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Entrepreneurship Development and Small Business Management

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KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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BACHELOR OF COMMERCE

ENTREPRENEURSHIP DEVELOPMENT AND SMALL BUSINESS MANAGEMENT

CONTENTS

UNIT 1: Fundamentals of Entrepreneurship **Page No. : 7 – 19**

Meaning, Characteristics of Entrepreneurship; Emergence of Entrepreneurial Class; Risks involved with Entrepreneurship; Barriers to Entrepreneurship; Factors affecting Entrepreneurial Growth

UNIT 2: Theories of Entrepreneurship **Page No. : 20 – 26**

Meaning, Theories of Entrepreneurship: Economic, Sociological, Dynamic Entrepreneurship Innovation Theory and Leibenstein's X-efficiency Theory

UNIT 3: Entrepreneurship Development Programme **Page No. : 27 – 38**

Meaning of Entrepreneurship Development Programme and Importance; Course Contents and Curriculum of Entrepreneurship Development Programmes; Role of Entrepreneurship Development Programmes in Context

of North- East Region and Institutions providing Entrepreneurship Development Programmes in India

UNIT 4: Entrepreneur **Page No. : 39 – 45**

Meaning and Characteristics of an Entrepreneur; Qualities of an Entrepreneur and Functions of Entrepreneurs for Economic Growth

UNIT 5: Entrepreneur and Manager **Page No. : 46– 56**

Meaning, Concept of Profession and Ownership of Business; Distinction between Entrepreneur and Manager; Characteristics of Entrepreneurship and Management

UNIT 6: Promotion of a Venture **Page No. : 57 – 78**

Meaning of Promotion of a Venture; Sources of Business Ideas; Steps in Identification of Business Opportunities; External Environmental

Analysis- Meaning and Importance: Economic, Social, Technological and Competitive Factors; Establishment of a New Business Unit- Legal Requirements; Source of Venture Capital- Meaning and Importance; Documentation for Obtaining Venture Capital

UNIT 7: Preparation of Business Proposal **Page No. : 79 – 84**

Meaning of Importance and Contents of Business Proposal; Designing Business Proposal

UNIT 8: Venture Capital **Page No. : 85 – 92**

Meaning of Concept, Significance, Functions, Essential Features and Advantages of Venture Capital; Venture Capital Instruments; Banks and Venture Capital

UNIT 9: Mobilising Resources **Page No. : 93 – 99**

Meaning of Resource Mobilising; Resource Mobilising for Start-ups; Preliminary Contracts with the Vendors; Basic Start-Up Problems Faced by Entrepreneurs; Methods to Solve Start-up Problems

UNIT 10: Women Entrepreneurship **Page No. : 100 – 108**

Meaning, Concept, Importance, Barriers and Promotion of Women Entrepreneurship

UNIT 11: Small Enterprise **Page No. : 109 – 119**

Meaning, Characteristics of Small Enterprise; Relationship Between Small and Large Scaleunits; Objective Sandscope of Small Enterprise; Role of Smallenter Prises in Economic Development; Problems of Small Scaleunits

UNIT 12: Ownership structures **Page No. : 120 – 136**

Meaning, different forms ofownership; concept of proprietorship, its features, advantages and disadvantages; meaning of company and co-operatives, itsfeatures, advantages and disadvantages; difference between Private Company and a Public Company; Ownership Patternin Small Scale Industries in India; Objectives and stages of growth and types ofgrowth strategies.

UNIT 13: Size and Location of a Business Unit **Page No. : 137 – 151**

Meaning, Standards to measure and factors determining the size of business unit; concept of optimum size of a firm; principles of location of business unit; influencing the location of business unit; scenario of present plant location in the North East Region and its future status.

UNIT 14: Industrial Sickness **Page No. : 152 – 163**

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

UNIT 15: Institutional Support for Small Business **Page No. : 164 – 176**

Meaning and Concept of Commercial bank and development financial institution: Industrial Development Bank of India(IDBI), Industrial Reconstruction Bank of India(IRBI), Life Insurance Corporation of India(LIC), State Financial Corporations(SFCs), State Industrial Development Corporations(SIDC's); Small Industries Development Bank of India(SIDBI); Export Import Bank of India (EXIM BANK), National Bank for Agriculture and Rural Development (NABARD), Industrial Finance Corporation of India Ltd.(IFCI)

COURSE INTRODUCTION

This course **"Entrepreneurship Development and Small Business Management"** is included in B.Com. programme to provide the learners the basic knowledge of entrepreneurship development. The course consists of fifteen units focusing on entrepreneurship, theories of entrepreneurship, entrepreneurship development programme, importance of entrepreneurship development programme in the promotion of entrepreneurship, women entrepreneurship, characteristics of an entrepreneur, factors influencing the size and location of business units, venture capital, small business, etc.

The course has put special emphasis on 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 as well as the institutional support for small business etc.

While going through a unit, you will notice some along-side boxes, which have been included to help you know some of the difficult, unseen terms. Again, we have included some relevant concepts in ''LET US KNOW'' along with the text. And, at the end of each section, you will get "CHECK YOUR PROGRESS" questions. These have been designed to self-check your progress of study. It will be better 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 PPROGRESS" given at the end of each unit.

UNIT 1 : FUNDAMENTALS OF ENTREPRENEURSHIP

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Nature and Characteristics of Entrepreneurship

1.4 Emergence of Entrepreneurial Class

1.5 Risks involved with Entrepreneurship

1.6 Barriers to Entrepreneurship

1.7 Factors affecting Entrepreneurial 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

- define entrepreneurship
- discuss the characteristics of entrepreneurship
- explain the risks associated with entrepreneurship
- discuss the barriers to entrepreneurship
- discuss the factors affecting entrepreneurial growth.

1.2 INTRODUCTION

In this unit we will discuss an overview of entrepreneurship by focusing on the characteristics of entrepreneurship. We will also discuss the challenges associated with entrepreneurship and the factors affecting entrepreneurial growth in Indian context.

1.3 NATURE AND CHARACTERISTICS OF ENTREPRENEURSHIP

While discussing entrepreneurship, let us first define entrepreneur by focusing on certain situations. This will help you in understanding the nature and characteristics of entrepreneurship-

- Does someone need to start a business from scratch to be called an entrepreneur?
- Can we call someone an entrepreneur if they bought an ongoing business from someone else or took over the operations of a family business from their parents?
- If someone starts a small business and never needs to hire employees, can they be called an entrepreneur?
- If someone buys a business but hires professional managers to run it so they don't have to be involved in the operations, are they an entrepreneur?
- Is someone an entrepreneur if they buy into a franchise so they can follow a well-established formula for running the operation?
- Can someone be an entrepreneur without owning their own business?
- Can a person be an entrepreneur because of the nature of the work that they do within a large corporation?

It is also necessary to fully understand what we mean by *entrepreneurship* before we can study the concept.

Gartner (1990) identified 90 attributes that showed up in definitions of entrepreneurs and entrepreneurship provided by entrepreneurs and other experts in the field. The following are a few of these attributes:

- Innovation – Does a person need to be innovative to be considered an entrepreneur? Can an activity be considered to be entrepreneurial if it is not innovative?
- Activities – What activities does a person need to do to be considered an entrepreneur?
- Creation of a new business – Does someone need to start a new business to be considered to be an entrepreneur, or can someone

who buys a business, buys into a franchise, or takes over an existing family business be considered an entrepreneur?

- Starts an innovative venture within an established organization – Can someone who works within an existing organization that they don't own be considered an entrepreneur if they start an innovative venture for their organization?
- Creation of a not-for-profit business – Can a venture be considered to be entrepreneurial if it is a not-for-profit, or should only for-profit businesses be considered entrepreneurial?

Gartner (1990) further summarised the concept as stated below-

- The Entrepreneur – The entrepreneur theme is the idea that entrepreneurship involves individuals with unique personality characteristics and abilities (e.g., risk-taking, locus of control, autonomy, perseverance, commitment, vision, creativity).
- Innovation – The innovation theme is characterized as doing something new as an idea, product, service, market, or technology in a new or established organization. The innovation theme suggests that innovation is not limited to new ventures, but recognized as something which older and/or larger organizations may undertake as well.
- Organization Creation – The organization creation theme describes the behaviours involved in creating organizations. This theme described acquiring and integrating resource attributes (e.g., Brings resources to bear, integrates opportunities with resources, mobilizes resources, gathers resources) and attributes that described creating organizations (new venture development and the creation of a business that adds value).
- Creating Value – This theme articulated the idea that entrepreneurship creates value. The attributes in this factor indicated that value creation might be represented by transforming a business, creating a new business growing a business, creating wealth, or destroying the status quo.
- Uniqueness – This theme suggested that entrepreneurship must involve uniqueness. Uniqueness was characterized by attributes such

as a special way of thinking, a vision of accomplishment, ability to see situations in terms of unmet needs, and creates a unique combination.

Definitions of Entrepreneur : An entrepreneur can be described as "one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them" (Zimmerer & Scarborough, 2008).

Definitions of Entrepreneurship : Entrepreneurship can be defined as a field of business thatseeks to understand how opportunities to create something new (e.g., new products or services, new markets, new production processes or raw materials, new ways of organizing existing technologies) arise and are discovered or created by specific persons, who then use various means to exploit or develop them, thus producing a wide range of effects (Baron, Shane, & Reuber, 2008)

A concise definition of entrepreneurship "is that it is the process of pursuing opportunities without limitation by resources currently in hand" (Brooks, 2009, p. 3) and "the process of doing something new and something different for the purpose of creating wealth for the individual and adding value to society" (Kao, 1993).



CHECK YOURPROGRESS

Q 1: Mention two characteristics of an entrepreneur.

i) .....

ii) .....

Q 2: Mention three functions performed by an entrepreneur in bringing his project into reality

i) .....

ii) .....

iii) .....

1.4 EMERGENCE OF ENTREPRENEURIAL CLASS

The emergence of 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 rationalised 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. 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 (1950) 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 (1957) 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) Emergence of Entrepreneurial Class 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 1850 onwards. Out of 96 mills, existing in 1915, 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 World War II. 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 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.

1.5 RISKS INVOLVED WITH ENTREPRENEURSHIP

Financial Risk

To start a business, an entrepreneur need to invest funds in business. The sources of funds are loans from investors, entrepreneur's own savings, or funds from family and friends. If any adverse situation arises, the entrepreneur will bear the risk of bankruptcy.

Strategic Risk

A good business plan is a pre- condition to attract the investors.

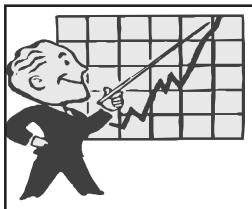
However, in this dynamic world, a well drafted strategy may also prove wrong. Under such situation, the change business environment may create more challenges. This strategic have to bear by the entrepreneur.

T**echnology Risk**

Technological changes possess a great risk. Generally, a good amount of money is to be invested for technology upgradation. At the same time the rate of obsolescence is also very high in case of technology. Therefore, there is always a risk of technology in business.

Market Risk

The product or service need to be placed in the market for consumer. The market is affected by many factors and there continues to be ups and downs in the market. In this regard, the competitors in the market is an important dimension in the market. An entrepreneur must be ready to face these risks.



CHECK YOUR PROGRESS

Q3: State any two risks associated with entrepreneurship.

.....

.....

1.6 BARRIERS TO ENTREPRENEURSHIP

In India, entrepreneurs have to struggle a lot and encounter a large number of problems to succeed in business. Some problems are general and faced by every entrepreneur. These problems are discussed below:

- **Financial problems:** Finance is considered as the life blood for any business organization, whether it is small or big. Entrepreneurs face the problem of shortage of funds. The sources of funds are limited, specially for new entrepreneurs. In some cases, they have to depend on their private sources like friends and relatives. Thus, due to the scarcity of funds, entrepreneurs find it difficult to initiate enterprise.
- **Paucity of raw material:** Majority of the enterprises are troubled by the paucity of raw material and essential inputs. This trouble is further

deepened by the huge cost of inputs, on the one hand, and obtaining raw material at the least discount, on the other.

