



**PERIYAR INSTITUTE OF DISTANCE EDUCATION
(PRIDE)**

**PERIYAR UNIVERSITY
SALEM - 636 011.**

**B.B.A.
THIRD YEAR
PAPER - XI (II) : APPLICATION ORIENTED SUBJECT
ENTREPRENEURIAL DEVELOPMENT**

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B.B.A.
THIRD YEAR
PAPER XV (ii) : ENTREPRENEURIAL DEVELOPMENT
(Application Oriented Subject)

INTRODUCTION

- UNIT I - ENTREPRENEURSHIP**
- UNIT II - BUSINESS IDEAS**
- UNIT III - FINANCING ENTREPRENEURS**
- UNIT IV - SMALL SCALE ENTREPRENEURS**
- UNIT V - ENTREPRENEURIAL GROWTH**

INTRODUCTION

Dear Students,

This material consists of 5 Units. These units talk about Entrepreneurial Development and its development.

UNIT – I : Gives the knowledge of Entrepreneurial concept and development programmes, where the students will be able to know the role of entrepreneurial in economy.

UNIT – II: Tells about how the entrepreneurial formulate project to run a business and financial sources that can be used for a project.

UNIT – III : Role various of financial Institution to finance the entrepreneurs is explained in this unit.

UNIT – IV : Entrepreneurial promotions, Government provisions regulations and revival of sick unit is discussed in detail in this unit.

UNIT – V : This unit deals with women and rural entrepreneur, their problem and prospects. It also gives an idea on Incentives and subsidies given to entrepreneurship.

The above said 5 units were prepared for easy understanding of students by R. Chandrasekar, Head, Department of BBA in Arignar Anna Govt. Arts College, Namakkal.

The motive of the PRIDE is to give an in-depth knowledge for the students for their development and to serve for the society.

PAPER XV (ii)
ENTREPRENEURIAL DEVELOPMENT
(Application Oriented Subject)

UNIT – I

Entrepreneurship: Concept, Types and functions of entrepreneurs – Entrepreneurial Development in India – Role of Entrepreneurs in Economic Development – Entrepreneurial Development Programme – Phases of Entrepreneurial Development Programme – Influence of environmental factors – Training and Development of Entrepreneurs.

UNIT – II : Business Ideas: Project identification and formulation – classification of project – feasibility studies – Project appraisal methods – product design, Network analysis – Financial analysis.

UNIT – III : Financing Entrepreneurs – Institutional Finance to Entrepreneurs – Role of IFC, IDBI, ICICI, IRCI, SIDBI, LIC, SFC, TIIC and commercial banks in financing entrepreneurs.

UNIT – IV : Promoting enterprises – SSI – Role and growth of SSI – Regulations governing SSI – Incentives and concessions for SSI units – Sickness in SSI – causes and remedies.

UNIT – V : Institutions and development of entrepreneurs – Role of DIC, SISI, SIDCO, NSIC, MAYE, KVIC, TCO'S, ITCOT and Entrepreneurial Guidance Bureau – Incentives and subsidies to entrepreneurs – problems and prospects entrepreneurs – Developing women and Rural Entrepreneurs – Entrepreneurial Motivation.

TEXT BOOK

Guptha, C.B. & Srinivasan N.P., Entrepreneurial Development, Sultan Chand & Sons.

REFERENCE BOOKS

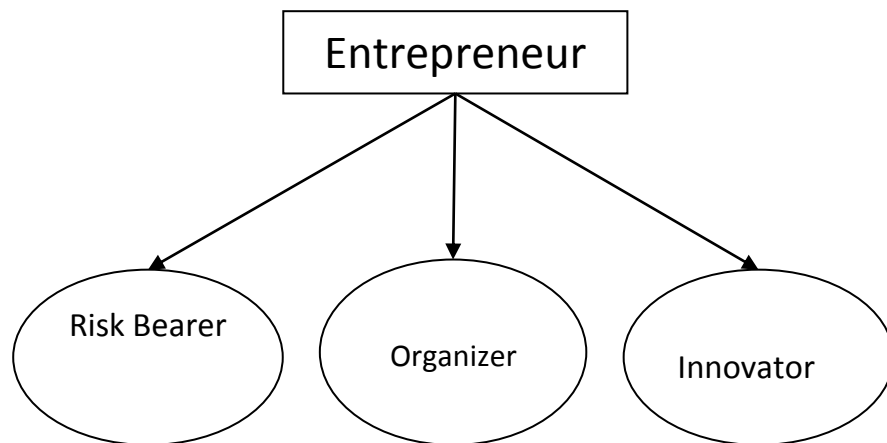
- 1) Vasanth Desai, Dynamics of Entrepreneurial Development & Management, HPH
- 2) Saravanavel, P. Entrepreneurship Development, Marghan Publishers.
- 3) S.S. Khaka, Entrepreneurial Development, S.Chand
- 4) Colombo Plan Staff College for Technical Education, Manila, Entrepreneurship Development, TMH

UNIT – I
ENTREPRENEURIAL DEVELOPMENT

I - ENTREPRENEURSHIP:

(i) Introduction:-

The word 'entrepreneur' has been taken from French Language meant for a person who starts business. In the early 16th century, it was applied to those who were engaged in military expeditious. It was extended to causes civil engineering activities in 17th century. Since then, the term 'entrepreneurship' is used in various ways and various views



(ii) Definition:-

Peter F. Drucker defines an entrepreneur as one who always searches for change, responds to it and exploits it as an Opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

The *New Encyclopedia Britannica* says that an entrepreneur is an individual who bears the risk of operating a business in the face of UNCERTAINTY about future conditions.

(iii) Various Views for Entrepreneurship:-

Different views termed entrepreneurship in a different concept. They are.

