UG BA S4-01
(DSC)

FOUR YEAR BACHELOR'S DEGREE COURSE
(CBCS in Accordance with NEP 2020)

SEMESTER-IV

ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

MANAGEMENT

Maniram Dewan School of Mamagement
KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Subject Experts

1. Professor Nripendra Narayan Sarma, Maniram Dewan School of Mangement, KKHSOU
2. Professor Munindra Kakati, VC, ARGUCOM
3. Professor Rinalini Pathak Kakati, Dept. of Busniess Administration, GU

Course Co-ordinator :	Dr.Chayanika Senapati, Asst. Prof., KKHSOU Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU

SLM Preparation Team

UNITS	**CONTRIBUTORS**
1 & 5	Mr. M.C. Kalwar, Gauhati Commerce College
2 ,3 & 6	Mr. Hemanta Kr. Deka, Gauhati Commerce College
4	Dr. R. K. Pathak, Gauhati Commerce College
7	Dr Chayanika Senapati, KKHSOU
8	Ms. Karishma Sarkar, Oil India Limited
9,11 & 13	Ms. Karishma Sarkar, Oil India Limited
10 & 14	Ms.Shweta Jalan,NERIM
12	Dr Chayanika Senapati, KKHSOU
15	Dr Smritishikha Choudhury,KKHSOU

Editorial Team

Content :	Prof. U.R. Dhar,Retd. Prof, Gauhati University, (Unit 1,2,3,4,5,7,8) Prof. Debabrata Das, Tezpur University,(Unit 6) Prof. U.R. Dhar,Retd. Prof, Gauhati University (Unit 9,10,11,12,13,14,15) Prof. N. N. Sarma, KKHSOU (Unit 15)
Language :	Retd. Prof. Robin Goswami, Cotton College
Structure, Format & Graphics:	Dr. Chayanika Senapati, KKHSOU Dr. Smritishikha Choudhury,KKHSOU

June 2018, Reprint : March 2025

This Self Learning Material (SLM) of the Krishna Kanta Handiqui State Open University is made available under a Creative Commons Attribution-Non Commercial-Share Alike 4.0 License (international): http://creativecommons.org/licenses/by-nc-sa/4.0/

Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University.

Headquarters: Patgaon, Rani Gate, Guwahati-781017
City Office: Housefed Complex, Dispur, Guwahati-781006; Web: www.kkhsou.in

The University acknowledges with thanks the financial support provided by the Distance Education Bureau, UGC for preparation of this material.

BACHELOR OF BUSINESS ADMINISTRATION

Entrepreneurship and Small Business Management

DETAILED SYLLABUS

UNIT 1. Introduction to Entrepreneurship **Page: 7-22**

Meaning and characteristic of an entrepreneur, Emergence of an entrepreneurial class, Theories of entrepreneurship,Role of Entrepreneurs in Economic Growth

UNIT 2. Entrepreneurial Development Programme **Page: 23-35**

EDP- meaning and importance, Course content and curriculum of EDP, Role of EDP in context of N.E. region, Institutions providing EDP in India

UNIT 3. Promotion of a Venture **Page: 36-57**

Meaning of Promotion of a venture, Sources of Busines ideas, Steps in identification of business opportunities, External environmental analysis,Establishment of a new business unit- legal requirements, Venture capital, sources of venture capital, Documentation for obtaining venture capital.

UNIT 4. Social Responsibilities of Business **Page: 58-79**

Meaning and scope of social responsibility in business, Social responsibilities - Indian Business Houses, Forces influencing the working of the business, Relationship between the Government and Business houses.

UNIT 5. Size of a Business Unit **Page: 80-95**

Standards to measure the size of a business unit, Factors determining the size of a business unit, Optimum size of a firm, Principles of location of business unit, Factors influencing location of business unit, Plant location in the North East Rregion- the present and future status.

UNIT 6. Business Combination **Page: 96-122**

Meaning of Business Combinations,Causes of Combinations,Types of Combinations, Forms of Combinations,New Forms of Business Organisations and Forms of Company Collaboration.

UNIT 7. Small Enterprise **Page: 123-133**

Definition of Small Enterprise, Characteristics of Small Enterprise, Relationship between small and large scale units, objectives and scope of small enterprise, Role of small enterprises in economic development, Problems of small scale units.

UNIT 8. Ownership Structure **Page: 134-163**

Concept of proprietorship, concept of partnership, Concept of Company,Concept of Co-operatives, Selection of an appropriate form of ownership structure, Ownership pattern in Small Scale Industries in India, Growth strategies in small business.

UNIT 9. Industrial Sickness **Pages : 174-184**

Meaning of Industrial Sickness; Warning Signals of Industrial Sickness; Causes of Industrial Sickness : External causes of Industrial Sickness, Internal causes of Industrial Sickness, Factors responsible for sickness of small business; Consequences of Industrial Sickness; Corrective Measures

UNIT 10. Tax Benefits to Small Scale Industries **Pages : 185-198**

Need for tax benefits; Tax Exemption; Rehabilitation Allowance; Investment Allowance; Tax Concession to small scale industries in rural areas; Tax concession to small scale industries in backward areas; MODVAT and Small Scale industries

UNIT 11. Financing of an Enterprise **Pages : 200-229**

Meaning of Financial Planning; Needs for Financial Planning; Sources of Finance; Sources of short term finance; Capital Structure : Theories of Capital Structure, Factors determining Capital Structure; Term loan : Features of Term Loan, Significance of Term Loan, Limitations of Term Loan; Capitalisation : Over-Capitalisation, Under-Capitalisation; Venture Capital : Significance of Venture capital, Function of venture capitalists, Essential Features of Venture Capital, Advantages of Venture Capital, Venture Capital Instruments, Banks and Venture Capital; Export Finance : Importance of Export Finance, Exim Bank Finance, Forfeiting

UNIT 12. Franchising **Pages : 230-247**

Definition of Franchising; Classification of Franchising; Features of Franchising; Types of Franchising; Advantages of Franchising : To Franchisee, To Franchisor; Disadvantages of Franchising : To franchisee, To Franchisor; Franchising Agreement; Franchising in India; Laws regarding Franchising

UNIT 13. Industrial Finance to Entrepreneurs **Pages : 248-260**

Concept of Commercial bank; Concept of other development financial institution : IDBI, IRBL, LIC, STCIS, SIDC's, SIDBI, EXIM BANK, NABARD, NEDFI, IFCI, UTI

UNIT 14. Small Enterprises in International Business and Electronic Commerce & Small Units **Pages : 261-276**

Export promotion and trends of small enterprises; Concept of major constraints; Concept of export potentials of small-scale units; Suggestions to improve exports; Meaning of e-commerce; Concept of evolution and growth; Benefits of e-commerce; Suitability of e-commerce for small units; Prospective areas for e-commerce; Challenges faced by e-commerce

UNIT 15. Case Study **Pages : 277-284**

COURSE INTRODUCTION

The course “Entrepreneurship and Small Business Management” of B.B.A. 5th Semester will focus on the different aspects of business. The course is meant to create interest in business management students to focus on setting up of their own business. This course presents specific reasons for growing importance of entrepreneurship. This course will help the student in enhancing their knowledge in the field of entrepreneurial development.

This course consists of 15 units.

It deals with basic concept of entrepreneurship,entrepreneurship development programme, promotion of a venture,concept of social responsibilities of business, size of a business unit, about small enterprises,business combination and ownership structures of business.

Also it eals with Industrial Sickness,Tax Benefits to Small Scale Industries,Financing of an Enterprise,Franchising,Industrial Finance to Entrepreneurs,Small Enterprises in International Business and Electronic Commerce & Small Units and case studies

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. you in making your learning more active and efficient.

UNIT 1 : INTRODUCTION TO ENTREPRENEURSHIP

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Meaning of Entrepreneur

1.4 Characteristics of an Entrepreneur

1.5 Emergence of Entrepreneurial Class

1.6 Theories of Entrepreneurship

- 1.6.1 Economic Theory
- 1.6.2 Sociological Theory
- 1.6.3 Dynamic Entrepreneurship Innovation Theory
- 1.6.4 Leibenstein's X- efficiency theory
- 1.6.5 Theory of profit

1.7 Role of Entrepreneurs in Economic Growth

1.8 Let Us Sum Up

1.9 Further Reading

1.10 Answers To Check Your Progress

1.11 Model Questions

1.1 LEARNING OBJECTIVES

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

- explain the meaning of entrepreneur
- discuss the various characteristics of an entrepreneur
- explain the emergence of entrepreneurial class
- explain different theories of entrepreneurship
- describe the role of entrepreneur in economic growth.

1.2 INTRODUCTION

In this unit, we will discuss the meaning of entrepreneur. Alfred North Whitehead once said, "The greatest invention of all is the invention of inventing inventions". Commenting on this statement, Joseph R.

Marcuso writes, “If this is the case the person, who introduces an invention to the world- the entrepreneur, must share that greatness. An entrepreneur is a person who creates an ongoing business enterprise from nothing.” 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.

After explaining the meaning of an entrepreneur we will discuss the characteristics of an entrepreneur and the factors for entrepreneurial class.

There are various theories of entrepreneurship which may be explained from the viewpoints of the economists, sociologists and psychologists. This unit will also take into account different theories of entrepreneurship.

As the builder of economic growth the role of an entrepreneur is very vital for economic growth and the present will focus on this aspect.

1.3 MEANING OF ENTREPRENEUR

The term ‘entrepreneur’ is defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustment in the economic systems as he seems necessary. He conceives an idea of an enterprise for the purpose, displays considerable initiative and determination in bringing his project into reality, and in this process, performs one or more of the following:

- Perceives opportunities for profitable investments.
- Explores the prospects of starting an enterprise.
- Obtains necessary industrial licenses.
- Arranges initial capital.
- Provides personal guarantees to the financial institutions.
- Promises to meet the shortfalls in the capital.
- Supplies technical know-how.

Therefore, an entrepreneur is the person who bears risk, combines

various factors of production to exploit the perceived opportunities in order to evolve demand and create wealth and employment.

1.4 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur is highly an achievement oriented, enthusiastic and energetic individual who has following characteristics:

- **Mental Ability:** An entrepreneur should be sufficiently intelligent and must have creative thinking. He should have the ability to visualise the likely changes to take place in market, consumer attitude, technological developments, government policy etc. and take timely actions accordingly.
- **Clear Objectives:** Before starting any venture, the entrepreneur should set clear objectives of his/her all activities to be undertaken. Without clear objectives he/she may not be able to set the organizational goal.
- **Secrecy:** An entrepreneur must have the ability to maintain business secrecy. Leakage of business secrets will provide an opportunity to his competitors and will create problems for him.
- **Human Relations Approach:** To get the required co-operation and co-ordination for the all-round development, he must maintain good relations with all the concerned people.
- **Communication Ability:** An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.
- **Technical Knowledge:** He / She should have adequate level of technical knowledge in their respective field.
- **Hard Work:** An entrepreneur works hard from the very inception and the same becomes the habit of his/her life. He may with his tedious, sweatfilled hours and perseverance revive his business even from the stage of failure.
- **Innovative:** He believes in new ideas. He initiates innovative activities keeping in view the possible changes in near future.



CHECK YOUR PROGRESS

Q1: Mention two characteristics of an entrepreneur.

i) .....

ii) .....

Q2:Mention three functions performed by an entrepreneur in bringing his project into reality

i) .....

ii) .....

iii).....

1.5 EMERGENCE OF THE ENTREPRENEURIAL CLASS

The emergence of the entrepreneurial class can be studied under two headings:

A) Theoretical perspectives for the analysis of entrepreneurial growth in different societies.

B) Entrepreneurial scene in India.

A) Theoretical Perspectives: The historical development of entrepreneurship in different communities and societies was governed by various factors. This is discussed in the following way:

- **Impact of Ethical System of Entrepreneurial Growth:** ***Max Weber*** was first to point out the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends on 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. Weber found a relationship between protestant ethic and the spirit of capitalism.



Max Weber (1864-1920) — A leading figure in the intellectual and political life of Germany. He advocates a liberal political system and favoured mass democracy

According to him, this tendency also existed in other communities like Hindu, Jain and Juda. He held that Protestants made progress fast in bringing capitalism because their ethical value system provided them with rational economic attitude. 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 truths but it was not accepted universally.

- **Impact of Minority Group on Entrepreneurial Growth:** Hagen (1962) was of the view that the disadvantaged minority group is mostly the source of entrepreneurship. Several other scholars like Frayer etc. also tried to explain the morale. Similarly, Park (1910) and Stonequist (1937) have indicated that technological innovations are caused more by the culturally marginal person than others. Similarly, McClelland (1971) also held that Jains were more commercialized because of their consciousness of minority group and superior group which motivated high degree of need achievement in them.
- **Impact of need for Achievement Motivation on Entrepreneurial Growth:** 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.
- **Impact of Exposure to New Ideas and Opportunities on Entrepreneurial Growth:** Some studies propound that it is the exposure to new ideas and opportunities which leads to entry in manufacturing and industrial activities. Tripathy, in his study of entrepreneurial growth in India observed that “not religion, but exposure to new ideas and values was the real factor which led Parsi and Hindu entrepreneurs to manufacturing activities”.
- **Impact of Political System on Entrepreneurial Growth:** 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 her social structure did not provide sufficient incentives and security to entrepreneurs. Medhora also concluded that the entrepreneurial growth in India was delayed not because of lack of entrepreneurial motivation but due to non-commitment of the political structure. A.K. Sharma and Mishra also explored the impact of public policies on entrepreneurial growth in India.

- **Impact of Regional Industrial Climate on the Growth of Entrepreneurship:** Many studies have pointed out that Gujarat and Marwari Vaisyas had dominated, after Parsian businessmen, the entrepreneurial activities in India and the reasons for their success were seen as religious values and certain group characteristics. But a researcher, Pandit (1917) challenged this thesis and held that the real reason of industrial dominance of Gujarat and Marwari Vaisyas were regional factors, i.e., industrial climate in these regions. She pointed out that Gujarat had a climate favourable to business and industry. According to her argument, even the Parsis showed higher entrepreneurship because they belonged to Gujarat. Thus, the industrial climate may have a very significant impact on the repose of entrepreneurs. However, the group factors, as emphasised by various studies, can not be ignored altogether.

B) Entrepreneurial Scene in India: In ancient India, some kind of entrepreneurship was found among the artisans in the cities like Banaras, Allahabad, Gaya, Puri and Mirzapur. These towns were established on the bank of rivers which facilitated transportation system. But artisan entrepreneurs could not progress properly due to lack of initiative from the colonial political power and the infrastructural problems.

Business entrepreneurs were also in abundance in ancient India. But large number of traders and money lenders migrated to various countries such as Burma, Malaysia, Singapore and Kenya with the object of trading. These traders made extensive trade relations with China and Hong Kong. The entrepreneurship did not grow early in India. The reasons for this slow progress were:

- lack of capital;
- lack of political unity;
- network of custom barriers;
- existence of innumerable system of currency;
- regional markets;
- taxation policies;
- low prestige of businessmen.

Manufacturing entrepreneurship was emerged in India with the arrival of East India Company. It promoted Indian businessmen in the field of international trade. The company particularly influenced the Parsis who moved the various trades and commercial occupations connected with the operations of the East India Company. Parsis made good rapport with the British. They worked as brokers, suppliers of commodities, and craftsmen in ship building industry. The Agency Houses also contributed towards Indian entrepreneurial growth in the last decade of the 18th century in Calcutta, Mumbai and Chennai. These houses provided entrepreneurial ability and capital. These houses entered business, trade, banking and steam shipping after the East India Company lost its monopoly in 1813. In the wake of industrial revolution these houses promoted other entrepreneurial activities like indigo, leather manufacturing and steel making. According to Brimmer, the managing agents working in the Agency Houses were the real entrepreneurs in India. They introduced new methods of production, new sources of raw materials and new products and markets. The Indian Agency Houses controlled the companies under them with a view to obtaining maximum profit.

Entrepreneurship was also initialized by the British people as far as plantation of tea, coffee, etc., were concerned. The British entrepreneurs were not interested in cotton textile and steel. The modern factory system was introduced in India from 1810 onwards. Out of 96 mills, existing in 1911, 41 were built by Parsis, 23 by Hindus, 10 by Muslims and 22 by British citizens. Parsis took leadership not only in textile but also in iron and steel. It can be noted that Parsis dominated the Indian entrepreneurial scene in the beginning. But Brahmins also entered manufacturing activities.

The second phase of entrepreneurial growth began during and after the First World War. During this period, cement and sugar industries made fast progress. The relative importance of Parsis gave lead in initiating manufacturing. Marwaris gave lead in spreading it almost all over India. Moreover, a group of self-made entrepreneurs also emerged who earned high profit by ploughing back their money. The innovating entrepreneurship was not properly emerged. The process of entrepreneurial growth got more impetus during the Second World War. Since then, the Indian economy has been undergoing a rapid change. During the war, the entrepreneurs got many incentives for setting up new industries.

There were three major effects of rapid industrial growth

- A few entrepreneurs belonging to particular social strata like Parsis and Vaisyas dominated Indian industrial scene.
- Industrial growth was localized in a few industrial centres like Mumbai, Ahmedabad, kolkata and Kanpur.
- Only those industries grew fast which met the needs of the war. With the result, the over all industrial growth was restricted.

After the Independence, the Govt. of India tried to promote balanced growth of industries through mixed economy. To achieve this purpose, three measures were taken:

- to encourage a proper distribution of income among various sectors;
- to promote industrialization by spreading entrepreneurship;
- to spread entrepreneurship to a large number of people having industrial potential.

To achieve these objectives, the government promoted the growth of small scale units in cities, towns and villages. Under the five year plans the government started to provide capital, technical know-how, markets and land to potential entrepreneurs. Several institutions were also established by the government to motivate new entrepreneurs. As a result, small scale units emerged rapidly in India. In India, the modern entrepreneurship has reached the present position after passing through the various changes of trade, commerce and industrialisation. It has the advantages of rapidly expanding trade and industry. It was found that once the roots of industrialisation were laid, the enterprising units permeate among people from other occupations also.

1.6 THEORIES OF ENTREPRENEURSHIP

There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. These theories have been propounded by various thinkers over a period of more than two and half centuries. We shall now discuss some major theories of entrepreneurship.

1.6.1 Economic Theory

According to economists, entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. G.F. Papanek and J.R.Harris are the main who advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it is not so evident, but the persons' inner drives have always been associated with economic gain.

When an individual recognises that the market for a product or services is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to buy at the highest price.

1.6.2 Sociological Theory

Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. According to them cultural values and role expectations are responsible for the emergence of entrepreneurship. According to Cochran- the entrepreneur represents model personality of the society. His performance depends upon his own attitudes towards his occupations, the role expectations of sanctioning groups and the occupational requirements of the job. The social values are the most important determinant of attitudes and role expectations. According to Weber, religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to end and the accumulation of assets. These are beliefs which generate a drive for entrepreneurial growth. In several countries, entrepreneurs have emerged from a particular socio-economic class.

According to Stokes, socio-cultural values channel economic action. He suggests that individual and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

1.6.3 Dynamic Entrepreneurship Innovation Theory

This theory was developed during 1949 by Schumpeter who considered entrepreneurship was 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 can activate the economy to a

new level of development. The concept of innovation covers functions:

1. Introduction of a new product/service or improved modified product/service.
2. Finding out and introducing new technique of production.
3. Introducing the product/service in new markets or segments.
4. Finding out new source of supply of raw materials and
5. Carrying out of a new organisation of any industry.

Schumpeter's concept of innovation covers the element of risk taking, superintendence and co-ordination.

1.6.4 Leibenstein's X-efficiency Theory

X-efficiency theory is the degree of inefficiency in the use of resources within the firm, it measures the extent to which the firms fails o realise its productive potential. X-efficiency arises either because the resources are not used in proper manner or because they are wasted, that is, not used at all.

Leibenstein identifies two main roles for the entrepreneur. The first role is making available inputs that improve the efficiency of existing production methods to facilitate the introduction of new ones. It may also cover the flow of information within enterprise if it improves the efficiency.

The second role, gap filling, is closely asking to the arbitrage function emphasised by Kirzner. Leibenstein provided a very vivid description of gap filling, visualising the economy as a net made up of nodes and path ways. Originally, this theory was developed for another purpose, has recently been applied to analyse the role of the entrepreneur.

1.6.5 Theory of Profit

Knight considers the entrepreneur as a recipient of pure profit. Pure profit, he means profit for bearing the costs of uncertainty.

He explains uncertainty with a situation where the probabilities of alternative outcome can not be determined either by ***a priori*** reasoning or by statistical inference. A priori reasoning is simply irrelevant to economic situation involving a unique event. Knight mentioned that business uncertainty can be reduced through 'consolidation'. Consolidation is a method of reducing total uncertainty by pooling individual instances. The level of self-confidence is the most important dominant of the amount of profit and the number of entrepreneurs.



a priori —

Something based on theoritical rather than on actual observer.

1.7 ROLE OF ENTREPRENEURS IN ECONOMIC GROWTH

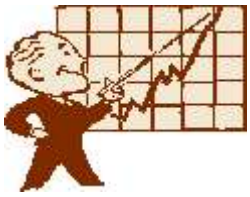
Marketing research like any other research involves a sequence of steps aimed at exploring and validating a hypothesis. These steps can be outlined as follows.

- **Coordinating Role:** The essential function of an entrepreneur is to coordinate the various factors of production. Coordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technology, division of labour etc. He must also see the best combination of factors is made available for the production process. Schumpeter feels that economic development will be a reality if new combinations of factors of production are undertaken. In absence of this coordinating role the factors of production will remain idle in the country.
- **Agents Role:** Entrepreneurs are called 'Agents of change'. Entrepreneurs act as catalyst or agent of economic growth by perceiving opportunities and putting them into action.
- **Role of Innovation:** Innovation is a key to entrepreneurship. Innovation implies the commercial application of an invention. Innovative entrepreneurship can alter the production function of nations and bring about rapid development.
- **Risk Assumption Role:** The most important function of an

entrepreneur is the assumption of risk. The economic reward for risk bearing is profit. Entrepreneurs promote economic development by coming forward to assume risks of productive ventures.

- **Capital Formation Role:** Entrepreneurs promote capital formation by mobilising the idle savings of the public. Again, the profits they earn lead to saving of wealth which ultimately goes to capital formation. Without capital formation, economic growth would remain static.
- **Employment Generation Role:** Entrepreneurs with high achievement motivation come forward to establish business and industrial ventures which provide immediate large-scale employment.
- **Export Promotion Role:** Entrepreneurs also promote a country's export trade which is an important ingredient to economic growth.
- **Imitating Role:** Entrepreneurs in developing countries take the role of "imitators" who generally copy the innovations introduced by the "innovative" entrepreneurs of the developed countries. Imitative entrepreneurship seems to be the best medicine for underdeveloped countries to overcome their entrepreneurial ills and bring about substantial economic development.

Thus, the entrepreneur is always on the lookout of making the economic system at its dynamic best. They stimulate progress by means of their entrepreneurial activities and act as mainspring of economic growth. They have the potential of transforming their underdeveloped economies into developed economies.



CHECK YOUR PROGRESS

Q3. Explain the role of entrepreneurs in economic growth of a country.

.....

.....



ACTIVITY

As an entrepreneur what type of enterprise you like to start and why?

.....

.....

.....

.....



1.8 LET US SUM UP

In this unit we have discussed the following:

- We do not have one indisputable definition of entrepreneur or entrepreneurship. However, we can conclude that an entrepreneur is the person who bears risk, combines various factors of production to exploit the perceived opportunities in order to evoke demand, create wealth and employment.
- The various characteristics of an entrepreneur may be classified into four, namely, leadership, risk-taking, decision making and business planning.
- The emergence of entrepreneurial class at any time and place is influenced by socio-economic, psychological, cultural and other factors.
- Different theories of entrepreneurship have been developed by the economists, sociologists and psychologists.
- The entrepreneurs play vital role in economic growth through employment generation, increasing income, improving standard of living of general people, making optimum use of all factors of production etc.



1.9 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: i) Innovative ii) Hard working

Ans to Q No.2: i) Perceives opportunities for profitable investments

ii) Explores the prospects for starting an enterprise

iii) Obtains necessary industrial licenses

Ans to Q No.3: The entrepreneurs play an important role in the economic growth of a country. The entrepreneurs explores innovative ideas, arranges the factors of production, put them in productive process. They create employment opportunities, generate income and increase the standard of lining of people. Therefore, the entrepreneurs are essential for economic growth.



1.11 MODEL QUESTIONS

1. Define entrepreneur.
2. Define entrepreneurship.
3. What are characteristics of an entrepreneur?
4. Explain emergence of entrepreneurial class in India.
5. What are the different theories of entrepreneurship?
6. Write short notes on

a) Dynamic entrepreneurship innovation theory.

b) Leibenstein's X-efficiency theory.

7. Explain the role of an entrepreneur in economic development of a country.

UNIT 2: ENTREPRENEURIAL DEVELOPMENT PROGRAMME

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Entrepreneurship Development Programme-Meaning and Importance

2.4 Course Contents and Curriculum of Entrepreneurship Development Programmes

2.5 Role of Entrepreneurship Development Programmes in Context of North- East Region

2.6 Institutions providing Entrepreneurship Development Programmes in India

2.7 Let Us Sum Up

2.8 Further Reading

2.9 Answers To Check Your Progress

2.10 Model Questions

2.1 LEARNING OBJECTIVES

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

- explain the meaning of Entrepreneurship Development Programme
- discuss the importance of Entrepreneurship Development Programme
- explain the course contents and curriculum of Entrepreneurship Development Programmes
- describe the role of Entrepreneurship Development Programme in context of North- East Region
- identify the various institutions providing Entrepreneurship Development Programmes in India.

2.2 INTRODUCTION

In recent years, entrepreneur and Entrepreneurship Development

Programme (EDP) has become a serious matter of discussion. In unit 1, we have discussed about meaning of entrepreneur, characteristics of entrepreneur, role of entrepreneur in economic growth etc. In this unit, we will discuss about Entrepreneurship Development Programme which is primarily meant for developing those first generation entrepreneurs who on their own account cannot become successful entrepreneurs. In this unit, we will discuss about meaning and importance of EDP, course contents and curriculum of EDPs. There is also a discussion on role of EDP in context of NE Region. There are several organisations engaged in conducting EDPs in India. In the last portion of the unit, we will covers the institutions providing EDPs.

2.3 ENTREPRENEURSHIP DEVELOPMENT PROGRAMME - MEANING AND IMPORTANCE

Entrepreneurial Development Programme means a programme conducted to help a person in strengthening his entrepreneurial motive and in acquiring skill and capabilities required for playing and discharging his efficiency. A programme which is conducted with a motive to promote potential entrepreneurs, understanding of motives, motivational pattern, their impact on behaviour and entrepreneurial value is termed as entrepreneurial development programme. There are a number of programmes which give information to the prospective entrepreneurs regarding new business idea, how to set up a new venture, how to prepare a project report, sources of finance etc. These programmes should not be confused with EDP, these are all a part of EDP. EDP is primarily concerned with developing, motivating entrepreneurial talent and understanding the impact of motivation on behaviour.

A well designed EDP envisages three tiered approach:

- Achieving motivation and sharpening entrepreneurial traits and behaviour.
- Guidance on industrial opportunities, incentives, facilities and rules

and regulations.

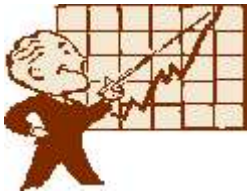
- Developing managerial and operational capabilities.

Importance

Entrepreneurs are considered as agents of economic growth. They create wealth, generate employment, provide new goods and services and raise the standard of living. EDP is an effective way to develop entrepreneurs which can help in accelerating the pace of socio-economic development, balanced regional growth, and exploitation of locally available resources. It can also create gainful self-employment. An EDP equips entrepreneurs and makes them competent to anticipate and deal with a variety of problems that any entrepreneur may have to face. It gives confidence to the entrepreneur to face uncertainties and take profitable risks. It prepares them to deserve and make good use of various forms of assistance.

EDP can be beneficial in the following ways:

- Economic growth: EDP is a tool of industrialisation and path to economic growth.
- Balanced Regional Development: EDP helps in dispersal of economic activities in different regions by providing training and other support to local people.
- Eliminates Poverty and Unemployment: EDPs provide opportunities for self-employment and entrepreneurial careers.
- Optimum use of Local Resources: The optimum use of natural, financial and human resources can be made in a country by training and educating the entrepreneurs.
- Successful Launching of New Unit: EDP develops motivation, competence and skills necessary for successful launching, management and growth of the enterprise.



CHECK YOUR PROGRESS

Q1: What is Entrepreneurship Development Programme?

.....

.....

.....

.....

.....

2.4 COURSE CONTENTS AND CURRICULUM OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES

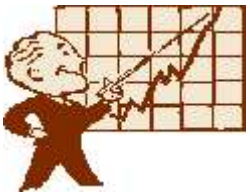
Once the selection procedure for entrepreneur is over, the selected persons have to be equipped with managerial and technical skills to start their enterprises. In such entrepreneurial development programme, there are participants with a variety of back grounds and qualities. Therefore, a package of training inputs is provided during the programme which is usually of six week's duration. It consists of the following six inputs.

- **General Introduction to Entrepreneurship:** The participants are exposed to a general knowledge of entrepreneurship such as factors affecting small-scale industries, the role of entrepreneurs in economic development, entrepreneurial behaviour and the facilities available for establishing small-scale enterprises.
- **Achievement Motivation Training (AMT):** The purpose of AMT is to develop the need to achieve risk-taking, initiative and other such behavioural or psychological traits. A motivation development programme creates self-awareness and self-confidence among the participants and enables them to think positively and realistically. Without achievement motivation training, an EDP becomes an

ordinary executive development programme. Motivation training initiates to strive for excellence, to take calculated risk, to use feed back for improvement, sense of efficiency etc.

- **Support System and Procedures:** The participants have to be exposed to agencies like the local banks and other financial institutions, industrial service corporations and other institutions dealing with supply of raw-materials, equipments etc. The programme on support systems needs to include the procedures for approaching them, applying and obtaining assistance from them and availing of the services provided by them. A linkage between the training institute and support system agencies can be established by participation of these agencies in sponsoring and financing EDPs.
- **Market Survey and Plant Visit:** In order to familiarise the participants with real life situations in small business, plant visits are also arranged. Such visits help the participants to know more about an entrepreneur's behaviour, personality, thoughts and aspirations. Moreover, the participants should be given opportunity to conduct market surveys for their respective projects. This would help to expose the participant to the market avenues available and could be followed by sessions on methods of dealing in the markets.
- **Managerial Skill:** Since a small entrepreneur can not employ management experts to manage his enterprise, he needs to be imparted basic and essential managerial skills in the functional areas like finance, production and marketing knowledge of managerial skills enables an entrepreneur to run his enterprise smoothly and successfully.
- **Project Preparation and Feasibility Study:** A good period of time needs to be devoted to the actual preparation of projects. The active involvement in this task would provide them necessary understanding and also ensure their personal commitment. During the course of EDP various guidance sessions are helpful for

enabling the trainees to identify appropriate business opportunities. Information and counseling on various business opportunities is provided though the team experts and by spot survey. Necessary experience is provided in market survey, project preparation, sources of finance etc. Undue emphasis on any dimension should be avoided as it may lead to distortion in both the process and content of the programme.



CHECK YOUR PROGRESS

Q2: Mention the inputs in Entrepreneurship Development Programme.

i) .....

ii) .....

iii) .....

iv) .....

v) .....

vi) .....

2.5 ROLE OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES IN CONTEXT OF NORTH- EAST REGION

In the North Eastern region the concept of developing entrepreneurship was first introduced in Assam in the year 1931. The Government of Assam under the Chief Ministership of late Sarat Chandra Sinhs introduced a scheme called “Half a million job” and a separate organisations was created for this purpose called “Entrepreneurial Motivation Training Centre” (EMTC). Nine EMTCs were set up in different places of Assam.

The idea that entrepreneurs need not necessarily be born, but could be nurtured through proper training was first enunciated and demonstrated here, way back in the 1960’s. NISIET started in 1960 and Indian Institute of Entrepreneurship Development (IIE) in 1994. Training, Research and

Consultancy for the development of small and medium enterprises in the north-east is the primary functions of IIE.

In 1983 NECON was established with its headquarter at Imphal, Manipur. In addition organisations like SISI, NSIC, NPC, NIRD, number of NGOs, industry associations, forums etc have been operating in the region and one of the functions of such organisations is developing entrepreneurship through training, research and consultancy. Similarly, some state level organisations and developments and departments like Directorate of Industries and Commerce, SIRD, ASIDC, DRDA etc. and other organisations/institutions in the NE Region like Tripura Industrial Development Corporation (TIDC), Meghalaya Industrial Development Corporation (MIDC), MANIDCO (Manipur), APSFDC (Arunachal Pradesh), ZIDCO (Mizoram), NIDC (Nagaland), SIDC (Sikkim) etc. have been involved for developing entrepreneurship programmes like General EDP, Sector Specific EDP, Area Specific EDP, Rural EDP, Urban EDP etc. For example, the types of entrepreneurship development programmes under "Promotion of New Entrepreneurs" section conducted by IIE, Guwahati can be seen from the following table:

Sl. No.	Types of Programmes	No. of Programmes	No. of Participants
1	General EDP	31	1359
2	Women EDP	03	31
3	Sector Specific EDP	21	1335
4	EDP for PMRY beneficiaries	06	333
Total		61	3102

Table: Entrepreneurship Development Programmes Conducted by IIE in NE Region during 2006-03

Source: IIE Annual Report, 2006-03

In addition, IIE also organises some other relevant programmes for developing entrepreneurship in the NE Region which include production

of new entrepreneurs, growth of existing entrepreneurs, creation of environment for entrepreneurship, information technology, seminar and workshops etc.

Like IIE, other institutions and organisations mentioned above and the different departments and organisations in the states of north-east are also working towards the development of entrepreneurship, enterprises etc. in their respective sectors/ areas.

In spite of the role played by all these organisations, it is seen that-

- Only 2% of SSI and about 2.5% of medium and large scale industries have been set up in the North Eastern Region.
- About 43 lakhs educated youth are unemployed in north-east as on March, 2008. Out of them the maximum number of unemployed youths are located in Assam (about 22-50 lakhs) and the lowest is in Sikkim.
- About 20 to 25% of the trained entrepreneurs have set up units/ trading activities in different parts of the region.
- Cost of production of majority of the items is 30% higher in the NE Region against all India average.

The major reasons for poor performance in the development of entrepreneurship in this region are-

- Lack of entrepreneurial tradition.
- Lack of awareness/information about various opportunities.
- Lack of proper motivation and support.
- Entrepreneurs are often regarded as having low prestige or value in the society.
- Entrepreneurs by and large have no initiative to invest and to take risk.
- Lack of adequate financial, marketing, R&D support etc.

There are considerable potentialities for developing entrepreneurship in the region. We have the necessary resources, skills and talents. But, we need proper guidance, motivation, help and co-operation particularly from the concerned departments, organisations and institutions.



ACTIVITY 1

Identify five potential business ideas where Entrepreneurship Development Programmes can be conducted.

.....

.....

.....

.....

2.6 INSTITUTIONS PROVIDING ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES IN INDIA

- **National Institute for Entrepreneurship and Small Business Development (NIESBUD)**

NIESBUD was established in 1983 by the Ministry of Industry, Government of India. Its main functions and objectives are:

- To serve as an apex national level resource institute to accelerate the process of entrepreneurship development.
- To help and facilitate various agencies in carrying out training and other entrepreneurship development activities.
- To provide vital information support to trainers, promoters and entrepreneurs.
- To evolve effective training strategies.
- To identify, train and assist potential entrepreneurs for setting up ventures.

This institute acts as a nodal agency. It organises about 29 national and 6 international training programmes every year.

- **Entrepreneurship Development Institute of India (EDII)**

It was established in 1983 by financial institutions. It conducts research, training and institution-building activities for encouraging the participation of the backward regions. The main objectives of EDII are:

- To increase the supply of trained entrepreneurs through training.
- To generate opportunities for self-employment.
- To improve managerial capabilities of small-scale industries.
- To promote small enterprises at rural level.
- To contribute to the dispersal of business ownership.

Some other organizations providing EDPs are-

- Small Industries Development Organisation (SIDO)
- Indian Investment Centre (IIC)
- National Institute for Small Industry Extension and Training (NISIET), Hyderabad
- Small Industry Development Bank Of India(SIDBI)



CHECK YOUR PROGRESS

Q3: Mention the names of three institutions conducting Entrepreneurship Development Programmes in India.

i).....

ii).....

iii).....



ACTIVITY 2

How EDPs can be make more effective in developing entrepreneurship? Give your comments.

.....

.....

.....



2.7 LET US SUM UP

- Entrepreneurship Development Programme (EDP) means a programme conducted to help a person in strengthening his entrepreneurial motive and in acquiring skill and capabilities required for playing and discharging his efficiency.
- EDPs can provide the foundation for developing first generation entrepreneurs and bring in a total change in the mindset of the potential entrepreneurs.
- The course contents of EDPs generally consist of six inputs namely, general introduction to entrepreneurship, achievement motivation training, support system and procedures, market survey and plant visit, managerial skill, project preparation and feasibility study.
- In the North Eastern Region the concept of developing entrepreneurship was first introduced in Assam in the year 1933.
- Organisation like IIE, SISI, NSIC, DICs, number of NGOs, industry associations, forums etc. have been operating in the region for developing entrepreneurship through training, research and consultancy.
- In India, various national and state agencies are engaged in organizing EDPs for first generation entrepreneurs.



2.8 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition

4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



2.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Entrepreneurship Development Programme is a programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and abilities necessary for playing his entrepreneurial role effectively. Developing entrepreneurial motives and skills and helping to play the role of entrepreneur effectively are the aims of Entrepreneurship Development Programme.

Ans to Q No 2:

i) General Introduction to Entrepreneurship
ii) Achievement Motivation Training
iii) Support System and Procedures
iv) Market Survey and Plant Visit
v) Managerial Skill
vi) Project Preparation and Feasibility Study

Ans to Q No 3:

i) National Institute for Entrepreneurship and Small Business Development (NIESBUD)

ii) Indian Investment Centre (IIC)

iii) National Institute for Small Industry Extension and Training (NISIET), Hyderabad.



2.10 MODEL QUESTIONS

1. Explain the importance of EDP?
2. Mention the various institutions conducting EDPs in India?
3. What should be the Content and Curriculum of EDPs?
4. Write a short note on role of EDP in context of NE Region.
5. Write short notes on:

(a) Achievement motivation training

(b) Poor performance of EDP in the North Eastern region.

UNIT 3: PROMOTION OF A VENTURE

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning of Promotion of a Venture

3.4 Sources of Business Ideas

3.5 Steps in Identification of Business Opportunities

3.6 External Environmental Analysis- Meaning and Importance

- 3.6.1 Economic Factors
- 3.6.2 Social Factors
- 3.6.3 Technological Factors
- 3.6.4 Competitive Factors

3.7 Establishment of a New Business Unit- Legal Requirements

3.8 Venture Capital- Meaning and Importance

3.9 Sources of Venture Capital

3.10 Documentation for Obtaining Venture Capital

3.11 Let Us Sum Up

3.12 Further Reading

3.13 Answers To Check Your Progress

3.14 Model Questions

3.1 LEARNING OBJECTIVES

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

- explain the meaning of promotion of venture
- discuss the sources of business Ideas
- discuss the different steps in identifications of business opportunities
- explain the meaning and importance of external environmental analysis
- describe different types of external environmental analysis
- discuss the requirements to start a new business unit
- describe the meaning of Venture Capital and its importance

- explain the various sources of Venture Capital
- discuss about the documents required for obtaining Venture Capital.

3.2 INTRODUCTION

In this unit we will discuss the meaning and the various steps in the promotion of a venture, sources of business ideas and steps involved in identification of business opportunities. We will discuss the analysis of various external environmental factors including economic factors, social factors, technological factors and competitive factors. Then we will deal with the legal requirements for the establishment of a new business unit, meaning and importance of venture capital, sources of venture capital and the documents required for obtaining venture capital.

This unit will help you in identifying the various sources from where you can generate business ideas and the steps to be followed in the promotion of a venture as well as the legal requirements for starting a new business unit and obtaining venture capital.

3.3 MEANING OF PROMOTION OF A VENTURE

Promotion simply means an act of initiating or starting or developing a venture. Venture may be defined as a “business project or undertaking that starts with commercial purpose which essentially involves risk and uncertainty”. A venture is the result of endless efforts, experiences, foresight and planning of a person or group of persons, known as promoter or promoters. The most important requirement is to explain the purpose of the new venture. For example, a venture’s purpose can be described as manufacturing micro electronics, publishing children’s books etc. In each instance, the entrepreneur should briefly extend the definition to explain how the enterprise is unique.

There are no absolute answers on how to succeed in business; there are no absolute answers on how to promote a successful new venture. There is no undisputed promotion process of entrepreneurship, but there are similarities among the leading ones that suggest a general

pattern of promotion of a new venture. The first step in the promotion of a new venture is identification of business opportunities.

3.4 SOURCES OF BUSINESS IDEAS

Sources of Business or Product Ideas: In this section, we will discuss some sources from where business ideas can be collected-

- **Market Characteristics:** Unfulfilled demand for products and services will be the source of a new product or service idea.
- **Business Policies:** Business policies like industrial policies, EXIM policy etc. encourage the entrepreneur to think about new products and services.
- **Emerging New Technology and Scientific Know-how:** Commercial exploitation of indigenous or imported technology and know-how is another source of project idea.
- **Social and Economic Trends:** Social and economic status of people are always dynamic in nature and offer wide opportunities. An entrepreneur should observe such changes carefully to get new idea.
- **Observing other's deficiencies:** It helps to improve performance or add desirable features.
- **Novel use of known products:** It is possible to think of new uses of existing products.
- **Trade fairs and trade journals:** Magazines, journals, industries or trade fairs offer wide scope for business opportunities.
- **Business meets:** Business ideas may be developed through business meets organized by trade and commerce associations from time to time.
- **Market research:** report, consultants, testing laboratories, educational institutions etc.