- **Lack of Education:** Lack of education in some cases stands as a barrier for entrepreneurship. Inadequate education is the one of the causes of socio-economic issues.
- **Stiff competition:** Limited knowledge on the part of the new entrepreneurs regarding business, market, technology, organizational structure etc. stands as a barrier for entrepreneurship development.

1.7 FACTORS AFFECTING ENTREPRENEURIAL GROWTH

The following factors affect the growth of entrepreneurship-

- **Business Environment :** Business environment plays an important role developing entrepreneurship. The governmental policies, legal provisions, economic conditions etc. are the important factors that determine entrepreneurial growth. A supportive government mechanism helps in identifying various business opportunities. On the other hand, inefficient legal system, inefficient government mechanism etc.acts as barrier for entrepreneurial growth.
- **Lack of Resources :** Lack of financial resources creates hurdles in the growth of entrepreneurship. Lack of resources for short- term and long- term funds is a barrier to entrepreneurship development.
- **Lack of quality Labour :** Labour is an important factor of production. Availability of quality labour is a boon for entrepreneurial activities. On the other hand, non- availability of quality labour is a barrier for entrepreneurship development.
- **Lack of market:** Market is the place where goods and services are exchanged. Market provide the platform for entrepreneurial growth. Market generates revenue for the entrepreneur and in the absence of efficient market, there is limited scope for development.
- **Lack of Adequate Entrepreneurship Training :** Training for the entrepreneurs is very important. Through training, the entrepreneurs will be able to gain latest knowledge in technical skills, managerial

skills, entrepreneurial skills. Therefore, entrepreneurship development programmes are very necessary for the development of entrepreneurship.



CHECK YOUR PROGRESS

Q 4: State two factors that influence the growth of entrepreneurship.

.....

.....



1.8 LET US SUM UP

In this unit we have discussed the following aspects-

- Entrepreneur is concerned with innovative activities.
- According to Max Weber the entrepreneurial growth was governed by the ethical value system of the society concerned.
- According to McClelland achievement motivation is the immediate cause of the origin of entrepreneurship.
- The risks associated with entrepreneurship are- Financial Risk, Strategic Risk, Technology Risk etc.
- The different barriers to entrepreneurship are- Financial problems, Paucity of raw material, Stiff competition etc.
- The factors that affect the entrepreneurial growth are- Business environment, Lack of quality Labour, Lack of market 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 EducationIndia; Secondedition

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) Exploresthеprospectsforstartinganenterprise.

iii) Obtains necessary industriallicenses.

Ans to Q No 3: i) Market Risk, ii) Technology Risk

Ans to Q No 4: i) Business environment, ii) Lack of market



1.11 MODEL QUESTIONS

Q 1: Define entrepreneurship.

Q 2: Discuss the factors that influence the growth of entrepreneurship.

Q 3: Discuss the risks associated with entrepreneurship.

Q 4: Discuss the barriers to entrepreneurship.

*** ***** ***

UNIT 2 : THEORIES OF ENTREPRENEURSHIP

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Theories of Entrepreneurship

- 2.3.1 Economic Theory
- 2.3.2 Sociological Theory
- 2.3.3 Dynamic Entrepreneurship Innovation Theory
- 2.3.4 Leibenstein's X- efficiency Theory
- 2.3.5 Theory of Profit

2.4 Let Us Sum Up

2.5 Further Reading

2.6 Answers To Check Your Progress

2.7 Model Questions

2.1 LEARNING OBJECTIVES

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

- explain the economic theory of entrepreneurship
- describe the sociological theory of entrepreneurship
- discuss the dynamic entrepreneurship innovation theory of entrepreneurship
- explain the Leibenstein's X- efficiency theory of entrepreneurship
- discuss the theory of profit of entrepreneurship.

2.2 INTRODUCTION

In this unit we will discuss the different theories of entrepreneurship. These theories will help in gaining an understanding about the emergence of entrepreneurship and the different causes which motivates people to become entrepreneur.

2.3 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.

2.3.1 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.



CHECK YOUR PROGRESS

Q 1: What is the main incentive for entrepreneurial activities according to economic theory?

.....

.....

2.3.2 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.

2.3.3 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.



CHECK YOUR PROGRESS

Q 2: State the concept of innovation according to the dynamic entrepreneurship innovation theory.

.....

.....

2.3.4 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 to 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.

2.3.5 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.



2.4 LET US SUM UP

In this unit we have discussed the following aspects-

- According to economic theory, 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.
- According to sociological theory entrepreneurship is most likely to emerge under a specific social culture. Cultural values and role expectations are responsible for the emergence of entrepreneurship.
- The dynamic entrepreneurship innovation theoryconsidered entrepreneurship was the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development.
- 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 to 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.
- The theory of profit considers the entrepreneur as a recipient of pure profit.



2.5 FURTHER READING

1) B. Bhatnagarand 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 EducationIndia; Secondedition
5) Pathak R.K. and KalwarM.C.(), Business Organisationand EntrepreneurshipDevelopment.



2.6 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Economic incentives are the main drive for the entrepreneurial activities.

Ans to Q No 2: According to the dynamic entrepreneurship innovation theory, the concept of innovation covers the functions:

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

2.7 MODEL QUESTIONS

Q 1: Discuss the economic theory.

Q 2: Discuss the theory of profit.

Q 3: Discuss the dynamic entrepreneurship innovation theory.

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UNIT 3 : ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Entrepreneurship Development Programme- Meaning and Importance

3.4 Course Contents and Curriculum of Entrepreneurship Development Programmes

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

3.6 Institutions providing Entrepreneurship Development Programmes in India

3.7 Let Us Sum Up

3.8 Further Reading

3.9 Answers To Check Your Progress

3.10 Model Questions

3.1 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.

3.2 INTRODUCTION

In recent years, entrepreneur and Entrepreneurship Development Programme (EDP) has become a serious matter of discussion. In unit 5, 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.

3.3 ENTREPRENEURSHIP DEVELOPMENT PROGRAMME - MEANING AND IMPORTANCE

Meaning

Entrepreneurial Development Programme means a programme conducted to help a person in strengthening his entrepreneurial motive and in acquiring skill and capabilities required for promoting and running an enterprise efficiently. 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:

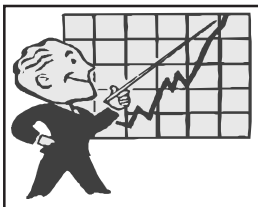
- Developing achievement motivation and sharpening entrepreneurial traits and behaviour.
- Guidance on industrial opportunities, incentives, facilities and rules and regulations.
- Developing managerial and operational capabilities.

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 through entrepreneurship.
- **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.
- **Empowers new generation entrepreneurs:** EDP, by inculcating entrepreneurial capabilities and skill in the trainees, create new generation entrepreneur who hitherto was not an entrepreneur.



CHECK YOUR PROGRESS

Answer in 50 words:

Q 1: What is Entrepreneurship Development Programme?

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3.4 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 YOPUR PROGRESS

Q 2: Mention the inputs in Entrepreneurship Development Programme.

i) .....

ii) .....

iii) .....

iv) .....

v) .....

vi) .....

3.5 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 1971. 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.

In 1973 NEITCO was created and one of the functions of it was organising training programmes on entrepreneurship development. In 1979 Small Industries Extension Training Institute (SIET), Hyderabad set up its NER centre at Guwahati. It became NISIET in 1984 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 1987 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	71
3	Sector Specific EDP	21	1335
4	EDP for PMRY beneficiaries	06	337
Total		61	3102

Table: Entrepreneurship Development Programmes Conducted by IIE in NE Region during 2006-07

Source: IIE Annual Report, 2006-07

In addition, IIE also organise 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 which the maximum unemployed youths are located in Assam (about 22-50 lakhs) and 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 items are 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 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.

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3.6 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 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

Q 3: Mention 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.

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3.7 LET US SUM UP

In this unit we have discussed the following aspects:

- 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 consists 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 1973.
- 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.



3.8 FURTHER READING

1) Pathak R.K., Kalwar M.C., Business Organisation And Entrepreneurship Development.

2) Gordon E., Natarajan K., Entrepreneurship Development.



3.9 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.

3.10 MODEL QUESTIONS

Q 1: Explain the importance of Entrepreneurship Development Programmes.

Q 2: Mention the various institutions conducting Entrepreneurship Development Programmes in India.

Q 3: What should be the Content and Curriculum of Entrepreneurship Development Programmes?

Q 4: Write a short note on the role of Entrepreneurship Development Programmes in context of NE Region.

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UNIT 4 : ENTREPRENEUR

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning of Entrepreneur

4.4 Characteristics of an Entrepreneur

4.5 Qualities of an Entrepreneur

4.6 Functions of Entrepreneurs for Economic Growth

4.7 Let Us Sum Up

4.8 Further Reading

4.9 Answers To Check Your Progress

4.10 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will able to-

- explain the meaning of an entrepreneur
- discuss the characteristics of an entrepreneur
- describe the role of entrepreneur in economic growth.

4.2 INTRODUCTION

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.

In this unit, we will discuss the meaning of entrepreneur. Then, the characteristics and functions of an entrepreneur will be discussed.

4.3 MEANING OF ENTREPRENEUR

The term ‘entrepreneur’ has been 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, create wealth and employment.

4.4 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur is highly 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 be an opportunity for competitors and will create problems for him.
- **Human Relations Approach:** To get the required co-operation and co-ordination for 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 with his tedious, sweatfilled hours and perseverance revive their 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.

4.5 QUALITIES OF AN ENTREPRENEUR

The qualities of a successful entrepreneur are discussed below-

- Ambitious: The entrepreneurs are very competitive and they have a high need for achievement.
- Independent: Entrepreneurs are self-starters and prefer to lead rather than follow.
- Self-confident: Entrepreneurs calculate the risks, uncertainties and challenges in starting a business and are possess high degree of self-confidence to solve problems.
- Risk-takers: Entrepreneurs are risk takers. They find out business opportunities though it may involve risks. They want to control the outcome of risky ventures.
- Visionary: The ability of entrepreneurs to determine the trends and act on them sets them apart from other others.
- Creative: Entrepreneurs are creative. They create new product designs, marketing strategies and innovative solutions to problems.
- Energetic: Starting and operating a business needs high energy. Entrepreneurs prepare themselves to invest their time and full energy.



CHECK YOUR PROGRESS

Q 1: Mention two characteristics of an entrepreneur.

i) ……

ii) ……

Q 2: Mention three functions performed by an entrepreneur in bringing his project into reality

i) ……

ii) ……

iii) ……

4.6 FUNCTIONS OF ENTREPRENEURS FOR ECONOMIC GROWTH

Every country is very keen in promoting its economic development. The entrepreneurs perform various significant functions for the economic growth. The functions performed by entrepreneurs in the economic development of a country can be studied under the following heads:

- **Coordinating Function :** 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.
- **Agent's Function :** Entrepreneurs are called 'Agents of change'. Entrepreneurs act as catalyst or agent of economic growth by perceiving opportunities and putting them into action.
- **Innovation Function :** 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 Function :** 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 Function :** 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 Function :** Entrepreneurs with high achievement motivation come forward to establish business and industrial ventures which provide immediate large-scale employment.
- **Export Promotion Function :** Entrepreneurs also promote a country's export trade which is an important ingredient to economic growth.
- **Imitating Function :** 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

Answer in 50 words:

Q 3: Explain the functions performed by entrepreneurs for economic growth of a country.

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ACTIVITY 1

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

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4.7 LET US SUM UP

In this unit we have discussed the following aspects:

- 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 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.



4.8 FURTHER READING

1) Sudha S.G, *Fundamentals of Entrepreneurship.*

2) Gordon E. & Natarajan K., Entrepreneurship Development.