<u>Viewers</u>	<u>Term for entrepreneurship</u>
(a) Cantillon (18 th Century)	Agent who buys factor of production
(b) J. B. Say	Organizer of a business
(c) Adam Smith	Person who provides Capital and active participation in business.

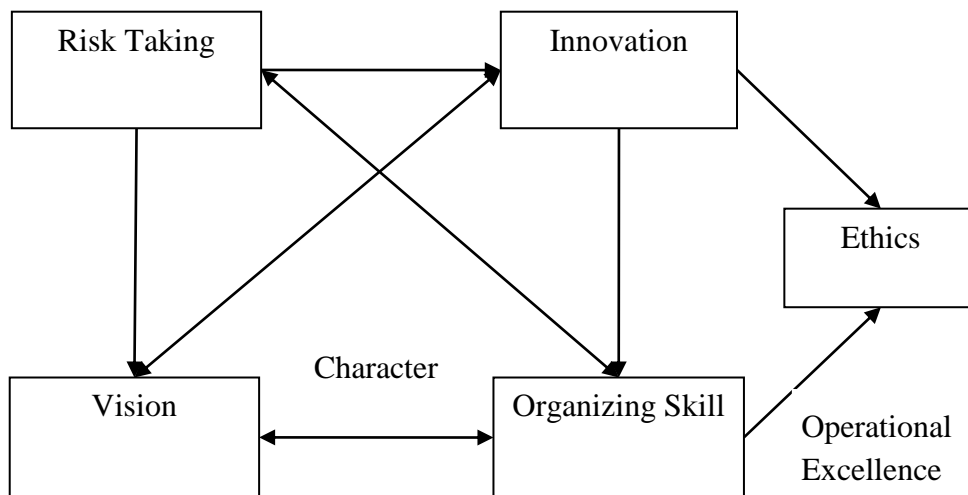
- (d) Joseph A. Schumpeter Person who **innovates** something.
- (e) Frank Young Describes as **change agent**
- (f) Noah Wester Person who assumes the responsibility of **Risk**
- (g) Peter. F. Drucker One who searches for **opportunity**.
- (h) Arthur Dewing Promotes **Ideas** for business.
- (i) Robert A person who has great dreams i.e **“Visionary Leader”**
- (j) Hagen E.E. Who maximize profit by **Problem Solving**

II CONCEPT OF ENTREPRENEURSHIP:-

A person who starts the business in small size and make good fortunes are called as entrepreneurship.

e.g. Tata, Birla, Modi, Dalmia, Kirolsker, etc.,

On the basis of various views for entrepreneurship. The below diagram gives the key elements with their inter- relationship.

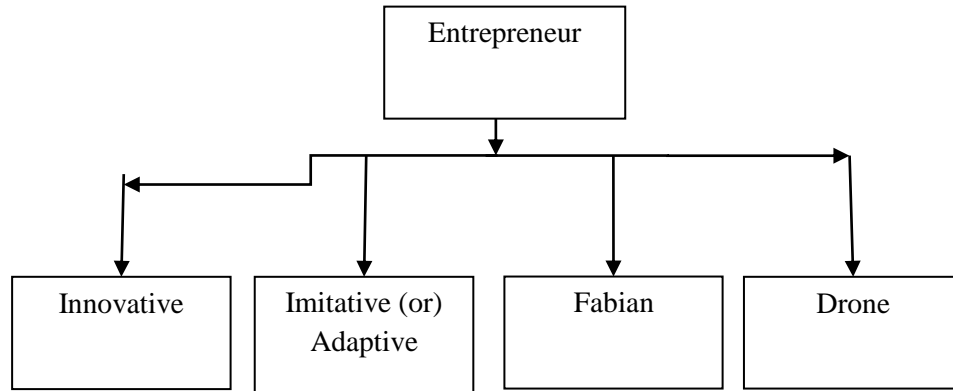


i.e. Risk taking, innovation, vision and organizing skills are inter-related forms in business. Character, value and ethics act as inner force and operational excellence is output of interaction. This gives concept on entrepreneurship.

III – TYPES OF ENTERPRENEURSHIP:-

Clarence Danhof on the basis of his study, classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurship has less initiative and drive and as economic development proceeds, they become more innovative. Based on this entrepreneurship is divided into categories.

III-(i)



- Clarence Danhoff

(a) Innovative Entrepreneurs:-

An innovative entrepreneur is one who introduces new goods, introduces new methods of production, discovers new markets and reorganizes the enterprise.

(b) Imitative or Adaptive Entrepreneurs:-

They are characterized by their willingness to adopt successful innovations introduced by innovative entrepreneurs. Imitative entrepreneurs do not innovate changes themselves. They only imitate techniques and technologies innovated by others.

(c) Fabian Entrepreneurs:-

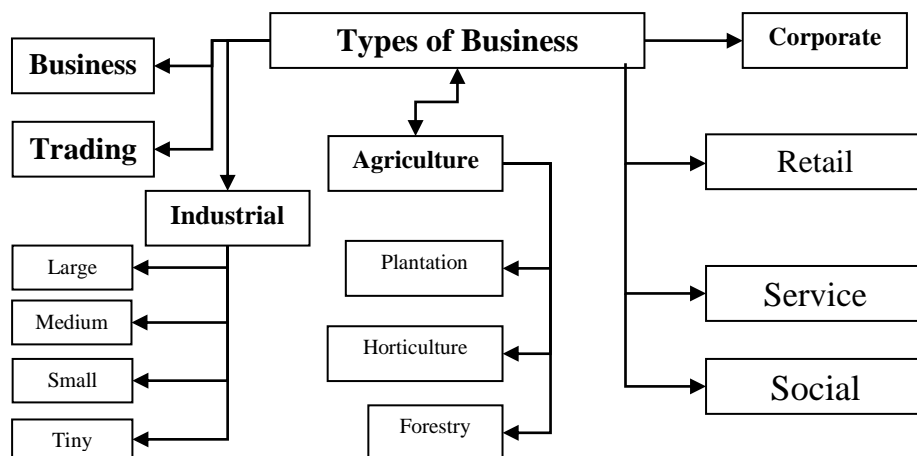
Fabian entrepreneurs are characterized great caution and skepticism in experimenting any change in their enterprise. They imitate only when it becomes perfectly clear that failure to effect any change would only result in a loss of relative position of the enterprise.