An entrepreneur may get various ideas but he has to select feasible and rewarding opportunities. For this he has to evaluate the ideas and understand the gap between demand and supply. The evaluation process requires:

- To study government rules and regulations regarding different business opportunities.
- Extensive study of promising investment opportunity.
- ***SWOT*** analysis of the business venture, and
- Market Survey.
- Spying is considered as a powerful way of extracting business idea from other companies.



CHECK YOUR PROGRESS

Q1: Mention two sources of business ideas.

i) .....

ii) .....



SWOT Anzlysis —

A technique used to evaluate strengths, weaknesses, opportunities and threats involved in a business venture.

3.5 STEPS IN THE IDENTIFICATION OF BUSINESS OPPORTUNITIES

Now, we will discuss the steps involved in the identification of business opportunities. The various steps are:

1. Preliminary evaluation.
2. Selection of product or services.
3. Conducting a market survey.
4. Contractual programmes to collect sufficient information about proposed venture.
5. Succeeding in the market.

1. Preliminary Evaluation: A crucial task starting a new business enterprise is the systematic analysis and evaluation of its feasibility and long term profitability. Since a number of variables enter in calculations, the task is quite time consuming and difficult. The general criteria for evaluation of specific project are:

- Opportunity should be compatible with the promoter.
- Opportunity should be compatible with the government regulations and priorities.

- Availability of raw materials.
- Size of potential market.
- Cost of the project.
- Inherent risk involved in the opportunity.

2. **Selection of Product or Services:** The first step is to identify and select the best product or service suitable for the entrepreneur to earn reasonable profit with the possible and logical amount of investment in the prevailing situation. While selecting the best product or service following should be taken into consideration:
   - Existing and potential demand for the product or the service.
   - Assessing the existing and potential degree of competition.
   - Current position and rate of change in technology and scientific development in the field.
   - Availability of raw material and required labour.
   - Environmental factors.

3. **Conducting a Market Survey:** It means gathering information and data through various methods with reference to the consumer behaviour, availability of raw materials, availability of equipments and marketing and distribution.

   A. Consumer Behaviour Survey
   - Gathering information about the purchasing power of buyers.
   - Gathering information regarding change in habits, tastes, income, education, sex, age-group etc.

   B. Availability of Raw Materials
   - Gathering information regarding the supplier of raw materials.
   - Information regarding prices, its fluctuation and the present trends.

   C. Availability of Equipments for Production
   - Information regarding major producers and the supplier of equipment within the country and outside the country.
   - Performance guarantees by supplier.

D. Marketing and Distribution

- Selection of channels of distribution to reach the maximum number of buyers.
- Product positioning and repositioning.

4. **Contractual Programmes to Collect Sufficient Information about Proposed Venture:** The promoters of any venture always require the necessary guidance and information in the initial stage regarding raw materials, policies, government incentive, subsidies and other facilities. This information may be collected through state government agencies. Contact with the government level agencies set up for this purpose can provide sufficient information about the proposed venture.

   The entrepreneurship development programmes conducted by various government and quasi- government agencies such as State Industrial Development Banks, SIRD, SISI, Indian Institute of Entrepreneurship, NSIC etc. are designed to impart the following capabilities:

   - Promotion of an enterprise.
   - Managerial skill.
   - Identification of viable projects for the potential entrepreneurs.

5. **Succeeding in the Market:** The success of an entrepreneur depends on how well he/she could satisfy the consumers and buyers of his product or services. He has to produce product according to the need of consumers. Moreover he has to determine the channel as per their requirement and the sales promotion which could influence them sufficiently.



ACTIVITY

As a promoter, what steps will you take to establish a venture?

.....

.....

3.6 EXTERNAL ENVIRONMENTAL ANALYSIS-MEANING AND IMPORTANCE

The external environment covers the people and the situation outside the venture and other tangible environment factors such as social factors, government policies, the state of capital market and competitor's strategy etc.

The external environment factors like nature, size, location and the extent of venture are the important factors for the entrepreneurs to conform to the socio-economic objectives of the country.

Social factors are the most important factors influencing a venture. Social acceptance is an essential aspect of a venture. Again, the social trends are dynamic. An entrepreneur has to adhere to the social norms and keep pace with the socio- cultural changes in the society.

Government policies and regulations are another major hurdle for the entrepreneurs while implementing the projects. They are mainly in the form of delay in giving approval to the entrepreneurs for industrial licensing, foreign collaboration approval, CCI clearance, environmental clearance, foreign exchange permit, capital goods approval and import goods clearance.

Financial institutions and banks are the important external financial source for the entrepreneurs while financing their projects. The financial institutions and commercial bank's time consuming procedures and documentation system are important external constraints for the entrepreneurs in the form of delay in financing the projects.

Environmental analysis is important due to the following reasons:

- **Crucial activity:** Analyzing a venture's external environment is a crucial activity because it sets the stage for the entire management process. It is an activity in which the development and application of managerial skills and roles play an important part.
- **Early warning system:** Such an analysis proves an early warning to prevent threats and risks that may be faced by the venture in its future operations.

- **Accurate forecast:** This analysis leads to accurate forecast of environmental fluctuations and changes. This analysis can reduce uncertainty and strengthens the planning activities adopted by the entrepreneur.
- **Success of the venture:** This analysis is a part of strategic management. This ensures the success of the venture.
- **Environment is dynamic:** The environment forces change from time to time and place to place. So, it is very essential to keep a constant watch on environment.
- **Changes and adjustment:** It helps to identify those changes, adjustments and adaptations which are required for effective accomplishment of the venture's goals and objectives.

3.6.1 Economic Factors

Economic factors deal how to allocate scarce resources among many competing uses. It determines not only whether a project can earn expected return on investment but also whether there is an alternative way of achieving the same objectives that would offer a higher return. The analysis entails comparison of cost and benefits through the use of analytical techniques. The basic purpose of economic analysis is to determine the value of resources in terms of their ***opportunity cost***.

Most leading agencies use cost-benefit analysis to assess the projects, which helps in financing and implementing the projects. Many developing countries are applying this analysis in one form or other. If it is done properly, it can be a powerful tool for guiding investment choices.

The process of analysis also includes the requirements for raw materials, level of capacity utilisation, anticipated sales, anticipated expenses and the probable profits. It will have to calculate how much sales would be necessary to earn a target profit. Demand for the product should be estimated very carefully to determine the feasibility of the venture.



Opportunity cost —

The cost incurred for choosing one alternative instead of another which may be equally desired.

In addition to above, the government policies in this regards should be thoroughly scrutinised. The government offers specific incentives and concessions for setting up industries in notified backward areas. The entrepreneur should try to avail these economic benefits.

3.6.2 Social Factors

Social factors deal with the impact of proposed venture on society. The venture should win and hold people's support and at the same time it should achieve its goal. A venture that runs counter to or ignores the traditions, values and social organisations has little prospect of success.

Prediction of social behaviour is even more uncertain than forecasting financial or economic behaviour. Social analysis with professional training and experience can improve the projection which can be a significant factor for the success of the enterprise. A society that is rational in decision-making would be favourable to entrepreneurial growth. We call a society rational when decisions regarding resource uses are based on empirical facts and critical scientific standards. While rational behaviour is the order of the day in the developed nations, most of the less developed nations are characterized by a non-rational society which is trouble-some for entrepreneurs.

3.6.3 Technological Factors

It implies the adequacy of the plant and equipment to produce the product within the pre-determined norms. It should be ensured whether the know-how is available with the entrepreneur or is to be procured from elsewhere. In case of procurement of know-how it should clearly be checked up. If the project requires any collaboration, then the terms and conditions of the collaboration should also be spelt out comprehensively and carefully.

In case of technical analysis of a venture, the following elements covered in the venture should be taken into consideration.

- Availability of land and site and its suitability for the venture.
- Availability of other inputs like water, power, transport, communication facilities etc. and their proper placement and fittings.
- Availability of servicing facilities like machine shops, electric repair shops etc. and their effectiveness.
- Formalities of anti-pollution law and anti-environment law should be observed.
- Availability of required raw materials as per quantity and quality.

3.6.4 Competitive Factors

Evaluating competitive factors is another important aspect in promotion of a new venture. In order to increase market share, this is important to beat the competitors. Hence, for any entrepreneur the understanding of the competitive factors is extremely important.

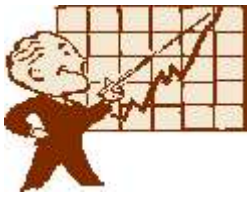
Michael Porter says that some basic competitive forces determine the level and intensity of competition. He states that “the collective strength of these forces determines the ultimate profit potential.” These factors are discussed below:

- **Threat of entry:** If it is easy to get into an industry then, as soon as profit looks attractive, new firms will enter. The most common barriers to entry are:
  - Economies of scale. These are cost advantages that accrue through having large-scale operations.
  - The existence of considerable cost benefits to be gained from experience.
  - Capital requirements.
  - Access to distribution channels.

- **Threats of Substitutes:** Substitute products are those products that appear to be different but can satisfy the same need as another product. Factors such as switching costs and buyer loyalty determine the degree to which customers are likely to buy a substitute product.
- **Power of Buyers:** Factors such as number of customers in the market, customer information and the availability of substitutes determine the amount of influence that buyers have in an industry. Powerful buyers can bargain away potential profits from the firms.
- **Power of Suppliers:** Factors such as the degree of supplier concentration and availability of substitute inputs determine the amount of power that suppliers have over firms in the industry. Suppliers of vital resources can exceed high prices, leading to a squeeze on profits through higher input costs.

The competitive factors analysis can be helpful for the entrepreneur in the following way:

- It will indicate whether the entrepreneur can score over the competitors.
- It will disclose the areas where the competitors may have an edge over entrepreneur.
- This analysis can indicate the areas of opportunities and threats for entrepreneur.
- The entrepreneur can design the product package that will best satisfy the customers and fulfill their needs and expectations.
- It can also help in marketing planning.



CHECK YOUR PROGRESS

Q2: Why is environmental analysis important? Mention two reasons.

i) .....

ii) .....

Q3: State two factors in external environment.

i) .....

ii) .....

3.7 ESTABLISHMENT OF A NEW BUSINESS UNIT-LEGAL REQUIREMENTS

Keeping in view the present trend and policy of Liberalisation, Globalisation and Privatisation, the government has taken decision to reduce the number of permissions and procedures required. However, certain formalities are still necessary. These are:

- **Obtaining Statutory License:** Municipal Corporation/ Town Committee/Gaon Panchayat issues trade licence or no-objection certificate. The party has to apply for trade licence or no-objection certificate to the appropriate authority along with the prescribed fees for such licence. On being satisfied after the security of the application, the authority issues the certificate.

Registration with Central and State Sales Tax Department would be necessary for which the concerned department would have to be contacted. The party has to apply for central sales tax registration only if he has to purchase or sale raw materials or other items outside the state. State sales tax registration is required for any sales within the state. The party has to apply for the registration along with trade licence, proof of address of the office, prescribed fees and security money. The entrepreneur should study the procedure for accounting sales to these departments and returns have to be submitted regularly.

If the unit comes within the purview of the Factory Act, that is, it employs 10 persons with power or 20 persons without power, registration with he inspection will also be required, otherwise the unit has to be registered under the Shops and Establishment Act, if applicable.

- **Licensing:** Either licence or registration is required for undertaking industrial activity. Industrial licence is not required for a large number of small scale units/ancillary units, medium scale units as they come under exempted categories on the basis of fulfilling certain conditions as under:

  a) The industry is not reserved for public sector.
  b) The industry is not governed by any special regulations.
  c) The industrial undertaking is not covered by 20A and Monopolies and Restrictive Trade Practices (MRTP) Act.
  d) The medium scale units' annual foreign exchange requirement for raw materials (other than steel and aluminium) or parts and components (after 3 years of going into production) should not exceeds 15% of ex-factory value of the annual production or Rs. 7.5 million.

- **Small Scale Industry Registration:** Though registration as a SSI unit is not strictly compulsory, it is advisable to get our units registered as a small scale unit with the District Industries and Commerce Centre of the district in which the project is to be located. The registration is required by the government for purposes of record to plan for the future requirements of the industries. Besides, the registration would also entitle to avail of the incentives and benefits available to the SSI sector. The DICs grant provisional registration which is valid for a period of five years and if the units goes into production within this period, a permanent registration is granted.

- **Pollution Control Clearance:** The party has to obtain a "No-objection certificate" (NOC) from the State Pollution Control Board, if the project is likely to be a pollution hazard. The board first

issues a NOC stipulating certain conditions to ensure the installation of facilities to control air and/or water pollution before getting the permission to start operations.

- **Constitution of Business:** It means whether the unit would be started in the form of sole proprietorship, partnership, private limited company or public limited company. Usually it depends on the size of the project and the degree of risk involved. Unless the unit is in the form of sole proprietorship, the party will have to undertake formalities such as registration of partnership firm and partnership deed in case partnership, obtaining certificate of incorporation in case private limited company, obtaining certificates of incorporation and commencement of business from Register of Companies, preparation of Articles of Association and Memorandum of Association etc. in case of public limited company.
- **Registration of Designs:** Under the Designs Act, 1911, the design of an article may be registered in the features and shape, configuration, pattern or ornament given to the article by any industrial process or means in new and original. The principal or the mode of construction of the article or mere mechanical contrivances or trade marks, trade name and mere pictures or photographs cannot be registered as designs.
- **Registration of Trade Marks:** A trade mark is a visual symbol which is applied to goods or merchandise and the mark may consist of a device or a word or letters or numbers or a combination of such features. The trade mark is applied to all goods with a view to indicate to the purchaser that the goods emanate from a particular producer.

Any person who claims to be the proprietor of the trade mark used or proposed to be used by him and desirous of registering the same shall apply to the Register of Trade Mark in a prescribed form along with the required fees. The fees may be paid in cash, bank draft or in postal order form. For the purpose of trade mark registrations, goods are

classified in 34 classes. An application for registration of a trade mark should be confirmed to one only.

3.8 VENTURE CAPITAL - MEANING AND IMPORTANCE

Venture Capital assistance is provided to projects which are established to introduce new products / inventions / idea / technology etc. Entrepreneurs of small firms that have growth potential face greater risks than almost any other type of business, and their higher risks require special types of financing. This has led to the development of specialised venture capital financing sources. Some venture capital firms are organised as partnerships, others are more formal companies termed Investment or Development Corporation. The American Research and Development Corporation, one of the first investment development companies, is widely traded in the financial markets.

Venture capital is a long term financial assistance provided to small scale enterprises, high technology and risky ventures. Venture capitalists take huge risk in anticipation of future high returns hence venture capital is also known as 'risk capital'. It is often thought of as 'the early stage financing of new and young enterprises seeking to grow rapidly'. Venture capital covers financing from providing ***seed capital***, supplying funds for product development and marketing expenditure to extending bridge finance before an initial public offering. Venture capitalist has a commitment for capital and share holding for formation of small scale enterprises having new idea or a new technology. It is a powerful mechanism by which innovative entrepreneurship can be strongly institutionalised. Traditional financing finances only proven or established process or technology. In other words, traditional financing looks for minimum investment risks, it is security oriented and asset based and follows fixed traditional norms of funding like debt equity ratio, promoters' contribution, security margin etc.



Seed capital —

The initial investment required for starting a new venture.

Under the traditional financing funds are borrowed against some securities. The loan is proportionate to the value of security mortgaged

and the risk content of the project, which is to be financed. Higher the degree of risk involves in the project, lower is the loan amount and its probability of financing.

Venture capital does away with demerits of traditional financing. It is the new financing innovation which has revolutionalised the business and industry sector. It does not finance only the proven technologies and established markets like traditional financing. It finances the new and young enterprises which are usually without any support base. It provides funds specially to the risky venture, as a start up and development finance.

Thus, venture capital finances the enterprises in the areas of advance technology, any research and development project, new entrepreneurs, professionals and technologists in any field. Venture capital would finance any idea whether risky or not and act as a partner with the entrepreneurs. It is a form of equity capital where the Venture capitalists get a return in form of capital gain.

Venture capital plays a great role in various fields and in risk capital markets of both the developed and developing countries. It has become popular in different parts of the world because of the crucial role it plays in fostering industrial development by exploring the vast and untapped potentialities. It plays this important role with the help of the following major functions:

- Venture capital provides finance as well as skill to new enterprises and new ventures of existing ones based on high technology innovations. The venture capitalists provide specialist services-technical, commercial, managerial, financial and entrepreneurial.
- It fills the gap in the owner's funds in relation to the quantum of equity required to support the successful launching of a new business at the optimum scale of operations of an existing business.
- It also extends its service to see that the firm has proper and adequate commercial banking along with receivable financing.

- It also assists the entrepreneurs in locating, interviewing and employing outstanding corporate achievers to professionalize the firm.

3.9 SOURCES OF VENTURE CAPITAL

In India, venture capital started in 1984 when Industrial Credit and Investment Corporation of India (ICICI) set up the first venture fund cell in Bombay. This was later on merged into the technology Development and Information Company of India Ltd. (TDICI), a Bangalore based Company of ICICI with an equity of 1 crore (contributed equally by ICICI and UTI).

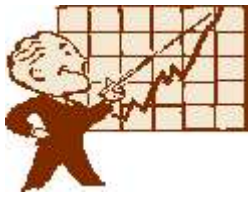
Unlike in the developed countries, in India venture capitalists do not finance the risky idea / technology. Indian technological set ups have usually been of a foreign collaboration type. Even the economic environment does not support aggressive financing, support of professionals / technologists by the venture capitalists. In India venture capital is usually of nature of financing small scale enterprises. However, the concept is catching up. Many support institutions are encouraging venture capital idea like:

- Gujrat V. Finance Ltd. (GVFL) by GIIC & Andhra Pradesh Venture Capital Ltd. (APVCL) by APSEC.
- Public sector bank venture capital subsidiaries like canfina and SBI caps.
- Foreign and Private Bank venture capital firms like Indus Venture Capital Fund, Credit Capital Venture Fund, Grindlays India Development Fund. In India venture capital funding is a decade old concept. However, many good projects are result of venture funding like:
  - Mastek of Mumbai
  - Rediff. Com of Mumbai
  - Microland of Bangalore
  - Power Tel Boca of Bangalore
  - VXL Instruments of Bangalore

- Indigo of Madras
- Value Software of Madras.

In India there are over 30 venture capital funds which have invested around Rs. 5.000 crore. Most of these are promoted by financial institutions and banks. Around 450-500 companies have benefited from venture capital funds so far.

- All India Development Financial Institutions owned venture capital firms like:
  - Risk Capital and Technology Finance Corporation Limited (RCTC) by IFCI.
  - Risk capital Fund by IDBI.
  - Technology Development & Information Co. of India Ltd. (TDICI) by ICICI.
- Karnataka Information Technology Venture Capital Fund (KITVCF) funded by Karnataka State Industrial Investment and Development Corporation and Small Industries Development Bank of India in a ratio of 25:25:50.



CHECK YOUR PROGRESS

Q4: What is venture capital?

.....

.....

.....

.....

.....

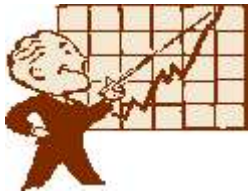
3.10 DOCUMENTATION FOR OBTAINING VENTURE CAPITAL

A. **Project Report:** The project report should be a self explanatory document capable of evoking positive response. It should contain the following items of information about the project.

- Name of the unit.
- Address of the unit.
- Product to be manufactured.
- Target of production- monthly, quarterly and yearly etc.
- Principal raw material to be used.
- Covered area of workshop- square meter.
- Power requirement- Horse power, K. Watt.
- Employment- Number of skilled and unskilled labour.
- Cost of Project:
  - Fixed capital.
  - Working capital.
  - Total of both capital.
- Sales Turnover expected monthly, quarterly or yearly sales proceeds.
- Expected profit in total and expected profit as percentage of expected sales or capital invested.
- Break even point and chart.
- Gestation period etc.

B. Details of Promoters: Educational and business experiences and information relating to assets and liabilities etc. of the promoters have to be given.

- Land documents.
- No objection certificate about the technology and product from the concerned authority.
- Market survey report.
- Detail of source of Plant and machinery regarding indigenous or imported.
- Detail source of raw materials.
- Quotations for various items.
- Details of consultants and marketing tie up organizations, if any.
- Income tax clearance certificate of the promoter.



CHECK YOUR PROGRESS

Q5: Mention two sources of venture capital.

i) .....

ii) .....

Q6: Mention three documents required for obtaining venture capital.

i) .....

ii) .....

iii) .....



3.11 LET US SUM UP

- Promotion means an act of promoting or starting or developing a venture.
- There are several steps in promotion of a new venture which include identification of business opportunities, preparing business plan, assembling necessary inputs, establishing the enterprise and start-up.
- Various external environmental factors need proper analysis while establishing a new venture.
- Though the Government has reduced the number of procedures required, yet certain legal formalities are still necessary for the establishment of a new business unit.
- Venture capital is a long-term financial assistance provided to small scale enterprises, high technology and risky ventures.
- Venture capital plays a crucial role in fostering industrial development by exploring vast and untapped potentialities.
- Different specialised financial institutions are the important sources of venture capital.
- The venture capitalists provide venture capital to new ventures subject to filing of certain important documents as project report and details of the promoters.



3.12 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



3.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Qno 1: i) Social and economic trends
ii) Trade fairs.

Ans to Qno 2: i) Early warning to prevent threats and risks.
ii) It leads to accurate forecast.

Ans to Qno 3: i) Economic factors
ii) Social factors

Ans to Qno 4: Venture capital, also known as risk capital is a long- term financial assistance. It is provided to the high technology and risky ventures,. It assists those projects which introduce new products, new technology etc. It not only provides funds but also specialist services like, technical, commercial, managerial services to the ventures

Ans to Qno 5: i) SBI Caps
ii) Indus Venture Capital

Ans to Qno 6: i) Project report

ii) Land documents

iii) Market survey report



3.14 MODEL QUESTIONS

1. What do you mean by promotion of venture?
2. Discuss the various stages of identification of business opportunities.
3. What are the influencing factors in promoting a new venture?
4. Explain the impact of economic factors and technical factors in promoting a new venture.
5. What are the legal documents required to start a new business unit?
6. What is venture capital? Explain its importance.
7. What are the various sources of venture capital in India?
8. What are the documents required for obtaining venture capital?

UNIT 4: SOCIAL RESPONSIBILITIES OF BUSINESS

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning of Social Responsibility

4.4 Scope of Social Responsibilities of Business

4.5 Social Responsibilities- Indian Business Houses

4.6 Forces Influencing the Working of the Business

4.6.1 Internal Forces

4.6.2 External Forces

4.7 Relationship between the Government and Business Houses

4.8 Let Us Sum Up

4.9 Further Reading

4.10 Answers To Check Your Progress

4.11 Model Questions

4.1 LEARNING OBJECTIVES

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

- explain the meaning of social responsibilities of business
- describe the scope of social responsibilities of business
- outline the social responsibilities performed by Indian Business Houses
- explain the forces influencing the working of the business
- describe the relationship between the Government and the business houses.

4.2 INTRODUCTION

In this unit, we are going to discuss the social responsibilities of business which has gained much importance in the recent years. Social responsibilities are the expectations of the society on business

organisations that they should think about the society in addition to their profit earning objective. Then, we will discuss the scope of social responsibilities of business and the discharging of social responsibilities by Indian business houses with reference to some business houses. The relationship between the Government and the business houses will also be discussed which throws light on role of government in development of trade, commerce and industry in India.

4.3 MEANING OF SOCIAL RESPONSIBILITY

In this section, we will discuss the meaning of social responsibility of business. Social Responsibility of business has been one of the most talked about and widely supported subjects. Over the last few decades in India and rest of the world, social responsibility has become comprehensive enough to include anything under the sun.

Social responsibility is an ethical idea that an individual or an organization has a responsibility to the society. It is anything which is beyond the firm's direct economic and technical interest. Social responsibility is concerned with social welfare and Human betterment. In this process a firm abandons such activities as it may be harmful to the soceity.



Nebulous —

Not clearly defined, hazy.

The term 'social responsibility' is described as a '***nebulous idea***' and, hence, is defined in various ways. Adolph A. Berle has defined social responsibility as 'the manager's responsiveness to public consensus'. This means that there cannot be the same set of social responsibilities applicable to all countries in all times. These would be determined by public consensus at any given time in a given society.

According to Keith Davis the term 'social responsibility' refers to two types of business obligations, viz,

a) The socio-economic obligation, and

b) The socio-human obligation.

The first one includes obligations to promote employment opportunities. The socio-human obligation of every business is to develop

human values such as morale, co-operation, motivation and self-realisation in work.

Operationally, social responsibility is the harmonious interaction of business with its various interest groups such as employees, consumers, shareholders, government and the community at large etc. It is nothing but meeting the obligations to these various interest groups as per prevailing social norms and expectations.

4.4 SCOPE OF SOCIAL RESPONSIBILITIES OF BUSINESS

After discussing the meaning of social responsibilities of business, let us now discuss the scope of social responsibility of business. Business is related with different inter-related groups in society as share holders, consumers, employees and community. In addition, business has also responsibilities to distributors and retailers, competitors, unions and the government. Therefore, the scope of social responsibilities of business is very wide.

A businessman's social responsibilities to different stakeholders in business are briefly enumerated below:

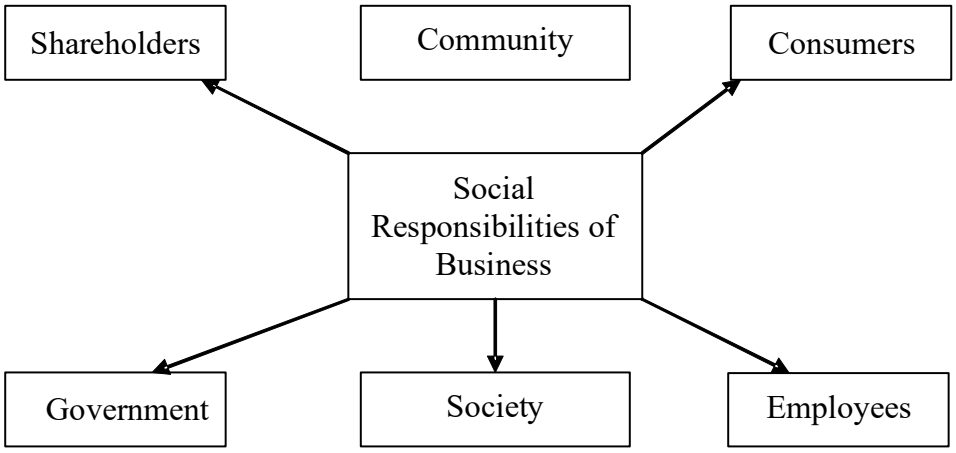


Fig. 4.1: Social Responsibilities of Business

- **Responsibility towards Environment:** Air and water pollution has become a serious threat to the health of people in different

parts of the world. Some industries and market places are causing high degree of pollution. Under such circumstances the business community is responsible for keeping the environment of the industrial and commercial centres clean and healthy. Specific responsibilities in context to environment are:

- Establishing new industries away from towns and cities.
- Installing anti-pollution devices in the factories.
- Helping the local administration in city planning, drainage system and maintenance work.

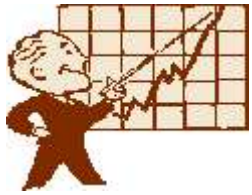
- **Responsibility of Protecting Natural Resources:** The exploitation of natural resources for use as raw materials by industrial enterprises may cause serious concern. The forests, the mountains, the animals and the birds need protection for ecological balance and sustainable development. It is a social and moral responsibility of the business unit to replenish and restore the resources they utilise. The industrialists should realise their responsibilities and extend their co- operation to the government in protecting the precious resources and lives.

- **Responsibility towards Customers:** Customers are considered as a king in todays' buyers' market. It is a responsibility of business houses to render proper value for the price they charge from the customers for their products In modern marketing, the customer is treated as the king. A firm should make conscious and organised efforts to find out what the members of the community need and how it can provide maximum level of satisfaction to them. The business houses are responsible for supplying goods and services of right quality to their customers in right time, at right place and for right price. They are to ensure that:
  - The goods are produced in right quantity to meet the customers' demand.
  - The goods are made available when desired by the customers.
  - The quality standards are followed.

- Advertisements are not misleading and incorrect.
- After sale service, if promised, is provided.

- **Responsibility towards Shareholders:** Shareholders expect a reasonable return on their investment. The management of a company is responsible to their shareholders for giving reasonable profits to them. The interest of small shareholders, who are scattered through out the state or country need to be protected.
- **Responsibility towards Employees:** The major responsibilities of business towards the people employed by them may be summed up as follows:
  - To pay salaries and wages in time.
  - To ensure good working condition.
  - To arrange for safety of workers.
  - To pay compensation in case of death/injury as prescribed by the law in force.
- **Responsibility towards the State:** The state functions through three organs: the legislature, the executive and the judiciary. The business is to deal with all the three organs for various purposes. It is responsible towards the state to abide by the rules and regulations, to pay taxes and dues honestly, submit required information or documents correctly and not to resort to immoral practices.
- **Responsibility towards Institutions:** There is a great need for co-operation between business houses and various institutions that are preparing young men and women for career in business. The industrial houses have to co-operate with business and economic institutions by providing practical training facilities, scholarship, stipends etc. to the deserving students. For instance, in India, a number of institutes of higher learning and research centres established by different business houses like, Tatas, Birlas and other industrialists have contributed a lot to the growth of science, technology, social sciences and other disciplines.

- **Responsibility towards Village Community:** Industrial houses and businessmen are responsible to the village community which provides them with manpower and raw materials and markets for their finished products. The projects which they should set up for rural development may include:
  - Establishment and running of schools, vocational training centers, hospitals etc.
  - Construction and maintenance of village roads, drinking water facilities etc.
  - Rural electrification.
  - Development of dairies and poultry farms.
  - Supporting in establishment and running of cottage and village industries.
- **Responsibility towards Society at Large:** Business class is the richest class in the society. It does influence social customs and traditions in a big way. The business community must not affect the rich traditions and cultures of the society by displaying 'money power'. They are responsible to the society at large to follow norms, moral values and assist in the development of educational, medical, sports and other facilities. They should encourage our artists, musicians, poets, writers and scholars. The business people are also responsible for creating a better environment and higher standards of living for people and improving the image of the business.



CHECK YOUR PROGRESS

Q1: Discuss the responsibilities of business to the customers. (Answer in 50 words)

.....

.....

.....

.....

4.5 SOCIAL RESPONSIBILITIES – INDIAN BUSINESS HOUSES

Now, we will discuss the performance of business houses in discharging social responsibilities in India. Progressive organizations in all countries are to-day keen to play a social role. They have begun to take their role of a corporate citizen in an innovative manner. International Business Machines (IBM), the biggest computer ***transnational corporation*** has a world wide policy of taking up social projects in countries where it conducts its business. These projects include the renovation of Buddhist temple in Indonesia, saving an Italian city from sea erosion etc. MBB, the biggest German aerospace company, has donated expensive equipment to a New Delhi hospital for bloodless surgery. Brown Boveri and Migros, the two big Swiss companies, have a massive involvement in consumer education.



Transnational Corporation —

Corporation which operate in more than one country or nation at a time.

Many business organizations in India have also contributed greatly in the area of social responsibility. Associated Cement Companies (ACC) is rendering social service over the last few decades. It launched a village welfare scheme in 6952. This scheme was aimed at providing employment and improving the quality of rural life through setting up of schools, health centers, co-operative societies etc.

The Mafatlal Groups follows a slightly different line in social performance. It spends a huge sum of money every year on rural welfare programmes for helping the poor. It constructs homes for homeless, provides drinking water, and distributes books, stationery and scholarship in rural areas.

The Tata and Birla Group of industries have taken several schemes for development of sports, science and technology, religious places etc. in the country. Companies like Cadbury India, Glaxo and Richardson etc. are helping farmers to grow crops which serve as raw materials for them. In 1970, TISCO voluntarily in its articles spelled out its moral and social commitments to various groups in the society. The Escort Group of industries has set up “Escort Heart Institute & Research Centre” in 1988 for treatment of heart diseases. Escort has also made valuable

contributions for promotion and maintenance of various educational institutes, hospitals, and orphan houses etc. particularly in the northern India.

In the public sector, Bharat Heavy Electricals Ltd. (BHEL) is playing a prominent role in the area of social responsibility. All the divisions of BHEL have drawn comprehensive schemes for the welfare of their employees in townships and for those living in the nearby areas. Jobs done by BHEL units in this respect include provision of drinking water facilities, construction of external sewerage, roads and culverts, providing health facilities, improving educational facilities and so on.

It is very encouraging that the Indian business enterprises are playing a great role in serving the society. However, there are various other areas where Indian business houses can contribute for social enlistment-

- The business houses can contribute in the area of employment. Business should create enough job opportunities to absorb persons. The creation of new jobs is not a problem but a challenge which business should accept.
- The removal of regional disparities is also the responsibility of business. The business should set up new units in those areas which have been neglected earlier.
- The rural areas should be developed so that these areas are also able to reap the benefits of development. The cottage and small scale industries should be given encouragement and it will improve the quality of life in rural areas.
- The business units should make proper efforts in controlling pollution so that ecological balance is maintained.
- Big industrial units can open schools, colleges, dispensaries, construct roads and create recreational facilities not only for their employees but also for the people living in those areas.

The business units located in Assam are also contributing towards the upliftment of the society. But the number of such units is very limited. Except Oil India Ltd., Indian Oil Corporation, ONGC, Tea Industry

and a few other organizations, businessmen in general have not realised their responsibility towards society. The oil companies and the tea industry have taken some projects for social upliftment in Assam which include construction of schools, roads, culverts, dispensaries, supplying of drinking water, sponsoring big sport events, rewarding the local literatures etc. However, they have not come up with any big projects like the establishment of research centre, construction and maintenance of hospitals, technical institutions, construction of stadium, development of the rural economics etc. The people of Assam, specially the rural people do expect more contributions from businessmen for their socio-economic development in near future.



ACTIVITY 1

Find out some activities which a business organization can perform for the welfare of the society.

.....

.....

.....

.....

4.6 FORCES INFLUENCING THE WORKING OF THE BUSINESS

A business organization has to make decisions within the framework of certain environmental forces. The environmental forces are of two types, internal and external forces. These may be broadly classified with the help of following diagram:

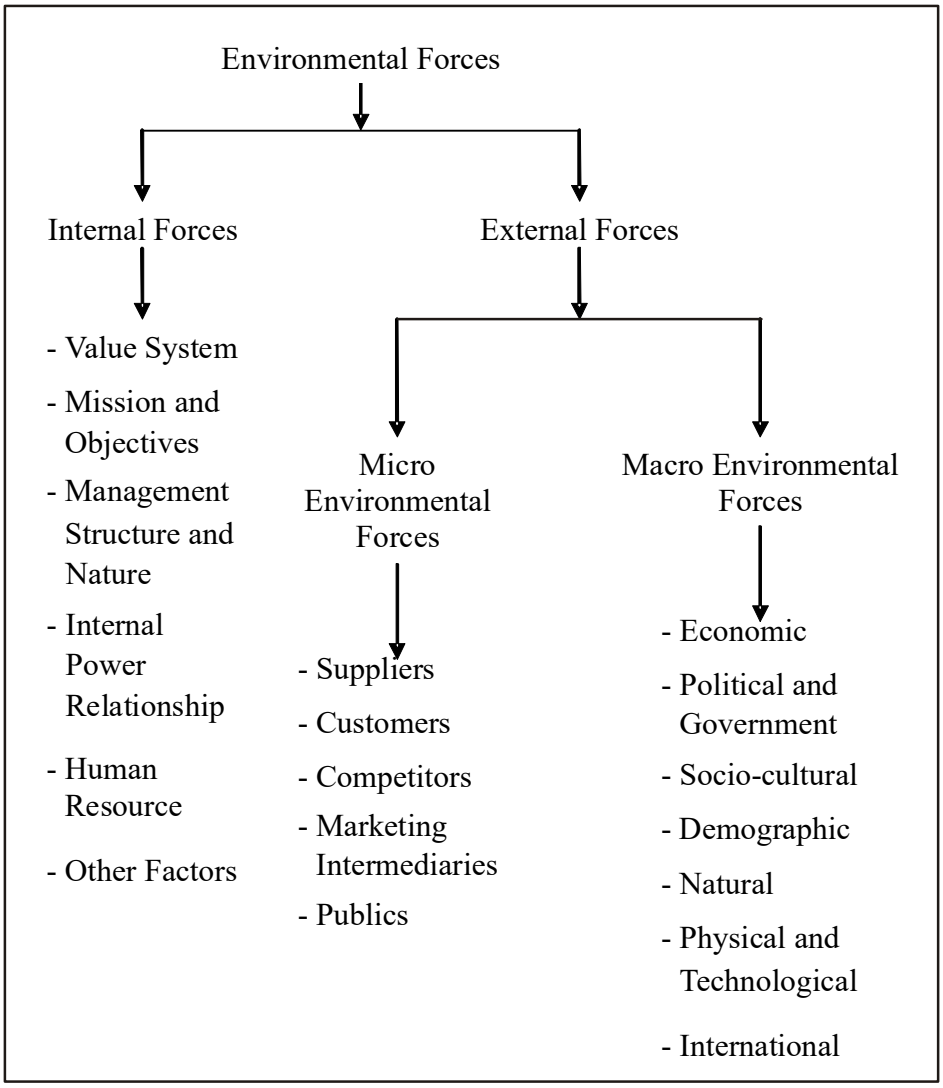


Fig. 4.2 : Classification of Environmental Forces

Although the business environment consists of both the internal and external environments, the term 'business environment' is generally used to refer to external environment.

- In the internal forces, for example, production capacity, production technology, human resource, financial policies, distribution network, quality of salesmen etc. are generally regarded as 'controllable' forces. The management of the company has control over these forces and can alter or modify them to suit the environment.
- The external forces are those that are beyond the control of company management. For instance, management has little or no

control over economic forces, socio-cultural forces, demographic forces, government and legal factors etc. Hence, they are generally regarded as 'uncontrollable' forces.

A brief description of various internal and external forces is given below:

4.6.1 Internal Forces

There are a number of internal forces that influence the business decisions in an organization. The important forces are outlined below:

- **Value System:** The value system has an important bearing on the choice of business, the mission and objective of the organization, business policies and practices. It is a widely accepted fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success.
- **Mission and Objectives:** The business domain of the company, priorities, business philosophy, business policy etc. is guided by the mission and objectives of the company.
- **Management Structure and Nature:** The organizational structure, the composition of the Board of Directors, professional approach of management etc. are important factors influencing business decisions.
- **Internal Power Relationship:** The amount of support provided by lower- level management, workers, share holders etc. to the top management has important influence on business decisions and their implementation. The relationship between the members of the Board of Directors is also a critical factor.
- **Human Resource:** The characteristics of the human resources like skill, quality, morale, commitment, attitude etc. could contribute to the strength or weakness of an organisation.
- **Other Factors:** Other factors include-

a) Physical Assets and Facilities.

b) Research and Development and Technological capabilities.

c) Marketing Resources.

d) Financial Factors.

4.6.2 External Forces

The external forces that influence the business organizations may be discussed under two broad categories, viz Micro and Macro forces.

(A) MICRO ENVIRONMENTAL FORCES

Micro environmental forces are intimately linked with the company. They include the suppliers, customers, competitors, marketing intermediaries and the public. A brief description of each of them is given below:

- **Suppliers:** An important force in the micro environment of a company is the suppliers, i.e. those who supply the inputs like raw-materials and components to the company.
- **Customers:** A business exists only because of its customers. Customers may be of different categories like individuals, householders, institutional, governments etc. The choice of the customer segments must be made carefully to ensure success of business organizations.
- **Competitors:** In marketing the products a firm may encounter with two types of competitors:
  - Firms producing and selling similar types of products; and
  - Firms producing other items in which a consumer desires to spend his ***discretionary income***.

The second type of competition is very high in countries characterised by limited disposable incomes.



Discretionary Income —

Income available with the individual after deducting tax and expenses for essentials, such as food, clothing and shelter.

- **Marketing Intermediaries:** The marketing intermediaries include middlemen such as agents and merchants who help the company to find customers. They also include advertising agencies, marketing research firms, media firms, consultancy firms and financial intermediaries.
- **Publics:** A public is a group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest. Media publics, citizens' action publics and local publics are some examples.

(B) MACRO ENVIRONMENTAL FORCES

The macro environmental forces are the forces which influence the business as a whole across the sectors of the economy. They are not specific to a company of an industry. The macro environmental forces shape opportunities and pose threats to the company. The macro forces are more uncontrollable than the micro environmental forces. Some important macro environmental forces are given below:



Economic System —

It is a set of methods and standards that guides ownership and allocation of economic resources.

- **Economic environment:** Economic conditions, economic policies and the ***economic system*** are the important factors that constitute the economic environment of a business. The economic conditions of a country, for example, the nature of the economy, GNP, NNP, level of income, general price level distribution of income etc. are very important determinants of business strategies. Similarly, different economic policies followed by a government such as restrictive or liberal import policy or a policy of protecting the home industries may have different impact on business.
- **Political and Government Environment:** Political and government environment has close relationship with economic system and economic policy. There are a number of laws that regulate the conduct of business. The laws cover such matters as standards of products, packaging,

promotion, etc. Certain changes in government policies such as the industrial policy, fiscal, tariff policy etc. may have profound impact on business. Some policy developments create opportunities as well as threats.

- **Socio-cultural Environment:** The socio-cultural forces are very important that should be analysed while formulating business strategies. In no case should a business ignore the customer, traditions, tastes and preferences etc. of the people. The buying and consumption habits of the people, their languages, beliefs and values, education etc. are the factors that affect business. For a business to be successful, strategies should be formulated to suit the socio-cultural environment.
- **Demographic environment:** Demographic factors like the size, growth rate, age composition, sex composition etc. of the population, family size, economic satisfaction of the population, educational levels, language, caste, religion etc. are all factors that are relevant to business,
- **Natural Environment:** Geographical and ecological factors, such as natural resources endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities etc. are all relevant to business. Ecological factors have recently assumed great importance.
- **Physical and Technological Environment:** Business prospects depend also on the availability of certain physical facilities. For example, the sale of television sets is limited by the extent of the coverage of the telecasting, Demand for refrigerators is affected by the extent of electrification and power supply, the demand for LPG gas stoves is affected by the rate of growth of gas connections. Technical developments may increase the demand for some existing products. For example, advance in the technologies of food

processing and preservation, packaging etc. have considerably improved the marketability of products.