3) Pathak R.K., Kalwar M.C., Business Organisation and Entrepreneurship Development.



4.9 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: A) 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.



4.10 MODEL QUESTIONS

Q 1: Define entrepreneur.

Q 2: What are characteristics of an entrepreneur?

Q 3: Explain the role of an entrepreneur in economic development of a country.

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UNIT 5 : ENTREPRENEUR AND MANAGER

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept of Profession

5.4 Concept of Ownership of Business

5.5 Professional Manager

5.6 Distinction between Entrepreneur and Manager

5.7 Characteristics of Entrepreneurship and Management

5.8 Let Us Sum Up

5.9 Further Reading

5.10 Answers To Check Your Progress

5.11 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will able to-

- explain the concept of profession
- discuss the concept of ownership of business
- discuss the characteristics of entrepreneur and functions of manager
- differentiate between entrepreneur and manager.

5.2 INTRODUCTION

In this unit we will discuss the features of a profession and deal with the issue of whether management is a profession or not. We will also discuss the differences between a manager and an entrepreneur. In this context, we will also discuss the characteristics of an entrepreneur and the characteristics of management and the functions of a manager.

5.3 CONCEPT OF PROFESSION

Let us first discuss the concept of profession. The following criteria helps in identifying a profession-

- Profession is a body of **specialized knowledge**.
- Professional knowledge in systemized and codified form **can be learned** through formal education system.
- A profession emphasizes on having a central body to formulate a **code of behaviour** for its members.
- A profession calls for **rendering competent and specialized services** to clients.
- A profession maintains the scientific attitude and commitment for **discovering new ideas and upgrading** in order to improve quality of service and level of efficiency provided to clients.
- A profession requires members to exercise **restraint and self-discipline**.

5.4 CONCEPT OF OWNERSHIP OF BUSINESS

The concept of ownership of business may be discussed in relation to the type and nature of business. In case of sole trade business, the sole trader is the owner of the business. The sole trader is responsible for his/her business and therefore, the sole trader is also the manager of the business. The duties and liabilities of the of the owner can not be separated in sole trade business. The owner may appoint employee for assisting him/her in managing the business, but the ultimate responsibility lies with the owner i.e. the sole trader. The financial limitation of the sole trader may restrict the owner in appointing a professional manager.

In case of partnership business, the partners are the owners. The partners can determine the course of business and the partners are responsible for the profit or loss of the business. Among the partners, some partner may take active part in the day to day management of the business. They are termed as active partner. On the other hand, some partners may not take active part in the day to day business affairs of the partnership business. They are termed as sleeping partners. However, the liability of all the partners are same. In partnership business also the partners may appoint manager. But the ultimate responsibility lies with the partners. The financial limitation of a partnership firm may also put restrictions on the appointment of professional manager.

In case of company form of business, the ownership and management are separated from each other. The owner, known as the shareholders are the real owners of the company. However, they do not take active part in the day to day affairs of the company. They invest money and interested in profit only. The Board of Directors is responsible for the management of the company. They are responsible to the shareholders in giving a proper and fair return on their capital. A large company generally appoint professional manager for specialised managerial functions.



CHECK YOUR PROGRESS

Q 1: State three features of a profession.

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Q 2: Who is responsible for the management of a company?

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5.5 PROFESSIONAL MANAGER

In section 5.3, we have discussed some criteria to identify profession. In this context, **management** as profession meets the first two criteria i.e.

- a body of specialized knowledge;
- systemized and codified form can be learned through formal education system.

However, there is no minimum qualification prescribed either for getting entry in the management profession or for becoming members of it. In practice, whosoever manages in known as manager, irrespective of qualifications. Peter Drucker in support of this view says that “no greater damage could be done to our economy or to our society than to attempt to professionalize management by licensing managers, for instance, or by limiting access to management to people with a special academic degree.” Regarding professional approach, a manager has to continuously strive for *discovering new ideas, relationships and concepts* and act in a dynamic and innovative manner to cope with the changing environment.

5.6 DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER

Jean-Baptiste Say stated that entrepreneurship was essentially a form of management. According to Say, “put the entrepreneur at the core of the entire process of production and distribution”.Say’s work resulted in something similar to a general theory of entrepreneurship with three distinct functions- scientific knowledge of the product; entrepreneurial industry – the application of knowledge to useful purpose; and productive industry – the manufacture of the item by manual labour”.

Frank Knight made several contributions to entrepreneurship theory, but another of note is how he distinguished an entrepreneur from a manager. He suggested that a manager crosses the line to become an entrepreneur “when the exercise of his/her judgment is liable to error and he/ she assumes the responsibility for its correctness”. Knight said that entrepreneurs calculate the risks associated with uncertain business situations and make informed judgments and decisions with the expectation that – if they assessed the situation and made the correct decisions – they would be rewarded by earning a profit. Those who elect to avoid taking these risks choose the relative security of being employees.

Alfred Marshall (1842-1924), from the English School of thought, was one of the founders of neoclassical economics. His research involved distinguishing between the terms capitalist, entrepreneur, and manager. Marshall saw capitalists as individuals who “committed themselves to the capacity and honesty of others, when he by himself had incurred the risks for having contributed with the capital”. An entrepreneur took control of money provided by capitalists in an effort to leverage it to create more money; but would lose less if something went wrong then would the capitalists. An entrepreneur, however, risked his own reputation and the other gains he could have made by pursuing a different opportunity.

Marshall recognized that the reward capitalists received for contributing capital was interest income and the reward entrepreneurs earned was profits. Managers received a salary and, according to Marshall, fulfilled

a different function than either capitalists or entrepreneurs – although in some cases, particularly in smaller firms, one person might be both an entrepreneur and a manager.

Entrepreneurship and Innovation

Jeremy Bentham (1748-1832), from the English School of thought, considered entrepreneurs to be innovators. They "depart from routine, discover new markets, find new sources of supply, improve existing products and lower the costs of production" (Chell, 2008).

Joseph Schumpeter's (1883-1950) parents were Austrian, he studied at the University of Vienna, conducted research at the University of Graz, served as Austria's Minister of Finance, and was the president of a bank in the country. Because of the rise of Hitler in Europe, he went to the United States and conducted research at Harvard until he retired in 1949. Because of this, he is sometimes associated with the American School of thought on entrepreneurship (Chell, 2008).

Whereas Menger saw entrepreneurship as occurring because of economic progress, Schumpeter took the opposite stance. Schumpeter saw economic activity as leading to economic development (Hebert & Link, 2009). Entrepreneurs play a central role in Schumpeter's theory of economic development, and economic development can occur when the factors of production are assembled in *new combinations*.

Schumpeter (1934) viewed innovation as arising from new combinations of materials and forces. He provided the following five cases of new combinations.

1. The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of good.
2. The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
3. The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
5. The carrying out of the new organisation of any industry, like the creation of a monopoly position … or the breaking up of a monopoly position (Schumpeter, 1934, p. 66).

Another concept popularized by Schumpeter – in addition to the notion of new combinations – was *creative destruction*. This was meant to indicate that the existing ways of doing things need to be dismantled – to be destroyed – to enable a transformation through innovation to a new way of doing things. Entrepreneurs use innovation to disrupt how things are done and to establish a better way of doing those things.

5.7 CHARACTERISTICS OF ENTREPRENEURSHIP AND MANAGEMENT

At this section, it is important to state the characteristics of entrepreneurs and the characteristics of management and the functions of managers. These characteristics of entrepreneurs are -

- *Ambitious:* They are competitive and have a high need for achievement.
- *Independent:* They are individualists and self-starters who prefer to lead rather than follow.
- *Self-confident:* They understand the challenges of starting and operating a business and are decisive and confident in their ability to solve problems.
- *Risk-takers:* Although they are not averse to risk, most successful entrepreneurs favour business opportunities that carry a moderate degree of risk where they can better control the outcome over highly risky ventures where luck plays a large role.
- *Visionary:* Their ability to spot trends and act on them sets entrepreneurs apart from small-business owners and managers.
- *Creative:* To compete with larger firms, entrepreneurs need to have creative product designs, bold marketing strategies, and innovative solutions to managerial problems.

- *Energetic:* Starting and operating a business takes long hours. Even so, some entrepreneurs start their companies while still employed full-time elsewhere.
- *Committed*. Because they are so committed to their companies, entrepreneurs are willing to make personal sacrifices to achieve their goals.

Characteristics of management

Management is an activity. Management is a process of organized activity, which is concerned with the efficient use of the factors of production.

- ***It is a purposeful activity***. It is concerned with the achievement of an objective or set of objectives through its functions such as planning, organizing, staffing, directing and controlling
- ***It is concerned with the efforts of a group***. According to Appley, management is concerned with the management of people and not the direction of things. It inspires and motivates workers to put their efforts to the maximum extent.
- ***Management is getting things done*.** According to Koontz and O' Donnell, management is the art of getting things done through and with the help of people in formally organized groups.
- ***Involves decision-making.*** It is said that management is the decision making process and the decisions are involved in all the functions of management.
- ***It co-ordinates all activities*** and resources through its various functions to attain the stated objectives.
- ***It is a universal activity*.** The techniques and tools of management are universally applicable irrespective of the nature and size of the enterprise.
- ***It is an integrating process*.** It integrates men, machines, money and materials for carrying out the operations of an enterprise to achieve the stated objectives.
- ***It is intangible.*** It is abstract and cannot be seen with the eyes. It is reflected by the quality of the organization and the results such as increased productivity and increased morale of the employees etc.

- ***Management is both science and art.*** Management is science as it has developed certain principles and laws, which are applicable to any group activity of the organization. It is also an art, because it is concerned with the application of knowledge for the solution of organizational problems.
- ***It is a profession***. Gradually, it is becoming a profession because these are established principles of management, which are being applied in practice.
- ***It is dynamic not static***. Management adapts itself to the social changes and also introduces innovation in methodology.



CHECK YOUR PROGRESS

Q 3: State two features of an entrepreneur.

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.....

Q 4: State two characteristics of management.

.....

.....

Functions of Management

Planning: Planning is concerned with the determination of objectives to be achieved and the course of action to be followed to achieve them. Before starting any action, one has to decide how and where it has to be performed. Thus planning implies decision-making as to what is to be done, how it is to be done, when it is to be done and by whom it is to be done. It involves selection of objectives, strategies, policies, programme and procedures for achieving them.Planning function is performed by managers at every level because planning may be either for the entire enterprise or for any section or department thereof.

Organising: Organizing involves the following processes:

a. Determining and defining the activities involved in achieving the objectives laid down by the management;

b. Grouping the activities in a logical pattern;

c. Assigning the activities to specific positions and people; and

d. Delegating authority to their positions and people so as to enable them to perform the activities assigned to them.

Organizing function helps in increasing the efficiency of the enterprise. Further, by avoiding repetition and duplication of activities, it reduces the operation cost of the enterprise.

Staffing: the staffing function involves:

a. Proper selection of candidates for proper positions;

b. Proper remuneration;

c. Proper training and development so as to enable them to discharge their organizational functions effectively; and

d. Proper evaluation of personnel.

Coordination: Some authorities consider coordination to be a separate function of the manager. It seems more accurate, however, to regard it as the essence of managership, for achieving harmony among individual efforts toward the accomplishment of group goals. Each of the managerial functions is an exercise contributing to coordination. It is the central task of the manager to reconcile differences in approach, timing, effort, or interest and to harmonize individual goals to contribute to organizational goals.

Controlling: Controlling is related to all other management functions. It is concerned with seeing whether the activities have been or being performed in conformity with the plans. It involves the following sub-functions:

a. Determination of standards for measuring work performance,

b. Measurement of actual performance,

c. Comparing actual performance with standards,

d. Finding variances between the two and reasons for variances,

e. Taking corrective actions to ensure attainment of objectives.