(d) Drone Entrepreneurs :-

They are characterized by their refusal to utilize opportunities to make change in production. Such entrepreneurs may even suffer loss, but they do not make changes in production methods.

According to Vasanth Desai Entrepreneurs is classified into 9 types.

III – (ii) Types of Business



III ENTREPRENEUR

(1) TYPES OF BUSINESS:-

(i) Business Entrepreneur:-

Business entrepreneurs are individuals and they are also called Solo operators, who essentially work alone. They conceive an idea for a new product or service and then create a business to convert their idea reality.

(ii) Trading entrepreneur:

Trading entrepreneur is one who undertakes trading activities and is not concerned with any manufacturing activity. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his products.

(iii) Industrial entrepreneur:

He is a product oriented person who starts an industrial unit for making some new product. The entrepreneur has the ability to convert economic resources and technologies into a profitable venture.

- * Large
- * Medium
- * Small
- * Tiny

(iv) Corporate:

Corporate entrepreneur is a person who demonstrates his innovative skill in organizing and managing corporate undertakings.

(v) Agricultural Entrepreneur:

Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture.

- * Plantations
- * Horticulture
- * Forestry

(vi) Retail entrepreneurs:

Like trading entrepreneur, they do not undertake manufacturing activities. Trading entrepreneurs deals with wholesale market while retail entrepreneurs serve the individual as well as organizational customers.

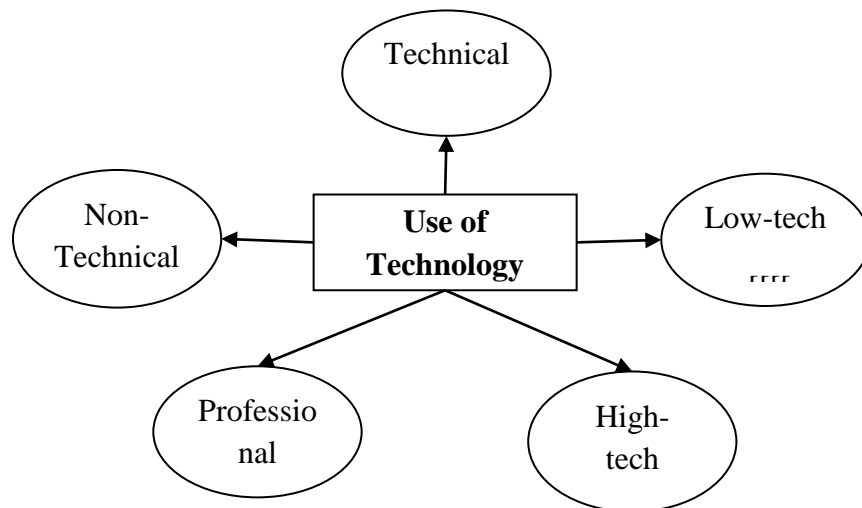
(vii) Service entrepreneur:

These entrepreneurs provide service to the customers. For example, hotels, airlines, dry cleaning, mechanic shops, etc.

(viii) Social entrepreneur:

This entrepreneur takes up a social issue or a cause for promotion. The object is not to make profit like business entrepreneurs but to serve the society. For example, Mr. Nirmal, founder entrepreneur of Exnora. Mr. S . Vidyakar founder of Udavum karangal.

(2) USE OF TECHNOLOGY:



(1) Technical Entrepreneurs:

They are also called *technocrats*. He develops high quality goods because of his craftsmanship. He concentrates more on production than

marketing. He demonstrates his innovative capabilities in matters relating to production.