- **International Environment:** The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on imports or exports. For example, a recession in foreign markets, the adoption of protectionist policies by foreign nations, a ***liberalisation*** of imports etc. may affect the volume of foreign business to a large extent. A company which depends on the export market has to face the impact of adverse developments in foreign markets. Currency exchange rates fluctuations, economic recession, change in the political system of a country etc. also influence a business having international operations.



Liberalisation — Relaxation of government restrictions.



CHECK YOUR PROGRESS

Q2: Mention three macro environmental forces that influence working of the business?

i) .....

ii) .....

iii) .....

4.7 RELATIONSHIP BETWEEN THE GOVERNMENT AND BUSINESS HOUSES

The governments in general have a very close relationship with business. The government of a country is concerned with not only law and order in the country, but also participates in economic activity and controls and regulates business so as to maximize social welfare. The government maintains different types of relationship with business a description of which is given below:

1. **Government as Promoter of Business:** Governments specially of the developing nations have a very important role as a promoter

of business and industries in the country through efforts in the public and private sectors. As promoter of business the government is to undertake the following activities:

- Providing technical guidance to the entrepreneurs.
- Encouraging industrial research.
- Removing the shyness of capital.
- Establishing Industrial Estates.
- Collecting trade information, data for encouraging home as well as foreign business.

2. **Government as Regulator of Business:** Government regulation on private enterprises is exercised with a view to directing the economy towards maximum social good. Some of the methods used for regulating business activities are as follows:

   a) **Regulation of Investment Activity in Private Enterprise by means of Economic Planning:** Totalitarian economics are highly planned and centrally controlled. The State owns all the productive resources and there is complete regimentation of the economic activities. Not only is production planned but consumption is also planned by the state. The government decides what shall be produced and in what quantities and does not allow the amount and variety of production to be determined by consumer preferences.

   b) **Regulation of Business Activity through Industrial Policy:** Since independence, the Indian government has been keen on industrialisation and is committed to a policy of rapid industrial progress. It has taken a number of measures such as providing economic infrastructure by improving means of transport and communications, expanding facilities for general and technical education, improving the quality of industrial labour, and establishing a number of financial institutions for providing different types of finances to all categories of

industries. It has also taken steps to ensure that a country has a sound currency and banking system. It has introduced suitable tariff and tax policy. Further, it has given all encouragement and assistance for the development of small-scale industries.

c) **Regulation of Investment, Location, Size, Expansion etc through Industrial Licensing:** The basic framework for the government's industrial licensing policy, designed to regulate indiscriminate entry and growth in the industrial sector, was provided in the Industrial Policy Resolution of 1948. The government has effected changes, from time to time, in its industrial licensing policy in order to fulfill the priority needs of the economy and to promote orderly growth of industries.

d) **Regulation and Control of Prices of Commodities:** The government regulates and exercises control over prices by fixing prices of raw materials, semi-finished and finished goods. The general power is given by the Industrial (Development and Regulation) Act 1956. The Essential Commodities Act, 1955 gives special power to the government to declare any commodity as essential in the public interest and exercise control over it. Tariff Commission acts as the most important agency of the government for fixing prices. The Commission acts primarily for granting protection to home industries against foreign competition.

e) **Regulation of Corporate Management, Wages, Hours of Work, and Bonus to the Employees:** Regulation of corporate management is done through the Companies Act 1956. Regulation of wages and working conditions of workers are done through the Factories Act 1948, the Payment of Wages Act 1936, the Minimum Wages Act 1948, etc.

f) **Regulation of Monopolies and Restrictive Trade Practices through Legislation:** Every government takes

steps to curb monopolistic practices which prove prejudicial to common good. On the basis of the recommendations of the Mahalanobis Committee on the Distribution of Income and Wealth and Concentration of Economic power, the Government of India appointed Monopolies Enquiry Commission in May 1964 under the Chairmanship of Justice k.C.Das Gupta. On the basis of the Monopolies Enquiry Commission's Report, the Government of India passes the Monopolies Restrictive Trade Practices Act, 1969 and this came into effect from June 1970. However, after liberalisation major amendments have been made in the MRTP Act and it has lost its holds to a great extent in the changing industrial environment in India as well as in the globe.

3. **Government as Arbitrator:** Industry or business cannot grow unless there is industrial peace in the country. The Government has ensured social justice to both employers and employees through Industrial Disputes Act, 1947. The Government acts as an arbitrator to settle the industrial disputes through its machinery of Conciliation Officers, Board of Conciliations, and Industrial Tribunals etc.

4. **Government as Entrepreneur:** Private sector depends more upon Government financial institutions for financing their expansion, growth and diversification. On the other hand, there is a lack of managerial skill and professional managers in government sector. To overcome various difficulties faced by both private and public sector, the concept of 'joint sector' has been announced by the government. The joint sector is essentially an extension of the concept of mixed economy to the management of an undertaking where both public and private sector exist together. The formula is very attractive and admirably suited to present position of the economy and the government's thinking. It can harmoniously combine the

efficiency, experience and dynamism of the private enterprise with the social objectives of public enterprises. The Government, thus, participates as a partner or sharer in industry with the private sector.

5. **Government Developments and Agencies for Guidance and Assistance:** Besides taking direct part in industry or business, government also provides guidance and assistance to entrepreneurs through various government departments and agencies. Some of them are given below:

- Ministry of Commerce and Industry
- Development Councils
- Financial Institutions
- Foreign Collaboration
- Industrial Research
- National Productivity Council
- Bureau of Indian Standards
- Technical Institutes
- Small-scale Service Institutions
- Trade Commissioners
- Department of Commercial Intelligence and Statistics
- Export Promotion Councils
- Marketing Boards
- Commodity Boards



CHECK YOUR PROGRESS

Q3.Explain the relationship between state and business (Answer in 50 words)

.....

.....

.....

.....



4.8 LET US SUM UP

The concept of social responsibility has different importance to different interested groups in society. However, it has assumed great importance to business houses in the changing socio-economic environment. Both the public and the private sectors have to discharge social responsibilities for attainment of business goals as well as upliftment of the society. There is a distinct relationship between business and government. The government can play a significant role in controlling and regulating the business activities so as promote business and maximise social welfare.Social responsibility is the harmonious interaction of business with its various interest groups such as employees, consumers, shareholders, government and the community at large etc. It is nothing but meeting the obligations to these various interest groups as per prevailing social norms and expectations.Forces influenicng the working of the business are internal and external forces. The government maintains different types of relationship with business:Government as Promoter of Business, Government as Regulator of Business,Government as Arbitrator,Government as Entrepreneur,Government Developments and Agencies for Guidance and Assistance



4.9 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition

4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



4.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo 1: The business organizations are responsible to the customers. The responsibilities of business to the customers are:

- The goods must be produced in right quantity to meet customers' demand.
- The goods must be available when desired by the customers.
- The quality standards should be strictly followed.
- Advertisements should not be misleading and incorrect.

Ans to QNo 2:

i) Economic environment
ii) Political and Government Environment
iii) Socio-cultural Environment

Ans to QNo 3: The government of a country plays an active role in economic and business activities. The government provides various technical and financial assistances to the business. Government imposes various restrictions on the private sector to direct the economy for maximum social good. Therefore, government acts as promoter, regulator, arbitrator and sharer of business.



4.11 MODEL QUESTIONS

1. What is social responsibility of business? Discuss the scope of social responsibilities of business.

2. Discuss the social performance of business in India.
3. Analyse the different environmental forces influencing a business organization.
4. What is the relationship between Government and business? Discuss the role of Government in present day business.
5. Why are businessmen concerned about social responsibilities? Explain the forces inducing social responsibilities.

UNIT 5: SIZE OF BUSINESS UNIT

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Standards to Measure the Size of Business Units

5.4 Factors Determining the Size of Business Unit

5.5 Optimum Size of a Firm

5.6 Principles of Location of Business Unit

5.7 Factors Influencing Location of Business Unit

5.8 Plant Location in the North- East Region- the Present and Future Status

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers To Check Your Progress

5.12 Model Questions

5.1 LEARNING OBJECTIVES

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

- explain the standards to measure the size of a business unit
- describe the factors determining the size of business unit
- explain the concept of the optimum size of a firm
- discuss the principles of location of a business unit
- explain the factors influencing the location of a business unit
- describe the scenario of the present plant location in the North East Region and its future status.

5.2 INTRODUCTION

The efficiency and profitability of a business unit depends, to a great extent, on its size. This unit starts with a discussion on the standards to measure the size of a business unit. Then, the factors determining

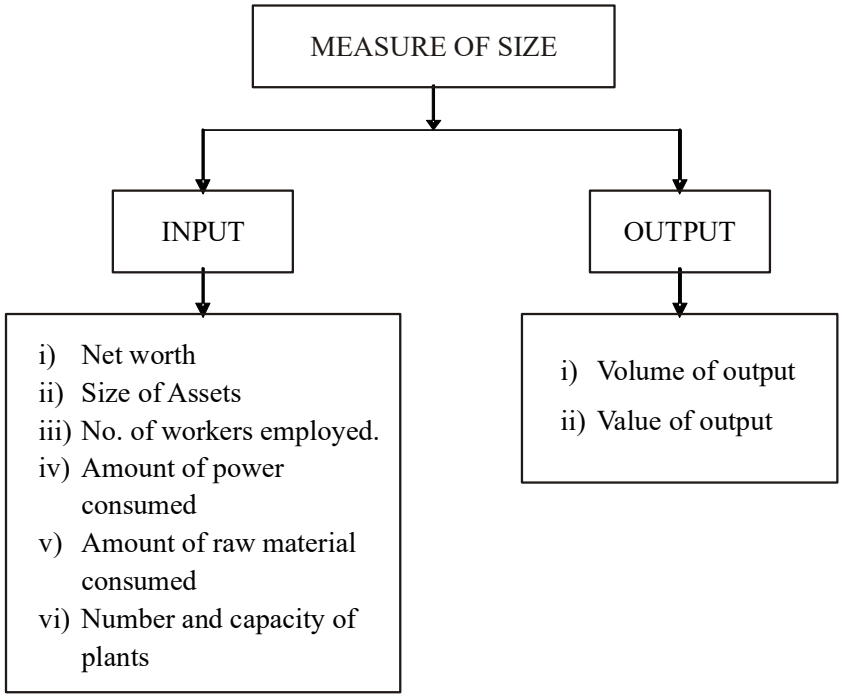
the size of a business unit will be discussed. Besides this, the optimum size of a firm and the factors influencing the optimum size of a firm will also be discussed.

Every businessman should give a full and proper consideration to a suitable location for his business unit. In this unit, factors influencing location of a business unit will be discussed briefly. Besides, it will also cover the plant location in the North East region. At the end of this unit, we will focus on the present and future location of industrial units in the region.

5.3 STANDARDS TO MEASURE THE SIZE OF BUSINESS UNITS

The business units are of different sizes depending on the nature of industry. For example, iron and steel industries tend to be of large size. Similarly some public utilities like the railways and electricity supply concerns require a large size. On the other hand, industries requiring individual skill of the workers, viz. handicraft, artistic goods etc. tend to be of small size. In between, there are some other industries for which medium sized units are more suitable.

In order to measure the size of the business unit, a suitable standard or standards should be used. In this section, we will discuss the various standards which are commonly used to measure the size of a business unit. These standards may not be uniform to all categories of industries. The standards may be classified as under:

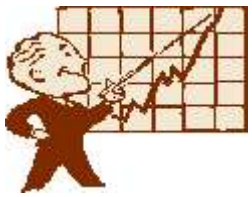


Now we will discuss the different standards to measure the size of business unit

- **Net worth:** Net worth means the amount of paid-up capital and reserve and surplus. It may be used as a standard of measurements of the size of the firm. But one difficulty as regards the use of this method is that the capital requirements vary from firm to firm.
- **Size of Total Assets**: This is another measure which is very popular. Under this method the relative size of a firm is judged on the basis of the assets standing in its final accounts. However, the value of the assets should be adjusted to the price level changes.
- **Amount of Raw-Materials Consumed:** The annual consumption of raw material by a business unit also provides a good standard of measurement of industries. But the different units must be engaged in the production of similar products.
- **Amount of Power Consumed:** Another convenient standard of measurement is the amount of power consumed annually by the business unit. However, the amount of power consumed may be

more or less due to the factors other than the scale of operations of a firm. So. It may not always prove to be a reliable measure.

- **Number of Workers Employed:** Some people measure the size of the business unit by the number of persons employed. This measure is suitable for the units which turn out similar products and have reached the same level of technical development.
- **Number and Capacity of Plans:** When a unit produces wide varieties of goods, it becomes difficult to measure the size by other standards. Then the number and capacity of plants may be used as a standard of measurements. For example, the size of a cotton mill is measured by the number of spindles.
- **Volume of Output:** The quality of goods produced may be used as a measure of size for industries which produce uniform or homogeneous products. For example, for sugar and cement industries this measure can be used.
- **Value of Output:** Where the volume of output cannot be easily compared, the value of output may be taken for measuring the size. For example, the units which produce a wide variety of goods may be measured with reference to the value of goods produced.



CHECK YOUR PROGRESS

Q1. Mention three standards which are used to measure the size of business units.

i) .....

ii) .....

iii) .....

5.4 FACTORS DETERMINING THE SIZE OF BUSINESS UNIT

In determining the size or scale of operation of a business unit, a large number of factors are taken into consideration. The decision of an entrepreneur regarding the size of business unit should be based upon

certain factors. The following are the determinants of the size of a business unit:

- **Nature and Demand for the Product:** If the product is of a perishable nature like ice or fish and can not be carried to distant markets, if the saleable goods have limited local demand, or the demand is subject to changes of fashion, individual tastes etc., the tendency will be for small units. On the other hand, if the product is durable in nature or standardised one, it demands the establishment of business units on a large scale.
- **Finance:** The availability of financial facilities also affects the size of business units. In case of iron and steel, cement, fertilizers, ship building industries, large investments are necessary. The scale of operation will naturally be large in these industries. If the concern needs small amount of capital, then tendency will be to keep the unit small.
- **Laws of Return:** The laws of increasing and diminishing returns also affect the size of a business unit. If the product is subject to the law of increasing returns, production on larger scale means lower cost and, as such, the business units grow larger and larger. When the product is subject to the law of diminishing returns, the greater production means higher cost and, as such, the units cannot grow to a large size.
- **Efficiency and Ability of the Entrepreneur:** Entrepreneurial efficiency and ability also determine the size of a unit to a great extent. A business may have the possibility to grow larger and larger in size if the entrepreneur is able to co-ordinate and handle the work well.
- **Business Risk:** A business of risky nature should preferably be started on a large scale. This is because a small unit with high risk factor is seldom able to survive. So, greater the risk, larger is the size of the plant.

- **Cost of Transport:** When raw materials are to be carried from distant places and finished goods are also to be dispatched to distant markets, the cost of transport will be heavy. In such cases the unit should be small, otherwise the cost of production will go up.
- **Government Regulations:** The rules and regulations of the government also influence the decision about size of business units.

5.5 OPTIMUM SIZE OF A FIRM

In the world of business, we have a minimum size of business below which the production is neither profitable nor economical. A firm may start with this minimum size and then it may steadily expand up to a certain limit. Up to a certain limit, the expansion leads to increasing returns, cost reduction and increasing profit. But sooner or later, the law of diminishing returns is bound to exert its effect on further expansion. A point is reached beyond which further growth becomes uneconomical. When this point is reached, a firm is said to have achieved the optimum point and such a firm is called “optimum firm”.

According to Prof. E.A.G. Robinson, “By optimum firm we must mean that firm which, in existing conditions of technique and organising ability, has the lowest average cost of production per unit, when all these costs which must be covered in the long-run are included.” It is the best firm with exactly the right size, neither too large, nor too small. This is the limit beyond which further expansion of business is not worthwhile and becomes less profitable.

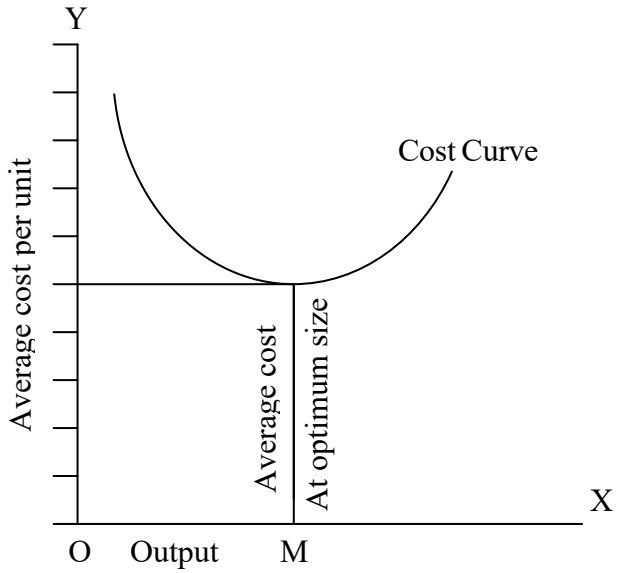


Fig:5.1 Optimum Size

We can explain the concept of optimum firm with the help of a diagram. Here, we consider average cost for determining the optimum size. The size is measured along the X-axis. The average cost per unit is measured along the Y-axis.

As output increases, the average cost per unit falls. At point 'P' we have the lowest average cost and further expansion will lead to rise in cost. Therefore, the firm will reach the optimum point at 'P' and "OM" will be the optimum size.

A firm can reach the optimum size under the following conditions:

- At the optimum point, we have equi marginal return from all resources or factors of production.
- At this point, we have the most rational allocation of resources.
- Optimum size yields maximum profits due to the lowest average cost.

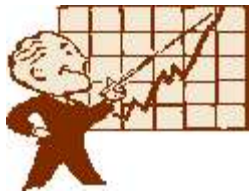
The management of a firm can reach the optimum size through conscious planning and rational allocation or utilisation of resources like men, machines, materials, money and methods. The forces of competition also enable the emergence of optimum firms. However, optimum point is a moving point and is influenced by technological and many other factors.

Factors influencing optimum size of a firm:

Prof. Robinson has also given a detailed analysis of an optimum firm. According to him, the optimum point can never remain stationary. It changes along with the changes in various factors such as technique, finance, market conditions and organizing ability. These factors are dynamic and they change with the passage of time. Hence, there is no fixed optimum size. The businessmen must try to reach new optimum size along with the changes in factors.

The forces which determine the optimum size of a business unit have been divided by Robinson as follows:

- Technical Forces
- Managerial Forces
- Financial Forces
- Marketing Forces
- Forces of Risks and Fluctuations (Survival Force)



CHECK YOUR PROGRESS

Q2. What are the conditions under which a firm can reach the optimum size?

i) .....

ii) .....

iii) .....



ACTIVITY 1

"Size of a business unit plays an important role in its success." Justify the statement.

.....

.....

.....

5.6 PRINCIPLES OF LOCATION OF BUSINESS UNIT

The decisions regarding location are not made frequently by any firm; but when they are made, they have far reaching consequences. These are some of those very important decisions which make the difference between success and failure of the business. While deciding about the location of a business unit, the management should bear in mind the following principles:

- The business unit must be located at some convenient place so that it may serve the entire organization in the best possible manner.
- The space of the business unit should be sufficient from the point of view of the present and future needs of the organization.
- Due provision should made for the convenience and amenities required for the comfort and well being of the staff, e.g. washing room, rest room, canteen etc. Service facilities like telephone, lift, and internal communication etc. should be available in the business unit, while other services like banking, transport, market, post office etc. should be available near the business unit.

5.7 FACTORS INFLUENCING LOCATION OF BUSINESS UNIT

It is rather difficult to lay down any hard and fast rule about the location of a business unit. A desirable location is usually determined by the requirements of each business. Different kinds of business require different locations. However, the following factors should be taken into consideration in choosing business location.

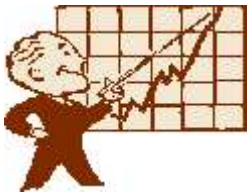
- **Availability of Raw-Materials:** The availability of raw materials is an important factor which helps in determining the location of an industry. The materials should be available in sufficient quantity and their quality should also be good. As far as practicable, the industry should be located near the source of localised materials.
- **Nearness to Market:** Proximity to market has always been

considered an important factor in affecting location. The industries which produce perishable articles are to be located near the markets. Sometimes, the industries which produce bulk articles requiring heavy transportation costs may be started near the marketing centers. Industries that are established near the market not only reduce the transportation costs but also can maintain close contact with the market.

- **Transport Facilities:** The transport cost has a great bearing on the total cost of an article and hence the entrepreneur has to consider this factor in locating his industry. The entrepreneur has to choose the location of his business unit in such a way that its total costs will be minimum.
- **Availability of Labour:** The location of industry is also influenced by the availability of labour force. If any industry requires skilled labour, there is a greater tendency for the industry to move to the labour centre.
- **Power Resources:** The availability of cheap and regular supply of fuel and power is an important factor which influences the location of industries. The important sources of fuel and power are coal, oils and electricity.
- **Finance:** Finance is a highly mobile factor and hence it may not have much influence on the location of industry. But under certain circumstances the location may be influenced by the availability of finance. There are financial institutions which provide funds for setting up new units provided the units are set up at particular places.
- **Soil and Climate:** Sometimes natural conditions and climate also have some influence on the location of industries. Location of industries may be affected by the factors like topography of the region, level of ground and drainage facilities.
- **Nearness to Service Facilities:** The business unit should be located near such service facilities as banks, insurance, post and

telegraph offices, repair shops, supply houses, public warehouses, advertising agencies etc.

- **Personal Factors:** Sometimes, the entrepreneur may decide to locate his business unit in a particular place, not on the basis of economic consideration, but on the basis of his personal liking to that place. In India, many town and cities became industrial centres because of the attachment of industrialists to those towns and cities.
- **Government Regulation:** State and National Governments have made a number of provisions regarding working hours, wages, social securities, ventilation, patents, licenses, taxes etc. by which the total cost of the product is very much influenced. Hence, the entrepreneur prefers to locate their units in such states or areas where there are lesser number of restrictions by the government.



CHECK YOUR PROGRESS

Q3. Mention three factors which influence the location of a business unit.

i) .....

ii) .....

iii) .....

5.8 PLANT LOCATION IN NORTH- EAST REGION- PRESENT AND FUTURE STATUS

At the time of independence of India in 1947, the important industries in Assam were tea, a petroleum refinery at Digboi and coal industry in Margherita-Ledo region. All these were in existence since the beginning of 20th century. Other industries were:

a) Plywood in upper Assam

b) Match factory at Dhubri

In the Khasi and Jaintia Hills there was one cement plant at

Cherrapunji and coal exploitation enterprises in some other areas. These are now in Meghalaya. There were a few rice mills, flour mills in the urban areas. Handloom weaving, sericulture, cane and bamboo making were some of the other village industries which have, however, continued through a moribund condition.

Tea is still the largest industry in Assam which brings considerable amount of foreign exchange to the country. The climate and soil of Assam favour the location of tea industry.

Exploitation of oil fields at Digboi was started by the Assam Railways and Trading Company in 1889. After the formation of Assam Oil Company in 1899, the Digboi Oil Refinery started operation in 1901.

In 1959 M/S Oil India was established at Duliajan for exploitation of crude oil to feed the refinery at Digboi, Noonmati and Barauni. Indian Oil Corporation was established in 1962, Bongaigaon Refinery and Petro-chemical Complex (BRPL) in 1975. One major Refinery has come into existences at Numaligarh as per the Assam Accord signed in 1985.

After the establishment of BRPL at Bongaigaon several industrial units at the state sector were started to process many petroleum by-products. They include Assam Petro chemicals Ltd. at Parbatpur, Namrup(1976), chemical unit of the Associated Industry at Chandrapur (1975), Assam Polytex at Jagiroad (1978), Assam Syntax at Tihu (1986), Fertichem Ltd. at Narengi (1975), Assam Gas Company at Duliajan (1976) etc. The important factors influencing the location of these industrial units are the availability of localized raw materials and government policy measures.

A co-operative Jute Mill was established in 1977 at Silghat, Assam. The Assam Co-operative Sugar Mill was started at Baruabamungaon in 1958 which has been handed over to private sector in 1992. Two more sugar mills were established at Ratabari, Cachar (1978) and Kampur (1986) which have become sick. The match factory at Dhubri established in 1926 is still a running concern. The Assam Spun Silk Mill was started at Jagiroad in 1961 but this organization is now closed down.

In the private sector M/S India Carbon at Noonmati (1962), M/S

Assam Carbon at Birkuchi (1981) are two important mineral based units. Several steel based units like Steel Worth, Assam Ispat, Buildworth etc. have also come up in recent years.

The first plywood factory in Assam was started in 1918. However, their present position is very poor.

STATEFED started a TRIPTI brand vanaspati and mustard oil factory at Amingaon in the state co-operative sector. But unfortunately the factory is closed now. The Bokajan Cement Factory under Cement Corporation of India and Jagiroad Paper Mill under Hindustan Paper Corporation are two important industrial units of Assam in the Public Sector which are based on local materials.

Most of the large scale industrial units located in Assam are based on mineral and forest resources and they are in the central sector. The Agro processing units are in the private sector.

Apart from these industries, there are large number of industrial units falling under the small scale and village industries. Important amongst these are Handloom Weaving, Sericulture, Brass and Bell Metal, Processing of Cereals and Pulses, Fruit Processing, Gur and Khandsari, Bee keeping and Honey making, Bamboo and Cane goods, Carpentry and Blacksmithy, Goldsmithy etc.

Prospect of Location in Future: The future location of industrial units in NE region should be considered from the following angles:

- **Outside Resource and Outside Market:** It will be difficult to compete with others as resources will have to be brought from outside the region unless there is some other specific benefit of the location of such enterprise.
- **Local Resources and Outside Market:** This will be ideal as local resources will have to be used and employment to local people will be ensured. By exporting to outside it will be possible to have inflow of income.
- **Local Resource and Local Market:** Here the benefit will be maximum as it will provide local employment and encourage development of resources. But unless the production cost is lower

than elsewhere, the product will face stiff competition.

- **Outside Resource and Local Market:** This is weaker than other combinations as resources will have to be brought from outside and finished product from these resources will have to be sold inside.

To ensure the location of industrial units in the state (that too under small sector), the main emphasis should be given on 'local demand' and the 'availability of local raw materials' to the extent possible. Industrial units like food products, food processing, leather goods, rubber products, and consumer goods like soap, detergent etc. may be set up in NE region. Some important industries which have sufficient scope for location on the basis of our local resources are:

- Textile
- Agro based industries
- Forest based industries like oil, paper etc.
- Mini cement plant
- Food processing industries
- Plastic industries
- Tourist and Tourist related industries

Localization of such industrial units will not only meet the present demand of both rural and urban people but will also solve the problem of unemployment in the state to a great extent. Ultimately, the entire economy of the backward state will develop to a considerable extent on the strength of the location of these plants in the small sector.



ACTIVITY 2

What are the scopes for small- scale industries in North- east region?

.....

.....

.....



5.9 LET US SUM UP

The efficiency and profitability of a business unit depends, to a great extent, on its size. Hence, it is important to study about the size of business unit from the point of view of a businessman. The size of a business unit refers to the scale of its operations. However, the size of a firm is associated with economic efficiency. A particular size of a unit may be more efficient than other sizes. If all the firms in the industry attain that size then the whole industry attains a given level of efficiency.

On the other hand, the location of a plant is one of the important decisions which an entrepreneur is supposed to take at the time of establishing a new enterprise. Once a plant is located at a particular place, it is not possible to shift it to another place without incurring heavy losses. Apart from this, the businessmen should consider the future growth potential and possibility of changes in environmental conditions while determining the location.



5.10 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development

5.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: i) Size of Total Assets

ii) Amount of Raw-Materials Consumed

iii) Amount of Power Consumed

Ans to QNo. 2: i) At the optimum point, the firm will have equi marginal return from all resources or factors of production.

ii) At this point, the firm will have the most rational allocation of resources.

iii) Optimum size yields maximum profits due to the lowest average cost.

Ans to QNo. 3: i) Availability of Raw-Materials

ii) Nearness to Market

iii) Transport Facilities

5.12 MODEL QUESTIONS

1. Critically examine the standards employed to measure the size of a business unit.
2. Discuss the factors determining the size of a business unit.
3. What do you mean by “optimum firm”?
4. Explain the principles of the location of a business unit.
5. Discuss the various factors influencing the location of a business unit.
6. Give a brief history of the industrial location in NE region.
7. Mention the plants that can be suitably located in Assam in near future.

UNIT 6: BUSINESS COMBINATIONS

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning of Business Combinations

6.4 Causes of Combinations

6.5 Types of Combinations

6.6 Forms of Combinations

6.7 New Forms of Business Organisations

6.7.1 Multinational Corporations (MNCs)

6.7.2 Joint Sectors

6.7.3 Franchising

6.8 Forms of Company Collaboration

6.9 Let Us Sum Up

6.10 Further Reading

6.11 Answers To Check Your Progress

6.12 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the basic concepts of business combinations.
- discuss the causes of combinations.
- describe the types and forms of combinations
- discuss new forms of business organisations.
- explain different forms of company collaboration.

6.2 INTRODUCTION

Business combination is an outstanding feature of the modern industrial system. With the growth of industries in many countries, production has increased to a great extent. Competition became more and more acute. In every line of industrial activity one unit was trying to through out the other from the market both by fair and foul means. Many a time, a producer would

sell his product cheaper just to undersell his rivals. The result was unhealthy competition among the producers- resulting in reduced profits. Co-operation or combination was considered the only way to face economic crisis. Today, we find these combinations in every productive sphere. They are formed by different methods for different purposes.

In this unit, we will start with the meaning of business combination and then move on to causes of combination.

Types of combinations and forms of combinations are two important issues for discussion in this unit. We will also discuss some new forms of business organizations with their importance.

In the last part of this unit, we will discuss the different forms of company collaboration.

6.3 MEANING OF BUSINESS COMBINATIONS

Business combination is a method of economic organisation by which a common control is exercised over a number of firms which either is operating in competition or independently. It is an assembly of two or more groups of firms or concerns engaged in the production and distribution of commodities in the national or international markets with two main objects, viz.

1. Elimination of unhealthy competition.
2. Avoidance of wasteful expenditure in production and distribution through common finance, management, production and marketing policies.

The motivation behind combination is, of course, survival, growth and prestige.

According to L. H. Haney. “To combine is to become one of the parts of a whole, and combination is merely a union of persons to make a whole or group for the prosecutions of some common purpose.”

6.4 CAUSES OF COMBINATIONS

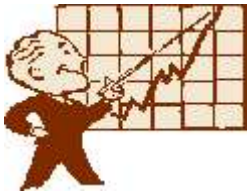
The growth of combinations in industry has been the outcome of several complex factors and they cannot be easily separated from others.

These factors, however, can be studied under the following heads:

- **Excessive Competitions:** In the earlier stages of industrial evolution, competition among the business units was not intense. With the widening of markets and with the growth of large-scale production, competition became intense and wasteful. Thus, elimination of the wastes of excessive competition became an impelling motive to the formation of combinations by the business units.
- **Influence of Tariffs:** The tariff policies of different countries have facilitated the combination movement. When the tariffs are increased, competition in the home country becomes so acute that the producers realise the need for combination.
- **Advantages of Large Scale Organisation:** The advantages of large-scale organization and production have attracted the businessmen towards combinations. Organisation on large-scale basis results in economies in various spheres like purchasing, production, marketing, financing etc.
- **Growth of Joint Stock Companies:** Corporate form of business organisation has also facilitated the formation of combinations. The control and management of various companies can be concentrated in the hands of few persons through formation of combinations.
- **Respect for Bigness:** In the present day world, the business units of bigger size are more respected than the units of smaller size. Hence, businessmen aspire for business units of bigger size. So, there is a race for combination.
- **Trade Cycles:** Trade cycles result in fluctuations in the economic activities and these increases the tempo of the combination movement. The trade cycle have influence on the movement of combination both during periods of depression and boom.
- **Individual Organising Ability:** One significant feature of the present day industrial system is that there is lag between technical units and administrative development of industry. The number of business units is far higher than the skilled business managers. This scarcity of talent

for managing the units is one of the causes for the formation of combinations.

- **Desire for Monopoly Power:** Under monopoly, the prices are higher and the business units earn larger profits. In order to earn higher profits, the businessmen are tempted to join together through combinations. There is greater chance of earning more profits if the business combined into one single establishment.



CHECK YOUR PROGRESS

Q1: Mention any two causes of business combinations.

i) …….....

ii) …….....

6.5 TYPES OF COMBINATIONS

Combinations can be classified into five types. These are –

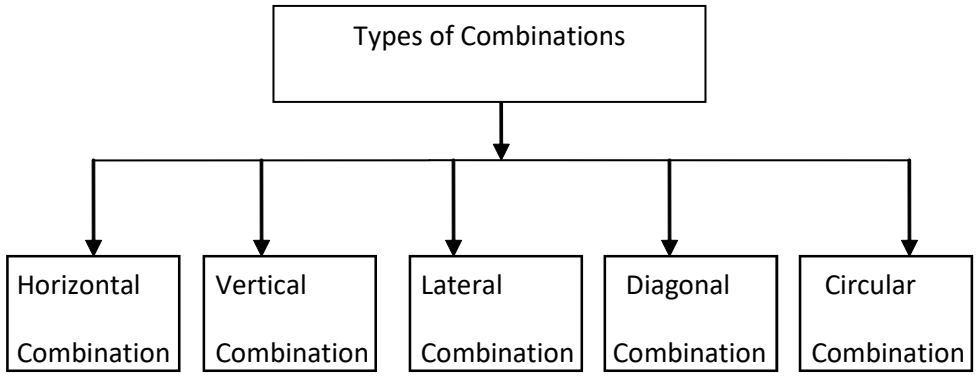


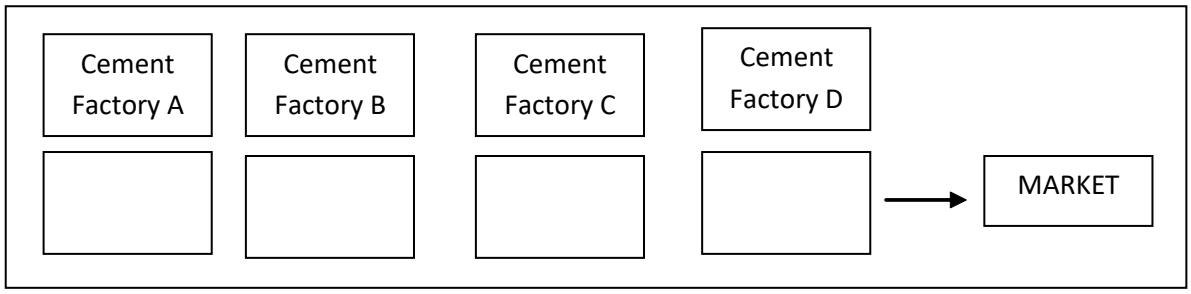
Fig. 6.1 : Types of Combinations

It is quite possible that the combination may be a mixture of two or more types. Now we will discuss these combinations-

1. **Horizontal Combinations:** In this type of combination, combining business units are engaged in the production of the same type of commodity. For instance, two or more cement factories may combine

to achieve some common objectives. This type of combination is the most popular one. The instances in India are Sugar Syndicate and Associated Cement Companies (ACC).

This is illustrated in the diagram given below:



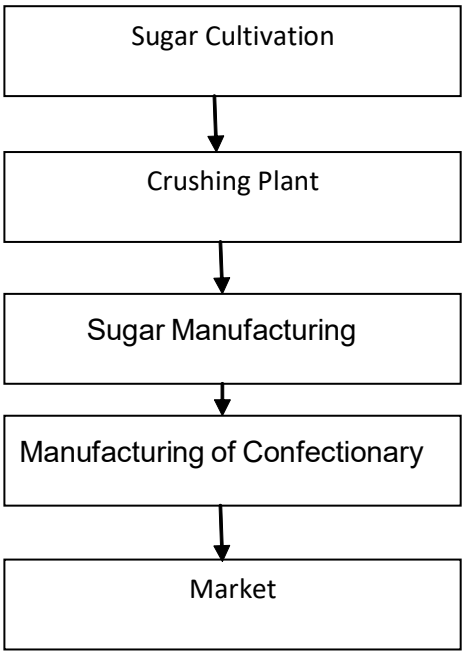
Advantages

- Wasteful competition among the firms engaged in the production of same line of business is eliminated.
- Extension of market share.
- Larger control over the market will mean better prices and more profits.

Disadvantages

- They may lead to the formation of monopoly and concentration of industrial powers in the hands of a few persons.
- There are diseconomies of management due to increase in size of business.

2. **Vertical Combinations:** In this type of combination, a number of units engaged in successive stages within an industry are brought together. In other words, several independent units which are engaged in the various stages of production are combined into one single establishment. Thus, firms engaged in sugar cultivation, sugarcane crushing, manufacturing of sugar, manufacturing of confectionery may join together to form a vertical combination.

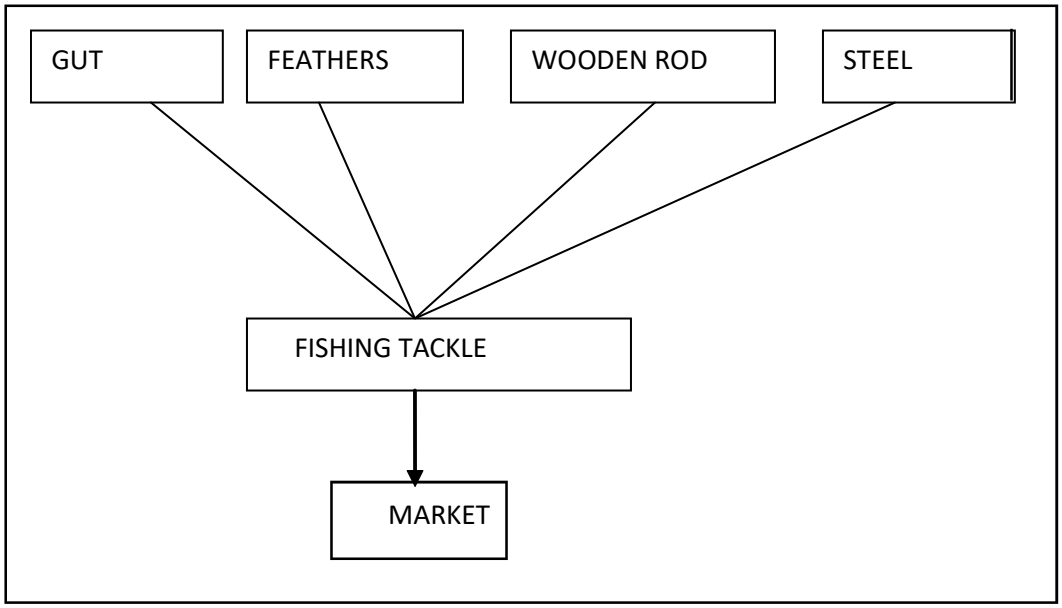


Advantages

- The supply of raw materials at successive levels becomes continuous and uninterrupted.
- The quality of product can be improved.
- Enjoy the benefit of forward and backward linkages.

Disadvantages

- Vertical combinations are suitable only in the case of large-scale industries.
- If there is any dislocation in any one of the units, the whole production machinery would come to standstill.



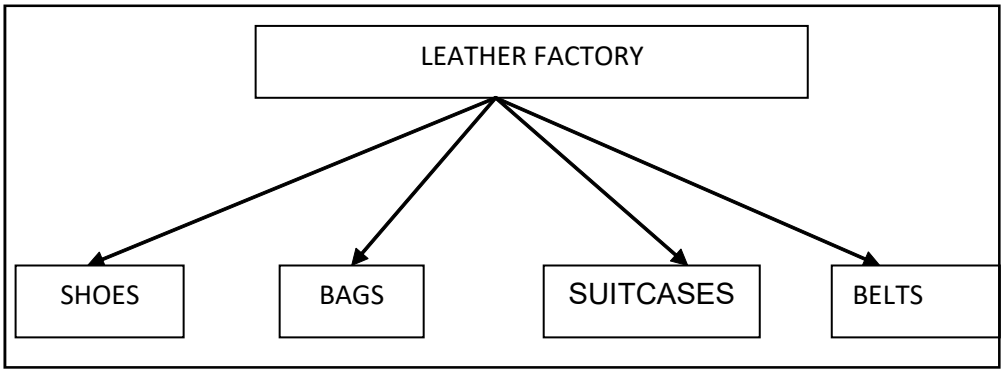
3. **Lateral or Allied Combination:** When the units which are engaged in the manufacture of allied products have formed a combination, it is called lateral integration. This type of integration can be of two types:

   a) Convergent lateral integration

   b) Divergent lateral integration

   a) Convergent Lateral Combination: It involves a combination of different industrial units which supply goods and services to help in the functioning of one major common undertaking. In other words, the finished products of many units constitute the raw materials of one. The best illustration is found in the manufacture of 'fishing tackle' for the use of the angler which may be associated with other units engaged in the supply of gut, feathers, wooden rod and steel.

   b) Divergent Lateral Combination: In the case of divergent lateral integration the different combining units get their raw materials from the major firm. Thus, the product of one firm becomes the raw material of other firms which have combined with it. Illustration of divergent lateral integration may be supplying leather to different units engaged in production of shoes, bags, suitcases, belts etc. This is shown in the diagram below:



Disadvantage of Lateral Integration: They lead to monopolies and therefore, anti-social.

4. **Diagonal Combination:** Diagonal integration means that auxiliary goods or services required for the main process of production are provided inside that very organization. For instance, cigarette makers may themselves make tin foils, cartons, containers, packets etc instead of buying them from different makers.