5.8 LET US SUM UP

In this unit we have discussed the following aspects-

- The criteria of identifying a profession are-
  - Profession is a body of specialized knowledge.
  - Professional knowledge in systemized and codified form can be learned through formal education system.
  - A profession emphasizes on having a central body to formulate a code of behaviour for its members.
  - A profession calls for rendering competent and specialized services to clients.
- The ownership and management are separated from each other in case of a company form of business.
- Regarding management as profession, there is no minimum qualification prescribed either for getting entry in the management profession or for becoming members of it. In practice, whosoever manages in known as manager, irrespective of qualifications.
- *The characteristics of entrepreneur are Ambitious, Independent, Self-confident, Risk-takers etc.*
- The characteristics of management are - It is a purposeful activity, It is concerned with the efforts of a group, Management is getting things done, Involves decision-making etc.



5.9 FURTHER READING

1) https://en.wikibooks.org/wiki/Management_ Concepts_and_ Applications/Management

2) https://openpress.usask.ca/entrepreneurshipandinnovationtoolkit/chapter/chapter-1-introduction-to-entrepreneurship/



5.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: ● Profession is a body of specialized knowledge.

- Professional knowledge in systemized and codified form can be learned through formal education system.
- A profession emphasizes on having a central body to formulate a code of behaviour for its members.

Ans to Q No 2: Board of Directors

Ans to Q No 3: *Ambitious, Independent*

Ans to Q No 4: ● It is a purposeful activity.

- It is concerned with the efforts of a group.

5.11 MODEL QUESTIONS

Q 1: Define profession.

Q 2: Discuss management as a profession.

Q 3: Discuss the features of management.

Q 4: Discuss the functions of a manager.

*** ***** ***

UNIT 6 : PROMOTION OF A VENTURE

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning of Promotion of a Venture

6.4 Sources of Business Ideas

6.5 Steps in Identification of Business Opportunities

6.6 External Environmental Analysis- Meaning and Importance

- 6.6.1 Economic Factors
- 6.6.2 Social Factors
- 6.6.3 Technological Factors
- 6.6.4 Competitive Factors

6.7 Establishment of a New Business Unit- Legal Requirements

6.8 Venture Capital- Meaning and Importance

6.9 Sources of Venture Capital

6.10 Documentation for Obtaining Venture Capital

6.11 Let Us Sum Up

6.12 Further Reading

6.13 Answers To Check Your Progress

6.14 Model Questions

6.1 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.

6.2 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 legal requirements for 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.

6.3 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 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.

6.4 SOURCES OF BUSINESS IDEAS

Sources of Business or Product Ideas

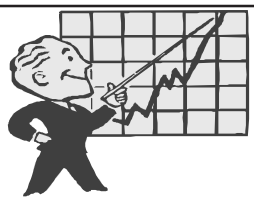
In this section, we will discuss some sources from where business ideas can be collected-

- **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. encourages 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.
- Spying is considered as a powerful way of extracting business idea from other companies.

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:

- Study government rules and regulations regarding different business opportunities.
- Extensive study of promising investment opportunity.
- SWOT analysis of the business venture, and
- Market Survey.

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



CHECK YOUR PROGRESS

Q 1: Mention two sources of business ideas.

i) ……..……

ii) .....……

6.5 STEPS IN IDENTIFICATION OF BUSINESS OPPORTUNITIES

Now, we will discuss the steps involved in identification of business opportunities.

The various steps are-

1. Preliminary evaluation.
2. Selection of product or services.
3. Conduct 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. Conduct 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 Raw Materials

- Information regarding major producers and the supplier of equipments 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 guidance and necessary 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 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 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 1

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

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.....

.....

.....

6.6 EXTERNAL ENVIRONMENTAL ANALYSIS-MEANING AND IMPORTANCE

The external environment covers people and 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 with the social norms and keep pace with the socio- cultural change in the society.

Government policies and regulations are another major hurdle for the entrepreneurs while implementing the projects. Government subsidy, tax relief and other incentives encourages the entrepreneurs to start a venture. On the other hand, red tapism, restrictions etc. discourage them. 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:** Analysing 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 venture's goals and objectives.

6.6.1 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.



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

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.

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.

While examining the economic environment, following economic factors have to be taken into account which has an influence on business-

- Economic conditions existing in the national and local economy.
- Stage of business cycle.
- General Price level, inflationary and deflationary trends.
- Economic structure adopted viz. capitalistic, socialistic, mixed economy.
- Structure of industry.
- Economic plans and their priority.
- Economic policies viz. industrial, monetary, fiscal policies and other regulatory policies. Economic indices viz. growth of GNP, Per Capita income, rate of interest, balance of payments.
- Policies of financial institutions, World Bank, local banks, national banks, private banks etc.
- Modes of transport and communications, power tariffs, energy sources etc.

6.6.2 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 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 resources 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 characterised by a non-rational society which is trouble-some for entrepreneurs.

6.6.3 Technological Factors

Emergence of technology and its rapidly changing nature has posed a challenge before the entrepreneurs in starting and running a venture. The technology means the technical know- how or methodology used for production, delivery of goods and services, designing process and services rendered to customers. By innovating technology and adopting it in operations, companies have expanded their limits and have raised customers' expectations. The technological changes also result in shrinking the product life cycle as because a product introduced today may become obsolete the next day.

A few factors that influence in the operations of a venture and to be kept in mind while analyzing environment.

- Source of technology is an important factor. Many companies develop their in- house technology while others depend on technology invented by others.
- Cost of technology is an important factor and must be considered during its sourcing.
- The technological change is obvious. Hence, the rate of change of technology, cost of change and time to assimilate and install a new technology are some of the important factors to be considered.

- Effect of new technology on the man- machine system, the health of the employees and the social environment should also be taken into consideration before adopting a new technology.

6.6.4 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

Q 2: Why environmental analysis is important? Mention two reasons.

i) .....

ii) .....

Q 3: State two factors in external environment.

i) .....

ii) .....

6.7 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.

- **Obtaining Statutory License**

Municipal Corporation/ Town Committee/Gaon Panchayat issues trade licence or no-objection certificate. The entrepreneur 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, e.g. 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 the 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 trade mark registrations, goods are classified in 34 classes, an application for registration of a trade mark should be confirmed to one only.

6.8 VENTURE CAPITAL- MEANING AND IMPORTANCE

Venture Capital assistance 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 as investment companies or development corporations. The American Research and Development Corporation, one of the first investment development companies, is widely traded in the financial markets.



Seed Capital: The initial investment required for starting a new venture

Venture capital is 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 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.

Under 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 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 enterprises in 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 is becoming popular in different parts of the world because of the crucial role it plays in fostering industrial development by exploring 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 professionalise the firm.

6.9 SOURCES OF VENTURE CAPITAL

In India, venture capital started in 1986 by the government under the management of Industrial Development Bank of India with an initial capital of Rs. 10 crore. Another venture capital company named Risk Capital and Technology Finance Corporation (RCTFC) set up in 1988 by Industrial Finance Corporation of India.

Unlike 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 been 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

Answer in 50 words:

Q 4: What is venture capital?

……

……

……

6.10 DOCUMENTATION FOR OBTAINING VENTURE CAPITAL

- **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.

- **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

Q 5: Mention two sources of venture capital.

i) .....

ii) .....

Q 6: Mention three documents required for obtaining venture capital.

i) .....

ii) .....

iii) .....



6.11 LET US SUM UP

In this unit we have discussed the following aspects:

- 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 establishment of a new business unit.
- Venture capital is long-term financial assistance provided to small scale enterprises, high technology and risky ventures.
- Venture capital plays 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.



6.12 FURTHER READING

1) Pathak R.K., Kalwar M.C., Business Organisation And Entrepreneurship Development.

2) Gordon E., Natarajan K., Entrepreneurship Development.



6.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: i) Social and economic trends

ii) Trade fairs.

Ans to Q No 2: i) Early warning to prevent threats and risks.

ii) It leads to accurate forecast.

Ans to Q No 3: i) Economic factors

ii) Social factors

Ans to Q No 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 Q No 5: i) SBI Caps

ii) Indus Venture Capital

Ans to Q No 6: i) Project report

ii) Land documents

iii) Market survey report.

6.14 MODEL QUESTIONS

Q 1: What is meant by promotion of venture?

Q 2: Discuss the various stages of identification of business opportunities.

Q 3: What are the influencing factors in promoting a new venture?

Q 4: Explain the impact of economic factors and technical factors in promoting a new venture.

Q 5: What are the legal documents required to start a new business unit?

Q 6: What is venture capital? Explain its importance.

Q 7: What are the various sources of venture capital in India?

Q 8: What are the documents required for obtaining venture capital?

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UNIT 7 : PREPARATION OF BUSINESS PROPOSAL

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Importance of Business Proposal

7.4 Contents of Business Proposal

7.5 Designing Business Proposal

7.6 Let Us Sum Up

7.7 Further Reading

7.8 Answers To Check Your Progress

7.9 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- discuss the importance of business proposal
- discuss the contents of business proposal
- explain the designing of business proposal.

7.2 INTRODUCTION

Proposals are some of the most common types of reports that need to prepared in business. These reports are persuasive in nature: proposals attempt to persuade the reader to accept the writer's proposed idea; progress reports assure the reader that the project is on time and on budget, or explain rationally why things might not be going according to the initial plan.

A proposal, in the technical sense, is a document that tries to persuade the reader to implement a proposed plan or approve a proposed project. Most businesses rely on effective proposal writing to ensure successful continuation of their business and to get new contracts. The writer tries to convince the reader that the proposed plan or project is worth doing (worth the time, energy, and expense necessary to implement or see through),

that the author represents the best candidate for implementing the idea, and that it will result in tangible benefits.

7.3 IMPORTANCE OF BUSINESS PROPOSAL

The importance of business proposal may be discussed as under-

- The business proposal is the road map for the development of the business because it
  - ➢ defines the vision for the company
  - ➢ establishes the company's strategy
  - ➢ describes how the strategy will be implemented
  - ➢ provides a framework for analysis of key issues
  - ➢ provides a plan for the development of the business
  - ➢ is a measurement and control tool
  - ➢ helps the entrepreneur to be realistic and to put theories to the test
- The business plan is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited. It should assist outside parties to understand the current status of the company, its opportunities, and its needs for resources such as capital and personnel. It also provides the most complete source of information for valuation of the business.



CHECK YOUR PROGRESS

Q 1: Define project.

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Q 2: State the importance of business proposal.

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7.4 CONTENTS OF BUSINESS PROPOSAL

The contents of the business proposal are-

Introduction: Plan the introduction of the proposal. It should include the content of the whole project and the overview of the business

Background on the problem, opportunity, or situation: Often occurring just after the introduction, the background section discusses what has brought about the need for the project—what problem, what opportunity exists for improving things, what the basic situation is.

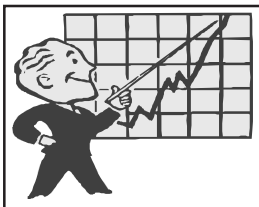
Benefits and feasibility of the proposed project: Most proposals briefly discuss the advantages or benefits of completing the proposed project. This acts as a type of argument in favour of approving the project. Also, some proposals discuss the likelihood of the project's success.

Description of the proposed work (results of the project): Most proposals must describe the finished product of the proposed project. That means describing the proposal, providing an outline, and discussing such things as its length, graphics, binding, and so forth.

Method, procedure, theory: In some proposals, it is important to explain the methodology of the proposed work. This acts as an additional persuasive element; it shows the audience that the proposal has a sound, thoughtful approach. Also, it serves to demonstrate that the business has the knowledge of the field to complete the project.

Schedule: Most proposals contain a section that shows not only the projected completion date but also key milestones for the project. If a business is doing a large project spreading over many months, the timeline must indicate the dates on which progress reports will be delivered.

Costs, resources required: Most proposals also contain a section detailing the costs of the project, whether internal or external. The project proposal need to state that the total cost of the complete project.



CHECK YOUR PROGRESS

Q 3: Sate any two contents of business proposal.