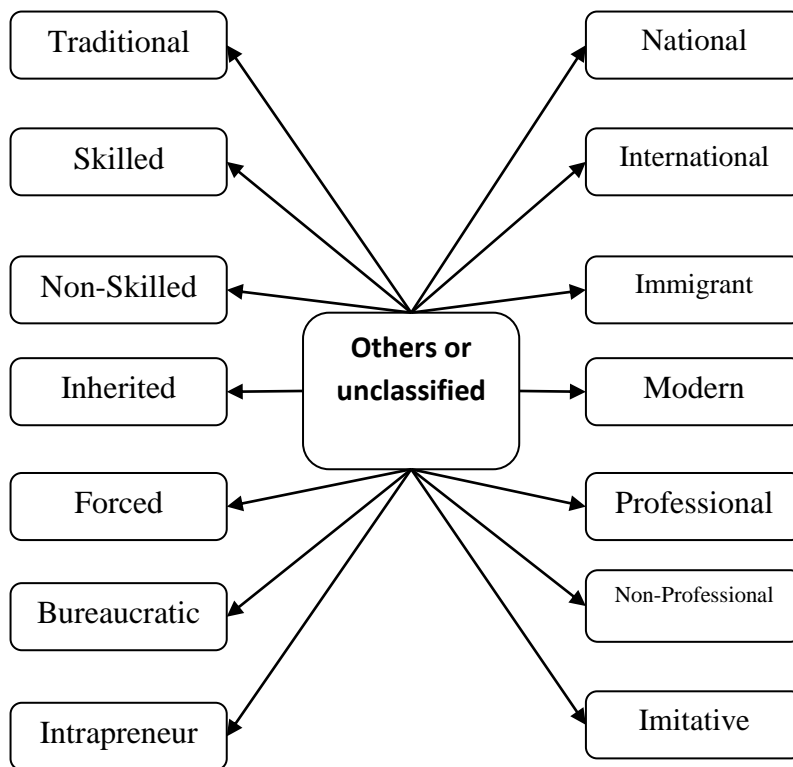
(2) Non-technical Entrepreneurs:-

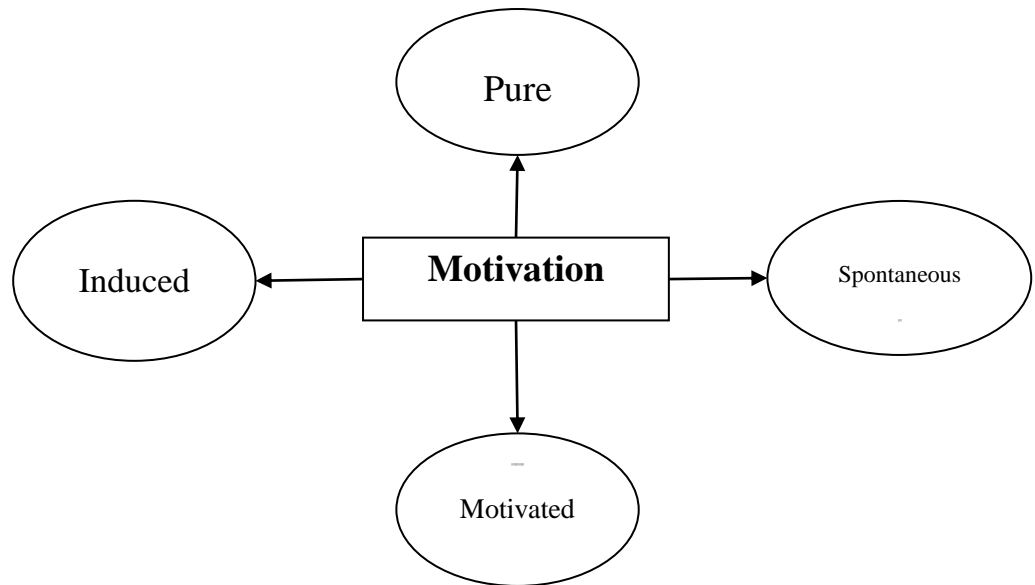
Non-technical Entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

(3) Professional Entrepreneurs:-

Professional Entrepreneur is a person who is interested in establishing a business does not have an interest in managing or operating if after its establishment.

3. OTHERS OR UNCLASSIFIED





4. MOTIVATION:-

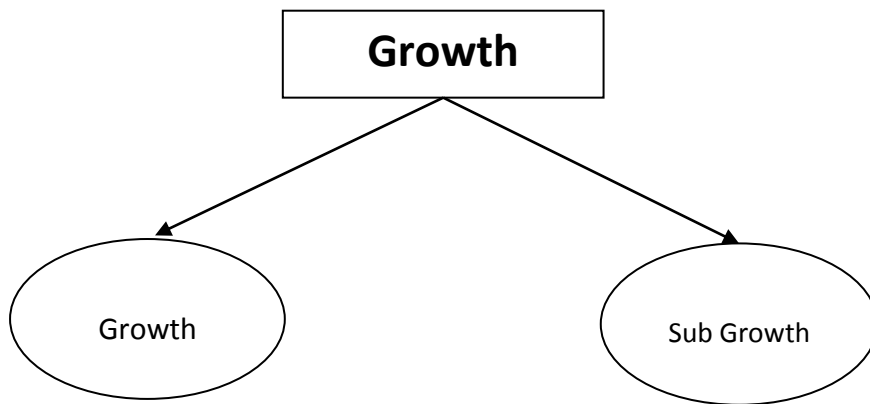
(1) **Pure Entrepreneurs:** A pure entrepreneur is an individual who is motivated by psychological and economical rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

(2) **Induced Entrepreneurs:** An induced entrepreneur is one who is induced to take up an entrepreneurial task due to the policy matters of the government. It may be in the form of assistance, incentives, concessions and necessary overhead facilities to start a venture.

(3) **Motivated Entrepreneurs:** New entrepreneurs are motivated by the desire for self-fulfillment. They are there because of the possibility of producing and marketing some new products for the use of consumers.

(4) **Spontaneous Entrepreneurs:** These entrepreneurs start their business because of their natural talent. They are very bold persons with initiatives, and have enormous confidence in their abilities which motivate them to undertake entrepreneurial activity.

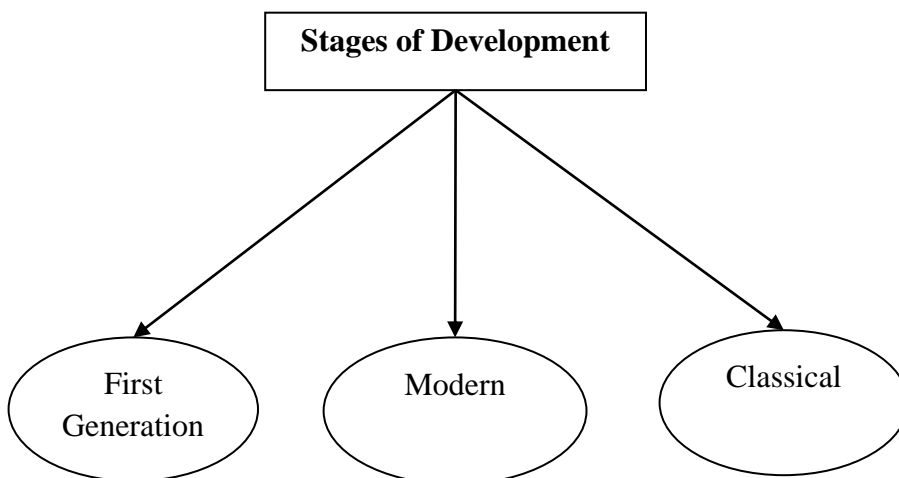
5. GROWTH:-



(1) **Growth entrepreneurs:** Growth entrepreneurs are those who necessarily take up a high growth industry which has substantial growth prospects.