Advantage: The main unit need not depend on outside sources for materials and services like transportation, communication, supervision etc.

5. **Circular or Mixed Combination:** When firms engaged in the manufacture of different products integrate or combine under a central agency, circular or mixed combination takes place. If a cement factory, a steel mill and a sugar mill combine, we will have a case of circular or mixed combination. This method has been followed in India by business houses like Tatas, Birlas and J.K.s for exercising common administrative control over all kinds of business under the same banner.

Advantage:· They result into economics in administration and one entrepreneur can grow his business without acquiring monopoly.

Disadvantage: They may result in the concentration of economic power in few hands in the country.



CHECK YOUR PROGRESS

Q2: State whether following statements are true or false.

i) In horizontal combination, combining business units are engaged in the production of the different types of commodities.

ii) When the units engaged in the successive stages of production combines together, it is called vertical combination.

iii) In divergent lateral integration, the combining units supply goods and services to a common firm.

iv) In circular combination, the different firms engaged in the manufacture of different products combine under a

6.6 FORMS OF COMBINATIONS

Combinations have different forms in different countries. According to Haney, combinations can be grouped into two main categories, namely, simple combinations and compound combinations.

Simple combinations are the associations in which the direct combinations of natural persons take place, viz. partnership and companies. Compound combinations mean the combinations of association of natural persons. If some business units form a combination, it is known as compound combinations.

Compound combinations may be classified as follows:

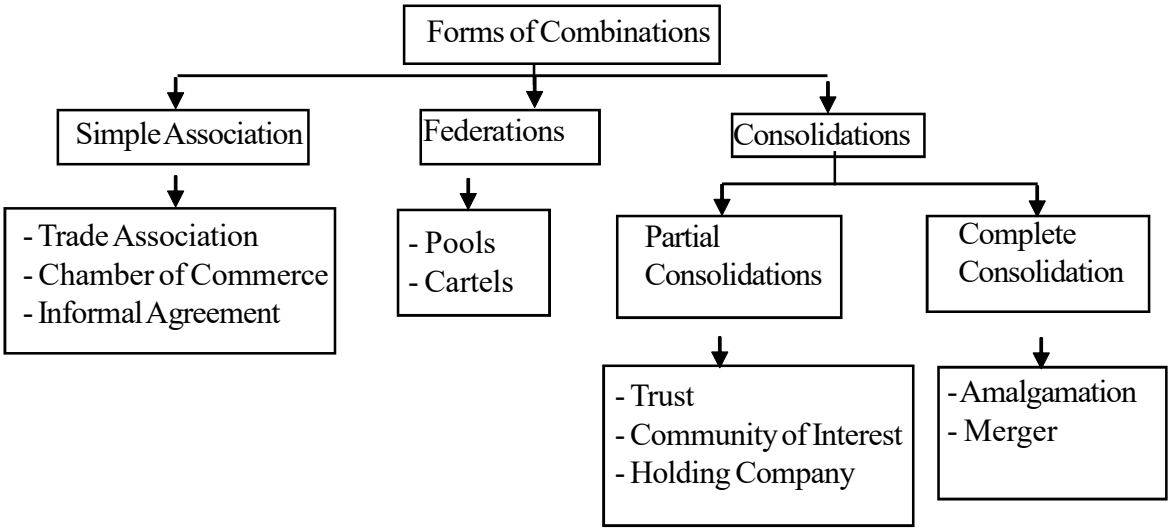


Fig. 6.2 : Forms of Combinations

Now, we will discuss these combinations:

1. **Simple Association:** Simple associations are formed by business units for the attainment of some common purpose without foregoing their individuality in any way. They are also called simple agreements or gentlemen's agreements. They are easily formed and easily dissolved. They may take the following forms:

a) **Trade Associations:** Trade associations are the combinations in which the business units of a particular trade or industry come together to look after their common interest. Some important trade associations in India are- The Indian Jute Mills Association, Kolkata, Bombay Cotton Merchants Association, Mumbai, East India Cotton Association, Mumbai, Press Association of New Delhi, Assam Tea Planters Association, etc. Trade association is a non-profit organisation formed mainly for the purpose of promoting the interest of its members. It never deals in business transactions on its own account. The members also are free to transact their business without any interference by the association. It is essentially educational in character.

There is no definite regulation for the establishment of trade associations. They are generally formed either under the Indian Registration Act or under the India Societies Act. It may also be formed under the

Companies Act. Usually, the office bearers of trade associations include a president, vice-president, secretary and treasurer.

b) **Chamber of Commerce:** Chamber of Commerce is also a voluntary association of businessmen. Businessmen belonging to different trade and industry become the members of chamber of commerce. It does not represent any particular trade or industry but represent the business interest of a locality, region or caste.

The chamber of commerce may be local, national and international ones. For example, local chambers of commerce are: Bombay Chamber of Commerce, Bengal Chamber of Commerce etc. Indian Chamber of Commerce is at national level and International Chamber of Commerce in France is at international level.

c) **Informal Agreements:** Informal agreements are the types of combinations formed by the business units in order to achieve some common purpose. They may be formed for the purpose of regulating the production, or dividing the markets, fixation of prices, terms of credit allowed to the customer and similar issues. Informal agreements are merely understanding among the parties and no written documents are prepared. They depend mainly on the honour and sincerity of members.

2. **Federations:** Federation means association of firms engaged in the same business with a formalized agreement to follow certain policies in common so as to reduce the intensity of wasteful competition in the respective business line. In other words, it is an alliance of competing firms into federal frame work.

The principle of federation means the federating units, while retaining their identity and autonomy, are bound by a common agreement on one or some aspects of their business policies. Avoidance of competition, monopolistic control over market, realization of economies of scale and adjustment of output to demand are the prime objectives of federal combinations.

Federations are more effective than the simple associations. The types of combinations coming under federation are pools and cartels.

a) Pools: Under a pool, members join together to regulate the demand or supply of a product without surrendering their separate entities.

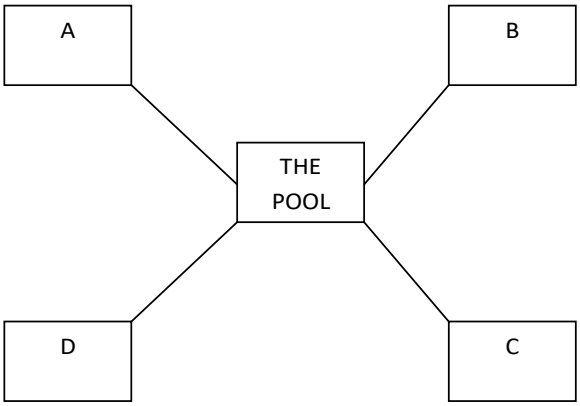


Fig. 6.3 : ***ABCD are Participating Units***

The pool organisation may be divided into the following broad categories:

- Output Pool
- Traffic Pool
- Market Pool
- Income and Profit Pool

b) Cartels: Basically, cartel is the European name for the American pools. It is in this wide sense that the term has been used by a number of German writers on the subject including Lifeman, Von Beckereth and Mullensiefen. According to Von Beckereth, "A cartel is a voluntary agreement of capitalistic enterprise of the same branch for a regulation of the sales market with a view to improving the profitableness of its members' business." In other words, the important object of a cartel is the domination of market by the elimination of competition through various restrictive measures.

Cartels are of different types. Von Beckereth has classified them as follows:

- Price Fixing Cartels
- Term Fixing Cartels
- Customer Assigning Cartel
- Zone Cartels

- Quota Cartels
- Syndicates

3. **Consolidation:** Federations suffered from certain weaknesses. The businessmen, therefore, had to think of some other forms of combinations which have advantages over federations and they found the answer in consolidation.

Consolidation is a device adopted for unity of interest and purpose under a unified management. Consolidations are of two types

a) Partial Consolidation
b) Complete Consolidation

They are discussed below-

a) Partial Consolidation: Partial Consolidation means coming together of firms under formalized common ownership and control while retaining their separate entity. Obviously their objective is to avoid competition by integrated management of the firms as one unit. The three types of partial consolidation are:

- Trust
- Community of Interest
- Holding Company

b) Complete Consolidation: A complete consolidation is a total fusion by outright purchase of the properties of constituent organisations into a single business unit. It can take place in two ways:

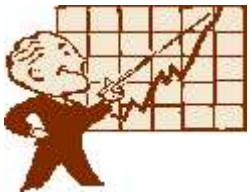
- through amalgamation; and
- through merger

In case of amalgamation, two or more companies organize a new company. It results in losing of separate existence of the companies which are amalgamated. This process takes place in such a way that all assets and liabilities of the amalgamating companies become the assets and liabilities of the amalgamated company.

In case of merger, one or more companies merge with another existing company. In this form the absorbing company retains its entity while the absorbed company loses its separate entity.

Thus, merger and amalgamation may take two forms:

- Absorption
- Consolidation



CHECK YOUR PROGRESS

Q3: Distinguish between pool and cartel.

……..

……..

……..

Q4: Mention two differences between trust and holding company.

i) ……..

……..

ii) ……..

……..

6.7 NEW FORMS OF BUSINESS ORGANISATIONS

A person who wants to start a business has to choose a particular form of organization for his business, out of the several forms of organisations. Sole Proprietorship, Joint Hindu Family Business, Partnership, Joint Stock Companies, Co-operative Societies, State Enterprises are the traditional forms of business organisations found throughout the globe. With the changes in the business environment new ideas, new concepts of doing or running business operations have emerged over the last few decades. The new forms of business organizations are briefly discussed below with their relative importance and drawbacks to the economy of a country.

6.7.1 Multinational Corporations (MNCs)

Every country specializes in some product, service, technology, business etc. In order to make best use of market condition and the expertise, companies operate at the international level. Companies

which internationalise their operations are generally called multinational corporations. MNCs are corporations which operate beyond the country of their origin. A number of industries are dominated, globally, by large corporations known by such name as International Corporation, Multinational Corporation, transnational corporation and global corporation.

The International Labour Organisation (ILO) report (Geneva, 1973) observes, "The essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country while the enterprise carries out operations in a number of other countries as well."

Jacques Maisonronge, President of IBM World Trade Corporation, defines MNC as a company that meets five criteria:

i) It operates in many countries at different levels of economic development.

ii) Its local subsidiaries are managed by nationals.

iii) It maintains complete industrial organisations, including Research & Development (R&D) and manufacturing facilities, in several countries.

iv) It has a multinational central ownership.

v) It has multinational stock ownership.

James C. Baker defines the multinational corporation as a company:

a) Which has a direct investment base in several countries;

b) Which generally derives from 20 percent to 50 percent or more of its net profits from foreign operations; and

c) Whose management makes policy decisions based on the alternative available anywhere in the world.

Thus, a multinational corporation is, obviously, an international corporation. Only those international corporations which satisfy certain criteria, as described above, may be regarded as multinationals. Multinational companies are usually organised around

a national headquarter, from which international control is exercised and they still have a national identity.

A transnational company is also a multinational in which both ownership and control are so dispersed internationally. There is no principal domicile and no one central source of power. An example of transnational company is 'Unilever' which is doing business in India as Uniliver India Ltd.(HLL). In recent years, many of the multinationals have transformed themselves to transnational/global corporations.

Merits of MNCs: There are arguments both in favour of and against the MNCs. It is claimed that MNCs help the host countries in the following ways:

MNCs help increase the investment level and thereby the income and employment in host country increases.

The transnational corporations have become vehicles for the transfer of technology, especially to the developing countries.

The MNCs enable the host countries to increase their exports and decrease their import requirements.

They work to equalise the cost of factors of production around the world.

MNCs provide an efficient means of integrating national economies.

Demerits of MNCs: MNCs have, however, been subject to a number of criticisms, some of them are as under:

· MNCs have their own unfair techniques of imposing their will on producers and consumers. Their only aim is to maximise global profits and succeed in achieving their aim through deceptive devices. As a result:

a) Prices for consumers are raised,

b) Income of farmers is lowered,

c) Profits of the MNCs increase,

d) The quality of the producers suffers.

- MNCs may destroy competition and acquire monopoly powers.
- MNCs retard growth of employment in the home country.

- The transfer pricing enables MNCs to avoid taxes by manipulating prices on intra-company transactions.
- A large amount of money flows out of the country in terms of payments of dividends, profits, royalties, technical fees and interest to the foreign investors.

Organisation and Extent of Operations of MNCs

Subject to legal requirements, international agreements and commercial treaties, an MNC can organize its operations in different countries through any of the following five alternatives:

- Branches
- Joint Venture Companies
- Subsidiary Companies
- Franchise Holder
- Turn-key Projects

Each of the following are briefly described below-

- **Branches:** The simplest form of extending business operations to international markets is to set up several branches. Legally, the branch is not an independent entity and is linked up to the parent company existing in some other country. Those companies which have set up branches in India but incorporated outside India are regarded as foreign companies by the Companies Act, 1956.
- **Joint Venture Companies:** Joint venture is a fine partnership of finance, technical know-how and marketing abilities. This can be for manufacturers or marketers or both. An MNC may enter into a joint venture with an indigenous firm or agency of a foreign country already in operation.

The merits of joint venture are:

i) Legally they enjoy special concessions and relief in the matters of import license, taxation and exchange control.

ii) Financially they are safest and less expensive method of entering into international business.

iii) Commercially joint ventures extend more control over

manufacturing and marketing operations.

However, there are some limitations of joint ventures, such as:

i) They cannot have corporate objectives, profit standards, use of resources as sole ownership does.

ii) Great deal of sacrifice is warranted as expressed in terms of utmost mutual confidence and trust because, mere legal arrangements will not overcome differences in managerial philosophies, cultures, plans, policies and strategies.

- **Subsidiary Companies:** An MNC may also operate by setting up a subsidiary company. A subsidiary in a particular country is established under the laws of that country. There are two ways of such market entry into foreign countries, namely, acquisition and formation. The special considerations that prompt this type of entry are the volume of business expected, the need for providing specialised facilities, restrictions and the availability of capital.

The merits of subsidiaries are:

- It has the flexibility in controlling marketing and production operations.
- Protection of patents and trade marks in the host country is possible.
- Investments or tax concessions or incentives provided by the host country.

The weaknesses of subsidiaries are:

- It involves largest financial commitment.
- It entails political and monetary system risks and their considerations.
- It relies on unknown partners than working with experienced full-fledged locals.

- **Franchise Holder:** This is a kind of formal contract by which an affiliate firm produces or markets the produce of a multinational firm after obtaining a license from the firm. The

manufacturer enters into an agreement with a license in the foreign country granting him the right to use the manufacturing process, a patent design or a trade mark or the technical or non-technical facility in return for an agreed fee or royalty. Franchising and licensing, which involve minimal commitment of resource and effort on the part of the international marketer, are easy ways of entering the international market.

The Oxford Dictionary defines the term "Franchise" as "a license granted by a government or a company to a person or group allowing them to use or sell certain products."

Usually franchising involves a combination of many of the elements mentioned above. The major forms of franchising are:

- Manufacturer-retailer systems (Such as automobile dealership);
- Manufacturer-wholeseller systems (such as lodging services and fast food outlets).
- Service firm-retailer systems (such as lodging services and fast food outlets).

- **Turn-Key Project:** Under this organisational form, the MNC undertakes order to complete the project from scratch to the operational stages. When the project is ready it is handed over to the host country. Underdeveloped countries invite tenders for construction of certain projects requiring high technical skill. The MNCs are most suited to carry out the job as they possess huge resources and managerial and technical expertise. Turn-key contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries (e.g. Guwahati Refinery), Steel mills. Cement, fertilizer plants, construction projects etc.



ACTIVITY

Find out the names of five MNCs operating in India.

i) ……

ii) ……

iii) ……..

iv) ……

v) ……..

6.7.2 Joint Sectors

The concept of joint sector involves a form of partnership between the public sector and private sector enterprises.

According to J.R.D. Tata, "A joint sector enterprise is intended to be a form of partnership between the private sector and the government in which state participation in capital will be not less than 26 percent and the day-to-day management will normally be in the hands of the private sectors exercised by a Board of Directors on which the government is adequately represented."

Characteristics of Joint Sector: The features of joint sector and its modes of operation according to government decision are as follows:

- One of the methods of establishing a joint sector is to convert loans and debentures given by the public financial institutions to private undertakings into equity shares of those undertakings.
- The present formula of financial participation in joint sector is 26 percent for government, 25 percent for private enterprise and 49 percent for investing public and financial institutions.
- In case of a foreign collaboration or participation with domestic partner, the share of government will be 25 percent, Indian Business concern 20 percent, foreign investor 20 percent and the investing public 35 percent in the paid up capital of such a concern.

- No single party can hold more than 25 percent of the share without the sanction of the central government.
- Such participation will allow only minority interest to private entrepreneurs in the joint sector. So the private sector will not be able to own or control it.

Importance of Joint Sector

The importance of joint sector in the economy of a country may be described as below:

- **Social Control over Industries:** Joint sector is an effective means for controlling monopoly and concentration of economic power. It is expected to control the expansion of the leading industrial houses. Besides, the joint sector can be used to promote socio-economic objectives of the government, such as maintenance of reasonable prices, regional dispersal of industries, and investment of research, to improve future technological capabilities, development of exports and so on. Thus, it is a tool for social control over industry.
- **Failure of Private and Public Sector:** The operation of private sector has many shortcomings such as the failure to mobilize adequate funds, dependence on public financial institutions, limited resources etc. The performance of public sector is not found satisfactory because of heavy centralisation of direction and management. Hence, a mixture of the two sectors is expected to bring solution to the problem.
- **Compromise and Solution of Both the Sectors:** The public sector commands abundant financial resources but its poor performance has made the government acknowledge the superiority of the private management. On the other hand, private sector businesses have the managerial resources, but have necessarily to rely on the public sector financial institutions for funds. Hence, the need for the joint sector arises.
- **Instrument of Industrial Growth and Regional Development:** Private investment is not coming forward in a

desired manner to the basic and essential industries. The joint sector may encourage small and medium entrepreneurs, help them to mobilize resources to procure machinery and equipment and build up confidence to face the uncertainties of modern business.

- **Via Media between Private Ownership and Outright Nationalisation:** The joint sector enables the government to enter the highly profitable lines of industrial activity, reduce the dominant economic power of the large industrial houses and increase social control over industries. Thus, it is a via media between private ownership and outright nationalisation.

6.7.3 Franchising

According to Donald W. Hackett franchising is "A form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee) the right to do business in a prescribed manner." The right can take form of selling the franchisor's products, using its name, production and marketing techniques, or general business approach. One of the common forms of franchising involves the franchisor supplying an important ingredient (part, material etc.) for the finished product like Coca Cola supplying the syrup to the bottlers.

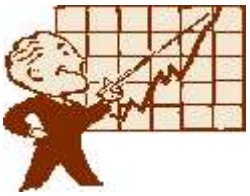
Encouraged by the forces of liberalisation and privatisation and driven by strategic considerations, franchising and licensing have become more and more conspicuous in recent years. Many Indian firms can use licensing or franchising for the overseas market; particularly the developing countries. For example, Ranbaxy has licensing arrangement in countries like Indonesia and Jordan.

Merits of franchising and licensing

- It is the quickest means of entering foreign markets particularly in case of centrally planned countries.
- It is economical as it is involving limited expenses and avoids all distribution costs.

Demerits of franchising and licensing

- The royalty or fees earned by the licensor are less than the profits earned by licensee.
- Parting with secrets of business on which the licensor would have earned more profits.
- Licensor loses the ground in favour of licensee, as on expiry of license period the licensee becomes a strong competitor.



CHECK YOUR PROGRESS

Q5: Mention two merits of MNCs.

i) …….....

ii) …….....

Q6: Mention two merits of franchising and licensing

i) …….....

ii) …….....

6.8 FORMS OF COMPANY COLLABORATION

A common form of MNC participation in Indian industry is through entering into collaboration with Indian industrialists.

Foreign collaboration is a transfer of technical know-how for lowering the marginal cost, improving the quality and increasing the quantity of product from the developed country to developing country. Foreign collaboration agreements are made between Indian companies and foreign parties, involving sale of technology as well as use of foreign brand names for the final products. After obtaining approval of the Government of India, an application for admitting the foreign collaboration with the foreign companies or nationals, is to be executed in writing by the parties to the agreement in conformation to the terms.

Field of Foreign Collaboration

The field of foreign collaboration is linked with the factors of production, i.e. capital, labour, machine and raw materials along with the scientific and technical skills and know-how, drawings and designs etc. Briefly, the

collaboration touches the following fields:

- Equity investment- where capital market is not developed.
- Import of goods, plant, machinery, equipment and raw-materials.
- Transfer of scientific technology, import of drawings, mechanical skills, know-how etc., employments of technical and mechanical experts, consultants, advisers and operators etc.

Thus, broadly speaking, foreign collaboration may take two main forms:

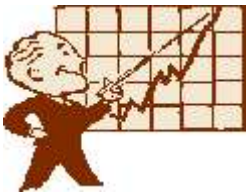
- Direct Foreign Investment or Joint Venture Collaboration
- Technical Collaboration

While importing, some countries prefer technical collaboration by payments of royalty and lump-sum fees, without allowing any equity investment. But for transfer of sophisticated technology, the supplier of technology (the foreign country) often prefers to have equity investment and participation in a joint venture.

Equity investment in a joint venture has a number of advantages over a mere technical collaboration. They are:

- There will be a long-term interest of the supplier of technology in the efficient running of the project as he would be sharing benefit of prosperity of the project.
- The economic co-operation between two partners may lead to further efforts for expansion, diversification and establishment of new projects.
- The project would have the continued benefit of research and development in technology being carried on by the supplier without payment of any extra cost.

Thus, joint venture concept has more acceptable than technical collaboration. In fact, equity investment helps in increasing production and profitability of a company and increases the revenue resources of the country on account of Excise, Income Tax on profits and dividends, Sales Tax etc.



CHECK YOUIR PROGRESS

Q7. Mention two forms of foreign collaboration.

i) …….....

ii) …….....



6.9 LET US SUM UP

Whenever two or more business units or firms engaged in similar business or in the different related processes or stages of the same business unite together with a view to carry on their activities and shape their policies on common and coordinated basis for mutual benefit or maximum profit, they are said to form an industrial or business combination. The modern economic organisation stands for mass production and wider sales in competitive market. Combinations are the outcome of this tendency among the bigger companies to form their union or association for regulating their policies on rational lines. Thus, the size of business operations increased but the number of firms decreased because of amalgamation or merger of independent units.

MNCs are corporations which operate beyond the country of their origin. Instead of aiming at maximization of their profits from one or two products, the MNCs operate in a number of fields and from this point of view, business strategy extends over a number of products and a number of countries. The emergence of the MNCs as a dominant global institution is a novel development in the second half of the twentieth century. On the other hand, joint sector emerged to provide a partnership between the financial resources of the government and technological and managerial know-how of the private enterprises. However, franchising is a special kind of formal contract by which an affiliate firm produces or markets the products of a multinational company after obtaining a license from the company.



6.10 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



6.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No. 1: i) Excessive competition
ii) Advantages of large- scale organization.

Ans to Q No 2: i) False ii) True iii) False iv) True

Ans to Q No.3: Under a pool, members join together to regulate the demand or supply of a product without surrendering their separate entities. On the other hand, a cartel is an association of firms producing similar products who agree to surrender their output to a common agency formed for the purpose of selling their output.

Ans to Q No. 4:i) While a holding company is formed by purchasing the controlling amount of stock in the subsidiaries, a trust is established by the transfer of shares along with their voting rights to the trustees.

ii) The holding company is managed by the directors elected by the shareholders, whereas the trust is managed by the board of trustees.

Ans to Q No. 5:i) MNCs help in increasing the investment, income and employment in the host country.

ii) MNCs help in transferring technology to the developing countries.

Ans to Q No. 6:i) It is the quickest means of entering foreign markets.

ii) It is an economical form of business organisation.

Ans to Q No. 7:i) Direct Foreign Investment (FDI)

ii) Technical Collaboration.



6.12 MODEL QUESTIONS

1. What is the meaning of business combination?
2. Mention the various causes for formation of combinations.
3. Describe precisely various forms of business combinations.
4. In how many ways MNCs can organise its operations in different countries? Discuss.
5. What is franchising? Give its merits and demerits.
6. Discuss different forms of company collaboration.
7. Write short notes on:
    a) Chambers of Commerce
    b) Horizontal combination
    c) Importance of joint sector

UNIT 7: SMALL ENTERPRISE

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Definition of small enterprise

7.4 Characteristics of small enterprise

7.5 Relationship between small and large scale units

7.6 Objectives and scope of small enterprise

7.7 Role of small enterprises in economic development

7.8 Problems of small scale Industries

7.9 Let Us Sum Up

7.10 Further Reading

7.11 Answers To Check Your Progress

7.12 Model Questions

7.1 LEARNING OBJECTIVES

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

- define a small scale enterprise and its salient characteristics
- establish a relationship between small and large scale units
- state the objectives and scope of small enterprise
- describe the role of small-scale enterprise to play in the economic development of a country
- establish the major problems faced by the small scale enterprises.

7.2 INTRODUCTION

In this unit we are going to discuss about small enterprises. Small scale enterprises have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. Today, India operates the largest and oldest programmes for the development of small-scale enterprises in any developing country. As a matter of fact, small sector has now emerged as a dynamic and vibrant sector for the Indian economy in the recent years.

7.3 DEFINITION OF SMALL ENTERPRISE

The business units are of different sizes depending on the nature of industry. For example, iron and steel industries tend to be of large size. Similarly some public utilities like the railways and electricity supply concerns require a large size. On the other hand, industries requiring individual skill of the workers, viz. handicraft, artistic goods etc. tend to be of small size. In between, there are some other industries for which medium sized units are more suitable.

In order to measure the size of the business unit, a suitable standard or standards should be used. In this section, we will discuss the various standards which are commonly used to measure the size of a business unit. These standards may not be uniform to all categories of industries. The standards may be classified as under:

Now we will discuss the different standards to measure the size of business unit

7.4 CHARACTERISTICS OF SMALL ENTERPRISE

1. **One Man Show :** A small scale unit is generally a one-man show. Even the small units which run by a partnership firm or company, the activities are mainly carried out by one of the partners or directors. In practice, the others are simple as sleeping partners or directors who mainly assist in providing funds.
2. **Managed in Personalized Fashion :** In case of small-scale industries, the owner himself/ herself is a manager also. Thus, these units are managed in a personalized fashion. The owner has first hand participation in all matters of business decision taking.
3. **Gestation Period :** Compared to large units, a small-scale industrial unit has lesser gestation period, i.e. the period after which the return on investment starts.
4. **Scope of Operation :** The scope of operation of small industrial undertakings is generally localized catering to the local and regional demands.

5. **Availability of Resources :** Small units use indigenous resources and, therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
6. **Labour Intensified :** Small industries are fairly labour intensive with comparatively smaller capital investments than the larger units. Let the facts speak. According to P.C. Mahalnobis, small scale units require very little capital.
7. **Balanced Regional Development :** Using local resources, small units are decentralized and dispersed to rural areas. Thus, the development of small-scale industries in rural areas promotes more balanced regional development, on the one hand and prevents the influx of job seekers from rural areas to cities and urbanizing centres, on the other.
8. **Adaptable to Changes :** Last but not the least, compared to large scale units, small-scale units are more susceptible to change and highly reactive and receptive to socio-economic conditions. They are more flexible to adapt changes like introduction of new products, new method of production, new materials and new markets, new forms of organization etc.

7.5 RELATIONSHIP BETWEEN SMALL AND LARGE SCALE UNITS

The relationship between the small and the large industrial units can be seen in various respects. Yet, the following are the important ones :

1. **Competitive :** Small-scale industry cannot compete with large industry in certain circumstances and in selected products. Examples of such industries are bricks and tiles, fresh baked good etc.
2. **Supplementary :** Small industry can fill in the gaps between large scale production and standard outputs caused by large scale units. This is due to the supplementary role of small units.

3. **Complementary :** Apart from the supplementary relationship, small industry has been a complementary to its large counterparts. In the real world, many small units produce intermediate products for large units. Such subcontracting relationship between the small and large was particularly marked in the economic history of today's industrially developed Japan. As industrialization proceeds, small firms seem naturally to shift from activities that compete with large firms to complementary ones. Under complementary relationship, small units function under the tutelage of the large units and enjoy the advantage of protected market for their products. Then, the flourishment of such small units remains beyond doubt.
4. **Initiative :** Attracted by the high profits of large units, small units can also take initiative to produce the particular product. If it succeeds, the small unit grows to a large one over a period of time. In our country, the electronic industry seems to be following to this initiative pattern of development.
5. **Servicing :** Small industries do also install servicing and repairing shops for the products of the large units. In the case of India, such small servicing units can be seen proliferating in respect of large industries like refrigerators, radio and television sets, watches and clocks, cycles and motor vehicles.

7.6 OBJECTIVES AND SCOPE OF SMALL ENTERPRISE

OBJECTIVES :

The various objectives of developing small scale industries are, in fact, implied in one way or other, in its rationale itself, just discussed in the preceding section. Nonetheless, an attempt has been made in this section to list the main objectives of developing small enterprises in India in a more orderly manner. These are :

1. To generate immediate and large scale employment opportunities with relatively low investment.

2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too in the mainstream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the level of living of people in the country.

SCOPE :

The scope for small-scale industries is quite vast covering a wide range of activities requiring less sophisticated technology. In consonance with its distinct charac¬teristics, the activities which are found particularly amenable to and can be successfully operated in small-scale are too many to mention. Among them, the important ones are:

Manufacturing activities

Servicing/repairing activities

Retailing activities

Financial activities

Whole-sale business

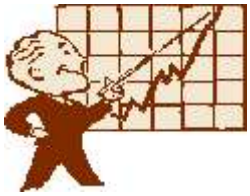
Construction activities and,

Infrastructural activities like transportation, communication and other public utilities.

In order to strengthen the scope for small industry development in the country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country. The reservation policy was initiated in 1967 when only 47 items were reserved for exclusive manufacture in the small-scale sector. By 1983, the reserve list came to include 836 items for exclusive production in the small-scale sector. Recently, the Abid Hussain Committee

dereserved 12 items and, thus, there are still 824 items reserved for exclusive production in small sector. The main objective of the reservation policy has been to insulate the small sector from unequal competition of large industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms. The important industries reserved for exclusive development in the small sector are:

Food and Allied Industries; Textile Products; Leather and Leather Products, including Footwears; Rubber Products; Plastic Products; Chemical and Chemical Products; Natural Essential Oils; Organic Chemicals and Chemical Products; Glass and Ceramics; Mechanical Engineering Transport Equipment; Metal Cabinets of all Types; Pressure Stove; Electrical Appliances; Electronic Equipments and Components; Boats and Truck Body Buildings; Auto Parts Components; Ancillary and Garrage Equipment; Bicycle Parts, Trycycles and Perambulators; Miscellaneous Transport Equipments; Mathematical and Survey Instru¬ments; Sports Goods; Stationery items, Clocks and watches, etc.



CHECK YOUR PROGRESS

Q1. Write any two characteristics of small scale enterprises.

.....

.....

.....

.....

Q2. Mention two objectives of small scale enterprise.

.....

.....

.....

.....

7.7 ROLE OF SMALL ENTERPRISES IN ECONOMIC DEVELOPMENT

By now, you have been exposed to the legal framework of small-scale enterprises in the preceding sections. New, we intend in this section to make you appreciate the important role played by small scale enterprises in economic development of India. How do you define economic development? In this connection, the following points may be noted:

1. The commonest definition of economic development could be an increase in real per capita income of a person resulting in improvement in the levels of living.
2. The development of small-scale industries contributes to the increase in per capita income, i.e., economic development in various ways.
3. It generates immediate employment opportunities with relatively low capital/ investment, and promotes more equitable distribution of national income.
4. It makes effective mobilization of untapped the capital and human skills and leads to dispersal of the manufacturing activities all over the country.
5. It also leads to the growth of villages, small towns and regions economically lagging behind. This promotes a balanced regional development.

   Any discussion on the role of small enterprises in the economic development of a country should take into account the following relevant parameters.

   a) Increase in the number.
   b) Production,
   c) Employment
   d) Exports.

7.8 PROBLEMS OF SMALL SCALE INDUSTRIES

This section intends to discuss the problems of small scale industries which are as follows:

1. **Problem of Raw Material:** A major problem that the small-scale industries have to contend with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials, and (iii) a high cost. But, ever since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem with more severity mainly due to the difficulty in obtaining this raw material either on account of the foreign exchange crisis or for some other reasons.

2. **Problem of Finance:** An important problem faced by small-scale industries in the country is that of finance. The problem of finance in the small-sector is mainly due to two reasons. Firstly, it is partly due to scarcity of capital in the country as a whole. Secondly, it is partly due to weak creditworthiness of small units in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and such credits are, thus, exploitative in character.

3. **Problem of Marketing:** One of the main problems faced by the small-scale units is in the field of marketing. The small units often do not possess any marketing organisation. In consequence, their products compare unfavourably with the quality of the products of the large-scale industries.

4. **Problem of Under-Utilization of Capacity:** There are studies that clearly bring out the gross under-utilization of installed capacities in small-scale industries. On the basis of All India Census of Small-

Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 50 to 40 per cent of capacity was not utilized in small-scale units.

5. **Other Problems:** The small-scale industries have been constrained by a number of other problems also. According to the Seventh Five Year Plan, these include technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power etc. and deficient managerial and technical skills.



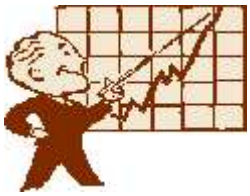
ACTIVITY

Discuss with examples if the small scale industries in Assam have become a significant contributor to the economic development in the state.

.....

.....

.....



CHECK YOUR PROGRESS

Q3: State True/ False :

a) Small and large scale enterprises are the two legs of industrialization process.(T/F)

b) A small scale industry is one which has fixed capital investment in its plant and machinery upto Rs.6 crores. (T/F)

c) The reservation policy in respect of small scale industry was initiated by the Govt. of India in the year 1957. (T/F)

d) The Abid Hussain Committee deserved 12 items reserved for exclusive production in small sector. (T/F)



7.9 LET US SUM UP

- Small scale enterprises have been given an important place in the frame work of Indian planning.
- As per the present definition a small scale industry is one which has fixed capital investment in its plant and machinery upto Rs. 3 crores.
- The scope of operation of small scale industrial undertaking is generally localized catering to the local and regional demands.
- The growth of small scale industries plays a pivotal role in the economic development of a country in various ways.
- It generates immediate employment opportunities with relatively low capital/ investment which thereby promotes a balanced regional development.
- The disadvantages like problem of raw material, problem of finance, problem of marketing, problem of under utilization of capacity has given rise to various problems with which the small-scale industries have to contend.



7.10 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition

4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



7.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: Two characteristic of small scale enterprise are

- One Man Show: - The activities of a small scale unit are generally are mainly carried out by one of the partners or directors.
- Managed in Personalized Fashion: - In case of small-scale industries, the owner himself/ herself is a manager also. Thus, these units are managed in a personalized fashion.

Ans to QNo. 2: Two objectives of small scale enterprise are

- To generate immediate and large scale employment opportunities with relatively low investment.
- To eradicate unemployment problem from the country.

Ans to QNo. 3: (a) True (b)False (c) False (d) True



7.12 MODEL QUESTIONS

1. Discuss the characteristics of small enterprise.
2. Discuss the objectives and scope of small enterprise.
3. Explain the role of small enterprise in Economic development.
4. What are the problems associated with small scale industries?

UNIT 8: OWNERSHIP STRUCTURES

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Concept of Proprietorship

8.4 Concept of Partnership

8.5 Concept of Company

- 8.5.1 Distinction between a Private Company and a Public Company
- 8.5.2 Advantages of a Company
- 8.5.3 Disadvantages of a Company

8.6 Concept of cooperative

8.7 Selection of an appropriate form of Ownership Structure

8.8 Ownership Pattern in Small Scale Industries in India

8.9 Growth Strategies in small business

- 8.9.1 Objectives of Growth
- 8.9.2 Stages of Growth

8.10 Types of Growth Strategies

- 8.10.1 Concept of Expansion
- 8.10.2 Concept of Diversification
- 8.10.3 Concept of Joint Venture
- 8.10.4 Concept of Mergers

8.11 Let Us Sum Up

8.12 Further Reading

8.13 Answers To Check Your Progress

8.14 Model Questions

8.1 LEARNING OBJECTIVES

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

- discuss the different forms of ownership

- know the concept of proprietorship, its features, advantages and disadvantages
- describe the meaning of company and co-operatives, its features, advantages and disadvantages
- outline the difference between Private Company and a Public Company
- discuss the Ownership Pattern in Small Scale Industries in India
- explain the objectives and stages of growth and types of growth strategies.

8.2 INTRODUCTION

In this unit we are going to discuss the concept of Proprietorship, its features, advantages and disadvantages, the concept of Partnership, its features, advantages and disadvantages. At the end of this unit, you will be able to know the concept of company, cooperative, Selection of an appropriate form of Ownership Structure and the types of Growth Strategies.

8.3 CONCEPT OF PROPRIETORSHIP

Proprietorship is also known as a sole proprietorship or sole trader, or simply is a type of business entity which is owned and run by one individual and where there is no legal distinction between the owner and the business.

A sole proprietor may do business with a trade name other than his or her legal name. This also allows the proprietor to open a business account with banking institutions.

Features of Proprietorship

The main features of proprietorship form of business owners can be listed as follows:

1. **One Man Ownership:** In proprietorship, only one man is the owner of the enterprise.
2. **No Separate Business Entity:** No distinction is made between the business concern and the proprietor. Both are one and the

same.

3. **No Separation between Ownership and Management:** In proprietorship, management rests with the proprietor himself/ herself. The proprietor is a manager also.
4. **Unlimited Liability:** Unlimited liability means that in case the enterprise incurs losses, the private property of the proprietor can also be utilized for meeting the business obligations to outside parties.
5. **All Profits or Losses to the Proprietor:** Being the solo owner of the enterprise, the proprietor enjoys all the profits earned and bears the full burnt of all losses incurred by the enterprise.
6. **Fewer Formalities:** A proprietorship business can be started without completing much legal formalities.

Advantages of Proprietorship

The various advantages proprietorship offers are as follows:

1. **Simple Form of Organization:** Proprietorship is the simplest form of organization. The entrepreneur can start his/ her enterprise after obtaining licence and permits.
2. **Owner's Freedom to Take Decision:** The owner, i.e. the proprietor is free to make all decisions and ***reap*** all the fruits of his labour. There is no other person who can interfere or weigh him down.
3. **High Secrecy:** Secrecy is another major advantage offered by proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only.
4. **Tax Advantage:** As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages.
5. **Easy Dissolution:** In proprietorship business, the entrepreneur is all in all. As there are no co-owners or partners, therefore, there is no scope for the difference of opinion in case the proprietor/ entrepreneur wants to dissolve the business.



***reap* —**

collect or derive

Disadvantages of Proprietorship

Proprietorship form of ownership suffers from some disadvantages also. The important ones are:

1. **Limited Resources:** A proprietor has limited resources at his/ her command. The proprietor mainly relies on his/ her funds and savings and, to a limited extent, borrowings from relatives and friends.
2. **Limited Ability:** Proprietorship is characterized as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc.
3. **Unlimited Liability:** Proprietorship is characterized by unlimited liability also. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations.
4. **Limited Life of Enterprise Form:** The life of a proprietary enterprise depends solely upon the life of the proprietor. When he dies or becomes insolvent or insane or permanently incapacitated, there is every likelihood of the closure of the enterprise.

8.4 CONCEPT OF PARTNERSHIP

A partnership is a type of business entity in which partners (owners) share with each other the profits or losses of the business.

Features of Partnership

Based on the above discussion, we can now list the main features of the partnership form of business ownership/organisation in a more orderly manner as shown below:

1. **More Persons:** As against proprietorship, there should be at least two persons subject to a maximum of ten persons for banking business and twenty for non-banking business to form a partnership firm.
2. **Profit and Loss Sharing:** There is an agreement among the partners to share the profits earned and losses incurred in partnership business.

3. **Contractual Relationship:** Partnership is formed by an agreement oral or written, among the partners.
4. **Existence of Lawful Business:** Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership.
5. **Utmost Good Faith and Honesty:** A partnership business solely rests on utmost good faith and trust among the partners.
6. **Unlimited Liability:** Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners' private assets will also be used for the purpose.
7. **Restrictions on Transfer of Share:** No partner can transfer his share to any outside person without seeking the consent of all other partners.
8. **Principal-Agent Relationship:** The partnership firm may be carried on by all partners or any of them acting for all. While dealing with the firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners.

Advantages of Partnership

As an ownership form of business, partnership offers the following advantages:

1. **Easy Formation:** Partnership is a contractual agreement between the partners to run an enterprise. Hence, it is relatively ease to form.
2. **More Capital Available:** Sole proprietorship suffers from the limitation of limited funds. Partnership overcomes this problem, to a great extent, because now there is more than one person who provides funds to the enterprise.
3. **Combined Talent, Judgement and Skill:** As there are more than one owner in partnership, all the partners are involved in decision

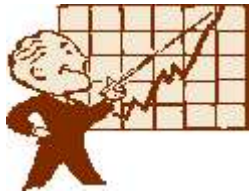
making. Usually, partners are pooled from different specialized areas to complement each other

4. **Diffusion of Risk:** The entire losses are borne by the sole proprietor only but in case of partnership, the losses of the firm are shared by all the partners as per their agreed profit-sharing ratios.
5. **Flexibility:** Like proprietorship, the partnership business is also flexible. The partners can easily appreciate and quickly react to the changing conditions.
6. **Tax Advantage:** Taxation rates applicable to partnership are lower than proprietorship and company forms of business ownership.

Disadvantages of Partnership

In spite of the above advantages, there are certain drawbacks associated with the partner¬ship form of business organisation. Descriptions of these drawbacks/disadvantages are as follows:

1. **Unlimited Liability:** In partnership firm, the liability of partners is unlimited. Just as in proprietorship, the partners' personal assets may be at risk if the business cannot pay its debts.
2. **Divided Authority:** Each partner can discharge his responsibilities in his concerned individual area. But, in case of areas like policy formulation for the whole enterprise, there are chances for conflicts among the partners.