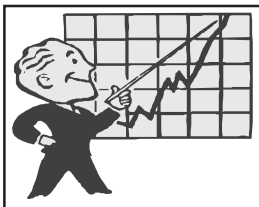
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7.5 DESIGNING BUSINESS PROPOSAL

The following factors need to be considered for designing a business proposal-

- **Gather the Information :** When a business opportunity becomes available, the businessman may feel pressure to get the proposal sent over as soon as possible. While the businessman certainly want to send it sooner, taking some time to learn about the client and project first will help in crafting a proposal that is more likely to be accepted. This will inform the key elements to include in the proposal and create a more accurate and effective proposal.
- **Define Project Objectives and Scope :** The scope and objectives of the project must be define first. It is important that to know and articulate the objectives so that it guides while preparing the proposal. This helps shape the proposal. It is also a good practice to state the objective, either in the introduction part or in the executive summary of the business proposal.
- **Estimate Labour and Costs :** The businessman has to consider the project cost—and thus, how much to charge the client. Many businesses use a simple formula to estimate their labour costs.
- **Start Drafting Your Business Proposal :** At this stage the actual proposal document need to be drafted. Proposals tend to follow a loose formula. The proposal starts with an introduction that summarizes the business and the project, followed by a body that gives details of all, like including a price etc. and a conclusion that tells the customer how to proceed.



CHECK YOUR PROGRESS

Q 4: State any three factors that need to be considered for designing a business proposal.

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7.6 LET US SUM UP

In this unit we have discussed the following aspects-

- A proposal, in the technical sense, is a document that tries to persuade the reader to implement a proposed plan or approve a proposed project.
- The business proposal is the road map for the development of the business.
- The contents of the business proposal are- Introduction; Background on the problem, opportunity, or situation; Benefits and feasibility of the proposed project; Description of the proposed work; Method, procedure, theory; Schedule; Costs, resources required.
- The factors that need to be considered for designing a business proposal-gather the Information, Define Project Objectives and Scope, Estimate Labour and Costs.



7.7 FURTHER READING

1) https://pressbooks.bccampus.ca/technicalwriting/chapter/proposals/
2) https://fitsmallbusiness.com/how-to-write-a-business-proposal/
3) https://openpress.usask.ca/entrepreneurshipandinnovationtoolkit/chapter/chapter-5-business-planning/

7.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: A proposal, in the technical sense, is a document that tries to persuade the reader to implement a proposed plan or approve a proposed project.

Ans to Q No 2:

- The business proposal defines the vision for the company, establishes the company's strategy
- The business plan is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited.

Ans to Q No 3:

- Introduction
- Benefits and feasibility of the proposed project

Ans to Q No 4:

- Gather the Information
- Define Project Objectives and Scope
- Estimate Labour and Costs



7.9 MODEL QUESTIONS

Q 1: Define business proposal.

Q 2: Discuss the importance of business proposal.

Q 3: Discuss the factors that need to be considered for designing a business proposal.

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UNIT 8 : VENTURE CAPITAL

UNIT STRUCTURE

8.1 Learning Objectives
8.2 Introduction
8.3 Concept of Venture Capital
8.4 Significance of Venture Capital
8.5 Functions of Venture Capitalists
8.6 Essential Features of Venture Capital
8.7 Advantages of Venture Capital
8.8 Venture Capital Instruments
8.9 Banks and Venture Capital
8.10 Let Us Sum Up
8.11 Further Reading
8.12 Answers to Check Your Progress
8.13 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will able to-

- explain the meaning of venture capital
- discuss the significance of venture capital
- discuss the functions of venture capitalists
- describe the advantages of venture capital
- discuss the venture capital instruments
- explain the relation between banks and venture capital.

8.2 INTRODUCTION

In this unit we will discuss the concept of venture capital and its importance. The functions of venture capitalists and the advantages associated with the venture capital will also be discussed. The role of banks in providing venture capital will also be discussed in this unit.

8.3 CONCEPT OF 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 return sandhenceitis also known as 'riskcapital'.

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.,developmentofanidea,startup,fledging,andestablishment.



CHECK YOUR PROGRESS

Q 1: What is venture capital.

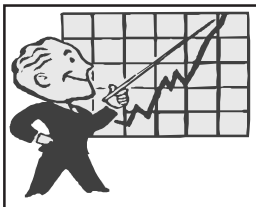
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8.4 SIGNIFICANCE OF VENTURE CAPITAL

- Venture capital financing is one of the most recenten trants 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 provenore stablishe dprocess or technology.

- Venture capitalisa 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 in vestment starts accruing aftera period of about 5 years.
- It not only plays an important role in financing hi-technology projects, but also help stoturn 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.



CHECK YOUR PROGRESS

Q 2: State two significance of venture capital.

.....

.....

8.5 FUNCTIONS OF VENTURE CAPITALISTS

1. Venture capitalists provide this form of capital to projects which are established to introduce new product, invention, ideaetc.
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 thefirm.
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 existingbusiness.

8.6 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 sharesonce the venture be comes highly profitable.
2. **Long- term investment:** Venture capital is a long term financial assistance. It necessitates the venture capital provider to wait for along period toearn high return.
3. **Participation in management:** Venture capital makes way for the venture capitalists to participate in the management of the concern edventure 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.

8.7 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:

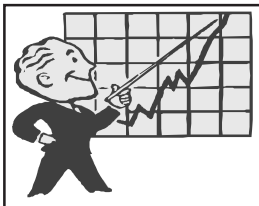
1. In helps in the growth of industries.
2. It helps in technological innovations.
3. It helps in the growth of entrepreneurs.
4. It generates employment opportunities by promoting new ventures.

5. It also benefits the investors by allowing them to invest in a venture when it starts earning profit.

8.8 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. **Incomenote**: 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 in struments of venture capital.



CHECK YOUR PROGRESS

Q 3: State two features of venture capital.

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8.9 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 in1975.

2. IDBI'S Venture Capital Fundsetupin 1986.
3. ICICI Venture Fund Management Company promoted by ICICI along with the UTI in 1988.
4. SIDBI"S Venture capital fund setup 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).



8.10 LET US SUM UP

In this unit we have discussed the following aspects-

- 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 financing is one of the mostre cententrants into the capital market.
- It is an important source of funds for technology based businessconcerns.
- Venture capitalists provide this form of capital to projects which are established to introduce new product, invention, ideaetc.
- Theventure capitalist directly purchases shares or convertible securities of the new venture. This is done to make capital gains by disposing off thesharesoncetheventurebecomeshighlyprofitable.
- Venture capital helps in the growth of entrepreneurs.



8.11 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) Pathak R.K. andKalwar M.C. (), Business Organisation and Entrepreneurship Development.



8.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 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.

Ans to Q No 2: 1) 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.

2) Venture capitalis a type of financial service which helps an entrepreneur to translate his ideas into realities.

Ans to Q No 3: 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 along period to earn high return.

8.13 MODEL QUESTIONS

Q 1: What is venture capital?

Q 2: Discuss the advantages of venture capital.

Q 3: Discuss the venture capital instruments.

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UNIT 9 : MOBILISING RESOURCES

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Meaning of Resource Mobilising

9.4 Resource Mobilising for Start-ups

9.5 Preliminary Contracts with the Vendors

9.6 Basic Start-Up Problems Faced by Entrepreneurs

9.7 Methods to Solve Start-up Problems

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 able to-

- explain the concept of resource mobilisation
- explain the different resources required start-ups
- discuss the preliminary contract with the vendors
- discuss the problems faced by start-ups
- explain the methods to solve the problems of start-ups.

9.2 INTRODUCTION

In this unit we are going to discuss about certain aspects of start-ups. The start- ups require various types of resources and they face different problems in establishing the business. They have to enter into certain preliminary contracts with the vendors. In this unit, we will discuss all these aspects besides the methods for solving the problems of the start- ups.

9.3 MEANING OF RESOURCE MOBILISING

Every organisation whether it is with profit motive or without profit motive need resources to perform its functions. The resources are varied and can be identified as natural, human, financial, physical etc. The availability and proper utilisation of resources are always challenging. The resources should not be wasted owing to the fact that resources are scarce and have various uses.

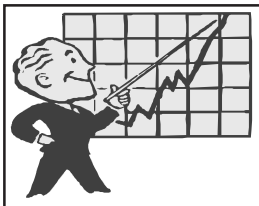
The term resource mobilization refers to the activities that are directed towards acquiring new and additional resources, viz, human, financial, material etc. Every organisation whether it is new or old have to undertake the activities for resource mobilisation. It is important to mention here that the sources and cost of collecting the resources also need due consideration at the time of taking the decision of resource mobilisation. An old firm have certain well identified sources from where resources are collected. For a start up, it have to find out the sources and have to calculate the cost of collecting resources.

9.4 RESOURCE MOBILISING FOR START-UPS

- **Financial Resource:** The most important element in starting a business is finance. For business of all types and sizes, finance is most crucial. From the very first activity, a business firm need funds like, registering the name of the business, obtaining a space for office, printing business cards etc. For a startup, the sources for collecting the financial resources may be own funds of the entrepreneur, friends and relatives, venture capitalists, angel investors etc.
- **Human Resource:** The success of an organization depends on its employees. The hiring of experienced people with good track records ensures that the objectives of the company will be carried out efficiently and with competence.

  Strong team members can be recruited using a variety of methods and sources. Though initially the start-ups may find some problems in hiring human resource but they must hireefficient persons.

- **Physical Resource:** Every organization must have the appropriate physical resources to survive. This includes a proper workspace, working telephone line, adequate information systems and effective marketing materials. Therefore, it is important for an entrepre-neur to assess the needs of the business before making any purchase decision.



CHECK YOUR PROGRESS

Q 1: State two resources required for start- ups.

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9.5 PRELIMINARY CONTRACTS WITH THE VENDORS

The contracts which are agreed before the company comes into existence, they are called preliminary contract or pre- incorporation contract. These contracts generally relate to the property to be purchased for the company or contract for technical know- how etc. These types of contracts cannot bind the company until it is incorporated.

In case of preliminary contracts, the legal position can be discussed as under-

a) Position before passing of Specific Relief Act, 1963

b) Position after passing of Specific Relief Act, 1963

a) Position before Passing of Specific Relief Act, 1963: The preliminary Contract made before passing of Specific Relief Act, 1963 cannot bind the company because it has not legal existence before incorporation.The companies are not in a position to sue on pre-incorporated contracts.Ratification is not possible in the case of the preliminary contract, as the ostensible principal not exist at the time of the contract.

b) Position after Passing of Specific Relief Act, 1963: The promoters found difficulties in carrying out the work before the Specific Relief Act, 1963, because the contracts prior to incorporation were void.The

Specific Relief Act, 1963 came as a relief to the promoters.The Act provides that where the promoters of a public company have made a contract before its incorporation, for the purpose of the company and if the contract is warranted by the terms of its incorporation, the company may enforce it.

Basic Requirements for a Contract:

Entering into a legal contract with another individual or party helps provide legal protection, as well as a specific outline of the deal. When a contract is entered into with another party, it should satisfy the legal requirements of a valid legal contract.

9.6 BASIC START-UP PROBLEMS FACED BY ENTREPRENEURS

In the initial period, start- ups faces different problems such as the intense competition, new customer, market and venture capital money etc. Let us discuss some of the problems faced by start-ups -

(i) **Developing Business Idea:** The first challenge for start-ups is to develop a business idea. Finding the right business opportunity or creatively developing an idea is a difficult task.As an entrepreneur, one must have innovative idea to attract the customers. The entrepreneur must be able to assess the opportunities.

(ii) **Raising Capital:** After developing the business idea, the next challenge faced by start-ups is to raise the required capital for the business. The entrepreneur must know the business and must set the vision for the future.

(iii) **Business Model Failure:** The most common cause of failure of the startups is that entrepreneurs are too optimistic about the success of the business. The entrepreneur must be careful about the different aspects of the business and the barriers that he/ she may face. The business must be such that it can attract customers of its own.