(2) **Super – Growth Entrepreneurs:** Super growth entrepreneurs are those who have shown enormous growth performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

6 - STAGES OF DEVELOPMENT:-

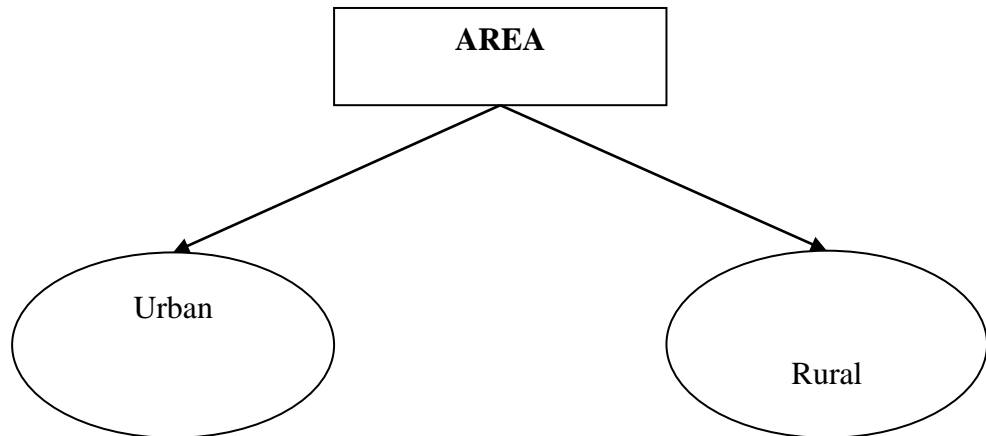


(1) **First- generation Entrepreneurs:** A first-generation entrepreneur is one who starts an enterprise by his/her innovating skill.

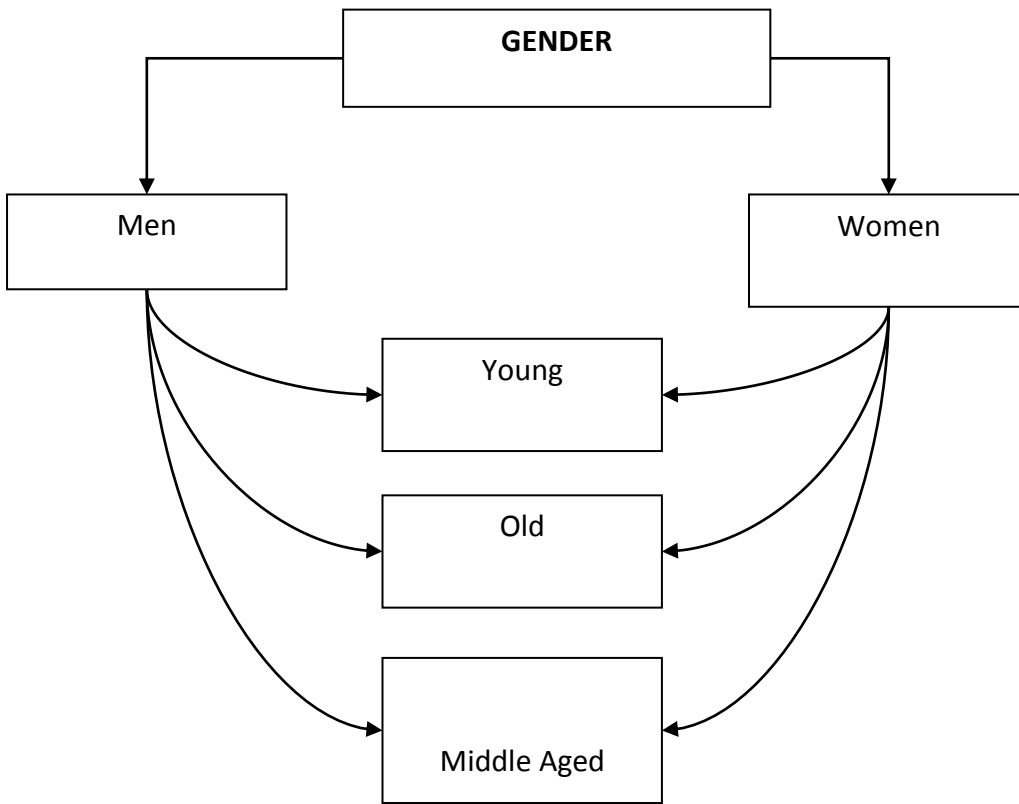
(2) **Modern Entrepreneurs:** A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market.

(3) **Classical Entrepreneurs:** A classical entrepreneur is one who is concerned with the customers and their marketing needs through the development of a self-supporting venture.