CHECK YOUR PROGRESS

Q1: Write True or False

a. Proprietorship is also known as “Multiple Traders”. (True/False)

b. Partnership is formed by an agreement among the partners. (True/False)

c. A proprietorship business can be started without completing much legal formalities. (True/False)

d. Taxation rates applicable to partnership are higher than proprietorship.(True/False)

Q2: What are the limitations of proprietorship and partnership?

.....

.....

8.5 CONCEPT OF COMPANY

A company is an artificial person being created by the law that has an existence separate and apart from its owners. In other words, a company is an artificial person created by law, with a distinctive name, a common seal and perpetual succession of members. It can ***sue*** and be sued in its own name. Let us consider a few more definitions of company.



***Sue* —**

Institute legal proceedings against.

The Indian Companies Act, 1956 defines a joint stock company as a company limited by shares having a permanent paid up or nominal share capital of fixed amount divided into shares also of fixed amount, held and transferable as stock and formed on the principles of having in its members only the holders of those shares or stocks and no other persons.

Features of Company

Based on the above definitions, given below are the main features of company form of ownership:

1. **Artificial Legal Person:** A company is an artificial person created by law. Though it has no body, no conscience, still it exists as a person.
2. **Separate Legal Entity:** A company has a distinct entity separate from its members or shareholders. Therefore, a shareholder of the company can enter into contract with the company.
3. **Common Seal:** Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is ***engraved***.
4. **Perpetual Existence:** Unlike partnership, the existence of a company is not affected by the death, lunacy, insolvency or retirement of its members or directors. This is because the company enjoys a separate legal existence from that of its members.



***Engraved* —**

Cut or impressed into a surface.

***Lunacy* —**

Foolish or senseless behavior.

5. **Limited Liability:** The liability of the members of a company is normally limited to the amount of shares held or guarantee given by them.
6. **Transferability of Shares:** The member of a public limited company can sell his shares to others without the consent of other shareholders.
7. **Separation of Ownership from Management:** The shareholders, i.e., owner being scattered all over country give right to the directors to manage the affairs of the company. The directors are the representatives of the shareholders. Thus, ownership is separated from management.
8. **Number of Members:** In case of a public limited company, the minimum number is seven and there is no maximum limit. But, for a private limited company, the minimum number of members is two and the maximum number is fifty.

8.5.1 Distinction between a private and a public company

Basis of Difference	Private Company	Public Company
1. Members	The minimum number of two and maximum is fifty.	The minimum number of members is seven and there is no maximum limit.
2. Directors	Minimum number of directors needed is two.	Minimum number of directors needed is three.
3. Prospectus	Filing of prospectus or a statement 'in lieu of prospects' with the Registrar of Companies is not necessary before company can allot shares.	Filing of Prospectus or a statement 'in lieu of prospects' with the Registrar of Companies is necessary.
4. Documents	Two members need to sign the memorandum and articles of association.	Seven members need to sign the documents.
5. Allotment of Shares	It may commence allotment of shares before minimum subscription has been applied for.	It cannot commence allotment of shares unless minimum subscription has been applied for.

Basis of Difference	Private Company	Public Company
6. Commencement of Business	It can commence business soon after incorporation.	It cannot commence business without obtaining a certificate to that effect.
7. Transfer of Shares	Transfer of shares is restricted by the articles.	Shares are freely transferable.
8. Filing of Balance Sheet	It need not file its Balance Sheet with the Registrar.	It must file its Balance Sheet with the Registrar.
9. Statutory Meeting	It need not hold the statutory meeting nor is it necessary for it to forward the statutory report to the Registrar.	It must hold a statutory meeting and forward the same to the Regis¬trar.
10. Directors	No provisions of the Companies Act regarding appointment of di¬rectors, their consent to act or to pay for qualification shares apply to them.	These provisions apply to at least three directors of a public company.

8.5.2 Advantages of a Company

The important among the advantages of company form of ownership are as follows:

1. **Limited Liability:** The liability of shareholders, unless and otherwise stated, is limited to the face value of shares held by them or guarantee given by them.
2. **Perpetual Existence:** Death, insanity, insolvency of shareholders or directors do not affect the company's existence. A company has a separate legal entity with perpetual succession.
3. **Professional Management:** In company business, the

management is in the hands of the directors who are elected by the shareholders and are well experienced persons. In order to manage the day-to-day activities, salaried professional managers are appointed. Thus, the company business offers professional management.

4. **Expansion Potential:** As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally use their reserves for expansion purposes.
5. **Transferability of Shares:** If the shareholders of a company are displeased with the progress of the business, they can sell their shares anytime. During all this change of ownership, the business continues to operate.
6. **Diffusion of Risk:** As the membership is very large, the whole business risk is divided among the several members of the company. This is an advantage particularly for small investors.

8.5.3 Disadvantages of company

In spite of its several advantages, the company form of ownership has also some disadvantages. The important disadvantages are:

1. **Lack of Secrecy:** As per the legal provisions, a company has to make various statements available to the Registrar of the Companies and Financial Institutions and as such the secrecy of business comes down. It is further reduced when the company provides its annual report to the shareholders as the competitors also do find out the details of all financial data.
2. **Legal Restrictions:** Compared to proprietorship and partnership, a company has to comply with more legal requirements. It claims considerable time and effort.
3. **Management Mischiefs:** Sometimes the managers and

directors misuse the company resources for their personal benefits. This brings losses to the company and company is closed.

4. **Lack of Personal Interest:** Unlike proprietorship and partnership, the day-to-day affairs of a company are looked after by salaried managers. Since they are the employees not the owners, they hardly have any personal interest and commitment in the company. This may result in inefficiency and, in turn, losses.

8.6 CONCEPT OF CO-OPERATIVE

Co-operative is yet another form of business ownership. The co-operative form of organization is based on the philosophy of self-help and mutual help. It differs from the other three forms of business ownership. The basic line of difference is that a co-operative organization aims at rendering services in place of earning profits.

The Indian Cooperative Societies Act, 1912, Section 4 has defined co-operative as "a society which has its objective the promotion of economic interests of its members in accordance with co-operative principles".

Features of Co-operatives

Based on the above definitions, we can now list out the main features of the co-operative form of ownership or organisation as follows:

1. **Voluntary Organisation:** Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organisation at their own will without any ***coercion*** or intimidation.
2. **Democratic Management:** The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote' irrespective of the number of shares held by any member. Democracy is, thus, the keynote of the management of a co-operative society.



Cocercion —

The act of compelling by force of authority.

3. **Service Motive:** One basic feature which distinguishes a cooperative organisation from other three forms of business ownership is that the primary objective of a co-operative society is to render services to its members rather than to earn profits.
4. **Capital and Return Thereon:** The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher.
5. **Government Control:** In India, the activities of co-operative societies are regulated by the Co-operative Societies Act and the State Co-operative Societies Acts. Co-operative societies are required to submit their annual report and accounts to the Registrar of Co¬operatives.
6. **Distribution of Surplus:** After giving dividends to the members, the surplus of profits, if any, is distributed among the members in the proportion of business they have done with the co-operative society.

Advantages of Co-operative

You have learnt the main features of the co-operative form of business organisation. In view of these features, this form of ownership offers the following advantages:

1. **Easy Formation:** Compared to the formation of a company, formation of a co-operative society is easier. Any ten adult persons can voluntarily form themselves into an association and get it registered with the Registrar of Co-operatives.
2. **Limited Liability:** Like the company form of ownership, the liability of members is limited to the extent of their capital in the cooperative societies.
3. **Perpetual Existence:** A co-operative society has a separate legal entity. Hence, the death, insolvency, retirement, lunacy, etc., of the members do not affect the perpetual existence of a co-operative society.
4. **Social Service:** The basic philosophy of co-operatives is self-help

and mutual help. Thus, co-operatives foster fellow feeling among their members and inculcate moral values in them for a better living.

5. **Open Membership:** The membership of co-operative societies is open to all irrespective of caste, colour, ***creed*** and economic status. There is no limit on maximum members.
6. **Tax Advantage:** Unlike other three forms of business ownership, a co-operative society is exempted from income-tax and surcharge on its earnings up to a certain limit. Besides, it is also exempted from stamp duty and registration fee.
7. **State Assistance:** Government has adopted co-operatives as an effective instrument of socio-economic change. Hence, the Government offers a number of grants, loans and financial assistance to the co-operative societies to make their functioning more effective.
8. **Democratic Management:** The management of a co-operative society is entrusted to the managing committee duly elected by the members on the basis of 'one-member one-vote' irrespective of the number of shares held by them.



***Creed* —**

Any system of principles or beliefs.

Disadvantages of Co-operative

The important disadvantages are:

1. **Lack of Secrecy:** A co-operative society has to submit its annual reports and accounts with the Registrar of Co-operative Societies. Hence, it becomes quite difficult for it to maintain secrecy of its business affairs.
2. **Lack of Business Acumen:** The member of co-operative societies generally lack business acumen. When such members become the members of the Board of Directors, the affairs of the society are expectedly not conducted efficiently.
3. **Lack of Interest:** The paid office-bearers of co-operative societies do not take interest in the functioning of the societies due to the absence of profit motive.
4. **Corruption:** In a way, lack of profit motive breeds fraud and



***Acumen* —**

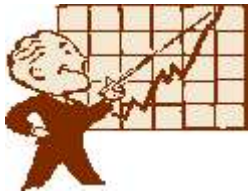
A tapering point.

corruption in management. This is reflected in the misappropriation of funds by the officers for their personal gains.

5. **Lack of Mutual Interest:** The success of a co-operative society depends upon its member's utmost trust to each other. However, all members are not found ***imbued*** with a spirit of co-operation.

Imbued —

Spread or diffuse through.



CHECK YOUR PROGRESS

Q3: Fill in the blanks:

a. Company is an artificial person created by .....

b. In private limited company the minimum number of members is .....and the maximum number is .....

c. Cooperative organization is a .....association of persons.

d. The annual reports and the accounts of the cooperative societies are submitted to the .....of cooperatives.

Q4: Define Cooperative societies according to Indian Cooperative Societies Act, 1912.

.....

.....

.....

.....

8.7 SELECTION OF APPROPRIATE FORM OF OWNERSHIP STRUCTURE

The best form of ownership is one which helps an entrepreneur attain the business objectives decided upon by him/her. While selecting the best form of ownership structure, the entrepreneur should keep the following considerations in his/ her mind:

1. **Nature of Business:** The selection of an appropriate form of business ownership depends upon, to a great extent, the nature of

the proposed business itself. For example, the businesses that require personal attention and skill for their success are usually organized as proprietary concerns. Business requiring pooling of funds and skills are generally run as partnership firms. For business involved in large scale production, the company form of business ownership is preferred.

2. **Area of Operations:** The area of operation has also an important bearing on the selection of the form of ownership. If the operation of a business is confined to an area or locality only, the appropriate form of ownership will be proprietorship. On the contrary, in case the area of operation is widespread catering to national and international markets, the suitable form of business ownership may be company.
3. **Degree of Control:** In case direct control over business operations is required, the suitable form of ownership may be proprietorship or partnership. In case direct control over business operations is not needed, the best form of business ownership will be a company.
4. **Capital Requirements:** The capital required in the business also determines the selection of business ownership. If a business requires a small amount of capital, the best form of ownership may be either proprietorship or partnership. In case of huge capital requirements, the company form of ownership will be the best.
5. **Extent of Risk and Liability:** Business involves risk. If an entrepreneur is ready and capable of bearing the risks involved in business, he can organize his business on proprietorship or partnership. But if the entrepreneur is hesitant to bear the risk involved in business, he/she can go for a company where individual risk is limited.
6. **Duration of Business:** If business is proposed for a definite duration and on ad hoc basis, either proprietorship or partnership form is a better form of business ownership. The reason is that they are easy to form and dissolve. In case the business is to be

run on a permanent basis, it can be organized as company or a co-operative because they enjoy perpetual succession.

7. **Government Regulations:** If an entrepreneur does not like much government involvement in his/her business, he can select proprietorship or partnership as the form of business ownership instead of a company or co-operative where the government rules and regulations apply more.

8.8 OWNERSHIP PATTERN IN SMALL SCALE INDUSTRIES IN INDIA

This section intends to discuss the problems of small scale industries which are as follows:

Industry	Sole Proprietorship	Partnership			Co-operatives	Company	Total
		Family	Family & Others	Non-Family			
1. Flour Mills	36.4	49.1*	-	14.5	-	-	100.0
2. Printing Presses	52.0	28.0	-	20.0	-	-	100.0
3. Leather Footwear	62.0	32.0	2.0	4.0	-	-	100.0
4. Light Engineering	48.0	36.0	4.0	12.0		-	100.0

Industry	Sole Proprietorship	Partnership			Co-operatives	Company	Total
		Family	Family & Others	Non-Family			
5. Electrical Goods	25.0	65.0	4.0	6.0	-	-	100.0
6. Wooden Furniture and Fixtures	60.0	30.0	1.0	8.0	1.0	-	100.0
7. Hosiery	63.0	25.0	-	11.0	1.0	-	100.0
8. General Engineering	58.0	18.0	-	20.0	1.0	3.0	100.0
9. Soap	27.0	53.0	-	20.0	-	-	100.0
10. Electroplating	40.0	39.0	8.0	13.0	-	-	100.0
11. Foundaries	43.0	43.0	-	14.0	-	-	100.0
12. Oil Mills	15.0	70.0	-	12.0	2.0	1.0	100.0
13. Drugs	60.0	35.0	-	3.0	-	2.0	100.0
14. Utensils	55.0	38.0	-	6.0	1.0	-	100.0
Total	**46.03**	**40.07**	**1.36**	**11.68**	**0.43**	**0.43**	**100.0**

After this, we find the following pattern of business ownership used in small-scale enterprises in India.

Ownership Pattern	Percentage
Sole Proprietorship	87.46
Partnership	11.68
Company	0.86
Total	**100.00**

It is seen from above that the ownership pattern in small-scale enterprises in India is highly lopsided skewed in favour of proprietorship.

Individual research studies also report similar ***lopsided*** ownership



Lopsided —

Having one side lower, smaller or lighter than the other.

structure skewed in favour of proprietorship.

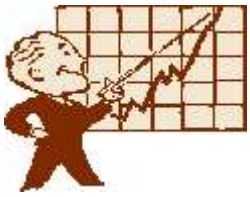


ACTIVITY

"Partnership form of business organization emerged essentially because of the limitations and failures of proprietorship"? Discuss.

.....

.....



CHECK YOUR PROGRESS

Q5: Fill in the blanks:

1. In proprietorship one man is the..... of the enterprise.
2. The members of co-operative society generally lack.....
3. .....Organization is a voluntary association of persons.
4. Easy formation is one of the ..... of proprietorship.

8.9 GROWTH STRATEGIES IN SMALL BUSINESS

8.9.1 Objectives of Growth

In order to survive in the change and changing business environment, a business enterprise needs to be strong enough to cope with the changes and challenges before it. The same underlines the need for the growth of business enterprises. Strictly speaking, growth is a natural phenomenon and a continuous process in the business.

1. **Growth of the business:** In simple terms, growth implies strength and stamina. Growth enables a business enterprise to face adversities, challenges, competition, hardships, etc. Thus, Growth ensures the survival of the business even in adverse circumstances and hard times.
2. **Economics of sale:** Increase in sales turnover and output, inter alia, have been the major symptoms of a growing business. These result in economies in production and marketing, etc. These economies, in turn, reduce production cost per unit and increase the profits earned per unit. These advantages are popularly known as economies of scale.
3. **Need of improved technology:** The need for appropriate technology also changes with the changes in business environment. The use of modern technology involves huge investments. Since the big size of business facilitates the use of technology, business enterprises feel the need for growth.
4. **Benefits:** A big business enjoys more benefits in several matters than a small one. Big business enterprises are in a better position to complete the cumbersome procedure, make good rapport with the concerned agencies and avail of the facilities provided for setting up business enterprises particularly in the backward areas so notified for this purpose. These benefits motivate a small enterprise to grow big. The fact remains that a small enterprise experiences a disadvantageous position in these matters.
5. **Motivation:** Last but by no means the least, the entrepreneurs' desire to do something specific in business also leads to growth in business. The crave for social and economic recognition motivates one to build the so-called business empires. Tata, Birla, Dalmia, etc. are the popular examples of such business empires in India. In nutshell, the personal factors of the entrepreneurs also lead to growth of busi-

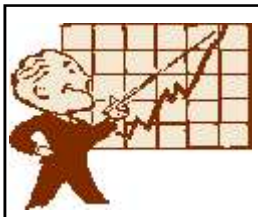
ness.

8.9.2 Stages of growth

Business enterprises also pass through different stages in their lives. This is called Enterprise Life Cycle. Enterprise life cycle is broadly classified into five stages. Start Up, Growth, Expansion, Maturity and Decline. Each stage has distinct characteristics. A brief description of each of the five stages is given here:

1. **Start Up Stage:** This refers to the birth or emergence of a business enterprise in the economy. The production takes place in limited scale. The scale is also limited to a small area. The enterprise is not faced with any type of competition during this stage. Profits may not be earned during the start up stage.
2. **Growth Stage:** Start up stage is followed by the growth stage. During this stage, the enterprise is known to and accepted by the market. Production and sales increase yet supply falls short of demand for the product produced by the enterprise. When profits are increasing. The competitors begin to enter the particular product market. The enterprise at this stage tries to change its strategy from 'buy my product to try my product'.
3. **Expansion Stage:** This is the stage in which business enterprise expands by way of opening its branches and introducing new product lines. Business activities at this stage are diversified to reap the best benefits from the available business opportunities.
4. **Maturity Stage:** During this stage, due to keen competition, sales increases but at a decreasing rate. As a result, profits tend to decline. In such situation, marginal enterprises start leaving the scene/market. Some enterprises adopt methods such as 'trading in' to survive for some more time in the market.

5. **Decline Stage:** This is the final/ last stage of business enterprises. At this stage, the enterprises find it difficult to survive either due to the gradual replacement of enterprise product or due to some new innovations or on account of change in customer behaviour. Sales drop abruptly. Enterprises start incurring losses at an increasing rate. In such situations, enterprises prefer to close their shutters.



CHECK YOUR PROGRESS

Q6: What are the different Stages of Growth of business enterprise?

.....

.....

.....

.....

.....

8.10 TYPES OF GROWTH STRATEGIES

Growth strategy means a well designed scheme meant to expand business operations. In other words, growth strategy means a plan to help the enterprise grow big in course of time. Growth strategies are broadly classified in to two types:

1. **Internal Growth Strategy:** These imply that enterprises grow their own without joining hands with other enterprises. Expansion and diversification has been the popular forms of internal growth strategies.
2. **External Growth Strategy:** What is not internal growth strategy is external growth strategy. In case of external growth strategy, enterprises grow by joining hands with other enterprises. The forms of external growth strategy include joint *ventures, mergers* and *sub-contracting*.

8.10.1 Concept of Expansion

Expansion: Expansion is one of the forms of internal growth of

business. It means enlargement or increase in the same line of activity. Expansion is a natural growth of a business enterprise taking place in course of time. In case of expansion, the enterprise grows on its own without joining hands with any other enterprise. There are three common forms of business expansion. These are:

1. **Expansion through Market Penetration:** It means the enterprise increases the sales by means of making deeper roads into the existing market.

2. **Expansion through Market Development:** It implies exploring new markets for the existing product. In order to increase the sales of an existing product, the enterprise makes searches for new customers.

3. **Expansion through Product Development and/or Modification:** It implies developing or modifying the existing product to meet the requirements of the customers. Introduction of plastic bottles for selling refined oil in addition to its loose sales is an example of product development/ modification.

Advantages: Expansion provides the following benefits:

1. Growth through expansion is natural and gradual.
2. Enterprise grows without making major changes in its organizational structure.
3. Expansion makes possible the effective utilization of existing resources of an enterprise.
4. Gradual growth of enterprise becomes easily manageable by the enterprise.
5. Expansion results in economies of large-scale operations.

Disadvantages: However, expansion is not an unmixed blessing. It has some disadvantages also. These are:

1. Growth being gradual is time consuming.
2. Expansion in the same line of product delimits enterprise growth making an enterprise unable to take advantages from new business opportunities.
3. The use of modern technology is limited due to the limited resources at the disposal of enterprise. It weakens the competitive strength of the enterprise.

8.10.2 Concept of Diversification

Diversification is another form of internal growth of business. As stated earlier, expansion has its own limitations of business growth. Diversification is evolved to overcome the limitations of business growth through expansion. A business cannot grow beyond a certain point by concentrating on the existing product/ market only. In order words, it is not always possible for a business to grow beyond a certain point through market penetration.

The use of diversification as a growth strategy has been continuously on the increase both in the private and public sectors. In the private sectors, Kelvinator India Limited, which was originally a refrigerator manufacturer, diversified its product line into mopeds. Similarly, Larsen and Toubro, an engineering company, diversified into cement. LIC's diversification into mutual funds and SBI's into merchant banking are the examples of diversification adopted by the public sector in India.

Advantages: Diversification offers the following advantages:

1. Diversification helps an enterprise make more effective use of its resources.
2. Diversification also helps minimize the risk involved in a business.
3. Diversification adds to the competitive strength of the business.
4. Diversification also enables an enterprise to tide over the

business fluctuations and, thus, ensures smooth running of the business.

Disadvantages: All is not well with diversification always . It also suffers from certain disadvantages.

1. Diversification involves business reorganization which requires additional resources. Thus, diversification becomes a costly proposition.
2. It becomes difficult, if not impossible, to effectively manage and coordinate the diverse businesses.

Types of Diversification: There is no uniform type of diversification adopted by all enterprises. It varies from enterprise to enterprise. Usually, diversification is of four types:

1. **Horizontal Diversification:** In this type of diversification, the same type of product or market is added to the existing product or service line of the enterprise. The new products or services serve either as inputs or as a customer for the firm's own product.
2. **Vertical Diversification:** In this type of diversification, complementary products or services are added to the existing product or service line of the enterprise. The new products or services serve either as inputs or as a customer for the firm's own product.
3. **Concentric Diversification:** In case of concentric type of diversification, an enterprise enters into the business related to its present one in terms of technology, marketing or both. Nestle, originally a baby food producers, entered into related products like 'Tomato Ketchup' and 'Maggi Noodles'.
4. **Conglomerate Diversification:** This type of diversification is just contrary to concentric diversification. In other words, in this type of growth strategy, an enterprise diversifies into the business which is not related to its existing business either in terms of technology or marketing.

8.10.3 Concept of Joint Venture

Joint Venture is a type of external growth strategy adopted by business firms. In simple terms, joint venture is a restricted or a temporary partnership between two or more firms to undertake jointly to complete a specific venture. The parties who enter into agreement are called co-ventures and this joint venture agreement will come to an end on the completion of the work for which it was formed.

Advantages: The main advantages the joint venture offers are as follows:

1. Joint venture reduces risk involved in business.
2. It helps increase competitive strength of the business.
3. It makes possible the use of advanced technology and know how not available within a firm.
4. Joint venture provides the benefits of scale of economy by reducing production and marketing costs on the one hand and by increasing sales volumes, on the other.

Disadvantages: The main disadvantages the joint venture offers are as follows:

1. In case of lack of proper understanding between the co-ventures, the functioning of the business is adversely affected.
2. Excessive legal restrictions on foreign investments limit joining hands with foreign firms.
3. Sometimes, more equity participation by one or more co-ventures creates conflicts between them.

8.10.4 Concept of Merger

Merger is yet another form of external growth strategy. Merger means combination of two or more existing enterprises into one. In other words, when two or more existing enterprises are combined into one, it is called ‘merger’. Merger may take place in

two ways. First, an enterprise or enterprises may be acquired by another, usually a big one. It is called 'absorption'. Second, when two or more existing enterprises merge into one to form a new enterprise. It is called *'amalgamation'*. Usually, mergers are classified into four types:

1. Horizontal Merger,
2. Vertical Merger,
3. Concentric Merger, and
4. Conglomerate Merger.

Advantages: Merger provides the following advantages:

1. It provides benefits of economies of scale in terms of production and sales.
2. It facilitates better use of resources.
3. It enables sick enterprises to merge into the healthy ones.
4. It also promotes diversification in product line to take advantages of opportunities available in the particular business.

Disadvantages: Merger also suffers from the following drawbacks:

1. Larger scale operations often make co-ordination and control ineffective. This adversely affects business performance as a whole.
2. Sometimes merger leads to monopoly in the particular business. Monopoly is not welcome in the interest of the society.



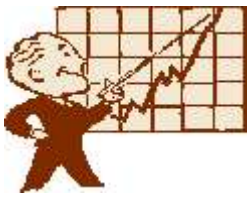
ACTIVITY

"Objectives are necessary for growth of a business enterprise". Discuss

.....

.....

.....



CHECK YOUR PROGRESS

Q7: State True or False:

1. Expansion is one of the stages of Enterprise Life Cycle.(True/False)
2. Joint Venture is one of the strategies of growth. (True/False)
3. Facilitating better use of resources in an advantage of joint venture. (True/False)
4. Diversification is a form of external growth of business. (True/ False)



8.11 LET US SUM UP

In this unit we have discussed on the following concepts:

- There are four forms of business ownership :
  (1) Proprietorship (2) Partnership
  (2) Company and (4) Co-operative
- Partnership enjoys the advantage of pooling resources, easy formation and tax advantage. But, it suffers from limited life, unlimited liability, and non transferability of interest to others.
- The Company form of ownership offers the advantages of limited liability, transferability of interest and perpetual succession. Its main disadvantages are complex procedure involved in its formation.
- The Co-operative form of ownership is characterized by the advantages and disadvantages similar to a company.
- Growth strategy means well-planned scheme to expand business operations.
- Depending upon the given situations of a business enterprise, the commonly adopted growth strategies are expansion, diversification, joint venture and merger. Each of these strategies has its advantages and disadvantages and suits different situations.



8.12 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



8.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: ai) False b) True c) True d) False

Ans to Q No.2: Limitations of Proprietorship are :

a. Limited Resources
b. Limited Ability
c. Unlimited Liability
d. Limited Life of Enterprise Form Limitations of partnership are:

a. Divided Authority b. Unlimited Liability

Ans to Q No.3: a. law b. two and fifty c. voluntary d. registrar

Ans to Q No.4: (1) True (2) False

Ans to Q No.5: (1) Owner (2) Business Acumen (3) Co-operative.

Ans to Q No.6: There are five stages of growth in business enterprise:

a. Start Up Stage b. Growth Stage

c. Expansion Stage d. Decline Stage

e. Maturity Stage

Ans to Q No.7: 1. True 2. True 3. False 4. False



8.14 MODEL QUESTIONS

1. What are the different ownership forms available to entrepreneurs? Discuss each form in brief.
2. Briefly describe the advantages and disadvantages of different forms of business organization?
3. Discuss the special features of a co-operative form of organization. How it is different from a company.
4. Discuss the ownership pattern in small scale enterprises in India.
5. Explain the need for growth of a business. What is meant by growth strategy?
6. Discuss the stages of business growth.
7. Discuss the various types of growth strategies adopted by business firms.
8. Write short notes on the following :

   (i) Expansion. (ii) Diversification

   (iii) Joint Venture (iv) Merger.

UNIT 9: INDUSTRIAL SICKNESS

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Meaning of Industrial Sickness

9.4 Warning Signals of Industrial Sickness

9.5 Causes of Industrial Sickness

- 9.5.1 External of Industrial Sickness
- 9.5.2 Internal of Industrial Sickness
- 9.5.3 Factors responsible for sickness of small business

9.6 Consequences of Industrial Sickness

9.7 Corrective Measures

9.8 Let Us Sum Up

9.9 Further Reading

9.10 Answers To Check Your Progress

9.11 Model Questions

9.1 LEARNING OBJECTIVES

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

- define industrial sickness
- discuss the reasons for industrial sickness
- explain the consequences of Industrial sickness
- suggest measures for solving the problem of sickness.

9.2 INTRODUCTION

In this unit we are going to discuss about the industrial sickness. Industrial sickness is an important problem related with development of a country. The problem of industrial sickness does exist equally in both the developing and the developed countries. But, it is essential to solve the problem that exists in a developing country like India for achieving

higher growth rate and maintaining adequate level of employment.

The incidence of industrial sickness has been growing in India since the announcement of economic reforms in the last decade. It is not that only some of the traditional industries like cotton textiles jute and sugar have been afflicted with sickness but even some other important industries such as engineering, chemicals, rubber, cement, electrical and paper have been affected by industrial sickness.

9.3 MEANING OF INDUSTRIAL SICKNESS

In 1985 the Sick Industrial Companies (Special Provision) Act, 1985 was enacted. This Act has offered a definition of sickness. According, to this Act, "Sick Industrial Company" indicates an industrial company (registered for not less than seven years)which is showing accumulated losses equal to or exceeding its net worth as the end of any financial year, and has suffered cash losses also during that financial year and the immediately preceding year. Here, the "Cash loss" indicates computed loss without making provision for depreciation and net worth means the total amount of capital and free reserves.

Moreover, a company will be known as "***incipiently sick***" which has already eroded 50% or even more of its peak net worth during any of the preceding five financial years.

9.4 WARNING SIGNALS OF INDUSTRIAL SICKNESS

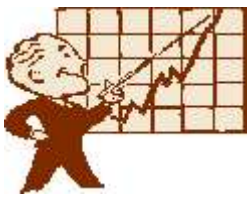
Given below are some of the warnings of Industrial sickness:

1. **Shortage of Liquid funds to meet Short-term financial obligations of Creditors as also to meet statutory obligation:** This is the first sign of sickness when an enterprise cannot pay for the purchase of raw materials, when it delays the payment to its labour. Besides this, when the Industrial unit in all violation of legal provisions, stops meeting its statutory obligations, such as contributions to Employees Provident Fund, Payment of Sales tax etc, then it is seen as beginning to suffer from industrial sickness.
2. **Growth of Excessive inventories:** Excessive accumulation of

Raw Materials, Goods-in-process and Finished goods is yet another warning signal. The failure of the firm to sell the finished goods at the pace it was doing earlier results in higher inventory accumulation.

3. **Non-payment:** Non-Payment of interest on term loans or non-payment of installments gives another signal of impending sickness.
4. **Under utilization of capacity:** Every unit of production for its survival must cross the break even point .If a firm operates below its break-even point, then it is incurring a loss and is bound to grow sick.
5. **Return on Investments:** A production unit should be capable of making an adequate provision for depreciation. For obtaining a rate of return on investment, the net profit as a proportion of the total investment in the enterprise has to be taken. Total investments should include Equity Capital and Reserve. A comparison of the rate of return with the prevailing rate of interest is indicative of the health of the enterprise.
6. **Maintenance of financial ratios:** If the ratio of current assets to current liabilities is less than 1:1 an enterprise is considered as sick. In other words, it indicates losses and declining liquidity of the firm. A declining debt-equity ratio indicates movement towards sickness.

However, the firms, more especially the sickness-prone firms, in order to put up a better image do a lot of window dressing.



CHECK YOUR PROGRESS

Q1: What do you mean Industrial Sickness?

.....

.....

.....

.....

9.5 CAUSES OF INDUSTRIAL SICKNESS

The causes that are responsible for Industrial sickness in India are broadly classified into:

(a) External Causes and (b) Internal Causes

9.5.1 External Causes

External causes include:

a. It includes Power cuts imposed by the state Governments
b. Scarcity of raw materials and other inputs due to its erratic supply.
c. Frequent changes in the government policy in connection with industrial licensing, taxation, power tariff, imports etc. All these external factors are equally responsible for growing sickness among the industrial units of the country.

9.5.2 Internal Causes

Following are the internal causes for industrial sickness

a. Faulty location of industrial unit.
b. Defective selection of plants and machineries and adoption of obsolete technology particularly in the small scale sector.
c. Incompetent entrepreneurs having no knowledge about costing, marketing, etc.
d. Labour problems like strikes and lockouts arising from strained industrial relation over the issues like wages, bonus and industrial discipline etc.

9.5.3 Factors responsible for sickness of Small Business

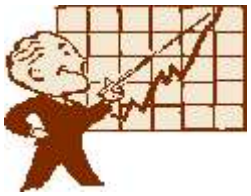
Apart from the factors mentioned above fort industrial sickness in general the main factors responsible for sickness of Small Business are as given below:

1. **Lack of Managerial skills:** Most of the entrepreneurs who establish SSI units, do not have specialized knowledge of management. The overhead costs of these units are very high, borrow at high rates of interest and the inexperienced management do not care for making economies in costs, more particularly during the period of infancy.
2. **Non-Observance of management Principles:** Usually the rate of interest on the capital employed in SSI units is very high. The entrepreneurs of SSI start the enterprises with a low equity base and make no effort to build internal financial resources during the good years. Sometimes they invest Short-term borrowings in medium term inventories.
3. **Under Utilization of capacity:** This is yet another important factor responsible for sickness. Most of the industrial sectors do not utilize the full capacity due to certain reasons e.g. lack of working capital, lack of demand, and shortage of raw materials. Those industrial units which are permanently unable to utilize the optimum level of capacity slowly enter into sickness.
4. **Government policies:** The govt. policies also affect the feasibility and success of SSI units. Sometimes, the change in the government policies affects adversely the functioning of SSI units, hence these units become sick. For example, the reduction by the Govt. in the list of products reserved for being produced under SSI units in India has resulted in the sickness of numerous industrial units. These units are unable to face the completion from the large scale industries and the Multinational Corporations (MNC's).
5. **Easy approval of small- scale units by the state:** Improper screening of the projects proposals may also result in the sickness of a SSI unit. If the assessment of viability of the projects is not made with adequate care, especially with

regard to financial viability, the SSI unit likely to become sick.

6. **The dead units depended mostly on their own funds,** i.e. on their individual savings rather than on borrowed funds. Among the dead small units, own funds accounted for 89% of Gross Investments.

7. **Non-Payments** by the principals to the Ancillaries have been noted as an important cause of Industrial sickness.



CHECK YOUR PROGRESS

Q2: What are the two causes of Industrial sickness.

.....

.....

.....

.....

Q3: Fill in the blanks:

a. Frequent changes in the government policy is an …… ……..factor for industrial sickness.

b. ……. Utilization of capacity is an important factor responsible for industrial sickness.



LET US KNOW

Table : Statewise analysis of industrial sickness in INDIA

STATE	NUMBER OF UNITS		
	Non-SSI	Non-SSI	SSI Unit
Maharashtra	340	59	19,360

STATE	NUMBER OF UNITS		
	Non-SSI	Non-SSI	SSI Unit
West Bengal	216	27	53,451
Uttar Pradesh	170	32	23,286
Andhra Pradesh	225	39	15,460
Gujarat	174	39	6,510
Tamil Nadu	141	34	9,809
Karnataka	110	49	6,937
Kerala	64	17	8,908
Haryana	66	12	2,574
Bihar	55	9	22,702
Madhya Pradesh	91	20	12,070
Orissa	55	7	3,408
Rajasthan	67	17	14,561
Punjab	51	11	2,466
Assam	38	3	10,133
Others	85	45	23,397
Total	1,984 (100)	420 (100)	2,35,032 (100)

9.6 CONSEQUENCES OF INDUSTRIAL SICKNESS

Industrial sickness may cause serious consequences in an under-developed labour-surplus economy like India. These consequences include:-

1. Aggravating unemployment problem through the closure of Industrial Units.
2. Widespread labour unrest due to closure threatening industrial environment in the country.

3. Wastage of huge resources invested in these sick units.
4. Creating adverse impact on the other related units.
5. Causing huge financial losses to banks and other lending institutions, locking up funds in these sick units
6. Creating disincentive among the entrepreneurs and investors due to widespread closure of units.



LET US KNOW

STATE-WISE PERCENTAGE DISTRIBUTION OF SICKNESS/ INCIPIENT SICKNESS (REGISTERED SSI SECTOR)

Sl. No.	Name of the State/ UT	Sick Units	Incipient Sick Units	Sick/ Incipient Sick Units	Sick Units among Units having Outstanding Loan (Institutional Sources)
1.	Jammu & Kashmir	0.63	0.20	0.27	0.60
2.	Himachal Pradesh	0.65	0.95	0.92	0.60
3.	Punjab	4.41	6.32	6.03	3.41
4.	Chandigarh	0.00	0.02	0.02	0.00
5.	Uttaranchal	0.33	0.34	0.34	0.23
6.	Haryana	2.90	2.89	2.92	2.86
7.	Delhi	0.47	0.10	0.18	0.28
8.	Rajasthan	2.89	3.11	3.11	2.59
9.	Uttar Pradesh	2.75	2.49	2.57	2.30
10.	Bihar	1.40	1.62	1.61	1.40
11.	Sikkim	0.01	0.01	0.01	0.01
12.	Arunachal Pradesh	0.03	0.04	0.04	0.04
13.	Nagaland	0.01	0.01	0.01	0.02
14.	Manipur	0.41	0.13	0.16	0.43
15.	Mizoram	0.02	0.01	0.01	0.00
16.	Tripura	0.05	0.05	0.05	0.04
17.	Meghalaya	0.04	0.03	0.03	0.02
18.	Assam	0.34	0.40	0.38	0.32
19.	West Bengal	2.41	2.82	2.81	2.23
20.	Jharkhand	0.79	0.46	0.50	0.62
21.	Orissa	1.18	0.35	0.48	1.31

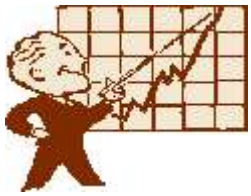
Sl. No.	Name of the State/ UT	Sick Units	Incipient Sick Units	Sick/ Incipient Sick Units	Sick Units among Units having Outstanding Loan (Institutional Sources)
22.	Chattisgarh	12.17	0.83	2.78	14.15
23.	Madhya Pradesh	2.83	2.71	2.72	2.51
24.	Gujarat	1.90	2.57	2.51	1.81
25.	Daman & Diu	0.07	0.09	0.08	0.05
26.	D & N Haveli	0.01	0.06	0.06	0.01
27.	Maharashtra	9.86	5.09	5.72	10.14
28.	Andhra Pradesh	4.49	6.55	6.32	4.04
29.	Karnataka	15.08	9.74	10.53	16.03
30.	Goa	0.32	0.21	0.21	0.21
31.	Lakshadweep	0.01	0.01	0.01	0.01
32.	Kerala	24.18	34.69	32.45	25.45
33.	Tamil Nadu	6.88	14.76	13.81	5.82
34.	Pondicherry	0.43	0.24	0.26	0.42
35.	A & N Islands	0.05	0.10	0.09	0.04
	All India	**100.00**	**100.00**	**100.00**	**100.00**

9.7 CORRECTIVE MEASURES

The problem of industrial sickness in SSI units is different from that of large scale industrial sickness. It is basically the problem of increasing the competitive strength and viability of the small units. Therefore, special efforts have to be made for preventing industrial sickness in SSI units. The measures to be adopted are as follows:

1. These units should pay special attention towards creation of financial resources and the short term capital should not be used for medium term/long term investment.
2. The managerial skills should be developed by providing training to the entrepreneurs of SSI units.

3. The Government can afford priority in allocation of scarce raw materials, extending marketing assistance and granting certain rebates and concessions to small units and more as to such units which slow better record of performance.
4. The cost of capital should be reduced and efforts should be taken to reduce overhead costs in SSI units.
5. Funds should not be utilized elsewhere, since a majority of sick units die in the second and third year of their existence, a programme of monitoring and nursing them during infancy is very essential. In this way the factors leading to low capacity utilization can be examined and quick action can be taken.
6. SSI units should maintain inventories at optimum level so that costs should be reduced and it does not affect the sales of the industry adversely.
7. Sickness of small units should be treated at par with scarcity and concessional rates of interest be charged at par with those loans, that are granted in scarcity. The maximum rate of interest should be 7% for small sick units enable them to secure soft credit.
8. The reserve bank should issue guidelines for the operation of small units and thus make professional management expertise available for the guidelines of small entrepreneurs. The management expertise should acquaint the small entrepreneurs with the need for a better equity base, retained profits and expansion programmed so as to build their internal financial strength.
9. The Government should take penal action against the principals for non-payment for the delivery of goods by small units.



CHECK YOUR PROGRESS

Q4: What are the consequences of Industrial sickness?

.....

.....



9.8 LET US SUM UP

In this unit we have learnt about the industrial sickness in SSI units. The causes for industrial sickness have been discussed together with the Corrective measures to be adopted to overcome this problem.

State wise percentage distribution of sickness is also shown in a table and the situations like Growth of Excessive inventories, under utilization of capacity etc which lead to industrial sickness are also discussed in this unit.



9.9 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



9.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Industrial company which is showing accumulated losses equal to or exceeding its net worth as the end of any financial year, and has suffered cash losses also during that financial year and the immediately preceding year.

Ans to Q No 2: Internal factors and External Factors

Ans to Q No 3: a. External b. Under

Ans to Q No 4: Consequences of industrial sickness:

a. Creating disincentive among the entrepreneurs
b. unemployment problem
c. Widespread labour unrest
d. Wastage of huge resources
e. Creating adverse impact on the other related units
f. Causing huge financial losses to banks



9.11 MODEL QUESTIONS

1. What is Industrial Sickness? Mention the relevant Act and discuss the definition of industrial sickness according to the Act.
2. Explain the warning signals of Industrial sickness.
3. What are the causes of Industrial sickness? Explain them.
4. Give some corrective measures to prevent Industrial sickness in SSI Units.

UNIT 10: TAX BENEFITS TO SMALL SCALE INDUSTRIES

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Need for tax benefits

10.4 Tax Exemption

10.5 Rehabilitation Allowance

10.6 Investment Allowance

10.7 Tax Concession to small scale industries in rural areas

10.8 Tax concession to small scale industries in backward areas

10.9 MODVAT and Small Scale Industries

10.10 Let Us Sum Up

10.11 Further Reading

10.12 Answers To Check Your Progress

10.13 Model Questions

10.1 LEARNING OBJECTIVES

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

- discuss the government policy towards developing and promoting small scale enterprises in the country
- give an account of the government support to small scale enterprises during five year plans
- to appreciate the need for tax benefits to small-scale industries
- to discuss the various tax benefits available to small-scale industries.