(iv) **Poor Management Team:** Proper planning is essential for business. But due to weak managerial team, there may be some mistakes in the planning stage. They may fail to execute a plan which leads to issues with the product.

(v) Liquidity or Cash Crunch: The start- ups may fail because of liquidity problem. A major reason that start- ups fail is because they ran out of cash. A key job of the entrepreneur is to understand how much cash is left and whether that will carry the company to a milestone that can lead to a successful financing, or to cash flow positive.

(vi) Product Problems: Another reason that companies fail is, because they fail to develop a product that meets the market need. This can either be due to simple execution or it can be a far more strategic problem, which is a failure to hit the market.

(vii) Finding Good Employees: It is very difficult to find hardworking, trustworthy employees. After recruiting the human resource, orientation and training are also very important.

(viii) Unforeseen Business Challenges and Expenses: Business environment is very complex and can change at any moment. The results of such changes may create some opportunities and may possess some challenges. The entrepreneur, therefore, must be cautious about business environment.



CHECK YOUR PROGRESS

Q 2: State two problems faced by start- ups.

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9.7 METHODS TO SOLVE START-UP PROBLEMS

In creating a startup, or managing any business, the business owners need to face various problems and have to overcome all these problems. Let us discuss some of the methods to solve the problems of the start-ups-

(i) Define the Problem Clearly: Many executives like to jump into solution mode immediately, even before they understand the issue. In some cases, a small problem can become a big one with inappro-priate actions. In all cases, real clarity will expedite the path ahead.

(ii) Identify the Cause of the Problem: The entrepreneur must try to find out the root cause of the problem, rather than treating a symptom because if the root cause is not understood, the problem will likely reoccur, perhaps with different symptoms.

(iii) Identify Alternative Solutions: The alternative solutions need to be find out to solve the problem and the best one should be adopted. The best solution will ensure that the problem will not reoccur. The quality of the solution seems to be in direct proportion to the quantity of solutions considered in problem solving.

(iv) Make a Prompt Decision: Time is also an important factor. After selecting a solution, it is essential to implementing it without wasting time. The longer time that a business takes to decide what to do, the higher the cost, and the larger the impact will be. Many start-ups take too long to decide and that becomes a reason for the failure.

(v) Acknowledge and Correct: It is important to regularly understand the market and the customers. Once it is observed that there is some problem with the product, it must be immediately corrected or a new business strategy is to be planned.



9.8 LET US SUM UP

In this unit we have discussed the following aspects-

- Every organisation whether it is with profit motive or without profit motive need resources to perform its functions.
- The resources required for start- ups are financial, human, physical etc.
- The contracts which are agreed before the company comes into existence, they are called preliminary contract or pre- incorporation contract.
- The basic problems of start- ups relate to developing business idea, raising capital, business model failure etc.

- The various methods of solving the problems of start- ups are define the problem clearly, identify the cause of the problem, identify alternative solutions etc.



9.9 FURTHER READING

1) Khanka SS (2007), *Entrepreneurial Development*; S Chand & Company; Reprint Edn. 2006 edition.

2) Scarborough and Cornwell (2016), *Essentials of Enterpreneurship & Small Business Management,* Pearson Education India; Eighth edition.

3) Charantimath (2013), *Entrepreneurship Development and Small Business Enterprises*, Pearson EducationIndia; Secondedition.



9.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: a) Human Resources

b) Financial Resources

Ans to Q No 2: a) Developing Business Idea

b) Raising Capital



9.11 MODEL QUESTIONS

Q 1: Discuss the problems of start- ups.

Q 2: Define resource mobilisation.

Q 3: Discuss the methods of solving the problems of start- ups.

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UNIT 10 : WOMEN ENTREPRENEURSHIP

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Concept of Women Entrepreneurship

10.4 Importance of Women Entrepreneurship

10.5 Barriers to Women Entrepreneurship

10.6 Promotion of Women Entrepreneurship

10.7 Let Us Sum Up

10.8 Further Reading

10.9 Answers to Check Your Progress

10.10 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- explain the concept of women entrepreneurship
- explain the importance of women entrepreneurship
- discuss the barriers to women entrepreneurship
- discuss the schemes for women entrepreneurship in India.

10.2 INTRODUCTION

In this unit we will study the concept of women entrepreneurship. Women entrepreneurs can contribute immensely towards economic and social development of a country. Entrepreneurial activities by women will ensure her command over economic assets and it will lead to women empowerment. In this unit we will also discuss the barriers to women entrepreneurship and the different schemes for women entrepreneurship.

10.3 CONCEPT OF WOMEN ENTREPRENEURSHIP

Development of entrepreneurship is one of the important aspects for ensuring economic development of a country. An entrepreneur is termed

as 'Agent of Change'. An entrepreneur not only contribute to wards economic development but also bring changes in socio- cultural life of the society. In this regard, it can be stated that the development of society requires full participation of all sections of population including women. Various studies show that women can play an important role in the development of entrepreneurship and the development of the economy. Therefore, there is a need to study the various dimensions of women entrepreneurship. The existing theoretical concepts need to be expanded to better explain the uniqueness of women entrepreneurship as a subject of research inquiry.

Entrepreneurship development among women can be considered a possible approach to economic empowerment of women. A women entrepreneur is economically more powerful than as a mere worker because ownership not only confers control over assets but also give her the freedom to take decisions. This will uplift her social status significantly. Through entrepreneurship development a woman will be able to generate income for her and will also create employment opportunities for others. This will have multiplier effect in the generation of income and poverty alleviation.In this dynamic world women entrepreneurs are an important part of the global quest for sustained economic development and social progress.

10.4 IMPORTANCE OF WOMEN ENTREPRENEURSHIP

In India though women have played a key role in the society, their entrepreneurial ability has not been properly tapped due to the lower status of women in the society. It is only in recent years that the role of women entrepreneurs is recognized. Let us discuss the role of women entrepreneurs-

i) **Capital formation:** Women entrepreneurs mobilises the savings of the public and invested in business. It results in productive utilisation of national resources. The rate of capital formation increases, which is essential for rapid economic growth.

ii) **Improvement in Per capita Income:** Women entrepreneurs in India have also been exploiting the opportunities. They convert the resources

like land, labour and capital in to national income and increases the per capita income.

iii) **Generation of employment:** Women entrepreneurs helps in generating employment opportunities. By setting up small scale industries, a large number of job opportunities may be created.

iv) **Social Contribution:** Women entrepreneurs can also contribute for the improvement of the living standard and thereby contribute towards social development.

CHECK YOUR PROGRESS

Q 1: State three points of importance of women entrepreneurship.

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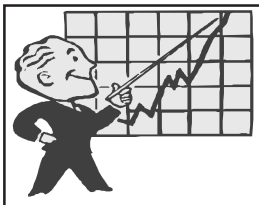
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10.5 BARRIERS TO WOMEN ENTREPRENEURSHIP

In India, women entrepreneurs have to struggle a lot and encounter a large number of problems to succeed in business. Some problems are general and faced by every entrepreneur, but some problems are specific to women entrepreneurs. These problems are discussed as follows:

- **Financial problems:** Finance is considered as the life blood for any business organization, whether it is small or big. However, women entrepreneurs face the problem of shortage of funds in two ways. Firstly, women do not generally own property on their names such that it can be used as collateral for procuring funds. Therefore, their sources of funds are limited. Secondly, women are also considered less credit-worthy by banks and financial institutions. Therefore, women entrepreneurs have to depend on personal savings. Thus, due to the scarcity of funds, women enterprises find it difficult to initiate enterprise.
- **Paucity of raw material:** Majority of women enterprises are troubled by the paucity of raw material and essential inputs. This trouble is further deepened by the huge cost of inputs, on the one hand, and obtaining raw material at the least discount, on the other.

- **Limited Mobility:** In India, women mobility is highly restricted due to various causes.
- **Lack of Education:** Lack of education in some cases stands as a barrier for women entrepreneurship. Inadequate education is the one of the causes of socio-economic issues.
- **Stiff competition:** Limited knowledge on the part of women regarding business, market, technology, organizational structure etc. stands as a barrier for women entrepreneurship.
- **Family Responsibilities:** In Indian society, family responsibility is considered as the primary responsibility of women. In discharging these responsibilities, she may not be able to give due attention to business.



CHECK YOUR PROGRESS

Q 2: State three barriers to women entrepreneurship.

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10.6 PROMOTION OF WOMEN ENTREPRENEURSHIP

In the recent years Governments take so much of interest on development of new women entrepreneurs through training; at present most of the states are involved in WED (Women Entrepreneurship Development) Programming, and SEP/IGP (Self- employment & income generation Programme), Supporting facilities like infrastructure, finance and training are quite favourable. There are a number of schemes and policies for encouraging women to become successful entrepreneurs. When the UN declared 1975 as the International Women's Year, the approach to women entrepreneurs began to change and the government announced various schemes to brining women out from the household chores into the mainstream of industries. During 1975-78, the number of industrial units run by women was only 73. Thereafter, it has registered a steady growth every year. While during 1986-87 it was 1143, within 6 years it has risen to 4190.This indicates a proof of the changing attitude of government agencies

towards women. Women entrepreneurship is being given institutional support.

A brief description of the various schemes at national level, formulated and operated by such agencies is given below-

National level Institutions Governments at the Centre as well at the State designed a number of schemes and programmes for the support of entrepreneurs in general and for women entrepreneurs in particular. The schemes of the government of India support for Training and Employment Programme (STEP), Development of Women and Children in Rural Areas (DWCRA), Integrated Rural Development Programme (IRDP) and Training of Rural Youth for Self Employment (TRYSEM), Jawahar Rozgar Yojana (JRY) are providing their help for the development women entrepreneurs. Another scheme, called the Trade-Related Entrepreneurship Assistance and Development (TREAD) and Indira MahilaYojana (IMY) are useful for the holistic empowerment of women. In spite of several schemes /programmes established by the governments, women have no sufficient securities to offer or to take large amount of loans. To tackle this situation and to ensure adequate financial support to women enterprises, the RBI took several initiatives.

National Small Industries Corporation (NSIC): The NSIC is a corporation under the union ministry of industries was set up in 1955 to promote and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small scale enterprises.

Small Industries Development Organization (SIDO): SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identify the needs of SSI units, coordination and monitoring the policies and progrmmes for promotion of the small industries. It undertakes various programes of training, consultancy, evolution for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 extension centers of SISI (Small Industries Service Institute)and 7 centers related to production and process development.

Small Scale Industries Board (SSIB): It is established in 1954 to advice on development of small scale industries in the country. In order to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advices to the government on all issues pertaining to the development of small-scale industries.

National Research Development Corporation of India: NRDC is a Government of India enterprise established in December 1953 as a non-profit organization. It was specially designed to develop and exploit indigenous know-how, inventions, patents, and processes emanating from all types of research and development institutions in the country.

National Institute for Entrepreneurship and Small Business Development: In order to coordinate and overseeing the activities of various institutions / agencies engaged in entrepreneurship development, particularly in the area of small industry and small business, NIESBUD was established in 1983. The main objective of the institute is to serve as an apex nationallevel resource institute to accelerate the process of entrepreneurship development ensuring impact thought the country and among all strata of the society.

Khadi and Village Industries Commission: According to parliament Act, an statuary organization was set up namely Kadhi and Village Industries commission for generation of employment opportunities in the rural areas. The board started its activities on April 1st 1957, to provide better training facilities about 25 item in the village industries. The Board also provides different types of facilities like provision of raw material, arrangement new technical methods and marketing facilities by arranging co-operative societies.

Small Industries Development Bank of India (SIDBI): Small Industries Development Bank of India is a promotional agency to the development of women entrepreneurship at the country level. The objectives of this agency are: To provide training and extension services support to women entrepreneurs according to their skills and socio-economic status; and to extend financial assistance on concessional terms to enable them to set up industrial units in the small-scale sector.