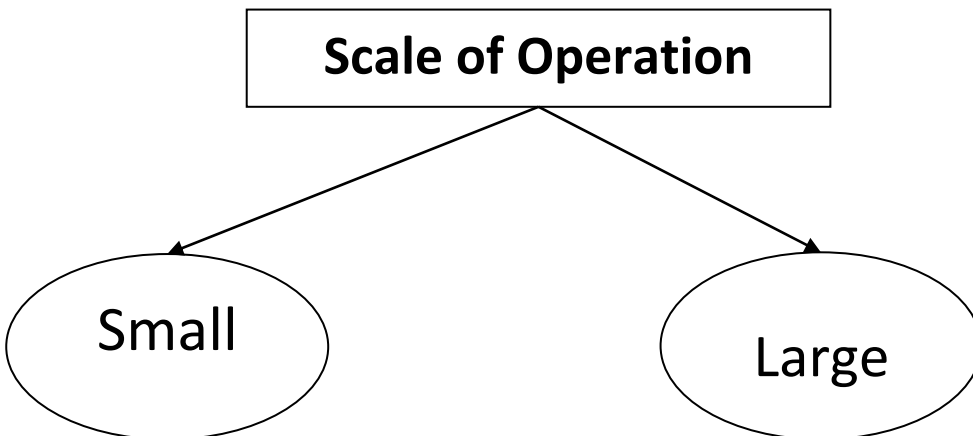
7. AREA:-



8. GENDER:-



9. SCALE OF OPERATION:-



**IV (i) FUNCTION OF ENTREPRENEURS:-
FUNCTIONS OF AN ENTREPRENEUR**

An entrepreneur does the perform of all the functions necessary right from the genesis of an idea up to the establishment of an enterprise. These can be listed in the following sequential manner :

- ❖ Idea generation and scanning of the best suitable idea.
- ❖ Determination of the business objectives.
- ❖ Product analysis and market research.
- ❖ Determination of form of ownership/organization.
- ❖ Completion of promotional formalities.
- ❖ Raising necessary funds.
- ❖ Procuring machine and material.
- ❖ Recruitment of men.
- ❖ Undertaking the business operations.

Kilby has enumerated about 13 functions of an entrepreneur. For our convenience, we have classified all the entrepreneurial functions into three broad categories:

1. Risk-bearing
2. Organization
3. Innovation

V ENTREPRENEURS DEVELOPMENT IN INDIA:-

(i) THE PAST SCENARIO

Evolution of India Entrepreneurship:-

Long before India came in contact with the West, people were organized in a particular type of economic and social grouping of the village community.

The society was divided into four main castes such as *Shudra, Vaishya, Kshatriya and Brahman*. The Shudras provided services, Vaishya – business, Khatriya – production, and Brahmin – knowledge.

First, on the banks of the river cities flourished. Later on organized industrial activity developed among the Indian artisans in few products in the cities of Benaras, Allahabad. The kings and rulers encouraged and promoted the craft.

In later years, India lost both domestic and international markets because, people started preferring imported items, and the Indian craftsmen did not change their style, design and were unwilling to adapt to the changing tastes and needs of the people.

The Advent of the East India Company:-

The manufacturing entrepreneurship in India emerged with the advent of the British East India Company. In India labour was cheap, so it was beneficial for the British to manufacture in India. East India Company established its first ship-building industry (1673) in Surat where *Parsis* built vessels for the company. A Parsi foreman of a gun factory belonging to the company established a steel Industry in Bombay in 1852.

The Parsis were the earliest manufacturing entrepreneurs in India. The first cotton textile manufacturing unit was set up by a Parsi , in Bombay in 1845.

Ideology of Mahatma Gandhi on Entrepreneurship:-

After independence, the ideologies of Mahatma Gandhi greatly influenced the policies of the new government. He had stressed on six important considerations in policy formulation. They are-

- (a) Large size and population of the country – Swadeshi Movement.
- (b) Wide agricultural base – diversified culture.
- (c) Self reliance
- (d) Trusteeship
- (e) 80% rural population and
- (f) Low level of education

Gandhiji knew that India's growth and future lie in its villages and farmers. He encouraged tiny industries with low and appropriate technology.

In the post-independence era, because of the support of the government, the number of small scale enterprises increased.

(ii) THE CURRENT SCENARIO:-

At present, we see a breed of entrepreneurs emerging. Due to technological advancement, the business environment has changed. Some individuals saw an opportunity in the emerging IT industry. The Indians abroad have become entrepreneurs.

New entrepreneurs like Bill Gates of Microsoft, and companies such as CISCO, Dell computers, Motorola, which do not find place in the book are the very successful enterprises. Sadbeer Bhatia who promoted Hot Mail is a successful entrepreneur. He sold the hot Mail to the Microsoft.

(VI) THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

There is a close correlation between entrepreneurship and economic growth. In fact, economic growth is the result of the efforts taken by entrepreneurs.

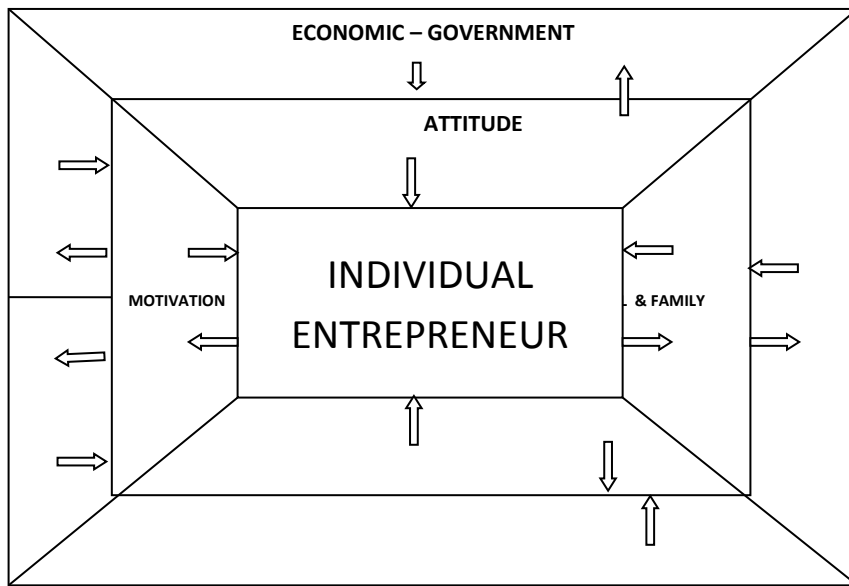
Now the important role that entrepreneurship plays in the economic development can be put in more systematic and orderly manner as follows:

1. Entrepreneurship promotes capital formation.
2. It provides immediate large-scale employment.
3. It promotes balanced regional development.
4. It helps to reduce the concentration of economic power.
5. It stimulates the equitable redistribution of wealth, income and even political power.
6. It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages.
8. Last but no means the least, it also promotes country's export trade.

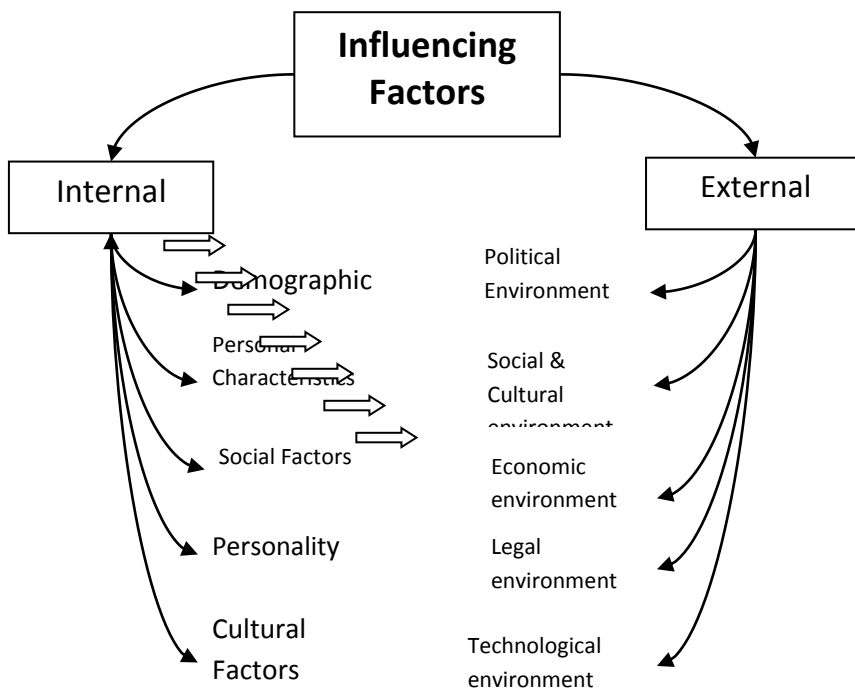
Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can best be put as *“an economy is the effect for which entrepreneurship is the cause”*.

(vii) Influence of entrepreneurship factors

The emergence and development of entrepreneurship are not spontaneous, but are dependent on several factors. There are some factors which have a positive influence in facilitating the emergence and growth of entrepreneurship, while some others are negative factors which inhibit the emergence of entrepreneurship.



INFLUENCING FACTORS



Demographic Variables	Personal characteristics	Social factors
<ul style="list-style-type: none"> • Age • Gender • Birth Order • Education • Ethnic background • Nationality 	<ul style="list-style-type: none"> • Technical expertise • Managerial expertise • Entrepreneurial expertise • Leadership skills • Personal values 	<ul style="list-style-type: none"> • Parental role models • Cultural role models • Family support • Community
Personality traits	Cultural Factors	Environmental factors
<ul style="list-style-type: none"> • Need for achievement • Focus of control • Risk taking • Tolerance ambiguity • Need for independence 	<ul style="list-style-type: none"> • Individualism/Collectivism • Uncertainty avoidance • Materialism • Dynamism 	<ul style="list-style-type: none"> • Lack of employment opportunities • Little opportunity for advancement • Economic resources • Political climate

INTERNAL FACTORS:-

The Internal factors are related to the personality of an individual and they are psychological in nature that motivates a person to become an entrepreneur. Pure entrepreneurs, first generation entrepreneurs are clear examples of entrepreneurship emerging because of force of internal factors.

Family atmosphere:-

Family background plays a very significant role in fostering entrepreneurship. Personality of a person is influenced by the family background right from birth. For example,

The Joint Hindu Family system also promoted entrepreneurship by providing the right environment, developing skills and building strong traditions and customs.

Those born in rich business families have the advantage of experience over new ones. First generation and the second generation entrepreneurs are two examples.

In North Indian families a lot of freedom and facilities are given to children.

South Indian families on the other hand, believe in high education as they go in for jobs. The risk taking abilities are comparatively low among South Indians.

Recently, a survey of the enterprises in India revealed that family owned small businesses have grown at a faster pace than the corporate large business houses.

EXTERNAL FACTORS:-

(a) Political environment

The political environment influences government policies which in turn influence entrepreneurship. There is a coalition government at present and different parties govern different States. Andhra Pradesh and Karnataka are able to promote entrepreneurship effectively and many new entrepreneurs are starting their venture there. Entrepreneurs will invest only where there is political stability. In case of an unstable government, the policies and programs of government keep changing, causing chaos and entrepreneurs will not be able to give their best due to the frequent changes in the government policies. The growth of entrepreneurship has a major influence on government policies. There is a very close relationship and dependency between these two factors.