10.2 INTRODUCTION

In this unit, we are going to discuss the concept of tax benefit to small scale industries. Concessions were provided to the small scale sector in India for many years in income tax as well as excise duties. New industrial undertakings coming under the category of small scale

defined in terms of investment in plant and machinery were allowed tax holiday for a specified number of years subject to certain conditions, such as location in rural areas, and so on. Whereas the income tax holiday was granted to new undertakings only if engaged in producing goods in what was called the “priority list”, in the case of new small scale enterprises no such restriction applied. Such preferential treatment for small scale units occurred in many of the tax benefits extended in income tax to promote new industries, technological advancement, and development of backward regions. However, as mentioned above, these have largely been withdrawn or are on their way out. Concessions in excise duties, too, were provided to the small scale right from the inception of support policy for the small and tiny sector as a strategy of development and employment promotion. Excise concessions provided a potent instrument for influencing the pattern of production and technological choices in favor of employment intensive techniques because of the wide coverage of union excises and their impact on the relative prices of outputs as also inputs. In order to promote employment, products of several industries were exempted from excise if produced without the aid of power. Items so exempted included confectionery, food products, vegetable and ‘non-essential’ oils, paper and paper board, man-made fiber and yarn, footwear, steel furniture,

In this unit we are going to discuss about the government policy towards developing and promoting small scale enterprises in the country, need for tax benefits to small-scale industries and will be discussing the various tax benefits available to small-scale industries.

10.3 NEED FOR TAX BENEFITS

Small-scale industries are characterized by their small and shy resources/ capital. The first thousand days seem to be as critical in small business as in new administration. In the beginning, small industries have to incur more expenses, but the returns are either nil or nominal. Therefore, they need to be provided support and assistance to tide over the crucial initial stage to enable them to survive. Hence, the Government

has come forward with various benefits to offer to small scale industries in the country. One way to support the development of small-scale industries by the Government is to provide them tax benefits. The Government either exempts them from tax or provides them concession in tax liability. This helps small industries accumulate capital, on the one hand, and plough back profits in business, on the other.

In a developing country like India, Small Scale Industries play a significant role in economic development of the country. They are a vital segment of Indian economy in terms of their contribution towards country's industrial production, exports , employment and creation of an entrepreneurial base.These industries by and large represent a stage in economic transition from traditional to modern technology. Small industry plays a very important role in widening the base of entrepreneurship. The development of small industries offers an easy and effective means of achieving broad based ownership of industry, the diffusion of enterprise and initiative in the industrial field.

Given their importance, the Government policy framework right from the First plan has highlighted the need for the development of SSI sector keeping in view its strategic importance in the overall economic development of India. Accordingly, the policy support from the Government towards Small Scale Industries has tended to be conducive and favourable to the development of small entrepreneurial class. Government accords the highest preference to development of SSI by framing and implementing suitable policies and promotional schemes.

The most important promotional policy of the Government for the SSI's is fiscal incentives in the form of tax concessions and exemptions of direct or indirect taxes leviable on production or profits

With effect from financial year 2005-06,SSIs can claim deductions in respect of profits and gains(under section 80IB of Income tax Act) at the following rates:-

- If SSI unit is owned by a company, the deduction available is 30% for first 10 years. If SSI unit is owned by a co-operative society, the deduction available is 25% for first 10 years.

- If any other person owns SSI unit, the deduction to be claimed is 25% for first 10 years.

SSI unit can avail this tax exemption after fulfilling following conditions:

a. They should not be subsidiary of,or owned or controlled by other industrial undertakings.They should not be formed as a result of splitting up or reconstruction of any industrial undertaking/ business.SSI units can manufacture any nature or type of goods,which they are permitted to do so.They should have commenced business between 1st April 1991 and 31st March 2002.They should employ atleast 10 workers in a manufacturing process carried out with aid of power or atleast 20 workers without aid of power.This tax exemption from total income is allowed from the assessment year in which the unit begins to manufacture goods.

b. Small Scale Industries are subjected to excise duties under the Central Excise Tariff Act,1985(5 of 1986). The eligibility for excise concessions for SSIs has been based on annual turnover rather than SSI registration. SSI units having turnover less than Rs.4 crores are only eligible for concessions. Government of India has provided various concessions to SSIs by granting full exemption from payment of central excise duty on a specified output and thereafter slab-wise concessions. Thus concessions in this regard are:-

   - SSI units producing goods upto Rs.100 lakhs are exempted from payment of excise duties.
   - SSI units having turnover less than Rs.60 lakhs per annum need not have a separate storeroom for storing finished products.

c. They are not required to maintain any statutory records such as daily stock accounts, etc.Their own records are adequate. SSI

exemption is available for goods for home consumption as well as goods exported to Nepal and Bhutan.



CHECK YOUR PROGRESS

Q1: Fill in the blanks:

a. Small-scale industries are characterized by their ..... resources / capital

b. SSI stands for .....

c. The most important promotional policy of the Government for the SSI's is ..... incentives

d. Small Scale Industries play a significant role in ....development of the country.....

10.4 TAX EXEMPTION

Under Section 80J of the Income Tax Act, 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income-tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production. A small scale industry has to satisfy the following two conditions to avail in this tax exemption facility.

(i) The unit should not have been formed by the splitting or reconstitution of an existing unit.

(ii) The unit should employ 10 or more workers in a manufacturing process with power or at least 20 workers without power.

10.5 REHABILITATION ALLOWANCE

A rehabilitation allowance is granted to small scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of following reasons :

(i) Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;

(ii) Riot or civil disturbance;

(iii) Accidental fire or explosion; and

(iv) Action by an enemy or action taken in combating an enemy,

and, thereafter, at any time before the expiry of three years from the end of such previous year, the business is re-established, reconstructed or revived by the assessee, he shall, in respect of the previous year in which the business is so re-established, reconstructed or revived, be allowed a deduction of a sum by way of rehabilitation allowance equivalent to sixty per cent of the amount of the deduction allowable to him under clause (iii) of sub-section (1) of section 32 in respect of the building, machin¬ery, plant or furniture so damaged or destroyed :

Provided that no deduction under this section shall be allowed in relation to the assessment year commencing on the 1st day of April, 1985, or any subsequent assessment year.

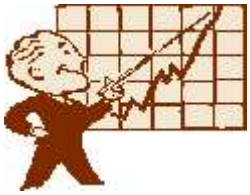
The rehabilitation allowance is allowed to the unit equivalent of 60 per cent of the amount of the deduction allowable to the unit.

10.6 INVESTMENT ALLOWANCE

The investment allowance was introduced way back in 1976 to replace the initial depreciation allowance. The investment allowance under Section 31A of the Income Tax Act, 1961, is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

Although the investment allowance has been made available for the articles or things except certain items of low priority, yet, as per the Eleventh Schedule to the Income Tax Act, 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. In comparison with other industries, small-scale industries are at an advantage in claiming a deduction of investment allowance.

A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year failing which the benefit will be forfeited.



CHECK YOUR PROGRESS

Q2: State true or false:

a. The exemption in tax on small scale industries are allowed for a period of six years from the commencement of production. (T/F)

b. The investment allowance was introduced in 1976. (T/F)

c. A rehabilitation allowance is granted to small scale industries under Section 43-B of the Income Tax Act, 1961. (T/F)

d. The investment allowance is allowed at the rate of 55% of the cost of acquisition of new plant installed. (T/F)

10.7 TAX CONCESSION TO SMALL SCALE INDUSTRIES IN RURAL AREAS

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961.The tax-payers, under this Section 80-HHA, are entitled to a deduction of 20% of the profits and gains derived by running small-scale industries in rural areas. The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30th September 1977. For this purpose the expression

(a) rural area means any area other than:

(i) an area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corpora¬tion, notified area committee, town area committee, town commit¬tee or by any other name) or a cantonment board and which has a population of not less than ten thousand according to the last preceding census of which the relevant figures have been pub¬lished before the first day of the previous year ; or

(ii) an area within such distance, not being more than fifteen kilometres from the local limits of any municipality or cantonment board referred to in sub-clause (i), as the Central Government may, having regard to the stage of development of such area

(including the extent of, and scope for, urbanisation of such area) and other relevant considerations specify in this behalf by notification in the Official Gazette.

(b) an industrial undertaking shall be deemed to be a small-scale industrial undertaking which is, on the last day of the previous year, regarded as a small-scale industrial undertaking under section 11B of the Industries (Development and Regulation) Act, 1951 (65 of 1951).

The small-scale industry can avail of this tax deduction only after fulfilling the following conditions:

(i) The small-scale unit is not formed by splitting or reconstruction of a business already in existence.

(ii) It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.

(iii) The accounts of the unit are audited by a chartered accountant.

(iv) It employs 10 or more workers in manufacturing process carried on with the aid of power or 20 or more workers in a manufacturing process carried on without the aid of power.

(v) The unit does not claim a simultaneous deduction under Section 80-HH of the Income Tax Act, 1961.

10.8 TAX CONCESSION TO SMALL SCALE INDUSTRIES IN BACKWARD AREAS

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts, as backward areas with a view to provide them special incentives and concessions to establish industries in these backward areas. The newly established small-scale industries in these backward areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income. This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. However, if a small scale industry has already been established in a non backward area and later shifts to a backward area,

the unit will be allowed this deduction on the profits earned from the undertaking after shifting in the backward area for a period of ten years. A small scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

The unit has to satisfy the following conditions to be eligible to avail of this tax benefit

1. It is established on or after 31st December, 1970.
2. It employs at least 10 workers in a manufacturing process carried on with the aid of power or at least 20 workers in a manufacturing process carried on without the aid of power. With effect from financial year 2005-06, deduction in respect of profits and gains for small scale industrial undertakings is available under Section 80IB.

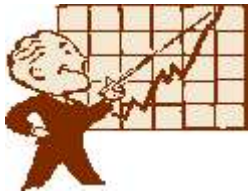
Small scale industrial undertaking can claim deduction at the following rates:

a. If SSI unit is owned by a company, the deduction available is 30% for first 10 years,
b. If SSI unit is owned by a co-cooperative society, the deduction to be availed is 25% for first 10 years, and
c. If any other person owns SSI unit, the deduction to be claimed is 25% for first 10 years.

The small scale units can avail this tax exemption facility only after fulfilling the following conditions:

a. No small scale or ancillary undertaking shall be subsidiary of, or owned or controlled by other industrial undertaking.
b. SSI unit can manufacture any nature/type of goods/article to avail deduction.
c. The SSI unit should commence business between 1st April 1991 and 31st March 2002.
d. They should employ at least 10 workers in a manufacturing process carried out with the aid of power or at least 20 workers in a manufacturing process carried out without the aid of power.
e. This tax exemption from total income is allowed from the

assessment year in which the unit begins to manufacture or produce goods or articles.



CHECK YOUR PROGRESS

Q3: Fill in the blanks:

a. The tax-payers, under Section 80-HHA, are entitled to a deduction of …… percent

b. A small scale industry established in backward area but engaged in mining activity is not entitled to …… benefit.

c. If SSI unit is owned by a company, the deduction available is ……..% for first 10 years.

10.9 MODVAT AND SMALL-SCALE INDUSTRIES

The vexatious question of the taxation of inputs and its cascading effect ultimately on the value of the final product was a matter of much debate and concern for quite some time. The solution to the question was ultimately envisaged in extending the present ongoing system of proforma credit to all excisable commodities barring a few ones. This new scheme is known as Modified Value Added Tax (MODVAT). MODVAT refers to an excise duty scheme introduced in 1986 for allowing relief to final manufacturers on the excise duty borne by their suppliers for goods manufactured by them. It has now been replaced by the CENVAT scheme. It applies to certain specific items and is meant to limit the cascading effect of duty incidence on a number of goods where the MODVAT credit can be claimed on the purchase of raw materials on which excise has been paid. This MODVAT credit can be used to set off the excise duty payable on subsequent manufacture of goods.

Where the SSI unit does not avail CENVA: Notification No.8/2000-CE, dated 1st March, 2000 as amended. For first clearances effective from 1st April of a financial year up to an aggregate value of Rs. 1 Crore,

duty is exempted in respect of those SSI units which do not intend to avail CENVAT up to a value of clearances of rupees one crore.

Where the SSI unit avails CENVAT: Notification No.9/2000-CE, dated 1st March, 2000 as amended. The graded scheme of exemption in respect of those SSI units which intend to avail CENVAT is as under:-

Sr. No. Value of Clearances Rate of Duty

1 First clearances effective from 1st April of a financial year

Up to an aggregate value of Rs.1 crore 60% of the normal rate of duty

2 Subsequent Clearances at the normal rate of duty

The following clearances are excluded from computation of value of clearances

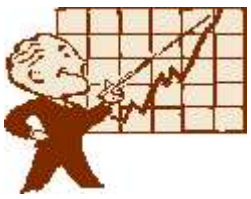
- Clearances of the specified goods which are used as inputs for further manufacture of specified goods within the factory irrespective of the value of clearances.
- Clearances of excisable goods affixed with the brand name or trade name of another person who is not eligible for availing the exemption under the aforesaid notification.

An SSI who is to take the benefit of Cenvat scheme must give a letter of C.Ex. and maintain the appropriate registers. Before availing cenvat, the SSI must physically receive the goods under a duty paying document or a proper invoice issued by a registered dealer. The SSI must maintain an registers giving details of receipt and disposed of inputs & capital goods and payment of duty by credit. Registers. Once he has availed cenvat on a duty paying document the documents must be defaced so that it can not be used again. This duty paying document already defaced and the record along with his own delivery documents must be shown to the Central Excise officers on demand. There is a provision for removing raw materials, inputs or capital goods on which cenvat credit has been taken out of the factory for further processing, repairs or job work. Details of the cenvat scheme may be obtained from the local Central Excise officer. Please note that when duty is being paid vide cenvat credit, the credit accruing on goods received after the last

day of the month in which duty is due to be paid, can not be utilized (CBEC's circular 542/38/2000-Cx. Dated 25.8.2000)

The MODVAT (now CENVAT) scheme intends to greatly and gradually expand its horizons so as to set-off excise and other countervailing duties paid on various inputs of final product. This aims at coming closer to generalized get-off excise taxation on inputs. For this, the basic approach to be followed is to move towards the extension of ongoing system of proforma credit to all excisable commodities. A few sector/products like textile products, petroleum and tobacco have been left for this purpose. This programme is to be implemented in a phased manner over a period of years mainly considering its implication on revenue account.

It is important to mention that neither the MODVAT programme intends to raise maximum revenue nor to give substantial relief on excise. Any loss of duty on inputs will be recouped through higher excise taxation on final products. Thus, the shifting of burden of excise taxation away from inputs on to their final products is the core of the MODVAT scheme. Such shifting of tax burden also implies that the richer will have to bear more tax burden than the poor. It is good to reduce differences in income levels between the rich and the poor.



CHECK YOUR PROGRESS

Q4: State true / false

a. MODVAT means Motivated Value Added Tax. ..... (True / False)

b. The investment allowance was introduced way back in 1976. (True / False)

c. Rehabilitation allowance is not allowed due to accidental fire or explosion. (True / False)

d. To avail of the tax exemption small scale industry should employ 10 or more workers with power. (True / False)



10.10 LET US SUM UP

The need for tax benefit to small-scale industries is justified on two grounds-

(i) to promote investment in small-scale industries, and

(ii) to provide them tax relief in the initial period. Accordingly, various tax benefits are provided to small scale industries.

- The principal tax benefits provided to small scale industries are tax holiday, rehabilitation allowance, investment allowance etc.
- MODVAT envisages special tax benefits on inputs and final products of small-scale industries.
- Tax benefits to small scale industries intended to promote the development of small sector in the country.



10.11 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development

10.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: a. Small and Short b. Small Scale industries c. fiscal d. economic

Ans to Q No.2: a. False b. True c. False d. False

Ans to Q No.3: a. 20 b. deduction c. 30

Ans to Q No.4: a. False b. True c. False d. True

10.13 MODEL QUESTIONS

1. Discuss the need for tax benefits to small-scale industries.
2. Discuss the special tax benefits available to small-scale industries working in rural and backward areas.
3. Write short notes on the following :-
   (a) Tax Holiday
   (b) Rehabilitation Allowance
   (c) MODVAT and Small scale industries.
   (d) Investment Allowance

UNIT 11: FINANCING OF AN ENTERPRISE

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Needs for Financial Planning

11.4 Sources of Finance

11.5 Sources of short term finance

11.6 Capital Structure

- 11.6.1 Theories of Capital Structure
- 11.6.2 Factors determining Capital Structure

11.7 Term Loans

- 11.7.1 Features of Term Loan
- 11.7.2 Significance of Term Loan
- 11.7.3 Limitations of Term Loan

11.8 Capitalisation

- 11.8.1 Over-Capitalisation
- 11.8.2 Under-Capitalisation

11.9 Venture Capital

- 11.9.1 Significance of Venture capital
- 11.9.2 Function of venture capitalists
- 11.9.3 Essential Features of Venture Capital
- 11.9.4 Advantages of Venture Capital
- 11.9.5 Venture Capital Instruments
- 11.9.6 Banks and Venture Capital

11.10 Export Finance

- 11.10.1 Importance of Export Finance
- 11.10.2 Exim Bank Finance
- 11.10.3 Forfeiting

11.11 Let Us Sum Up

11.12 Further Reading

11.13 Answers To Check Your Progress

11.14 Model Questions

11.1 LEARNING OBJECTIVES

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

- describe the concept of financial planning
- explain the various sources of Finance
- describe the importance of Capital Structure
- discuss the features and significance of Term Loans
- explain the effect of Capitalisation
- have a detailed idea about venture Capital and Export Finance.

11.2 INTRODUCTION

In this unit we are going to discuss the concept financing of an enterprise. Finance is an important function of business. The application of planning to this function is financial planning. This function is mainly concerned with the economical procurement and profitable use of funds. Financial policy and procedures are the broad guides in the procurement, administration, and disbursement of funds. Financial planning is an important function of a financial manager. Whether the business is big or small, this function has to be performed. Similarly both an existing and a new business have to plan this function with great care. A well-prepared financial plan will not only ensure the procurement of sufficient funds but their proper utilization also.

A Financial plan is a statement estimating the amount of capital and determining its composition. The quantum of funds needed will depend upon the asset requirements of the business. The time at which the funds will be needed should be carefully decided so that finances are raised at the time when these are needed.

The concept of financial plan as conceived by Walker and Baugh is still wider. According to them, financial planning pertains only to the function of finance and includes the determination of the firm's financial objectives, financial policies and financial procedures.

11.3 NEED FOR FINANCIAL PLANNING

1. To ensure supply of sufficient funds to the firm so that it may

employ its resources up to the optimal point.

2. To minimize the cost of funds by procuring funds under the most favorable circumstances commensurate with the risk, owners are willing to assume.
3. To match the cost with risks as to protect the owners against the loss of control or business.
4. To provide flexibility in the plan so that the financial structure of the company may be adjusted in the light of changed circumstances.
5. The number of securities should be limited so that it is easily understood.
6. The financial plan ensures sufficient funds for genuine needs. The plans should suffer neither due to shortage of funds or the wasteful use of them.

11.4 SOURCES OF FINANCE

1. **Long Term Finance:** Funds needed for acquiring fixed assets like building, land, plant and machinery etc. are known as long term finance. The long term sources of finance such as shares, debentures, and retained earnings are raised mainly for a period of less than 10 years.
2. **Medium Term Finance:** Funds required for meeting long term needs of the working capital are known as medium term finance. The medium term sources of finance such as debentures, financial institutions, public deposits and commercial banks are raised for a period between 1 year and 10 years.
3. **Short Term Finance:** Funds required for meeting the short term needs of the working capital are known as short term finance. The sources such as public deposits, trade credits and commercial banks are raised for a period of 1 year and less than one year.

Some of these sources mentioned above are thereby described below:

a. **Shares:** The capital of a company is usually divided into certain indivisible units of a definite sum. These units are called Shares".

Shares represent the interest of shareholders in a company measured in terms of money. Shares are also called ownership securities and can be transferred from one person to another person. They are the owners of the company and are called Shareholders. They are the owners of the company. India a public company may issue two kinds of shares. They are 1.Preference shares and 2. Equity shares.

b. **Preference Shares:** Preference share are those shares which carry preferential rights in respect of dividend and repayment of capital in the event of the winding up of the company. Companies may resort to this technique as long-term capital on account of the above advantages .Since preference shareholders have no voting rights, they do not have to take any risk and hence ownership is not affected.

c. **Equity Shares:** Shares which do not enjoy any of the preference shares are known as equity shares or ordinary shares. Equity shares are the most important sources of finance for fixed capital and they represent the ownership capital of a company. Equity shareholders are the real owners of the company and bear the risk of business. Hence, they are known as the risk bearers and the capital they contribute is called venture capital.

d. **Retained profits or ploughing - back of profits:** When a company retains a part of undistributed profits in the form of free resources and the same is utilized for further expansion, it is known as “Ploughing-back of profits” or “retained earnings.” The amount so retained should have otherwise gone to shareholders as dividend. It is therefore treated as “ownership fund”.

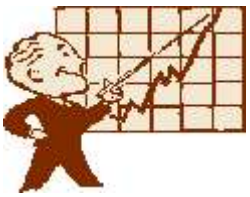
The need for retained earnings arises on account of the following reasons:

i. To expand both fixed capital as well as working capital for further expansion and development.

ii. To improve the efficiency of the plant and equipment.

e. **Debentures:** Under section 2(12) of the Companies Act, 1956,

Debentures include debentures stocks, bonds and other securities of a company whether or not constituting a charge on the assets of the company. In other words, debenture is a certificate issued by a company under its seal acknowledging a debt due by it to its holders. It is a creditor ship security. Debenture holders are, therefore known as the creditors of the company. They are entitled to periodical payment of interest at a fixed rate.



CHECK YOUR PROGRESS

Q1: What are the sources of Finance?

.....

.....

.....

.....

Q2: What is financial plan?

.....

.....

.....

.....

11.5 SOURCES OF SHORT TERM FINANCE

i. **Public deposits:** The deposits made by the public with the joint stock companies are known as “public deposits”. These deposits are taken from the members or the directors of the company or from the general public at a specified rate of interest for a specified period. Thus the depositors are ordinary creditors. Industrial and commercial enterprises resort to this mode of financing for meeting their medium-term financial requirements.

ii. **Commercial Banks:** Commercial banks play a very significant role in financing the short term requirements of companies. They provide finance by way of loans, overdrafts, cash credits, and discounting bills. They provide a wide variety of loans tailored to meet the specific requirements of a concern.

iii. **Trade credit:** Trade credit refers to the credit extended by the suppliers of goods in the normal course of business. Trade credit includes transactions on the current account which is evidenced solely by entries in the accounts of the parties, and transactions for which bills payable at specified future dates are given by the purchaser to the vendor. Trade credit has some advantages such as:

   i. It is an easy and convenient method of finance.
   ii. It is flexible as the credit increases with the growth of the firm.
   iii. It is informal and spontaneous source of finance.

iv. **Factoring:** Factoring means an arrangement between a factor and his client, which includes at least two of the following services to be provided by the Factor:

   i. Finance.
   ii. Maintenance of accounts
   iii. Collection of debts
   iv. Protection against credit risks.

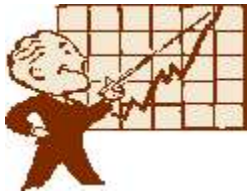
v. **Advances:** Some business houses get advances from their customers and agents against orders and this source is short term finance for them. It is a cheap source of finance.

vi. **Accrued expenses:** Accrued expenses are the expenses which have been incurred but not yet due and hence not yet paid also. When the activity level expands, accruals also increase and hence they provide a spontaneous source of finance. Further as no interest is payable on accrued expenses, they represent a free source of finance.

vii. **Deferred Incomes:** These are the incomes received in advance before supplying goods or services. They represent funds which increase the liquidity of a firm and constitute an important source of short- term finance.

viii. **Commercial paper:** It is usually bought by investors including banks, insurance companies, unit trusts and firms to invest surplus funds for a short period. Commercial paper is a cheaper source

of raising short term finance as compared to the bank credit and proves to be effective.



CHECK YOUR PROGRESS

Q3: Fill in the blanks:

a.Deposits made by the public with the joint stock companies are known as ……

b. Factoring means an arrangement between a factor and his ……

c. …… are received in advance before supplying goods or services

d. Commercial paper is a ……. source of raising short term finance.

11.6 CAPITAL STRUCTURE

According to Gerestenbeg, " Capital structure of a company refers to the composition or make-up of its capitalization and it includes all long term capital resources viz. Loans, shares, and bonds."Capital structure of a company refers to the composition or make-up of its capitalization and it includes all long term capital resources viz., loans, reserves, shares and bonds. In other words it is composed of long-term debt; preferences share capital and shareholder's funds.

A. FORMS OF CAPITAL STRUCTURE: The capital structure of a new company may consist of any of the following forms:

i. Equity Shares only
ii. Equity and Preferences Share
iii. Equity Shares and Debentures
iv. Equity Shares, Preferences Shares and Debentures.

B. IMPORTANCE OF CAPITAL STRUCTURE:

i. There should be a proper mix of debt and equity capital in financing the firm's assets.

ii. An optimum capital structure is important to maximize the value of the firm.

iii. Only a sound capital structure gives the benefit of financial leverage or trading on equity i.e., earn more by the use of long-term fixed interest bearing debt than their cost so as to increase the return on equity shareholders.

C. OPTIMAL CAPITAL STRUCTURE: The optimum capital structure is that structure or combination of debt and equity that leads to the maximum value of the firm. It maximizes of the value of the company and hence the wealth of its owners and mini9mises the company's cost of capital.

11.6.1 Theories of capital structure

The important theories of capital structure are:

i. Net Income Approach

ii. Net Operating Income Approach

iii. The Traditional Approach

iv. Modigliani and Miller(MM)Approach

i. Net Income Approach - According to this approach a firm can minimize the weighted average cost of capital and increase the value of the firm as well as market price of equity shares by using debt financing to the maximum possible extent.

ii. Net Operating Income Approach - This approach states that change in the capital structure of a company does not affect the market value of the firm and the overall cost of capital remains constant irrespective of the method of financing.

iii. The Traditional Approach – Under this approach the value of the firm can be increased initially or the cost of capital can be decreased by using more that as the debt is cheaper source of funds than equity. Thus, optimum capital structure can be reached by a proper debt equity mix. Beyond a

particular point, the cost of equity increases because increase debt increases the financial risk of the equity share holders.

iv. **Modigliani and Miller (MM) Approach –** It is identical with the net operating income approach if taxes are ignored. However, when corporate taxes are assumed to exists, their hypothesis is similar to the net income approach.

11.6.2 Factors determining capital structure

The capital structure of a concern depends upon number factors such as:

i. **Trading on Equity-**Earning more by the use of long-term fixed interest bearing debt than their cost so as to increase the return on equity shareholders is called trading on equity.

ii. **Cost of capital-** It refers to the minimum return expected by its suppliers. While formulating a capital structure an effort must be made to minimize the overall cost of capital.

iii. **Control-** Whenever additional funds are required by a firm, the management of the firm wants to raise the funds without any loss of control over the firm and in this case they might raise the additional funds by way of fixed interest bearing debt.

iv. **Nature and size of a firm-** It is also an important factor which influences capital structure.

v. **Flexibility-** Capital structure of a firm should be flexible, i.e., it should be such as to be capable of being adjusted according to the needs of the changing conditions.

vi. **Capital market conditions-**They do not remain the same forever and as such the choice of securities is also influenced by the market conditions.

vii. **Assets Structure-** The liquidity and the composition of assets should also be kept in mind while selecting the capital structure.

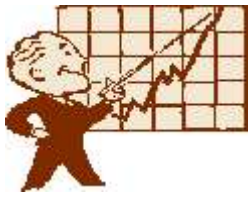
viii. **Purpose of financing-** If funds are required for a productive

purpose debt financing is suitable and if funds are required for unproductive purpose then equity capital should be preferred.

ix. **Cost of floatation-**The costs of floatation of various kinds of securities should also be considered while raising funds. The costs of floating as a percentage of total funds decrease with the increase in size of the issue.

x. **Corporate tax rate-** High rate of corporate taxes on profits compel the companies to prefer debt financing because interest is allowed to be deducted while computing taxable profits.

xi. **Legal Requirements-** The legal restrictions are very significant as these lay down a framework within which capital structure decision has to be made.



CHECK YOUR PROGRESS

Q4: What the forms of Capital structure?

.....

.....

.....

.....

Q5: What are the four theories of capital structure?

a) .....

b) .....

c) .....

d) .....

11.7 TERM LOANS

The term loan is popularly used to denote the granting of an advance in lump sum, usually on the basis of some acceptable securities. Under the loan system credit is given for a definite purpose and for a

predetermined period. Term loans constitute the major form of intermediate term financing. Unlike short term which is self-liquidating over a period of less than a year, term loans are given for a period of more than one year but less than ten years. Such loans are generally employed to finance more a permanent portion of working capital requirements. As a result, most of those loans are paid in regular and periodic installments although there are exceptions to the rule.

Term loans may take the form of an ordinary loan or a revolving credit. In ordinary term loan the lender lends funds as per the agreement outright for a period of more than a year and up to 10 years. Term loans are contractual in nature. Such loans are granted as per the comprehensive terms of loan agreement.

11.7.1 Features of Term loan

1. Term loans bear a maturity period of more than one year but less than ten years. In India Commercial banks provide term loans for a period of five to seven years.
2. Term loans are sought for financing the core portion of working capital and research and development activities. Term loans are used to meet all expenses including those for repairs, replacement of equipments etc. They are also used for the purchase of capital assets for the establishment of new industrial units, for expansion, modernization or diversification. It also becomes easier for the banker to monitor and control the use of bank credit as compared to advances made by way of cash credit or overdraft.
3. Funds are provided at one go for a single transaction. If additional funds are required the customer has to apply a fresh and renegotiate terms for a new loan or even for the renewal of the existing loan.
4. Terms loans are repayable at stated intervals, monthly, quarterly or semi-annually. Repayments take place in equal installments.

5. Repayment of the loan generally begins sometime after the grant of the loan so as to enable the borrower to make profitable use of funds.
6. Flexibility is the in-built feature of the term loan. Maturities, repayments etc., may be tailored to satisfy the needs of individual borrowers. Even the loans may be taken in installments suiting the fund requirement of the enterprise.
7. Operating cost of a term loan for a banker is lower than in case of other methods of advances.
8. Term loans are more frequently secured than short term loans due to greater risks involved in term lending. Term loans are usually secured against mortgage on the land and building owned by the firm. The amount of these loans does not exceed the appraised (evaluated) value of the property.

11.7.2 Significance of Term Loan

Term loan is emerging as an important source of business financing in recent years because of added advantages of easy availability of the loan and its cheapness and flexibility.

Since the terms of the loan are the outcome of direct negotiation between the lender and the borrower, the same can be tailored to satisfy the needs of the borrower.

Firms which need funds for a longer period of time but are handicapped to make use of debenture funds owing to their over-indebtedness can gainfully take recourse to term loans. Where some terms of the term loan seem to be onerous and annoying and may shorten the operational ability of the firm in future the borrower will have the advantage of persuading the lender to make reasonable and appropriate modifications in the loan agreement. This is another attraction of the term loans.

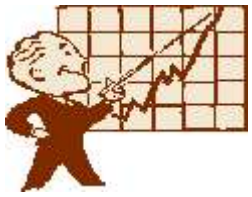
11.7.3 Limitation of Term Loan

There are certain limitations of term loans some of which are

given below:

1. The borrowing firms find it difficult to fulfill the conditions and consequently face the threat of withdrawal of loans granted earlier. It may not always be possible to modify the onerous terms of the loan agreement.
2. Another limitation of term loans including fixed obligations is those of any borrowing including bonded debt. Borrowing more of term loans may restrict the borrower's ability to take loans in future. Increasing indebtedness poses before the firm the problem of raising capital from the market and sometimes term loans may be less attractive when the maturities and repayment schedules desired by the banks are more restrictive as compared with the ones associated with bond issue.

Finally, it may be concluded that a firm desiring funds for a period of 8 to 10 years will find term loan as the most useful and significant source of finance.



CHECK YOUR PROGRESS

Q6: What do you mean by Term Loans?

.....

.....

.....

.....

Q7: Sate true or false:

a. Term loans are contractual in nature. (True /False)
b. Term loans bear a maturity period of less than one year. (True /False)
c. Rigidity is the in-built feature of the term loan. (True / False)
d. Terms loans are repayable at stated intervals, monthly, quarterly or semi-annually. (True /False)

11.8 CAPITALISATION

Capitalization refers to the process of determining the plans of financing. According to Grettenberger, 'Capitalization comprises of a company's ownership capital which includes capital stock and surplus in whatever form it may appear and borrowed capital which consists of bonds or similar evidences of long term debt."

The need for capitalization arises not only at the time of incorporation or promotion of a company but also as a going concern after promotion and during the life time of a corporation. Generally the problem arises at the time of expansion, amalgamation, re-organization of capital etc.

11.8.1 Over-Capitalisation

It refers to the state of affairs where the earnings of a company do not justify the amount of capital invested in its business.

A. **Causes of over- capitalisation:** There are many factors which account for the situation of over capitalization of a company. Following are some of the important causes of over capitalization.

   a. *Over issue of capital:* sometimes, while floating a new company, the promoters over estimates the financial requirements, and as a result, they raise more capital than what is actually needed, resulting in over capitalization.

   b. *Promotion, formation or development during inflation:* If a company is to be floated during an inflationary period, or any development activity is carried out in such a period, it will be victim of over-capitalization because it has to spend huge amounts.

   c. *Buying assets of lower value at higher prices:* if promoters buy assets of lower values at higher prices, they are led to a situation of over capitalization because assets of lower value will be shown at higher value in the balance sheet.

d. *Taxation policy:* High rates of taxation may leave little in the hands of the management to provide for depreciation, replacements and dividends. This will adversely affect earnings capacity and thus leads to over capitalization.

e. *Under estimation of the capitalization rate:* if the rate of capitalization is under estimated, it will lead to a situation of over capitalization.

B. Effects or evils of over capitalisation: Over capitalization affects not only the company and its owners (shareholders) but also the society as a whole. The evil effects of over capitalization are discussed below:

a. *Effects on the company:* The effects of over capitalization on the company itself are disastrous in many ways:

i. Loss of good will: In an over capitalized company, there is a reduced earning capacity resulting in the fall of market price of its shares and thereby shaking up the investor's confidence. a company whose shares sell below the face value may find it difficult to improve its good will in the market.

ii. Poor creditworthiness: reduced earnings of an over capitalized concern affect its creditworthiness and as a result, it becomes difficult for it to get loans or credit at cheaper rates of interest.

iii. Decline in efficiency of the company: To cover for one loss, other losses are incurred by the company and in the process overall efficiency of the company declines. Such a company usually does not make adequate provisions for depreciation, repairs and renewals, etc, leading to further decline in its efficiency.

iv. Loss of market: over capitalized companies fail to

produce goods at competitive costs and hence often lose their market to competitors.

v. Liquidation of company: an over capitalized company goes into liquidation unless drastic steps are taken to re-organize the whole capital structure, and reorganization would itself lead to a lot of problems.

b. Effects on shareholders: As shareholders are the real owners of the company, they suffer most on account of over capitalization. Some of the major effects of over capitalization on shareholders are:

i. Reduced dividends: An over capitalized company will not be able to pay a fair rate of dividend to its shareholders because it is earning a low rate return on its capital. More so the payments of dividends become uncertain and irregular.

ii. Fall in the value of shares: low rates of earnings and reduced dividends because fall in the market value of shares of the over capitalized company. Thus, shareholders have to suffer a loss in capital due to depreciation of their investments.

iii. Loss on speculations: The prices of the shares of an over capitalized company remain unstable because of speculative dealings in such shares. This malpractice further adds to losses of the shareholders.

iv. Loss on re-organization: An over capitalized company has to often resort to re-organization and reduction of its capital in order to write off the accumulated losses. This results in the reduction of face value of shares and loss to its owner.

c. Effects on society: It has been said earlier that over capitalization affects not only the company and its owners but also the society as a whole.

i. Loss to consumer: in order to prevent declining trend

of income, an over capitalized concern resorts to increased prices and reduction in quality of its products. Hence, consumers have to suffer by paying more for the poorer quality.

ii. Loss to workers: an over capitalized company tends to reduce wages and welfare facilities of the workers to reduce losses of the earnings. no consideration is given to the demands of the workers and some of them even lose their jobs because of lay offs retrenchment and closure of such units.

iii. Under or mis-utilisation of resources: an over capitalized concern either misutilises or under utilizes its resources. Hence, the scare resources of society are not properly utilized.

iv. Gambling in shares: another social evil of over capitalization is promotion of gambling habits by providing scope for gambling in shares of such a company.

C. Remedies for over-capitalisation: The evils effects of over-capitalization are so grave that the management must take remedial measures to rectify the situation as soon as the first symptoms of over-capitalization are observed by the firm. The following remedial measures can be suggested:

i. To have efficient management: Management should try to become more efficient and try to curb excess expenditure.

ii. Redemption of preference shares: Preference shares carrying high rate of dividend should be redeemed out of retained earnings in order to raise the share of equity shareholders.

iii. Reduction of funded debts: Debentures, public deposits and loans taken at higher rates of interest should be prepaid out of accumulated profits.

iv. Re-organization of equity share capital: The face value or

the number of equity shares may be reduced in order to rectify over- capitalization.

11.8.2 Under-Capitalisation

According to Grettenberger," A company may be under-capitalized when the rate of profits it is making on the total capital is exceptionally high in relation to the return enjoyed by similarly situated valued companies in the same industry, or when it has too little capital with which to conduct its business."

A. Causes of under-capitalisation:

i. Under-Estimation of Capital Requirements: If the future capital requirements are under estimated by the promoters, the inadequacy of capital is experienced at a later stage.

ii. Under- Estimated of Future Earnings: While preparing the financial plan, if the future earnings of the company are under estimated and the actual earnings turn out to be higher than the estimated figure, the company may find itself in a condition of under-capitalization.

iii. Promotion during depression: Companies promoted during a period of depression often experience under capitalization when inflation sets in because of a sudden rise in their earnings.

iv. Conservative Dividend Policy: If the management of a particular company adopts an orthodox dividend policy. I.e. where it follows a continuous policy regarding the distribution of dividend and keeps a major part of earnings for Re-investment purpose, it results into higher earnings.

v. Desire of control and Trading on Equity: In many companies, the promoter desires to retain control the company and raise lesser amount of share capital. Later, when the funds are required they resort to trading on equity. This raisings of funds at a lower rate of interest than the earnings of the company eventually leads to under- capitalization.

B. Effects of under-capitalisation: Under-capitalization also has many evil effects on the company and its owners as well as the society as a whole:

i. As a consequence of under- capitalization earnings per share increases and so does the dividend per share, which in turn increases the marketability of shares.

ii. The companies earn huge profits and a result the burden of tax is great. The Government introduces higher rate of taxation which is a financial burden on the companies.

iii. Higher profits earned by the companies gives a psychological feeling to the customers that they are being over-charged and hence they develop a grouse towards that company.

iv. A situation of over- trading by the company may arise as a result of under-capitalization.

v. As a result of over-trading creditors will not be paid timely and the company will effect its creditworthiness adversely.

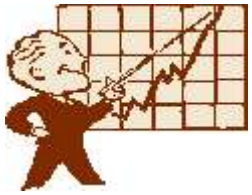
C. Remedies for under-capitalisation:

i. Fresh Issue of shares: If under-capitalization is due to inadequacy of capital then it can be corrected by the issue of fresh shares the company may also redeem its long term debt by the issue of fresh share capital.

ii. Issue of Bonus shares: the company may issue bonus share by capitalizing its accumulated earnings.

iii. Increasing the par value of shares: The Company may revalue its assets and increase their values. In that case par value may also be increased.

iv. Splitting stock: Another effective method of correcting under capitalization is to split up the existing stock into larger number of shares reducing the value of each share.



CHECK YOUR PROGRESS

Q8: What is Financial Planning?

.....

.....

.....

.....

Q9: Mention the types of Capitalisation

.....

.....

.....

.....

Q10: State two sources of Short term finance.

.....

.....

.....

.....

11.9 VENTURE CAPITAL

Venture capital is a new age financing concept which has revolutionized the business and industrial sector. Venture capital is a start up financing of high risk and high growth projects in the form of equity capital or loans. Venture capital refers to the risk capital supplied to growing private companies and it takes the form of share capital in the business firms. Venture capitalists take huge risk in anticipation of high returns and hence it is also known as 'risk capital'.

In broader sense, venture capital refers to the commitment of capital and skills for the formation and setting up of firms particularly to those specializing new ideas or new technology. Thus, it is not merely an injection of funds into a new firm but also a simultaneous input of skills needed to set the firm up, design its marketing strategy, organize and manage it.

Venture capital is associated with successive stages of the firm's

development with distinctive types of financing, appropriate to each state of development. Thus, there are four stages of a firm's development, viz., development of an idea, start up, fledging, and establishment.

11.9.1 Significance of Venture capital

- Venture capital financing is one of the most recent entrants into the capital market. There is significant scope for them in the context of the emergence of technocrat entrepreneurs who have technical competence and expertise but lack venture capital.
- The significance of venture capital lies in the fact that it does away with the demerits of traditional financing which only finances proven or established process or technology.
- Venture capital is a type of financial service which helps an entrepreneur to translate his ideas into realities.
- It is an important source of funds for technology based business concerns.
- The importance of venture capital for companies is to give commercial support to new ideas and for the introduction and adaptation of new technologies. There is a high degree of risk involved in venture capital financing.
- It is a long term investment. The benefit of profit from the venture capital investment starts accruing after a period of about 5 years.
- It not only plays an important role in financing hi-technology projects, but also helps to turn research and development projects into commercial production. Venture capital besides financing the technology is also involved in fostering the growth and development of enterprises. In the western countries much of this capital is put behind establishing technology and expanding business or is used to help the evolution of new management teams.

