other means, by which the imports of the country can be substituted from the inputs, the raw materials, and other required products, produced from within the country, thus, controlling the outflow of the foreign exchange of the countries.

Moreover, the combination of the import substitution with the export promotion measures to the large extent suffice this objective of the controlling the outflow of the foreign exchange, through import substitution, and raising the inflow of the foreign exchange by accelerating the exports through the various export promotion measures in varied forms, through export promotion, has been often used by the developing countries to develop the country's overall sectors, by not encouraging the exporters to export as well as by providing the incentives to the exporters for the exports done by them.

16.13 Self Assessment Questions

1 Define Export and Import? Discuss along with the advantages and disadvantages.

2 Define Export Promotion. Explain various levels of the Export Promotion in detail.

3 Write a short note on the Export Promotion Bodies.

4 Provide the outline of the Export promotion measures implemented by the Government.

5 Write a short note on the Export promotion scheme as outlined by NSIC.

6 Write a short note on the Import Substitution.

16.14 Reference Books

- Cherunillam F. (2006) Business Environment-Text & Cases; Himalaya Publishing House; Mumbai
- Cherunillam F. Eighth Revised Edition (2006); International Marketing Text and Cases; Himalaya Publishing House