National Alliance of Young Entrepreneurs: The National alliance of young entrepreneurs was set up in 1975 for promotion of women entrepreneurship. The women's wing has set up in five states. In other states, Associations of women entrepreneurs have affiliated themselves with the women's wing of NAYE, making it the most representative organization of women entrepreneurs in the country.

National Association of Women Entrepreneurs and Executives: The National Association of women entrepreneurs and Executives was formed to perform as a cleaning house on problems and opportunities facing women entrepreneurs and executives at all levels and to assist them in their self development and protection.

IFCI Scheme of Interest for Women Entrepreneurs: The main objective of the scheme of interest for women entrepreneurs is to provide incentives to women having entrepreneurial skills, for their industrial development. The scheme will function through SFC, and granting assistance to women entrepreneurs to set up the units.



CHECK YOUR PROGRESS

Q 3: State two agencies involved in the promotion of women entrepreneurship.

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10.7 LET US SUM UP

In this unit we have discussed the following aspects-

- Development of entrepreneurship is one of the important aspects for ensuring economic development of a country.
- Women can play an important role in the development of entrepreneurship and the development of the economy.

- Entrepreneurship development among women can be considered a possible approach to economic empowerment of women.
- Through entrepreneurship development a woman will be able to generate income for her and will also create employment opportunities for others.
- Importance of women entrepreneurs may be discussed in terms of Capital formation, Improvement in Per capita Income, Generation of employment etc.
- The barriers to women entrepreneurship may be discussed in terms of Financial problems, Paucity of raw material, Limited Mobility etc.
- The different schemes for the promotion of women entrepreneurship.



10.8 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.



10.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (a) Capital formation

(b) Improvement in Per capita Income

(c) Social Contribution

Ans to Q No 2: (a) Financial problems

(b) Limited Mobility

(c) Family Responsibilities

Ans to Q No 3: (a) National Institute for Entrepreneurship and Small Business Development

(b) Small Industries Development Bank of India

10.10 MODEL QUESTIONS

Q 1: Define women entrepreneurship.

Q 2: Discuss the importance of women entrepreneurship

Q 3: Discuss the barriers to women entrepreneurship.

Q 4: Discuss the different schemes for the promotion of women entrepreneurship.

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UNIT 11 : SMALL ENTERPRISE

UNIT STRUCTURE

11.1 LearningObjectives

11.2 Introduction

11.3 Definition of Small Enterprise

11.4 Characteristics of Small Enterprise

11.5 Relationship Between Small and Large Scale Units

11.6 Objectives and Scope of Small Enterprise

11.7 Role of Small Enterprises in Economic Development

11.8 Problems of Small Scale Units

11.9 Let Us Sum Up

11.10 Further Reading

11.11 Answers To Check Your Progress

11.12 Model Questions

11.1 LEARNING OBJECTIVES

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

- define a small scaleenter prise and itssalient characteristics
- establish are lationship between small and large scaleunits
- state the objectives and scope of small enterprise
- describe the role of small-scale enterprise to play in the economic development of acountry
- establish the major problems faced by the small scaleent erprises.

11.2 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 recenty ears.

11.3 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 moresuitable.

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 businessunit

11.4 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 whom a inlyassist 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 investmentstarts.
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 unitsrequireverylittlecapital.
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 theother.
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 organizationetc.

11.5 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 flourish ment 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.

11.6 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.Theseare:

1. To generate immediate and large scale employment opportunities with relatively lowinvestment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically laggingregions.

4. To bring backward areas too in the mainstream of national development.
5. To promote balanced regional developmentin the whole country.
6. To ensure more equitable distribution of national in come.
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 characteristics, 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-salebusiness

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 forexclusive production in small sector. The main objective of the reservationpolicy has been to insulate the small sector from unequal competitionof large industrial establishments, so that the sector can grow throughexpansion of existing units and the entry of new firms. The importantindustries reserved for exclusive development in the small sector are:Food and Allied Industries; Textile Products; Leather and LeatherProducts, including Footwears; Rubber Products; Plastic Products;

Chemical and Chemical Products; Natural Essential Oils; OrganicChemicals and Chemical Products; Glass and Ceramics; MechanicalEngineering Transport Equipment; Metal Cabinets of all Types; PressureStove; Electrical Appliances; Electronic Equipments andComponents; Boats and Truck Body Buildings; Auto Parts Components; Ancillary andGarrage 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

Q 1: Write any two characteristics of small scale enterprises.

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Q 2: Mention two objectives of small scale enterprise.

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11.7 PROBLEMS OF SMALL SCALE INDUSTRIES

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 improvementinthelevelsofliving.
2. The development of small-scale industries contributes to the increase in per capita income, i.e., economic development in variousways.

3. It generates immediate employment opportunities with relatively low capital/ investment, and promotes more equitable distribution of nationalincome.
4. It makes effective mobilization of untapped the capital and human skills and leads to dispersal of the manufacturing activities all over thecountry.
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 thenumber.
   b) Production,
   c) Employment
   d) Exports.

11.8 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 crisisor 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 capacitiesin 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.



ACTIVITY

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

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CHECK YOURPROGRESS

Q 3: 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 plantand 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 Committeede served12 items reserved for exclusive production in small sector. (T/F)

5. Other Problems: The small-scale industries have been constrained by a number of other problems also. According to the SeventhFive 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.



11.9 LET US SUM UP

In this unit we have discussed the following:

- Small scale enterprises have been given an important place in the frameworkofIndianplanning.
- 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 generallylocalizedcateringtothelocalandregionaldemands.
- The growth of small scale industries plays a pivotal role in the economicdevelopmentofacountryinvariousways.

- It generates immediate employment opportunities with relativelylow 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.



11.10 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 EducationIndia; Secondedition.
5) Pathak R.K. andKalwar M.C. (), Business Organisation and Entrepreneurship Development.



11.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Two characteristic of small scale enterprise are

- One Man Show: - The activities of a small scale unitare generally are mainly carried out by one of the partners or directors.
- ManagedinPersonalizedFËashion:-Incaseofsmall-scale industries, the owner himself/ herself is a manager also. Thus,theseunitsaremanagedinapersonalizedfashion.

Ans to Q No 2: Two objectives of small scale enterpriseare

- To generate immediate andlarge scale employment opportunitieswithrelativelylowinvestment.
- To eradicate unemployment problem from thecountry.

Ans to Q No 3: (a) True (b) False (c) False (d) True

11.12 MODEL QUESTIONS

Q 1: Discuss the characteristics of small enterprise.

Q 2: Discuss the objectives and scope of small enterprise.

Q 3: Explain the role of small enterprise in economic development.

Q 4: What are the problems associated with small scale industries?



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UNIT 12: OWNERSHIP STRUCTURES

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Concept of Proprietorship

12.4 Concept of Partnership

12.5 Concept of Company

- 12.5.1 Distinctions between a Private Company and a Public Company
- 12.5.2 Advantages of a Company
- 12.5.3 Disadvantages of a Company

12.6 Concept of Cooperative

12.7 Selection of an Appropriate form of Ownership Structure

12.8 Let Us Sum Up

12.9 Further Reading

12.10 Answers To Check Your Progress

12.11 Model Questions

12.1 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.

12.2 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 and selection of an appropriate form of Ownership Structure.

12.3 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 in curred 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.



reap **—** collect or derive

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.

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.

12.4 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 partnership 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 beat risk if the business can not 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

Q 1: 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)

Q 2: What are the limitations of proprietorship and partnership?

.....

.....

12.5 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.



Engraved— Cut or impressed into a surface.

Lunacy — Foolish or senseless behavior.

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 in to 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.
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.

12.5.1 Distinctions between a Private Company and a Public Company

Basis of Difference	Private Company	PublicCompany
1. Members	The minimum number of two and maximum isfifty.	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 companycan allot shares.	Filing of Prospectus or a statement 'in lieu of prospects' with the Registrar of Companies isnecessary.
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 minimumsubscription has been applied for.	It cannot commence allotment of shares unless minimum subscription has been applied for.
6. Commencement of Business	It can commence business soon after incorporation.	It cannot commencebusiness 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 Registrar.
10. Directors	No provisions of the Companies Act regarding appointment of directors, 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.

12.5.2 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.

12.5.3 Disadvantages of a 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.

12.6 CONCEPT OF COOPERATIVE

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 a trendering 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”.



Cocercion— The act of compel- lingby force of authority.

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.
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 orbeliefs.

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.



Acumen — A tapering point.

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 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

Q 3: 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.

12.7 SELECTION OF AN 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.



ACTIVITY

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

.....

.....



CHECK YOUR PROGRESS

Q 4: 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.



12.8 LET US SUM UP

In this unit we have discussed on the following concepts:

- There are mainly four forms of business ownership:
  (1) Proprietorship (2) Partnership
  (3) Company (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.



12.9 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 Entrepreneurship & 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.

12.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: a) 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

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) Owner (2) Business Acumen (3) Co-operative.



12.11 MODEL QUESTIONS

Q 1: What are the different ownership forms available to entrepreneurs? Discuss each form in brief.

Q 2: Briefly describe the advantages and disadvantages of different forms of business organization?

Q 3: Discuss the special features of a co-operative form of organization. How it is different from a company?

*** ***** ***

UNIT 13 : SIZE AND LOCATION OF A BUSINESS UNIT

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Standards to Measure the Size of Business Units

13.4 Factors Determining the Size of Business Unit

13.5 Optimum Size of a Firm

13.6 Principles of Location of Business Unit

13.7 Factors Influencing Location of Business Unit

13.8 Plant Location in North- East Region- Present and Future Status

13.9 Let Us Sum Up

13.10 Further Reading

13.11 Answers To Check Your Progress

13.12 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit, you will 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 optimum size of a firm
- discuss the principles of location of business unit
- explain the factors influencing the location of business unit
- describe the scenario of present plant location in the North East Region and its future status.

13.2 INTRODUCTION

The efficiency and profitability of a business unit depends, to a great extent, on its size. This unit starts with the discussion on the standards to measure size of 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 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 business unit will be discussed briefly. This unit will also cover the plant location in North East region. At the end of this unit, we will focus on the present and future location of industrial units in NE region.

13.3 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 railways and electricity supply concerns require a large size. On the other hand, industries requiring individual skill of 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:

MEASURE OF SIZE

INPUT	OUTPUT
i) Net worth	i) Volume of output
ii) Size of Assets	ii) Value of output
iii) No. of workers employed.	
iv) Amount of power consumed	
v) Amount of raw material consumed	
vi) Number and capacity of plants	

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 to measure the size of a 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 reliable standard of measurement.
- **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 business 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 quantity of goods produced may be used as a standard to measure the 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

Q 1: Mention three standards which are used to measure the size of business units.

i) .....

ii) .....

iii) .....

13.4 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 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:** Availability of financial facilities also affect 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 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 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 case the unit should be small, otherwise cost of production will go up.
- **Government Regulations:** The rules and regulations of the government also influence the decision about size of business units.

13.5 OPTIMUM SIZE OF A FIRM

In the world of business, we have a minimum size of business below which 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, 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.

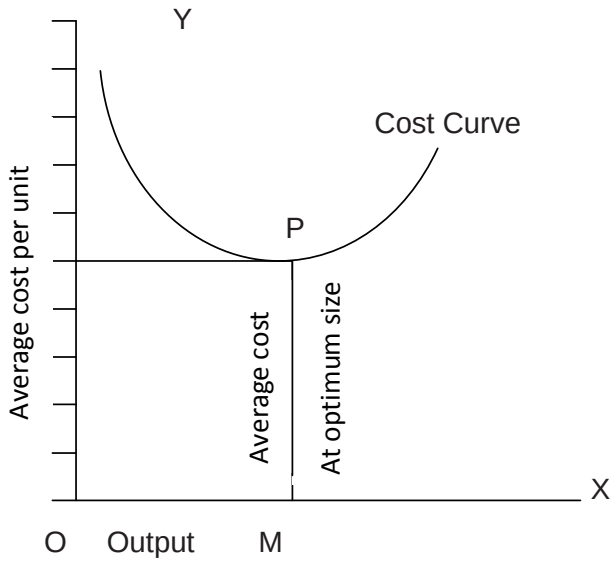


Figure: Optimum Size

We can explain the concept of optimum firm with the help of a diagram. Here, we consider average cost to determine 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.