11.9.2 Function of venture capitalists

1. Venture capitalists provide this form of capital to projects which are established to introduce new product, invention, idea etc.
2. Venture capitalist provides finance as well as skills to new enterprises and new ventures of existing ones based on high technology innovations and hence can be considered as an important device of promoting entrepreneurship development.
3. Venture capitalists duty extends even as far as to see that the firm has proper and adequate banking and receivable financing.
4. Venture capitalist assists the entrepreneurs in locating interviewing and employing outstanding corporate achievers to professionalize the firm.
5. Venture capitalist fills the gap in the owner's funds in relation to the quantum of equity required to support the successful launching of a new business or the optimum scale of operations of an existing business.

11.9.3 Essential Features of Venture Capital

The following are the essential features of venture capital:

1. **Equity participation:** The venture capitalist directly purchases shares or convertible securities of the new venture. This is done to make capital gains by disposing off the shares once the venture becomes highly profitable.
2. **Long- term investment:** Venture capital is a long term financial assistance. It necessitates the venture capital provider to wait for a long period to earn high return.
3. **Participation in management:** Venture capital makes way for the venture capitalists to participate in the management of the concerned venture or enterprise. This protects their

interest and the relation with the entrepreneur becomes cordial.

4. **Additional benefits:** More than finance the venture capitalist also helps the new firm in the field of marketing technology, Planning etc.

11.9.4 Advantages of Venture Capital

Venture capital has played an important role in exploring vast and untapped potentialities. It has promoted innovations in the field of business.

The main advantages of venture capital are:

1. In helps in the growth of industries.
2. It helps in technological innovations.
3. It helps in the growth of entrepreneurs.
4. It generates employment opportunities by promoting new ventures.
5. It also benefits the investors by allowing them to invest in a venture when it starts earning profit.

11.9.5 Venture Capital Instruments

The Various venture capital instruments available in India are enumerated below:

1. **Equity:** Venture Capital firms provide Equity with an Intention to ultimately sell them off to make capital gains. However, their contribution does not exceed 49% of the total equity capital. The effective control remains with the entrepreneur.
2. **Conditional loans:** It is a kind of a loan on which no interest is paid. The Venture capitalist is repaid in the form of royalty after the venture is able to generate sales. In India the rate of royalty ranges between 2% and 15% depending on several factors.
3. **Income note:** It is a kind of finance provides by the venture

capital firms on which the entrepreneur has to pay both interest and royalty on sales at substantially low rates. The rate of interest is not fixed and varies depending on the phases of development of the enterprise.

4. **Other instruments:** Participating debentures, partially convertible debenture and cumulative convertible preference shares are the other instruments of venture capital.

11.9.6 Banks and Venture Capital

The venture capital is comparatively new phenomenon in India. Initially public financial institutions started venture capital fund in India. Prominent among them are:

1. Risk Capital and Technology Finance Corporations Ltd promoted by the IFCI in 1975.
2. IDBI'S Venture Capital Fund set up in 1986.
3. ICICI Venture Fund Management Company promoted by ICICI along with the UTI in 1988.
4. SIDBI"S Venture capital fund set up in 1992-1993.
5. Apart from these Venture Capital Funds certain commercial banks have also set up Venture Capital funds through their subsidiaries.

   Some of these are:

   i. SBI Venture Capital Fund (By SBI Capital Market)

   ii. Can Bank Venture Capital Fund.(By Can Bank Financial Services Ltd)

   iii. India Investment Fund (By ANZ Grind lays Bank now known as Standard Chartered bank)



CHECK YOUR PROGRESS

Q11: State True/False:

a. Venture Capital is a short term investment. .....(True/ False)

b. Risk Capital and Technology Finance Corporations Ltd promoted by the IFCI in 1975. (True/ False)

c. The venture capitalist directly purchases shares or convertible securities of the new venture.(True/ False)

d. Venture capital is a type of non-financial service. (True/ False)

11.10 EXPORT FINANCE

The Commercial banks, the major source of export finance in India, provide finance before shipment of goods as well after shipment of goods.

A. **Pre-shipment Finance:** Pre-shipment finance refers to finance extended to purchase, processing or packing of goods meant for exports. It is in the form of packing credit facility. Packing credit is bank advance provided to an exporter for the purpose of buying, manufacturing, packing, and shipping goods to foreign buyers. Packing credit is a short term credit which is normally required to be liquidated within 180 days by negotiation of export bills or receipts of proceeds for exports.

There are three broad types of packing credit:-

a. *Clean packing credit* – It represents an advance made to the exporter on the basis of a firm export order or a letter of credit, without any control over raw materials.

b. *Packing credit against Hypothecation of goods*- the goods meant for exports are hypothecated to the bank a security. When the bank advance is to be utilized the exporter are required to furnish stocks statements and continue to do so whenever is stock movement.

c. *Packing Credit against Pledge of Goods*- The goods meant for export are pledged to the bank with an arrangement with an approved clearing agent who ships the same on the advice of the exporter.

B. Post-shipment finance: Financial assistance extended after the shipment of exports falls within the scope of post shipment finance. The finance provided after the shipment may be in the following forms.

a. *Purchase or Discounting of Documentary Export Bills*- A Commercial Bank may purchase export bills drawn payable at sight covering confirmed sales and supported by relevant documents like the bill of lading, post parcel receipts etc.

b. *Advance Against Export Bills Sent for Collection*- A commercial bank may provide finance by way of advance against export bills forwarded through it for collection after taking into account appropriate margin.

c. *Advance Against Duty Drawbacks, Cash Subsidy etc.*- To help the exporters, banks advancer against duty drawbacks, cash subsidy, etc., receivable by them i.e., exporters against their exports. Since such advances are clean in nature, the bank providing finance in this way generally insists that the relative export bills are either negotiated or forwarded for collection through it so that it can verify the exporter's claims for duty drawback, cash subsidy etc. such advance, short term in nature, is repayable within 180 days from the date of shipment of goods.

THUS, PRE SHIPMENT FINANCE- It is the finance required by the exporter for the purpose of purchasing, processing, manufacturing, packing and shipping the goods destined for export. It is in fact short term working capital finance.

THUS, POST SHIPMENT FINANCE -Loan or advance granted to an exporter from the time of shipment of goods to the time of realization

including against the security of duty draw back or any receivable from the govt.

11.10.1 Importance of export finance

"Export or perish" Our imports are more than exports. Hence there is a necessity to encourage exports. Govt. and RBI extend various concessions to boost exports.

Steps taken by Government of India to boost export finance-

Some of the concessions include:

a. Cheap credit to exporters.
b. Minimum of 12% of net credit should go to exports.
c. Refinance to Banks on eligible portion of export credit outstanding.
d. ECGC guarantee for export credits
e. No margin requirements for advance against export receivables.
f. Flexible approach to export lending and norms of lending.
g. Time norms for disposal of application for export credit.
h. Rejection with the concurrence of next higher authority
i. Bifurcation of WC limits into loan and cc component after excluding export limits.
j. Issue of Gold Card to exporters with good track record.

11.10.2 Exim Bank Finance

The Exim bank was set up to provide export and import finance to co-ordinate with others providing such finance and to promote the countries foreign trade. The bank has some borrowings from the central governments at a concessional rate of interest.

Presently the EXIM Bank has the following schemes of assistance:

a. Direct Financing of Exporters: It is provided to the Indian exporter so that he can in turn extend credit to overseas importers of capital goods made in India.

b. Financing of Export of technology and consultancy Services: It can also extend credit to the overseas importers.

c. Overseas Investment Finance: The EXIM Bank provides credit to the Indian exporter to enable him to finance his equity contribution in a joint venture abroad.

d. Overseas Buyer's Credit: The EXIM Bank provides the overseas buyer with deferred credit for purchase of Indian capital goods.

e. Lines of Credit: The Bank provides credit to the financial institutions, foreign Governments and agencies for 'On-Lending' to buyers for purchase of goods from India.

f. Refinance of Export credit: It provides refinance to commercial banks in India, authorized to deal in foreign exchange so that they can offer concessional finance to Indian exporters of Capital goods.

g. Export Bills Discounting: This facility is also provided to the commercial banks dealing in foreign exchange to enable them to fund Post-shipment export credit to Indian Exporters.

11.10.3 Forfeiting

Forfeiting has emerged as a popular method of finance export receivables. Basically it refers to non-recourse discounting of medium term (1-5 years) export receivables. The exporter here surrenders without recourse to him, his rights to claim for payment of goods delivered to an importer, in return for immediate cash payment from the forfeiter.

The advantages of forfeiting from exporters point of view are as follows:

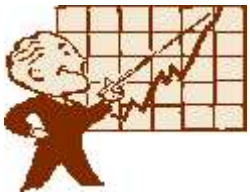
a. It provides finance up to 100 percent of the export value as compared to 80-85%

b. It provides fixed rate finance. The exporter is protected from the interest and exchange rate risks arising from deferred export credit.

c. It relieves the exporter of credit administration and collection problems.

d. It does not impact the Exporters borrowing limits from banks.

Thus, forfeiting serves as an additional source of finance.



CHECK YOUR PROGRESS

Q12. Give two significance of Term Loans?

.....

.....

.....

.....

.....

Q13. Mention three Venture Capital Instruments.

.....

.....

.....

.....

Q14. What is Export Finance?

.....

.....

.....

.....



11.11 LET US SUM UP

In this unit, we have learnt about financial planning, its needs and importance. Various sources of short term finance.

Detail description of Capitalisation and its effect to various section of the society.

We have also gone through the various aspects of Term Loans and discussed about the function of venture Capitalists and various instruments of it.



11.12 FURTHER READING

1. Chandra Prasanna (2017); *Financial Management: Theory and Practice*;McGraw Hill Education; Ninth edition
2. I M Pandey (2016); *Financial Management;* Vikas Publishing House; 11th edition
3. Chandra Prasanna (2017); *Fundamentals of Financial Management*; McGraw Hill Education; 6 edition
4. M Y Khan (2017); *Financial management*; McGraw Hill Education; Seventh edition



11.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: The sources of finance are:

a. Long Term Finance
b. Medium Term Finance
c. Short Term Finance

Ans to QNo. 2: A Financial plan is a statement estimating the amount of capital and determining its composition.

Ans to QNo. 3: a. public deposits b. client
c. deferred incomes d. cheaper

Ans to QNo. 4: The capital structure of a company may consist of any of the following forms:

i. Equity Shares only
ii. Equity and Preferences Share
iii. Equity Shares and Debentures
iv. Equity Shares, Preferences Shares and Debentures.

Ans to QNo. 5: The important theories of capital structure are:

i. Net Income Approach
ii. Net Operating Income Approach

iii. The Traditional Approach

iv. Modigliani and Miller(MM)Approach

Ans to QNo. 6: The term loan is popularly used to denote the granting of an advance in lump sum, usually on the basis of some acceptable securities

Ans to QNo. 7: a. True b. False c. False d. True

Ans to QNo. 8: The application of planning in finance which is an important function of business is known as financial planning.

Ans to QNo. 9: Over - Capitalisation and Under - Capitalisation.

Ans to QNo. 10: Public deposits and Commercial banks.

Ans to QNo. 11: a. True b. False c. False d. True

Ans to QNo. 12: The two significance of Term Loans are:

a. It is an importance source of finance because of easy availability and its cheapness.

b. It satisfies the need of the borrower.

Ans to QNo. 13: Equity, Conditional Loans and Partially Convertible Debenture

Ans to QNo. 14: Export finance is to finance the Export Receivables.



11.14 MODEL QUESTIONS

1. What is financial planning?
2. Explain the various sources of Finance?
3. Point out the differences between over and Under Capitalisation.
4. What is Pre-Shipment and Post –Shipment Finance?
5. Write a note on Export finance and state its significance.

UNIT 12: FRANCHISING

UNIT STRUCTURE

12.1 Learning Objectives
12.2 Introduction
12.3 Definition of Franchising
12.4 Classification of Franchising
12.5 Features of Franchising
12.6 Types of Franchising
12.7 Advantages of Franchising
12.7.1 The advantage to the Franchisee
12.7.2 The advantage to the Franchisor
12.8 Disadvantages of Franchising
12.8.1 The disadvantages to the franchisee
12.8.2 The disadvantages to the Franchisor
12.9 The Franchise Agreement
12.10 Franchising in India
12.11 Laws regarding Franchising
12.12 Let Us Sum Up
12.13 Further Reading
12.14 Answers To Check Your Progress
12.15 Model Questions

12.1 LEARNING OBJECTIVES

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

- describe the concept of franchising
- discuss the ways franchising can be used
- explain the franchising agreement
- explain the effect of capitalisation
- have a detailed idea about venture capital and export finance.

12.2 INTRODUCTION

In this unit we are going to discuss on concept of franchising, its features and types. Franchising is a business system in which a Parent

Company grants selected retailers the right to sell its goods or services to use certain products, names or brands or to manufacture certain products.

In simple terms, it is the granting of certain rights by one Party (the franchisor) to another (the franchisee) in return for a sum of money. The franchisee then exercises those rights under the guidance of the franchisor.

Again at the end of this unit, we will get a fair idea on Franchising Agreement, Laws regarding Franchising, Franchising in India.

12.3 DEFINITION OF FRANCHISING

According to David .D. Settz, " A Franchise is a form of business ownership created by contract whereby a company grants a buyer the right to engage in selling or distributing its products or services under a prescribed business format in exchange for royalties or share of profits. The buyer is called the Franchisee and the Company that sells rights to its business concept is called the Franchisor."

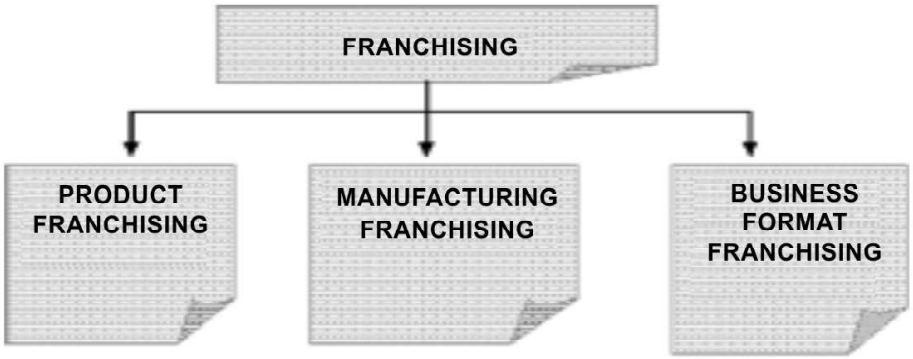
In crude commercial terms the reason for both the franchisor and franchisee entering into a contractual relationship with each other is to make a profit. The franchisee makes a profit from supplying the goods or services to the customer. The franchisor makes it from allowing the franchisee to use its package of know-how and intellectual property rights. There is a written agreement between the franchisor and the franchisee which lays down the terms and condition of sale by the franchisee. A franchisor can have arrangements with more than one franchisee to increase sales. The popular example of franchise stores are Mc. Donald (Fast food chains), Liberty (Shoe Stores) and NIIT (computer Centre).

The terms and conditions of the contract vary widely, but usually the franchisor offers to maintain a continuing interest in the business of the franchisee in such areas as location, site selection, training of staff, marketing, record keeping, and promotion. The franchisor also allows the use of the brand or trade name, window display, standardized operating procedure etc. to the franchisee. In return the franchisee is

eager to operate under the conditions set forth by the franchisor. For the help and services provided the franchisee makes a capital investment in business and he also agrees to pay a specified fee or commission or royalty. The real beauty of franchising is its adaptability. There are a number of classic forms of franchising which are usually sufficient to meet most demands. However, there are always some situations that present new challenges. Franchising can usually be adapted to meet these.

12.4 CLASSIFICATION OF FRANCHISING

Franchising arrangements are broadly classified into three types. There are; (a) product franchising (b) Manufacturing franchising (c) Business franchising



a. *Product franchising* is very popular in the petroleum and automobiles industries.
b. *Manufacturing franchising* is popular in food and beverage industry.
c. *Business format franchising* is a recent type of franchising and is the most popular one at present. It provides wide range of services to the franchisee including training, advertising, planning, etc.

12.5 FEATURES OF FRANCHISING

The salient features of Franchising are as follows:

1. **Written agreement:** The agreement between the Franchisor and the franchisee must be in writing.
2. **Transfer of right:** Franchising is a right transferred by the franchisor to the franchisee to use or sell a product or service.
3. **Area of operation:** The area is specified by the franchisor.
4. **Renewal contract:** A franchising contract is not a continuing contract. It is subject to termination and renewal.
5. **Consideration:** Franchising agreement is always made on payment of a consideration to acquire the right. A franchisee has to pay 'security money' or license fee at the time of contract and then a regular fee.
6. **Appointment of franchisee:** A franchisor can appoint more than one franchisee to increase sales.
7. **Imposing of restriction:** A number of restrictions are imposed upon the franchisee by the franchisor. The franchisor exercises a high degree of control over the franchisee.



CHECK YOUR PROGRESS

Q1: What are the three types of franchising?

.....

.....

.....

.....

Q2: Discuss four features of franchising?

.....

.....

.....

.....

12.6 USES OF FRANCHISING

In simple terms there are four ways in which it can be used.

1. **Creation of a new business specifically for franchisors:** An entirely new product or service can be created specifically for franchising. This has been done with businesses such as Snappy Snaps in the UK - which provides 1 hour film processing services and retails associated products such as picture frames and the like in the high street. Dub check is another example; it operates a contract cleaning business. Very often a local businessman identifies a successful franchised concept in another market such as the USA, and decides to create a similar concept in his own jurisdiction.
2. **Development of an existing business:** This is perhaps the most usual way of evolving a franchise. An existing product or service is further developed by use of the franchising method. Such businesses include the Dyne-rod drain cleaning business, the restaurant businesses and so on.
3. **Conversion of existing business to the franchise format:** Sometimes an established business can decide to convert its managed outlets to franchised outlets. The Thresher off-license chain in the UK is a good example of this. Such decisions are usually taken because of a desire to accelerate growth and reduce overheads without sacrificing quality control.
4. **Importation:** This is a very common method of evolving a franchise in the specific territory. The United States is the great exporter of franchise concepts around the world. Brands such as KFC, Holiday Inns, Hilton Hotels, Pizza Hut and McDonalds are all American exports. Body Soap is an example of a British franchise that has established itself around the world.

12.7 ADVANTAGES OF FRANCHISING

Advantages of franchising can be classified as:

a. Advantages to franchisee b. Advantages to franchisor

12.7.1 The Advantage to the Franchisee

1. **Easy entry to business:** Buying a franchise is easier and safer than trying to start a business. The franchisee gets an already market tested business format from the franchisor.
2. **Recognition:** A well- established franchise brings with it the very important advantage of recognition. The franchisees can encash the brand name of the franchisor and in the process can make commercial gain.
3. **Proprietor of own business:** The franchisee is the proprietor of its own business and owns the tangible assets of the franchise outlet. Like any other business proprietor the franchisee buys materials, pays rent and staff salaries and takes the profit of operation, less royalty and service fees.
4. **Better Negotiation:** With the backing of a known trading name of the franchisor, the franchisee finds himself in a better position to negotiate successfully with third parties. Subject to various restrictions, it can sell its business when it wishes (usually subject to the franchisor's pre-emption right and on condition that the purchaser is approved by the franchisor). And also because of the goodwill or reputation of the franchisor, there are better prospects of obtaining loan facilities by the franchisee.
5. **Assistance and guidance:** A franchisee gets promotional, technical and managerial assistance from the franchisor. It gains from the franchisor the entire business concept with full training, assistance in every aspect of setting up and

running the business, and access to necessary materials and supplies.

6. **Less chances of failure:** It can be said that the franchisee does not have to worry about what to do or how to do it, but merely follow the developed concept and a well- tested franchise reduces the chances of failure.

According to the UK's Department of Employment over 25% of ordinary businesses fail whilst the BFA (British Franchising Association) quotes the failure for only 5% of franchised outlets.

12.7.2 The Advantage to the franchisor

1. **Increasing outlets:** The main advantage of franchising to the franchisor is that it allows the latter to increase its number of outlets with minimum capital outlay and so accelerate the network's growth and probably its profitability.
2. **Expansion of business:** A franchisor can expand his market by appointing franchisees and in that case he need not incur any expenditure in the form of opening new branches. Self-employed franchisees are generally more highly motivated than salaried managers, and are more likely to produce better results for less expenditure of capital on behalf of the franchisor.
3. **Less staff:** Less staff will mean fewer personnel problems. As the franchise network grows it will become easier to handle national or regional customer accounts.
4. **Source of income:** The franchisor receives non –refundable 'security money' or license fee as initial consideration and regular royalty.
5. **Wider acceptability:** The franchisor gains wider acceptance of its brand name through the franchisees.
6. **Benefit of feedback:** The franchisor can get the pulse of the market that is the consumer's tastes, preferences, etc. through the franchisees.

7. **Controlling power**: Under franchising agreement the franchisor is allowed to exert real control over the franchisees. The franchisor can exercise a high degree of control over the franchisee.



CHECK YOUR PROGRESS 2

Q3: Fill in the blanks

a. KFC, Pizza Hut and McDonalds are all ..... …….. exports

b. The franchisee is the …….. of its own business

c. A franchisee gets promotional, …….. assistance from the franchisor

d. BFA stands for……

Q4: What are the uses of franchising?

.....

.....

.....

.....

12.8 DISADVANTAGES OF FRANCHISING

Disadvantages of franchising can be classified as:

a. Disadvantages to franchisee

b. Disadvantages to franchisor

12.8.1 The Disadvantage to the Franchisee

1. The franchisee is not an independent entrepreneur. In the final analysis the franchisee must follow the franchisor's instructions.
2. The lower risk is off-set by the lower reward for success.
3. A number of restrictions imposed by the franchisor may relate to remain confined to product line.
4. They find no room or scope for enjoying their creativity.

5. The franchisee usually does not have the right to transfer his business to a member of his family without the approval of the franchisor.
6. Constant fear of non- renewal of franchise agreement because the franchisor reserves the option to buy back an outlet upon termination of the contract.

12.8.2 The Disadvantage to the Franchisor

1. The disadvantage of franchising to the franchisor is that it has to control and co-ordinate a network of semi-independent businessmen and has ensures that they build and maintain a favorable image for the whole franchised operation. This means that the franchisor's own role changes drastically.
2. The policing and monitoring of standards by the franchisor is vital but can at times be difficult.
3. The franchisor will sometimes have to resort to the use of both carrot and stick to get franchisor to try new techniques or improve their current performance.

12.9 THE FRANCHISE AGREEMENT

The following comments generally apply not only to unit franchises but also to development and master franchise agreements, unless expressly stated otherwise.

1. **The Grant:** A franchise involves the franchisor in granting the franchisee certain rights over a certain area for a specified period. Exactly what those rights, the area and period are is a matter of negotiation between the franchisor and the intending franchisee. Little, if anything, is open to negotiation with domestic franchising.
2. **System and intellectual property rights:** Any franchise agreement must permit the franchisee to use the franchisor's system together with its name and trade marks. Clauses protecting this intellectual property and ensuring that the franchisees do not abuse it.
3. **Territory:** It is usual for the franchisee to want as large an area

as possible so as to give it the largest possible return on its investment. The franchisor, however, must only decide upon what territory it is willing to grant after taking account of a number of criteria concerning the territory and the franchisee.

The territory should be one geographical, political, cultural and economic unit, which allows a planned approach to development of the franchise. The geographical distance, cultural and political differences need to be taken into account when deciding upon the size of the territory. Inadequate resources will by necessity mean that the whole territory will not be systematically exploited and will be limited, not by the suitability of the system to the territory, but by the franchisee's inability to properly expand it. It is therefore necessary to vet carefully the potential sub-franchisor/developer by way of bank and trade references and company searches.

Incorporation of any business plan into the development schedule will help encourage a realistic approach to it by the franchisee and so enable the franchisor to gauge its resources more accurately.

4. **Exclusivity:** The franchisee will inevitably demand exclusivity in order to give it the comfort of knowing that it will not be in competition with a third party and that its investment is more secure. From the franchisor's point of view, exclusivity should not be objectionable so long as the franchisee has been properly vetted, the size of the territory sensibly decided and a proper development schedule agreed upon.

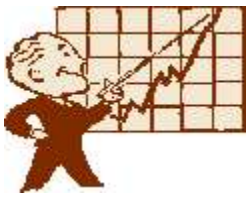
5. **Term and renewal:** It is common, but by no means universal, for franchisee agreements to be granted for a period of between five and ten years. Such a term is thought to be necessary in order for the franchisee to obtain a decent return on its investment. Generally, the grant of such a term is neither controversial nor legally difficult. In some jurisdictions however, there is a restriction imposed by the government upon the maximum possible term.

However, problems are common over the often vexed question of renewal and what happens to franchisees in the event of non-

renewal. There are various schools of thought on these issues but the reality is that by and large, international business format franchising is still in its infancy and the problems involved in renewal and non-renewal have not yet to be faced by many international franchisors.

The most difficult problem relates to the terms being granted to franchisees. Usually franchisees will be granted an automatic right of renewal subject to there being no existing breach and the franchisee updating its outlets as required by the sub-franchisor.

6. **Key man:** It may be that the franchisor is making the grant to the franchisee mainly because of the personal attributes of one of its key employees. In such a case it is essential that the agreement stipulates clearly the importance of that individual's role in the scheme of things. It is also vital that the grant is made conditional on the continued efforts and employment of that individual by the franchisee. Termination of the key man's full-time employment in the franchise should be a material breach of the terms of the grant and be grounds for termination.



CHECK YOUR PROGRESS

Q5: State True or False

a. .....The franchisee is an independent ..... entrepreneur.(T/F)

b. Franchisee agreements are granted for a period of between five and ten years.(T/F)

Q6: What are the main criteria for franchise agreements?

.....

.....

12.10 FRANCHISING IN INDIA

Franchising is in its early stages in India, but has become increasingly popular as a means of doing business in the past few years, both in terms of international franchises and domestic ones. As

a result, the Franchising Association of India was set up in Mumbai, in 2000 which has links with other such associations around the world. The Franchising Association is still considering whether it should have a Code of Conduct or whether they should press for specific legislation in relation to franchising. The difficulty with a Code of Conduct is that not all franchisors and franchisees are the members of the Association and it is difficult to enforce.

Regarding the background it can be said that, international soft drink and hotel franchises arrived in India as early as in the 1960s, but in 1977 the Government of the day had expelled foreign brands from India. The foreign brands started returning gradually from the mid '80s.

In the 1990's as the market opened, foreign franchises started coming in gradually, but had to face many hiccups along the way, especially KFC, Schweppes etc. Since then there has been progressive entry of international franchises of which, some have been successful and others not so fortunate. The well-known franchises relating to soft drinks, ice-cream parlors or restaurants include Pepsi, Coke, Baskin Robbins, Move pick, Subway, McDonalds, TGIF, Geoffrey's, Taco Bell, Pizza Hut, Pizza Piazza, Dominos Pizza, O'Brian's Sandwich Bar, Ruby Tuesdays and Barista. Retail franchises include Marks & Spencer, West Side, Vita Perini, Peep Jeans and Adams. Courier companies like Air Action and DHL are there along with computer and software related franchises. The Government has liberalized the rules and regulations in relation to the retail industry and a boom in this sector is on its way.

Franchising has also become a popular method of doing business within India with the franchisor granting numerous unit franchises in a wide range of areas. This has been the case in respect of IT education and franchises such as APTEC, NIIT, and STG. Then there are local food chains like Chawla's, Nirulas, Nilgiris, Coffee Day, Café Nescafe, and Sagar Ratna. Health clubs like VLCC have come up along with hair and beauty parlours who often sell their products like Shanaz Hussein, Biotique and Habibs. There are numerous cargo and courier companies like Blue Dart, ADL, Dartmail, Blaze Flash, First Flight, Professional

Couriers and DTDC. Clothing retail outlets especially for designer clothing include Bentley, L.F Couture, Ritu Beri and Deewan Sons. Other retail chains include Shopper's Stop, Lifestyle and Ebony. There are Indian travel agencies which now want to franchise abroad like Uniglobe or expand locally like Travel Port. Now the major area for local franchises seems to be healthcare with Apollo Hospitals and various diagnostic centres. Shanaz Hussein beauty saloons and products is already an international franchise, and slowly other Indian franchisors are likely to look to expand internationally with the easing of restrictions by the Government especially since 2000.

It took some time for international franchises to become acceptable because of certain attitudes of Indian businesses towards foreign franchises whereby they could not understand why the Indian party had to make all the investments in India and on top of that had to make hefty payments in foreign exchange to the Master franchisor. Indians feel the foreign franchisor or business should also invest, participate and have some interest in the development and success of the entire business. If the brand name is very well known world wide and the product is marketable in India, then the attitude can significantly change, as it is obvious that the local business would profit just by riding on the back of a well known brand. If the brand is well known in another country but not in India or to Indians travelling abroad, then it is difficult to convince an Indian businessperson to pay lump sum payments or royalties as its worth is not the same in India. That again can be overcome if the product or service provided by the franchise is in short supply in the country and important to its development. Market research and pilot projects can assist in assessing the prospects of any international franchise in India.

The lower the price a product or service can be sold at, the more customers they are likely to attract. Some products may be designed to appeal to the masses and other high price items can be marketed just for a select clientele like those in big business, professions, the film industry or celebrities.

Expensive cosmetics and beauty therapy from abroad is for the latter. The needs of the affluent has been met already with many expensive products in the market, however there is still scope in the retail sector for cheaper goods in terms of clothing or cosmetics.

In the soft drink and fast food sector, Coke, Pepsi, McDonald and Pizza Hut have already captured the mass market.

In many instances the products sold by the franchise outlets may have to be suitably tailored to local taste, which may go against the franchising concept or principle .In such cases the outlets should be identical, and a customer should find identical quality of goods. If one goes to a McDonalds or TGIF or Pizza Hut in India, the food tastes different and the menus are geared to local taste and culture. For instance, people like spicy food, and beef and pork have to be absent in the menu to avoid offending religious sentiments. In relation to Restaurants and pubs, even if families would like to go together, the licensing laws in many states prohibit the entry of persons less than 21 years to go to an eating place or restaurant where liquor is sold. Regarding the retail franchises involving clothing, the children's wear and men's wear are similar to those in any other western country except that the material has to suit the tropical climate and relatively milder winters. The women's fashion, however, is significantly different with the majority wearing salwar kameez or saris. Western clothes like suits, trousers, skirt and tops for women are becoming popular among teenagers and women in cosmopolitan areas of large cities.

12.11 LAWS REGARDING FRANCHISING

There is no specific legislation or rules applicable to franchising. There is considerable discussion going on now on whether disclosure laws should be introduced. It is advisable that parties disclose and exchange information on each other and due diligence is carried out before entering into a formal agreement.

There are remedies, however, under the Indian Contracts Act and Specific Relief Act for breach of contract or misrepresentation.

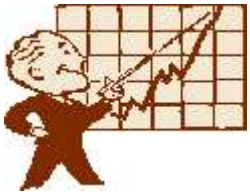
It is also advisable that the franchise is structured in such a manner that it fits around the rules and regulations and also best protects the interests of the parties. There are several Governmental permissions that would be required before an international master franchise can be granted in India. Payments for Master franchisors are best spread out between lump sum fees, royalties, consultant's fees, and design and engineering fees.

One needs to check the areas where incentives are given by the Government in terms of allowing more foreign shareholding, tax breaks and royalties. It is often in the area in which franchises exist, like in the hotel and tourism industry.

In relation to opening outlets in various parts of India, it is necessary to check the state and local laws relevant to the town or city.

The new Competition Act 2002 is aimed at promoting free trade and ending protectionism. The main areas that are dealt with by the Act are: the prohibition of anti-competitive agreements; prohibition of abuse of dominant position and regulation of combinations. This prohibits the franchisors and franchisees from entering into agreements, such as those involving tied sales, price fixing and other monopolistic trade practices. This Act interprets agreements in a very wide sense including all kinds of arrangements and understanding whether formal or informal, written or oral which has the desired effect, whether or not such arrangement, understanding or action is intended to be enforceable by legal proceedings.

For Indian master franchisors seeking to expand to other countries, significant positive changes have been made since the Foreign Exchange Regulation Act 1973 was replaced by Foreign Exchange Management Act 2000 and rules made under it. Still permissions have to be sought under the latter before doing business abroad and there are limits or caps regarding the foreign exchange available. It is much easier for Indian companies who are earners of foreign exchange and those that have foreign branches or subsidiaries.



CHECK YOUR PROGRESS

Q7: State True or False

a. The Franchising Association of India was set up in Mumbai in 2001. (True /False)

b. The well-known franchises relating to soft drinks include Pepsi, Coke. (True /False)

c. The new Competition Act 2002 is aimed at promoting free trade and ending protectionism. (True /False)

d. Foreign Exchange Regulation Act 1973 was replaced by Foreign Exchange Materials Act 2000. (True /False)



12.12 LET US SUM UP

In this unit we have learnt about how franchising is becoming popular as a means of doing business. We come to know about the pros and cons of the parties i.e. the franchisor and franchisee.

We also learn about the Franchising Agreement explaining the rights of the Franchisee, the Terms and other rules and regulations.

The chapter consists of the ways being explained about how Franchising can be used, and the ways it can be developed.



12.13 FURTHER READING

1. Business Organization and Entrepreneurship Development- By Sharma and Gupta

2. General Magazines for Business purpose.

12.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: Franchising classified into three types:

a. Product franchising

b. Manufacturing franchising

c. Business franchising

Ans to QNo. 2: Features of Franchising are as follows:

a. Written agreement

b. Transfer of right

c. Area of operation

d. Renewal contract

Ans to QNo. 3: a. American b. Proprietor

c. technical and managerial d. British Franchising Association

Ans to QNo. 4: There are four ways in which franchising can be used:

a. Importation

b. Creation of a new business specifically for franchisors

c. Development of an existing business

d. Conversion of existing business to the franchise format

Ans to QNo. 5: a. False b. True

Ans to QNo. 6: The main criteria for franchise agreements are as follows:

a. Key man

b. System and intellectual property rights

c. Territory

d. Exclusivity

e. Term and renewal

f. The Grant

Ans to QNo. 7: a. False b. True c. True d. False



12.15 MODEL QUESTIONS

1. Define Franchising. What are its features?
2. Explain the different types of Franchising?
3. Write a note on Franchising in India.
4. Point out Five Advantages of Franchising to the Franchisor.
5. Point out Five Disadvantages of Franchising to the Franchisee.
6. What is the significance or importance of Franchising?
7. Discuss the laws relating to franchising?

UNIT 13:INDUSTRIAL FINANCE TO ENTREPRENEURS

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Concept of Commercial bank

13.4 Concept of other development financial institution.

- 13.4.1 Industrial Development Bank of India (IDBI)
- 13.4.2 Industrial Reconstruction Bank of India (IRBI)
- 13.4.3 Life Insurance Corporation of India (LIC)
- 13.4.4 State Financial Corporations (SFCs)
- 13.4.5 State Industrial Development Corporations (SIDC's)
- 13.4.6 Small Industries Development Bank of India (SIDBI)
- 13.4.7 Export Import Bank of India (EXIM BANK)
- 13.4.8 National Bank for Agriculture and Rural Development (NABARD)
- 13.4.9 Industrial Finance Corporation of India Ltd. (IFCI)
- 13.4.10 Unit Trust of India (UTI)

13.5 Let Us Sum Up

13.6 Further Reading

13.7 Answers To Check Your Progress

13.8 Model Questions

13.1 LEARNING OBJECTIVES

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

- explain the types of financial assistance provided by commercial banks to the small entrepreneurs
- list the various financial institutions which provide financial assistance with the types of assistance to the entrepreneurs in the country.

13.2 INTRODUCTION

In this unit we are going to discuss about, how other financial institutions provide financial assistance to entrepreneurs. We have

discussed about different financial institutions like, IDBI, IRLI, LIC, SIDBI, NEDFI, NABARD etc. These institutions provide financial assistance and guidance to different small scale entrepreneurs. Government also provides various supports to such entrepreneurs. This unit will explain the functioning of commercial bank and different financial institutions.

13.3 CONCEPT OF COMMERCIAL BANK

The Scheduled Commercial Banks (SCBs) in the country (288) comprise the State Bank of India (SBI) and its associated banks (8), nationalised banks (19), private sector banks (32), regional rural banks (RRBs) (196) and foreign banks (23). During 1994-95, ten more banks were given the status of SCBs and one, viz. Bank of Karad which was taken over by Bank of India was excluded. As on March 31, 1995, the total number of branches of SCBs stood at 62,067, of these 35,060 (56.5% of the total) were in rural areas. The commercial banks started taking initiation in financing SSIs in a greater way only after the bank nationalisation in July 1969. Normally, the commercial banks provide assistance for working capital requirements of SSIs. A notable feature in the financing of SSIs has been the introduction of the 'Lead Bank Scheme' by the RBI. Under this scheme, each district has been allotted to one scheduled commercial bank for intensive development of banking facilities.

The introduction of 'Credit Guarantee Scheme', in 1960, was a big fillip in the field of commercial bank financing to SSIs. Initially, this scheme was introduced in 22 districts on experimental basis. Later, it was extended to all over the country. Based on the recommendations of the Committee, the RBI introduced a special package of measures for financing SSIs and advised banks to take various measures aimed at increasing the credit flow to the SSIs and arresting the problem of sickness in small-sector.

13.4 CONCEPT OF OTHER FINANCIAL INSTITUTIONS

13.4.1 Industrial Development Bank of India (IDBI)

V.V. Bhatt rightly pointed out that the country needed a central development banking institution for providing "dynamic leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialisation"2. It was to fulfil this objective, the Government decided to establish the Industrial Development Bank of India (IDBI). The IDBI was established on July 1, 1964 under the Act of Parliament as the principal financial institution in the country. Initially, it was set up as wholly owned subsidiary of the Reserve Bank of India. In February 1976, the IDBI was made an autonomous institution and its ownership passed on from the Reserve Bank of India to the Government of India.

The IDBI provides assistance to the small-scale industries through its scheme of refinance and, to a limited extent, through its bills rediscounting scheme. In 1988, the IDBI also launched the National Equity Fund Scheme (NEFS) for providing support in the nature of equity to tiny and small-scale industries engaged in manufacturing, cost not exceeding Rs. 5 lakhs. The IDBI has also introduced the single window assistance scheme for grant of term loans and working capital assistance to new, tiny and small scale enterprises. Last but no means the least, the IDBI has also set up a Voluntary Executive Corporation Cell (VECC) to utilize the services of experienced professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

In order to make the IDBI's co-ordinating role more effective, the Narasimham Committee has suggested that the IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other institutions like SFCs and SIDBI, etc.

13.4.2 Industrial Reconstruction Bank of India (IRBI)

The Government of India set up the Industrial Reconstruction Corporation of India (IRCI) in April 1971 under the Indian Companies

Act mainly to look after the special problems of 'sick' units and provide assistance for their speedy reconstruction and rehabilitation. In August 1984, the Government of India passed an Act covering the Industrial Reconstruction Corporation of India (IRCI) into the Industrial Reconstruction Bank of India (IRBI). The IRBI has to function as the principal all-India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns.

Formerly IRCI had extended assistance to sick closed industrial units in textiles, engineering, mining and foundary industries. Now IRBI extends assistance to sick small-scale units also.

The IRBI had diversified its activities into ancillary lines such as consultancy services, merchant banking and equipment leasing. All these activities are allied to its task of rehabilitation of sick industrial units. Through its consultancy services, IRBI attempts to help banks and financial institutions to assess intrinsic worth of sick units which are seeking assistance for revival. Through its merchant banking services, IRBI enables units in the process of amalgamation, merger and reconstruction. Equipment leasing was, in fact, an extension of the IRBI hire-purchase scheme.

13.4.3 Life Insurance Corporation of India (LIC)

The Life Insurance Corporation of India (LIC) was established under the LIC Act in 1956 as a wholly-owned corporation of the Government of India, on nationalisation of the life insurance business in the country. LIC offers a variety of insurance policies to extend social security to various segments of society. It has been deploying its funds in accordance with plan priorities.

As per its investment policy it invests 75% and above of the accretion to its Controlled Fund in Central and State Governments' securities including government-guaranteed marketable securities and in the socially oriented sectors. It also provides loans for various purposes like housing, water supply, rural electrification,

etc. to benefit individuals and groups. LIC also provides term loans and underwriting/direct subscriptions to shares and debentures of corporate sector

During 1994-95, assistance sanctioned to corporate sector stood at Rs. 113 crore. The private sector claimed the higher share (57.8%) in total sanctions. It was distantly followed by public sector (34.1%) and co-operative sector (8%). As regards the purpose-wise assistance sanctioned, the new projects claimed maximum share of 37.3% in total sanctions, followed by expansion/ diversification (31.2%) and modernisation/ rehabilitation/balancing equipment (12.4%).

13.4.4 State Financial Corporations (SFCs)

The Industrial Finance Corporation of India (IFCI) set up in 1948 used to provide financial assistance to only large-sized industrial undertaking. In order to cater the financial requirements of a large number of small-scale units, the State Financial Corporation Act was passed by the Parliament on September 28, 1951 under which the State Financial Corporations (SFCs) could be set up. The first SFC was set up in Punjab in 1953. Today, there are in all 18 SFCs in the country which exist almost in every State and Union Territory (UT) of the country. Of these 17 are set up under the SFCs Act, 1951. The Tamil Nadu Industrial Investment Corporation Ltd., established in 1949 under the Companies Act as Madras Industrial Investment Corporation, also functions as a full-fledged SFC. The management of the State Financial Corporation is similar to that of the IFCI. It has a board of directors, a Managing Director and an Executive Committee. An SFC can open its offices at different places within the State.

The main functions of SFCs has been to provide long-term finance to small and medium sized industrial units organised as proprietary, partnership, co-operative, public or private company concerns. Its other functions are to undertake the issue of stock, shares, bonds

or debentures of industrial concerns and to grant loans and advance to industrial concerns repayable within a period not exceeding 20 years. They also subscribe to debentures floated by the industrial concerns. SFCs also grant financial assistance to small road transport operators, hotels, tourism-related activities, hospitals and nursing homes, etc.

13.4.5 State Industrial Development Corporations (SIDCs)

The State Industrial Development Corporations (SIDCs) were incorporated under the Companies Act, 1956, in the sixties and early seventies as wholly-owned State Government Undertakings for promoting industrial development.

The main functions of SIDCs are to provide assistance in the form of term-loans, underwriting direct subscription to shares/ debentures and guarantees. They also under¬take a variety of promotional activities like preparation of feasibility reports, conducting industrial potential surveys, entrepreneurship development programmes and developing industrial estates. Some SIDCs also offer a package of developmental services such as technical guidance, assistance in plant locations and co-ordination with other agencies. In line with the changing environment, many SIDCs are making efforts to diversify and entering into the fields of equipment leasing, merchant banking, venture capital and mutual funds.

There are 28 SIDCs in the country. Aggregate to assistance sanctioned by all SIDCs during 1994-95 amounted to Rs. 1511 crore and disbursements accounted for Rs. 984 crore.

13.4.6 Small Industries Development Bank of India (SIDBI)

With a view to ensuring larger flow of financial and non-financial assistance to the small-scale sector, the Government of India set

up the Small Industries Development Bank of India (SIDBI) under a special Act of the Parliament in October 1989 as a wholly-owned subsidiary of the IDBI. The Bank commenced its operations from April 2, 1990 with its head office in Lucknow. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small-scale sector worth over Rs. 4,000 crores. The authorised capital of SIDBI is Rs. 250 crores with an enabling provision to increase it to Rs. 1,000 crores.

The important functions of SIDBI are as follows:

(1) To initiate steps for technological upgradation and modernisation of existing units.

(2) To expand the channels for marketing the products of SSI sector in domestic and international markets.

(3) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

The year wise sanctions and disbursement made by the SIDBI since its establishment are :

Assistance Sanction and Disburse

(Rs. Crore)

Year	*Sanctions*	*Growth Rate%*	*Disbursements*	*Growth Rate%*
1990-91	2408.7		1838.5	
1991-92	2846.0	18.2	2027.4	10.3
1992-93	2908.4	2.2	2145.8	5.8
1993-94	3354.1	15.3	2671.3	24.5
1994-95	4699.3	40.1	3385.3	26.7
Cumulative up to end-March1996	16216.4		12068.2	

13.4.7 Export-Import Bank of India (EXIM Bank)

The Export-Import Bank of India, commonly known as the EXIM bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers to promote India's foreign trade. It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

The important functions of the EXIM Bank are as follows:

(1) Financing of exports and import of goods and services both of India and of outside India.

(2) Providing finance for joint ventures in foreign countries.

(3) Undertaking merchant banking functions of companies engaged in foreign trade.

(4) Providing technical and administrative assistance to the parties engaged in export and import business.

(5) Offering buyers' credit and lines of credit to the foreign governments and banks.

(6) Providing advance information and business advisory services to Indian exporters in respect of multilaterally funded projects overseas.

With a view to promote, exports, EXIM Bank has introduces three schemes. These are :

(i) Production Equipment Finance Programme.

(ii) Export Marketing Finance.

(iii) Export Vendor Development Finance.

13.4.8 National Bank for Agriculture and Rural Development (NABARD)

NABARD provides industrial finance by way of refinance for artisans, village and cottage industries and other allied activities. It provides accommodation to state co-operative banks for financing

apex regional weaver's societies in marketing or working capital for procurement of cloth. Refinance facility is also provided for financing working capital requirements of wire-making co-operatives in Kerala. NABARD provides refinance to financial institutions under the Integrated Rural Development Programme (1RDP). It also provides refinance to banks against their term lending for seri-agricultural activities comprising cultivation, rearing of cocoons and purchase of appliances. NABARD also has a Soft Loan Assistance Fund Scheme to provide margin money to the prospective entrepreneurs.

13.4.9 Industrial Finance Corporation of India Ltd. (IFCI)

The Government of India set up the Industrial Finance Corporation of India (IFCI) under IFCI Act in July 1948. Since July 1,1993, it has been brought under Companies Act, 1956. The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, underwriting/direct subscriptions to shares/ debentures and guarantees and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies. It also provides merchant banking with its Head Office in Delhi and a bureau in Bombay.
The financial resources of the IFCI are constituted of the following three components: (i) Share capital, (ii) Bonds and Debentures; and (iii) Other Borrowings. Its paid-up capital as on March 31, 1995 stood at Rs. 352 crore from an initial of Rs. 5 crore in 1948. The IFCI started its lending operations on a modest scale in 1948. The operations of the IFCI have grown over the years and so have its assistance. Assistance sanctioned by the IFCI during 1994-95, rose by 52.7% to Rs. 5719 crores. Assistance disbursed went up by 31.2% to Rs. 2839 crore during the year. Cumulatively, upto end-March 1995, the IFCI's sanctions amounted to Rs. 24,599 crore, while disbursements aggregated Rs. 15,387 crore.

In recent years, the IFCI has started new promotional schemes, such as (a) interest subsidy scheme for women entrepreneurs; (b) consultancy fee subsidy schemes for providing marketing assistance to small-scale industries; (c) encouraging the modernisation of tiny, small-scale ancillary units; and (d) control of pollution in the small and medium-scale industries.

No doubt, the IFCI has experienced impressive performance over the years. At the same time, it is also true that there are certain flaws in its functioning which have invited criticism from different quarters. To quote, the important ones are: (i) The IFCI's lending operations have encouraged concentration of wealth and capital. It still pursues a discriminatory policy to the disadvantage of medium and small-scale units, (ii) There are great delays in sanctioning loans and, then, making the amount of the loan available, (iii) The IFCI has failed to exercise necessary control over the defaulting borrowers.

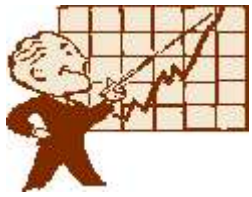
13.4.10 Unit Trust of India (UTI)

The Unit Trust of India (UTI), established under an Act of Parliament in 1964, mobilizes savings of small investors through sale of units and channelises them into corporate investments. Over the years, the UTI has introduced a variety of schemes to meet the need of diverse sections of investors. The UTI also provides assistance to the corporate sector by way of term-loans and underwriting/ direct subscription of shares/ debet ures.

During the year 1994-95, the UTI launched nine new schemes/ plans aimed mainly at common investors. These, among others, included open-ended schemes like Grihlakshmi Unit Plan, Retirement Benefit Plan, Primary Equity Fund, Unit Scheme 1995 (targeted at corporate unvestors) and Columbus India Fund.

Overall assistance sanctions, during 1994-95, to corporate sector stood at Rs.7,677 crore and disbursement aggregated Rs.4,791 crore. About three-fourth of the sanctions were by way of

underwriting/direct subscription to shares and debenture. Cumulatively, up to end-March 1995, assistance sanctioned and disbursed by the UTI to corporate sector amounted to Rs. 39,642 crore and Rs. 29,285 crore respectively. During 1994-95, more than nine-tenth (90.4%) of the total assistance sanctioned by UTI was accounted for by private sector and the remainder (9.6%) by public sector. It is worth noticing that while private sector showed a marginal increase of 6.1% in sanctions, public sector experienced a big decline of 56.4%.



CHECK YOUR PROGRESS

Q1: State true/ false for the following statements:

a. Export Marketing Finance is one of the schemes of EXIM BANK. (True/False)

b. The IDBI provides assistance to the small-scale industries through its scheme of refinance. (True/False)

c. IFCI was set up under IFCI Act in July 1948. (True/False)

d. LIC was established under the LIC Act in 1958. (True/False)



13.5 LET US SUM UP

In this unit, we have discussed the following

- The small-scale entrepreneurs lack sufficient finance to run their enterprises, the Government has set up a number of financial institutions – both at the Central and State level.
- The important types of assistance are – term finance, refinance, working capital finance, export finance etc.

- The basic purpose of the assistances is to boost development of small-scale enterprises in the country.



13.6 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



13.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: a. True b. True c. True d False.



13.8 MODEL QUESTIONS

1. Discuss the role of Industrial Development Bank of India in financing small enterprises in the country.
2. What are the main functions of SIDBI? Discuss the various types of assistances the SIDBI provides to small enterprises.
3. Why was EXIM BANK set up? Discuss the various types of

assistances the Bank provides to the entrepreneurs engaged in export and import business in India?

4. Give an account of financial assistance provided by the IFCI to small entrepreneurs/ enterprises in India.

UNIT 14 : SMALL ENTERPRISES IN INTERNATIONAL BUSINESS AND ELECTRONIC COMMERCE & SMALL UNITS

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Export Promotion and Trends of Small Enterprises

14.4 Concept of Major Constraints

14.5 Concept of Export Potentials of Small-Scale Units.

14.6 Suggestions to Improve Exports

14.7 Meaning of E-commerce

14.8 Concept of Evolution and Growth

14.9 Benefits of E-commerce

14.10 Suitability of E-commerce for Small Units

14.11 Prospective Areas for E-commerce

14.12 Challenges Faced by E-commerce

14.13 Let Us Sum Up

14.14 Further Reading

14.15 Answers To Check Your Progress

14.16 Model Questions

14.1 LEARNING OBJECTIVES

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

- discuss the export promotion and trends of small enterprise
- analyze the major constraints faced by small enterprise in exporting their products
- explore the possibilities for increasing exports of small industry products
- describe suggestions for increasing exports of the products manufactured by small sector
- define e-commerce
- learn evolution and growth of e-commerce
- identify the benefits E-commerce

- identify the prospective areas of E-commerce in small enterprises
- explain the challenges E-commerce is presently facing in India.

14.2 INTRODUCTION

In this unit we are going to discuss the concept of export promotion and trends of small enterprises, and the major constraints faced by small enterprise in exporting their products. You will be able to know the possibilities for increasing exports of small industry products.

Again at the end of this unit you will be able to know about e-commerce in small enterprises, the challenges faced by e-commerce, Suitability of e-commerce for small units and benefits of e-commerce etc.

14.3 EXPORT PROMOTION AND TRENDS OF SMALL ENTERPRISES

Exports from small enterprises have been on increase registering an annual growth of about 171 per cent during 1978-94. One way to view at the impressive growth of exports from small enterprises in their increasing share year after year to the total exports from the country. The percentage share of small enterprise exports to the total from 1971-72 onwards is presented in the following Table.

Increasing Exports from Small Enterprises

(Rs. in crore)

Year	Total Exports	Export from Small Enterprises	Percentage 3 to 2
1	2	3	4
1971-72	1608	155	9.6
1976-77	5142	766	14.9
1981-82	7890	2071	26.5
1986-87	12567	3644	29.0
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	24149 (P)	34.5

It is interesting to note that the total exports of the country increased by about 43 times, while the exports from small enterprises increased by about 155 times. Small enterprises also make indirect exports through merchant exporters, trading houses, export houses and large enterprises. These indirect exports are estimated at around 10 per cent of the total exports. It is also expected to increase in further when the ongoing economic reforms in the country start giving results.

Though the growth of exports from the small enterprises is, no doubt, impressive, it is also true that India's share in world's exports is very low, at about 0.5 per cent. India is now the member of the World Trade Organization (W.T.O.). Hence, it has to improve its share in world's exports to be a global player.

14.4 CONCEPT OF MAJOR CONSTRAINTS

Among about 24 lakh registered and unregistered small scale units in the country, about 90 per cent units are tiny with an investment in plant and machinery upto Rs.5 lakhs. Technology is the crux of quality and competitiveness. But, many small scale units particularly tiny units find it difficult to go for modernization and technology upgradation because of low ceiling on investment in plant and machinery. According to the Second All India Census of Registered Small Scale Industrial Units, out of 5.82 lakh units working in 1987-88, the number of exporting units was 4,554 only, i.e., only 0.7 per cent of the total units.

The major constraints encountered by the small scale units in exporting their products are as follows:

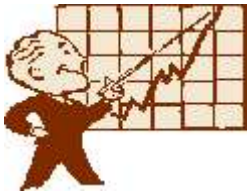
a. **Credit Policy:** The Small scale units have very weak-base of their own funds, on the one hands, and has no access to other sources of funds like capital market, on the other. Hence, they have to depend upon the State Financial Corporation (S.F.C.s) and the commercial banks to meet their long-term and short-term capital requirements.

b. **Infrastructure:** Lack of infrastructure facilities like power supply, transportation and communication adversely affect the quantity and

quality of production, its costs and delivery. These, in turn, tell upon the export performance of small scale units.

c. **Technology:** Technology is the crux of quality and competitiveness. However, the adoption of technology in small industries hampered due to lack of infrastructure facilities, on the one hand, and the present investment ceiling of the small scale industry, on the other.

The recent telecommunication revolution has offered hi-tech application for market research which is more cost effective substitute for exploratory personal visits abroad. As a matter of fact, the conventional method of market explorations through trail and error and private contacts has been replaced by the electronic network exchanging business queries between the trading parties.



CHECK YOUR PROGRESS

Q1: What are the constraints encountered by small scale units in exporting the products?

.....

.....

.....

.....

.....

14.5 CONCEPT OF EXPORT POTENTIAL OF SMALL SCALE UNITS

The small units are inherently flexible to react to market signals and changing tastes. This makes the small enterprise more innovative and open to new ideas. Opportunities exist for small-scale sector to emerge a strong global player especially in the exports of the following products.

a. **Food Processing Industry:** India has been the second largest producer of a very wide variety of fruits and vegetables in the world. But, it processes less than one per cent of production. This figure of India is far behind the figures of 30 per cent of Philippines and 83 per cent of Malaysia. The major reasons for country's low

share in the international market have been over-dependence on a few recognized international markets, lack of quality control, poor packaging, high cost of production, inadequacy of infrastructure like transport and power and non-availability of required inputs at right time and price.

b. **Leather Goods:** India has the largest cattle population and, thus, has a substantial raw material base for leather-based industries. At present, the country's share in the world leather market in about 4 per cent and the target is to raise it by 10 per cent by 2000 because this sector holds potential for exports. However, this sector is plagued by certain weaknesses too. These are low volume of production units, poor quality, lack of standardization, poor delivery and absence of technological upgradation.

c. **Electronic Goods:** The electronic industry has registered a phenomenal compound growth rate of 35 per cent during the last decade 1981-90. The share of small sector, in 1993-94, was 40% of output and 30% of exports of electronic industry. Though the small scale industrial units have been exporting items from ordinary to hi-tech products, yet its share in the global market is very low just 0.15 per cent and that too 80% exports are from Export Processing Zones alone. The electronic industry holds tremendous potential for exports in electronics, software and contract manufacturing. This potential needs to be tapped.

d. **Plastic Goods:** The plastic industry has made an impressive growth in recent years. At present, out of 18,500 units manufacturing various industrial and consumer plastics, around 18,000 units are in small sector. The items of plastic exports include carrier bags, garbage bags, shopping bags, woven sacks, plastic molded household items like insulated thermoware, pens, spectacle frames, PVC hoses, PVC leather clothes, etc. In 1992-93, the small sector accounted for 45 per cent of these exports.

14.6 SUGGESTIONS TO IMPROVE EXPORTS

The Government of India has accorded high priority to the

development of small-scale industries in the country. Under the protective and promotional policies of the Government, the small scale enterprises have made their presence felt nationally and internationally. The share of small scale enterprises in the country's exports has risen from 11 per cent in 1970-71 to 35 pr cent in 1993-94. Realizing the good export potential of small sector, the Board of Trade and Ministry of Commerce have identified 8 sectors and 15 items respectively for boosting exports from the small-scale sector. However, the bug bear of the sector has been the inadequacies of capital, technology and marketing. If the export potential of small scale enterprises is to be tapped to the full extent, then the issues like simplification of procedures, easier access to the bank and institutional credit, improvement in infrastructure and marketing issues need to be attended to expeditiously and adequately. Then, it would not be difficult for the small scale enterprises to help the country achieve a target of at least 1.5 per cent share in the world export in the nest 10-15 years.



ACTIVITY

"Exports from small sector have fallen prey to some bug bears." Justify the statement.

.....

.....



CHECK YOUR PROGRESS

Q2: State true/ false :

a. ... Technology is the crux of quality and ..... competitiveness. (T/F)

b. The electronic industry has registered a phenomenal compound growth rate of 35 per cent during the last decade 1981-90. (T/F)

Q3: Fill in the blanks

a. India has been the ..... largest producer of a very wide variety of fruits and vegetables in the world.

b. The full form of W.T.O. is .....

14.7 MEANING OF E-COMMERCE

It seems pertinent to mention at the outset that e-commerce is not about reinvesting business. It is about streamlining current business process to improve operating efficiencies which, in turn, will strengthen the value to provide to customers, which in turn will provide the competitive advantage over competitors. In simple words, electronic commerce is the process of doing business electronically or over internet.

In other words, e-commerce encompasses the use of technologies, processes and management practices that enhance organizational competitiveness through strategic use of electronic information. E-commerce is, thus, a modern methodology that addresses the need of organizations merchants, and consumers. It cuts costs while improving the quality of goods and services and increasing the speed of service delivery.

14.8 CONCEPT OF EVOLUTION AND GROWTH

The evolution of e-commerce is traced back to 1970's with the mergence of internet. E-commerce was developed for the business community in the early 1970s to facilitate processing high volume and high value transactions electronically. Electronic Data Interchange (EDI) was the first business-to-business (B2B) application. Subsequently, internet added a prodigious new dimension to e-commerce. The power of the Internet, as a global access, was realized with the arrival of the World Wide Web (WWW) in 1994. Further, e-commerce in US is taking place more in the service oriented activities than the product oriented ones. This is because of the fact that no two products are the same. But, services have a commonality that makes maxim for more general applicable whether it is hospitality or airlines, transport services, banking, reading of books and alike.

The origin of e-commerce in India coincides with the introduction of Internet connectivity in the country in 1989. As such, e-commerce in India is in its infancy. Historically, Rediff-on-the-net, one of India's leading online services, set up India's first e-commerce on August 13, 1998. Then, India entered the age of e-commerce the day the government

deregulated the Internet Service Provider (ISP) policy in November 1998. Since then, there is no looking back and the country is proliferating in Internet. The rate of growth of penetration of Internet has been spectacular. It took radio 50 years to have 50 million owners, T.V. 16 years and personal computer 17 years. But it has taken internal only 4 years to reach that figure after the invention of WWW and browsers.

NASSCOM (National Association of Software and Service Companies), the apex body and Chamber of Commerce of India's software-driven IT industry, has recently released findings of its survey to evaluate the E-commerce scenario in India.

This is attributed to the fact that in B2B transactions, both buyers and sellers are known to each other and enjoy sufficient mutual trust. Added to it is that B2B transactions are relatively of higher value in nature and companies trading on Internet offer very high and attractive cost saving options.

Another point worth mentioning is that the expansion of e-commerce in India, so far, has been uneven concentrating in a few metropolitan cities, namely, Bangalore, Hyderabad, Mumbai and Delhi. The common man residing in rural areas of the country is, however, still unaware of happening in Information Technology sector.

In nutshell, e-commerce has set in but much is yet to be tapped in this respect.

14.9 BENEFITS OF E-COMMERCE

E-commerce is a win-win situation for the consumer and the product/ service provider. The distinct advantages e-commerce can offer to the consumer are:

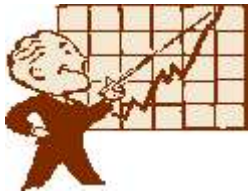
1. Consumers have a much wider choice available on the cyber market.
2. They can compare products, features, prices and even look up reviews before thy select what they want.
3. They also have the convenience of having their orders delivered right to the doorstep.

4. Finally, consumers are driven to e-shopping in hordes as even branded goods cost less on the Net.

The major advantages that e-commerce can bring to the companies are:

1. **It minimizes inventory cost:** E-commerce venture need not maintain huge inventories or expensive retail showrooms. Their marketing and sale force is a fraction of that of traditional mortar-based businesses. E-commerce can minimize inventory costs by adopting just-in-time system enhancing the firm's ability to forecast demand more accurately.
2. **It can improve customer services:** It has been found that providing both customer and after-sale services account for up to 10 per cent of the operating costs. By putting these services on-line under e-commerce, these costs get reduced, on the one hand, and simultaneously the quality of services also gets improved, on the other. High quality customer relationship called "customization" is crucial for retaining customers in the e-commerce environment. E-commerce provides ample opportunity for CRM solution and, therefore, is establishing better relationship with the customers. It becomes absolutely necessary for the company to enhance customer loyalty, otherwise the customer who is full of choices, can jump from one website to another.
3. **It reduces distribution costs as well:** The Electronic Data Interchange (EDI) based on OECD study has revealed that the time needed to process an order declined abruptly by a minimum of 50 per cent to a maximum of 96 per cent.
4. **It helps business globalize:** E-commerce by minimizing costs enables companies' especially small ones to make information on its products and services available to all the potential customers spread over worldwide.
5. **It helps market products more quickly:** By taking the entire product design process on-line, drawing partners and customers into the process and removing the traditional communication barriers, companies can bring products and services to market far more quickly. Internet commerce solutions allow customer to reduce

the costs of sales and open new markets, speed and simplify order accuracy, approval, processing, tracking and delivery and improve decision making, leverage existing investments in infrastructure, business systems and repositions and link manufacturers with suppliers on the same network.



CHECK YOUR PROGRESS

Q4: Fill in the blanks:

a. ..EDI stands for ……

b.Electronic Data Interchange was the first ……..application.

c. E-commerce provides opportunity for ……. solution

Q5: What are the benefits of e-commerce?

.....

.....

.....

.....

14.10 SUITABILITY OF E-COMMERCE FOR SMALL UNITS

Because of the significance of small enterprises worldwide, it is increasingly being realized that if small sector gets left behind in the information, then the whole economy gets left behind. Given the need of the hour, small enterprises, therefore, cannot have the luxury to adopt a wait and watch attitude in the matter of marketing. Late adoption of e-commerce will adversely affect the small enterprises for years to come.

With strong realization, small enterprises worldwide are turning in the use of modern technology to compete with big brothers – medium and large size enterprises. According to a survey conducted by the Yankalovick Partners Inc., 90 per cent of the small enterprises in US are using wired technology in their operations. Numerous e-commerce success stories abound in other countries as well.

The information revolution ahs opened up a great deal of potential

for small enterprises in the marketing field. The excellent opportunities e-commerce offers to small enterprises are to:

- Access new markets
- Improve customization
- Lower various kinds of costs
- Reduce the size of the enterprise
- Sell products/ goods into global market.

It is e-commerce that facilitates, for example, a tailor is Sweden to make a suit by hand for a lawyer in London, Similarly, a software designer in Bangalore to write a programme to a firm located in Moscow. The fact remains that e-commerce has empowered small enterprises like nothing else had done so in the past. E-commerce has emerged as an opportunity for small enterprises. Not making use of it will turn into a threat to their very survival. The adoption of e-commerce in small enterprises has reached to global presence and is offering stiff competition to their big brothers. It is noticed that web-based big companies eventually have forced numerous small companies to go online for their business operations.

14.11 PROSPECTIVE AREAS FOR E-COMMERCE

E-commerce is ideally found suitable for certain types of products and services amenable to online transactions. The products that are already being traded electronically mainly in small enterprises and are also expected to record high growth rate included computer products, books, music, gifts and flowers, clothing and food items. Similarly, the services which are likely to be quite fertile for e-commerce, are advertising and marketing services, financial services, tourism, entertainment and information services. Experts opine that the top three services, travel and entertainment/ sports services.

In India, small sector is an all embracing term. Small enterprises in India include agriculture and agro-based industries, transportation, financial services, housing, handicrafts, readymade garments, footwear, professional services, electronic and engineering, chemicals,

pharmaceuticals, gems and jewelery, cosmetics, furniture, poultry, bakery, retail trade, entertainment, health care, tourism, education, social services, public utilities etc. Due to dismal penetration of PCs and telephones into rural economy, the vast potential for e-commerce offered by rural areas so far remains untapped. There is no denying the fact that rural sector is the main stay of the Indian economy that supports nearly three-fourths of the country's population. Hence, there is a need for e-commerce mandarins to make inroads in rural areas of the country.

It is worth mentioning that efforts are on to bring small enterprises and rural areas within the folds of e-commerce. For example, a new website, namely, Indianmarkets.com is created with the objective to provide small enterprises direct access to the corporate sector as well as national market. Expectedly, this gateway will provide a seamless system for interaction between buyers and suppliers by providing them single contact point online. Following this, Satyam Computers Services have also created an ASP to facilitate small enterprises with advanced e-commerce applications/ solutions. With this objective in view, the Ministry of small scale industries has formulated a comprehensive plan to prepare small-scale industry (SSIs) for e-commerce with required infrastructure support in the country.

14.12 CHALLENGES FACED BY E-COMMERCE

E-commerce in spite of opportunities, hoopla and hype, also bears the connotations of challenges as well at the same time. We, therefore, enumerate the major challenges e-commerce in small enterprises is facing and also submit the remedial measures to met these challenges.

1. **Infrastructural Problems:** Internet is the backbone of e-commerce. Unfortunately, Internet penetration in India is so far dismally low at 0.5 per cent of the population against 50 per cent in Singapore. It is difficult for e-commerce to reach to 1,000 million population spread over 35 million households in 6,04,374 odd villages and 5,000 towns and cities. Besides, both cost of PCs and internet access in India are quite high.
2. **Absence of Cyber Laws:** Another big challenge associated with

e-commerce market is the near absence of cyber laws to regulate transactions on the Net. WTO is expected to enact cyber laws soon.

3. **Privacy and Security Concern:** As of to-day, quite vulnerable issues related to e-commerce are privacy and security. So far, there is no protection offered either by Website or outside watchdogs against hazard created by exploiting one's privacy.

4. **Payment and Tax Related Issues:** Problems related to payment and tax are yet another problems continuously hunting e- traders. The electronic payment is made through credit card or plastic money which could, however, not become popular so far in India mainly due to two reasons. First, the penetration of credit card in India is very low (2 per cent of the population). Second, the Indian customers are quite skeptical of paying by credit card with the increasing threat of fraud played by hackers. Credit card could not gain growth in India mainly because of authentification and recognition problems of electronic signatures.

5. **Digital Illiteracy and Consumer Psyche:** At present, digital illiteracy is one of the formidable problems e-commerce is facing in India. On the other hand, the continuous exodus of skilled computer engineers to other countries has denuded India of software engineers. This has posed a real threat to the Indian IT industry. Obviously, solution to this problem lies in curbing the computer brain-drain and uses the same in the country.

6. **Virus Problem:** That computer virus is also a formidable problem in the execution of e-transactions is confirmed by the recent computer virus originated in Manila. The offenders causing 'virus' must be awarded deterrent punishment, otherwise similar assaults in future can cause lasting blows to the quite young e-commerce in India as well.

7. **English Specific:** Last but not the least, the software so far in the country is English specific. But, in order to make e-commerce reach to the small enterprises, it needs to be available in the languages (regional) of the owners of the small enterprises to

enable them to adapt e-commerce processes in their operations.

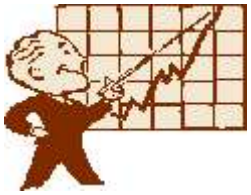


ACTIVITY

"E-commerce is a win-win situation for the consumer and the product/ service provider". Explain.

.....

.....



CHECK YOUR PROGRESS

Q6: State true/ false.

a. ...E-commerce is the process of doing business electronically or over internet. (True/ False)

b. The origin of e-commerce in India coincides with the introduction of Internet connectivity in the country in 1988. (True/False)

Q7: Fill in the blanks.

a. The full form of NASSCOM is ……..

b. Minimizing inventory cost is one of the advantages of …….

c. …… is the backbone of e-commerce. .....



14.13 LET US SUM UP

In this unit, we have discussed on the following concepts:

- At present, the share of small enterprise export accounts for about 35 per cent of the country's total export.
- Export from Small sector suffers from the bug bears of credit, infrastructure, technology, etc.
- In order to tap the export potential of small sector to the full extent, the issues like simplification of procedures, easier access to the

banks and institutional credit, improvement in infrastructure and marketing need to be attended to well in time.

- Electronic Commerce is doing business over Internet.
- In India its origin coincides with Internet connectivity in 1989.
- At present there are 3.2 million Internet users giving a total volume of Rs.131 crores e-business.
- Lack of infrastructural facilities, absence of cyber laws, payment and tax related matters, digital illiteracy and virus problems are the major challenges before e-commerce in India.



14.14 FURTHER READING

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development



14.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to QNo. 1: The major constraints encountered by the small scale units

a. Technology b. Credit Policy

c. Infrastructure

Ans to QNo. 2:a. True b. True

Ans to QNo. 3:a. Second b. World Trade Organization.

Ans to QNo. 4: a. Electronic Data Interchange b. business-to-business c. CRM

Ans to QNo. 5:the benefits of e-commerce are as follows:

a. It helps market products more quickly
b. It can improve customer services
c. It reduces distribution costs as well
d. It helps business globalize
e. It minimizes inventory cost

Ans to QNo. 6:a. True b. True

Ans to QNo. 7: a. National Association of Software and Service Companies b. E-Commerce c. Internet.



14.16 MODEL QUESTIONS

1. Bring out the problems and potentials of exports from small-scale enterprises?
2. What measures will you suggest to promote exports from small-scale sector?
3. Discuss the major constraints encountered by the small scale units.
4. Define the term ‘e-commerce’. What are the advantages e-commerce can offer to the customer and the suppliers?
5. Explain with examples how e-commerce is suitable for small enterprises.
6. List prospective areas for e-business in small sector.

UNIT 15: CASE STUDY

Entrepreneurship is more than the mere creation of business. The characteristics of seeking opportunities, taking risks beyond security, and having the tenacity to push an idea through to reality combine into a perspective that permeates entrepreneurs. In this Unit, we will discuss about few such entrepreneurs who have created their own path.

Case 1

Dr. Nomal Chandra Borah and GNRC

Dr. Nomal Bora is a neurologist and the founder of the first super-specialty tertiarycare hospital in the North-East India popularly known as Guwahati Neurological Research Centre Limited (GNRC) in Assam, India. He is also the Managing Trustee of Asian Institute of Nursing Education and also the owner of Medishop retail chain. Dr Borah set up GNRC in 1984 with the help of Dr. K V Mathai, well-known neurosurgeon from Vellore. Eventually, in 1985, GNRC was turned into a Limited Company.

Born in a peasant family at Dubia (Gohpur), Assam in 1950, Dr. NC Borahhad a humble beginning in life. Both his parents could not read and write but he was never denied education. His early education began in the village primary school. Besides his studies, he used to help his parents in the field. Dr. Borah's father was not financially sound but it never discouraged him to go for higher education and he did private tuitions to meet the expenses. Dr. Borah passed his Higher Secondary Examination with excellent result and got admission into the MBBS course at Guwahati Medical College on merit list. An educational loan from Government of Assam and a state merit scholarship assisted him to complete his degree. After that he joined the Medical College as a demonstrator in Pathology and completed his Diploma in Clinical Pathology. Later on after completing his MD degree in Internal Medicine, Dr. Borah joined AIIMS in a three year programme in Neurology leading to DM degree. In 1992 he did a Graduate Summer Course in Epidemiology and Biostatistics from the University of Michigan, USA.

He has a number of awards and achievements; such as the Fellow of the

American Academy of Neurology (FAAN) for his contribution to neurological services in (2003);East Chamber of Commerce and Industry for Service to Society through Individual Excellence, (2005); Honorary Fellowship for significant contribution towards the development of Neurosciences in Eastern India from the Association of Neurosciences of Eastern India, 2012 etc.

When the GNRC was established in 1984, the number of private enterprises in the health sector was grossly insignificant and inadequate. The challenge for starting an enterprise was daunting. Dr. Borah did not have monetary and infrastructural resources also. He had to mobilize the resources. With tremendous willpower, he treaded his entrepreneurial path with a strategic plan. After the initial success with the neurological services, the hospital made an entry into the heart care area. Gradually, the hospital developed its facilities to offer services in other specialties. Moreover, the hospital expanded its facilities to other areas like Amingaon, Sixmile in Guwahati. In order to capitalize on emerging opportunities in organized retailed and retailing of pharmaceutical products, Dr. Borah took a big risk of venturing into the retail sector. GNRC Medishop is one of the first Online Pharmacy in Guwahati, It caters to Online Medicines in India and also to entire Northeast India. Get free Home Delivery of Online Medicines at your doorstep.Though he did not have any background in retailing, the venture yielded the results. In the process, he learnt many hard lessons in managing the business of a retail chain.

Today, GNRC is an established brand in the North East India. It has been able to create employment avenues and entrepreneurial opportunities for many. All these have been possible because Dr. Borah once decided to be an entrepreneur and stayed determined and focused in his mission. The obstacles in the process did not deter him in reaching his entrepreneurial goals. He has earned respect and regards from the society. He has won a number of awards and honors from different organizations in the society.

Question : Was it a right decision for an entrepreneur in the health sector to start an enterprise in the retail sector?

Source: https://en.wikipedia.org/wiki/Nomal_Chandra_Borah

Case 2

Case Study on Nykaa : E-Commerce Platform for Beauty and Cosmetics Products

Nykaa is an e-commerce platform for beauty and cosmetics products. Nykaa was launched in 2012 by FalguniNayar.The platform offers a wide range of categories including skincare, makeup, luxury products, fragrances and hair care products for both men and women.

Falguni Nayar is the Founder and CEO of Nykaa. Nayar was born and raised in Mumbai. Falguni is a graduate of the Indian Institute of Management, Ahmedabad. She worked for Kotak Mahindra Capital Co. for 18 years.When she left in 2012, she was the managing director and head of its institutional equities business but she wanted to be an entrepreneur, so she started this new business of online beauty products.

How Nykaa Started:

After leaving her job, Falguniwas looking for business opportunity in India and she noticed a huge gap in the beauty products markets in India. She noticed that the demand was on the top but there were very few places to get the genuine beauty products. As the online market is booming in India with more and more internet users, she has taken this opportunity to grab the online beauty products market.

Nykaa Business Model:

The company has an Inventory-based model that has helped the brand to gain its name in the fashion and cosmetics industry. The products are 100 percent genuine and authentic, sourced directly from the brands. Nykaa provides a hassle-free shopping experience, the virtual makeover tool, beauty advice and assistance on the phone, free expert advice and articles on beauty trends and tutorials and celebrity looks.

Nykaa sells more than 35,000 products from 650 brands, both international and Indian, luxury and mass, and is constantly adding new labels to its stock. In 2015, Nykaa introduced her own brand and it has gone on to become a best-seller on the platform.

Nykaa Revenue:

Nykaa's revenue has grown close to 300% in the last two years. In 2016, it raised a total of 104 crore rupees from investors and the company hopes to break even by the end of 2018. The company is also eyeing for an initial public offering in 2020.Nykaa is receiving 15,000 orders a day, mostly from consumers between the ages of 22 and 35.

Nykaa Marketing Strategies:

Nykaa depends on content marketing for their marketing strategy. They provide high-quality content to showcase the global trends that have proved a winning formula for the brand name.The high-quality content generates traffic on the website. Nykaa uses email marketing and social media marketing for remarketing. Nyka also collaborated with Femina to host the 'Nykaa.com Femina Beauty Awards' in 2015 and 2016 to create the brand awareness.

The experience of being an entrepreneur was a childhood dream for FalguniNayar. The opportunity to build Nykaa.com, a woman centered business, with a multi-brand retail format in the beauty and wellness space is a big accomplishment. The fact that she was doing it with her daughter Adwaita made it both exciting and meaningful. During the course of her journey, she sought advice from many people.

Question : What could be the challenges for Nykaa in sustaining its business?

i. *Source:https://www.whizsky.com/2017/09/case-study-nykaa-e-commerce-platform-beauty-cosmetics-products/*

ii. *https://hbr.org/product/nykaa-com-a-passion-for-beauty/218049-PDF-ENG*

iii. *Nykaa.com: A Passion for Beauty**case study** by Paul A. Gompers, Anjali Raina, RachnaChawla*

Case 3

Women spirit wins: A case study of Lijjat Papad:

Shri Mahila Griha Udyog Lijjat Papad Society is an enterprise with an aim to

facilitate women entrepreneurship and empowerment. In the process, it endeavors to createand promote a feeling of sisterhood and carefulness.

In our society women assumes an important and respectable part. To be independent theyhave started showing interest in their own business. They are coming with product and innovatory ideasand starting the small and medium enterprises. With their hard work and with sheer dedication they arechanging the conception of society. Toenhance their self-respect and status, women require social support to battle their sense of inefficiencyand fear. One of the remarkable examples of women entrepreneurship is the "Lijjat Papad Society".

The foundation of Lijjat Papad Company is the devotion of 7semi-literate women in 1959 from Gujarat which made it aprofitable company and a brand known in foreign countries as well. These womenstarted out on the roof of a large, old and a residentialbuilding called LohanaNiwas in Girgaum, which is amassively populated area in South Mumbai. They wanted tocreate a livable source of employment by using the only skillthey experienced i.e. cooking. Changalal Karamsi Parekhwas the person who gave them credit of Rs.80 forcommencing their work of papad making. He became theirguide. He advised them never to compromise with the quality ofpapads and urged them to make quality papads. In the first year,because of the rainy season they had faced many problems indrying papads. But the problem was solved by the next rainyseason by buying a cot and a stove which helped them in theprocess of drying papads. The number of women increasedslowly and the earnings of the company increased day byday. Presently this company provides employment to 43,000women and profits and losses are produced by these entire43,000 sister members. In Assam, we have many Self Help Groups, but none of them come up so big.

Question : Can a success story of Lizzat Papad be replicated in North East India?

Case 4:

Innovations in Agriculture and Udhab Bharali

Advances in technology are key to the future of agriculture as farmers strive to feed the world with limited natural resources and combat climate change.

It was with this in mind that ace innovator UddhabBharali began inventing; and came up with over 140 gadgets whose simplicity of design and mechanism could mark their usefulness in agricultural work.

Based in Lakhimpur on the northern bank of the Brahmaputra in Assam, Bharali says his vision is “to change the agriculture scenario and boost the economy while being environmentally responsible”. From tasks like pomegranate deseeding and peeling cassava to bigger ones like paddy seeding and processing tea, Bharali has designed machines for a range of uses.UddhabBharali, the serial innovator, is a man who’s energy-efficient and low-cost machines have been instrumental in simplifying several agricultural processes for many.

Born in a middle-class business family, Bharali completed his schooling from Lakhimpur and took admission in Jorhat Engineering College. However, he had to drop out of engineering college because he could not afford to pay the fees and had to care for his family. In order to pay his father’s debts and to cater to his natural flair of developing new machines, he developed a new polythene-making machine to cater to the demand from surrounding tea estates in Assam.The success of this machine gave Bharali the confidence to develop more machines.

As the only earning member, he knew that it was up to him to take care of his family’s needs. He resolved not only to earn enough to sustain his family, but also to help the lives of others living below the poverty line. With this vision in mind, he concentrated on making products to serve rural public and commercial purposes.

His early days of creating machines to simplify laborious tasks like peeling garlic or cassava were challenging, he says, recalling how he was constantly mocked for not doing something ‘worthwhile’. But he was undeterred. From 1990 to 2005, he invented 24 machines.

In 2005, Bharali’s talent came to the attention of the National Innovation Foundation, Ahmedabad and they took him aboard as a grassroots innovator. In 2006, his design for a pomegranate de-seeding machine was recognised as the first of its kind not only in India, but across the world.

This machine could separate the outer hard skin from the inner thin

membrane without any damage to the seed, easily de-seeding around 55 kg of pomegranates per hour. Orders started pouring in, including for export to Turkey and the US after that, and he finally made his mark as an innovator. And since then, there has been no looking back for him.

Bharali also developed an areca nut peeling device that could peel around 120 nuts in a single minute. With the aid of National Innovation Foundation, he invented (for different operations such as cassava peeling, splitting long lengths of bamboo, sizing, surface finishing etc) many low cost machinery. Reducing hours of back-breaking labour, his simple innovations were a great help to the large number of local people for whom agriculture was the sole source of livelihood.

Among his popular innovations is the mini tea plant for green tea and Crush Tear Curl (CTC) tea, aimed at helping the growing population of small tea growers of Assam.

Bharali's cement brick-making machine is another marvel that can be operated by anyone—including people with disabilities. The Central Silk board sought his guidance to redesign a sophisticated reeling machine. He also designed a stevia pulveriser& passion fruit gel extractor for North Eastern Region Community Resource Management Project (NERCRMP). He has also invented a paddy seeding machine that doubles the rice yield while making the entire process easier and less time consuming. Resembling a cart, the machine, priced at a modest Rs.3,000, will also yield better quality rice because the seeds are encased in plant protection and germinating material. Supported by the Assam Agricultural University, the 'Uddhab' machine is nowready to be introduced to the farmers' community.

He has opened the UKD Trust through which he gives a monthly pension of Rs 1,200 each per month to six widows, while three physically challenged persons get Rs 2,500 each per month. He also runs a small research and training institute where he educates and train underprivileged students for three months on technology and its applications. He is in the process of setting up an orphanage, an old age home and a museum at his humble abode for students to take a look at all his innovations and understand how

they work.

Question: Discuss the role of innovation in enterprise development.

References:

https://www.thebetterindia.com/81244/uddhab-bharali-assam-agricultural-inventions/ a case study by ***Sanchari Pal*** *January 7, 2017*



REFERENCES

1. B. Bhatnagar and A Budhiraja(2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India
2. Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition
3. Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,*Pearson Education India; Eighth edition
4. Charantimath(2013), *Entrepreneurship Development and Small Business Enterprises*,Pearson Education India; Second edition
5. Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development
6. Chandra Prasanna (2017); *Financial Management: Theory and Practice*;McGraw Hill Education; Ninth edition
7. I M Pandey (2016); *Financial Management;* Vikas Publishing House; 11th edition
8. Chandra Prasanna (2017); *Fundamentals of Financial Management*; McGraw Hill Education; 6 edition
9. M Y Khan (2017); *Financial management*; McGraw Hill Education; Seventh edition