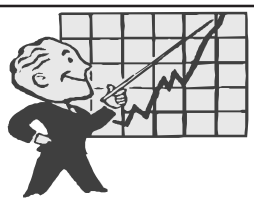
Factors influencing optimum size of a firm

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 organising 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

Q 2: What are the conditions under which a firm can reach optimum size?

i) .....

ii) .....

iii) .....



ACTIVITY

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

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13.6 PRINCIPLES OF LOCATION OF BUSINESS UNIT

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 provisions should be 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.

13.7 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 center.
- **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, oil 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 centers because of attachment of industrialists to those towns and cities.
- **Government Regulation:** Central and State 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

Q 3: Mention three factors which influence the location of a business unit.

i) .....

ii) .....

iii) .....

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

At the time of independence 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 few rice mills, flour mills in urban areas. Handloom weaving, sericulture, cane and bamboo making were some of the other village industries which 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 starred 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 fthreat, Bongaigaon Refinery and Petrochemicals Limited (BRPL) in 1975. One major refinery- Numaligarh Refinery Limited (NRL) 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. 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. 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 public sector. The Agro processing units are in the private sector.

Apart from these industries, there are large numbers 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 prospects for 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 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 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 products 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

Localisation of such industrial units will not only meet the present demand of both rural and urban people but 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 location of these plants in the small sector.



ACTIVITY 2

What are the scopes for small- scale industries in North- East Region?

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13.9 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.



13.10 FURTHER READING

1) Basu C. R, Business Organisation and Management.
2) Saxena S. A, Business Organisation and Management.
3) Sherlekar S. A, Modern Business Organisation Management.

13.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: i) Size of Total Assets.

ii) Amount of Raw-Materials Consumed.

iii) Amount of Power Consumed.

Ans to Q No 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 Q No 3: i) Availability of Raw-Materials

ii) Nearness to Market

iii) Transport Facilities



13.12 MODEL QUESTIONS

Q 1: Critically examine the standards employed to measure the size of a business unit.

Q 2: Discuss the factors determining the size of a business unit.

Q 3: What do you mean by optimum firm?

Q 4: Explain the principles of location of business unit.

Q 5: Discuss the various factors influencing the location of a business unit.

Q 6: Give a brief history of industrial location in North- East Region.

Q 7: Mention the plants that can be suitably located in Assam in near future.

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UNIT 14 : INDUSTRIAL SICKNESS

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Meaning of Industrial Sickness

14.4 Warning Signals of Industrial Sickness

14.5 Causes of Industrial Sickness

- 14.5.1 External of Industrial Sickness
- 14.5.2 Internal of Industrial Sickness
- 14.5.3 Factors Responsible for Sickness of Small Business

14.6 Consequences of Industrial Sickness

14.7 Corrective Measures

14.8 Let Us Sum Up

14.9 Further Reading

14.10 Answers To Check Your Progress

14.11 Model Questions

14.1 LEARNING OBJECTIVES

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

- define industrialsickness
- discuss the reasons for industrialsickness
- explaintheconsequencesofIndustrialsickness
- suggest measures for solving the problem ofsickness.

14.2 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 adeveloping 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.

14.3 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.

14.4 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 growsick.
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 theenterprise.
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 YOURPROGRESS

Q 1: What is meant by Industrial Sickness?

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14.5 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

14.5.1 External of Industrial Sickness

External causes include:

a. ItincludesPowercutsimposedbythestateGovernments

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.

14.5.2 Internal of Industrial Sickness

Following are the internal causes for industrial sickness

a. Faultylocationofindustrialunit.

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 disciplineetc.

14.5.3 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 terminventories.
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 intosickness.
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 ownfunds** 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

Q 2: What are the two causes of Industrial sickness.

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Q 3: Fill in theblanks:

a. Frequent changesin the government policyisan .....…… …….. 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
WestBengal	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	420	2,35,032
	(100)	(100)	(100)

14.6 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 thecountry.
3. Wast age of huge resources invested in these sick units.
4. Creat in gadverse 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 PERCENTAGEDISTRIBUTION OF SICKNESS/INCIPIENT SICKNESS (REGISTERED

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

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	13.17	0.83	2.78	14.15
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
35.	A & N Islands	0.05	0.10	0.09	0.04
	All India	100.00	100.00	100.00	100.00

14.7 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. Them easures 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 over head 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

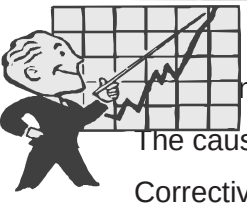
Q 4: What are the consequences of Industrial sickness?

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14.8 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 over come 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 thisunit.



14.9 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 EducationIndia; Secondedition.

5) Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development.

14.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Industrial company which is showing accumulated losses equal toor 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 labourunrest
d. Wastage of hugeresources
e. Creating adverse impact on the other relatedunits
f. Causing huge financial losses tobanks.



14.11 MODEL QUESTIONS

Q 1: What is Industrial Sickness? Mention the relevant Act and discuss the definition of industrial sickness according to the Act.

Q 2: Explain the warning signals of Industrial sickness.

Q 3: What are the causes of Industrial sickness? Explain them.

Q 4: Give some corrective measures to prevent Industrial sickness in SSI Units.

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UNIT 15 : INSTITUTIONAL SUPPORT FOR SMALL BUSINESS

UNIT STRUCTURE

15.1 LearningObjectives

15.2 Introduction

15.3 Concept of Commercial bank

15.4 Concept of other development financial institution.

- 15.4.1 Industrial Development Bank of India(IDBI)
- 15.4.2 Industrial Reconstruction Bank of India(IRBI)
- 15.4.3 Life Insurance Corporation of India(LIC)
- 15.4.4 State Financial Corporations(SFCs)
- 15.4.5 State Industrial Development Corporations(SIDC's)
- 15.4.6 Small Industries Development Bank of India(SIDBI)
- 15.4.7 Export Import Bank of India (EXIM BANK)
- 15.4.8 National Bank for Agriculture and Rural Development (NABARD)
- 15.4.9 Industrial Finance Corporation of India Ltd.(IFCI)
- 15.4.10 Unit Trust of India (UTI)

15.5 Let Us Sum Up

15.6 Further Reading

15.7 Answers To Check Your Progress

15.8 Model Questions

15.1 LEARNING OBJECTIVES

After going through this unit, you will able to-

- explain the types of financial assistance provided by commercial banks to the smallentrepreneurs
- list the various financial institutions which provide financial assistance with the types of assistance to the entrepreneurs in the country.

15.2 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.

15.3 CONCEPT OF COMMERCIAL BANK

The Scheduled Commercial Banks (SCBs) in thecountry (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 bankswere given the status of SCBs and one, viz. Bank of Karad which wastaken over by Bank of India was excluded. As on March 31, 1995, thetotal number of branches of SCBs stood at 62,067, of these35,060(56.5% of the total) were in rural areas. The commercial banks startedtaking initiation in financing SSIs in a greater way only after the banknationalisation in July 1969. Normally, the commercial banksprovideassistance for working capital requirements of SSIs. A notable feature inthe financing of SSIs has been the introduction of the 'Lead Bank Scheme' by the RBI. Under this scheme, each district has been allotted to onescheduled 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.

15.4 CONCEPT OF OTHER FINANCIAL INSTITUTIONS

15.4.1 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 ofequity 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.

15.4.2 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, infact, an extension of the IRBI hire-purchase scheme.

15.4.3 Life Insurance Corporation of India(LICI)

The Life Insurance Corporation of India (LIC) was established underthe 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 deployingits 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%).

15.4.4 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 with in 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.

15.4.5 State Industrial Development Corporations(SIDC's)

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 undertake 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 mutualfunds.

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.

15.4.6 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 existingunits.

(2) To expand the channels for marketing the products of SSI sector in domestic and internationalmarkets.

(3) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and the reby checking migration of people tourban 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	

15.4.7 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 ofIndiaandofoutsideIndia.

(2) Providingfinanceforjointventuresinforeigncountries.

(3) Undertaking merchant banking functions of companies engaged in foreigntrade.

(4) Providing technical and administrative assistance to the partiesengagedinexportandimportbusiness.

(5) Offering buyers' credit and lines of credit to the foreign governments andbanks.

(6) Providing advance information and business advisory services to Indian exporters in respect of multilaterally funded projectsoverseas.

With a view to promote, exports, EXIM Bank has introduces three schemes. These are :

(i) Production Equipment FinanceProgramme.

(ii) Export MarketingFinance.

(iii) Export Vendor DevelopmentFinance.

15.4.8 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 stateco-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.

15.4.9 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.15,387crore.

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.

15.4.10 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 anddebenture. 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

Q 1: 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 setup under IFCI Actin July1948. (True/False)

d) LIC was established under the LIC Actin 1958. (True/False)



15.5 LET US SUM UP

In this unit, we have discussed the following:

- Thesmall-scaleentrepreneurslacksufficientfinancetoruntheir 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 thecountry.



15.6 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 EducationIndia; Secondedition.
5) Pathak R.K. and Kalwar M.C.(), Business Organisation and Entrepreneurship Development.



15.7 ANSWERS TO CHECK YOUR PROGRESS

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



15.8 MODEL QUESTIONS

Q 1: Discuss the role of Industrial Development Bank of India in financing small enterprises in the country.

Q 2: What are the main functions of SIDBI? Discuss the various types of assistances the SIDBI provides to small enterprises.

Q 3: Why was EXIM BANK setup? Discuss the various types of assistances the Bank provides to the entrepreneurs engaged in export and import business in India?

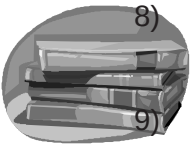
Q 4: Give an account of financial assistance provided by the IFCI to small entrepreneurs/enterprises in India.

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2) B. Bhatnagar and A Budhiraja (2011), *Entrepreneurship Development & Small Business Management,* Vayu Education Of India.
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2) https://openpress.usask.ca/entrepreneurshipandinnovationtoolkit/chapter/chapter-1-introduction-to-entrepreneurship/
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5) https://openpress.usask.ca/entrepreneurshipandinnovationtoolkit/chapter/chapter-5-business-planning/

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Learner's Feedback on Course

Dear Learner,

Regarding the course as mentioned above, we would like to know your opinions and comments so as to improve the quality of self learning materials in future. Please respond to the following statements by ticking the number you feel most reflect your opinion. After completion of the additional comments, please detach the page and send/mail the same to us at the address given below.

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1. Approximately how many hours did you spend for studying the units in the course? | | | |
2. Please give your opinions (by √ mark) to the following items based on your reading of the block:

Sl. No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I.	The SLMs of the course fulfil the learning objectives set out in the beginning of each unit					
II.	The units of the SLM could satisfy my academic needs and expectations					
III.	The Unit writers have excellent knowledge about the course contents					
IV.	Language and contents of the units were presented at a level which I could readily understand					
V.	Ample opportunity for participation in the activities provided in the units					
VI.	Used enough Illustrations (Diagrams, tables etc.) for conceptual clarity					
VII.	Quality of content is engaging, relevant, and up-to-date					
VIII.	The self check questions are very helpful					
IX.	The Possible/model questions and the answers to check my progress have benefited me a lot					

Additional Comments: *(Please feel free to provide your open comments)*

1. Which aspects of the SLM, according to you, worked well?

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2. What sort of changes/improvements do you feel KKHSOU could implement to improve the overall quality of the SLM?

Thank you for taking the time to complete this form.

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