(b) Social and Cultural environment

Family environment, social and cultural environment are closely related. The Joint Hindu family system is a part of the Indian cultural and social system. The system creates bondage within the family, children have leader's presence and guidance to grow with. The values of sharing, sacrifice and adjustment develop in a joint family.

The *social status* counts a lot while making the choice of a career. In India, it is a fact that salaried persons enjoys better social status in society, besides enjoying security of job, assured income, lesser working hours and fewer responsibilities. The socio-cultural environment and values have an important bearing in the emergence of entrepreneurship in any society. The

value orientation to work, leisure, taking initiatives, being innovative, etc., are some other aspects that are influenced by social environment.

When entrepreneurs command a lot of respect and regard from the society more people will be motivated to become entrepreneurs. Once such recognition is given by the society, more and more people would wish to become entrepreneurs.

Socio-cultural values that needed for the growth of entrepreneurship and the concepts of entrepreneurship should become a part of curriculum in schools, colleges and universities. The educational institution should emphasis more on the development of *job creators* rather than *job seekers*.

(c) Economic Environment:-

Economic environment pertains to the economic background of the individuals such as – (a) Whether a person has ancestral property or property earned on his own, (b) details regarding current income, (c) standard of living and, (d) financial status that he enjoys, etc. They will influence the size of business and the capacity to take risks. Similarly, macro level factors such as, market structure, competition, profitability, investments, availability of land, capital, labour, raw materials, market, etc., also have influence on entrepreneurship.

(d) Legal Environment:-

Businesses have to operate in a legal environment. There are laws, rules and regulations framed by various Acts under the Constitution which have to be followed by entrepreneurs. For example, if we want to start a shop, we have to register our firm under Shops and establishment Act. The Act has certain rules and regulations which specify that there a weekly holiday, child labour cannot be employed, lunch break should be provided etc.,

Entrepreneurs starting manufacturing units also have several laws governing their industrial establishments. For example, the Factories Act, 1946 makes it mandatory that if more than 20 persons are employed in a factory, proper drinking water and toilet facilities should be provided to them.

Besides, we have sales tax and excise duties which have to paid before goods leave a factory. We also have Income Tax Act, Provident Fund Act and Employees State Insurance Scheme (ESI), each spelling out its own set of rules and guidelines to be followed by an entrepreneur, owning a factory.

(E) Technological Environment

The future is heavily weighed in favour of knowledged base business. The new entrepreneurs must have knowledge about the last technological developments and also should be able to predict the *life of* the technology. The

life cycle of technologies is getting shorter. In the changing scenario, the importance of technology is increasing. Many of the entrepreneurs are hesitant to enter into business which is technology oriented.

(viii) PHASES OF EDPs

An entrepreneurship development programme consists of the following three phases:

1. Pre-training Phase
2. Training Phase
3. Post-training Phase (Follow-up)

These are discussed in turn.

1. Pre training phase— The activities and preparations required to launch the training programme comes under this phase. This phase, accordingly, includes the following:

- (a) Selection of entrepreneurs.
- (b) Arrangement of infrastructure.
- (c) Tie-up of Guest Faculty for the training purpose.
- (d) Arrangement for inauguration of the programme.
- (e) Selection of necessary tools, techniques to select the suitable entrepreneurs.
- (f) Formation of Selection Committee for selecting trainees.
- (g) Arrangement for publicity media and campaigning for the programme.
- (h) Development of application form.
- (i) Finalization of training syllabus.
- (j) Pre-potential survey of opportunities available in the given environmental conditions.

2. Training Phase – The main objective of this phase is to bring desirable change in the behavior of the trainees. In other words, the purpose of training is to develop ‘need for achievement’ i.e., motivation among the trainees. Accordingly, a trainer should see the changes in the behavior of the trainees.

3. Post-training Phase (Follow-up) – The ultimate objective of the Entrepreneurship Development Programme is to prepare the participants to start their enterprise. This phase, therefore, involves assessment to judge how far the objectives of the programme have been achieved. This is called ‘follow-up’. Follow-up indicates our past performance; drawbacks, if any, in our past work and suggests guidelines for framing future policies to improve our performance.

In a nutshell, the purpose behind the EDP follow-up is to:

- (a) Review the pre-training work;
- (b) Review the process of training programme
- (c) Review past training approach.

(xi) TRAINING AND DEVELOPMENT OF ENTREPRENEUR:-

Entrepreneurial training is provided through Entrepreneurial Development Programmes. The main aim and objectives of EDPs are-

- a) To attract people to entrepreneurial development programmes through effective promotion.
- b) To make them aware of the various available business opportunities.
- c) To motivate and strengthen entrepreneurial quality.
- d) To develop the course content and the curriculum of the programme, keeping in view the characteristics and the factors influencing entrepreneurial growth.
- e) To develop management related skills like problem solving, decision making, communication, opportunity identification, interpersonal, team building, etc.
- f) To make participants aware of the various laws, procedures, etc., relating to the entrepreneurship.
- g) To develop passion and interest in entrepreneurship.
- h) To conduct research and study on the effectiveness of the various programmes, schemes, market potential of various business opportunities, etc.,

Course Content and Curriculum of Entrepreneurial Training Programmes (EDPs):

On the basis of the above mentioned aims and objectives, the course content and curriculum of EDPs could consist of the following:

- i) General introduction:** Need for entrepreneurship and its importance in economic growth of our country. Factors affecting the Entrepreneurship. Advantages and benefits of own enterprises. Such details could be furnished.
- ii) Motivation training:** The focus should be to develop motivation through training and education. Factors that motivate people to become entrepreneurs vary from individual to individual. Some may be motivated by economic factor like profit and some by self esteem, etc.

Training to Existing Entrepreneurs:-

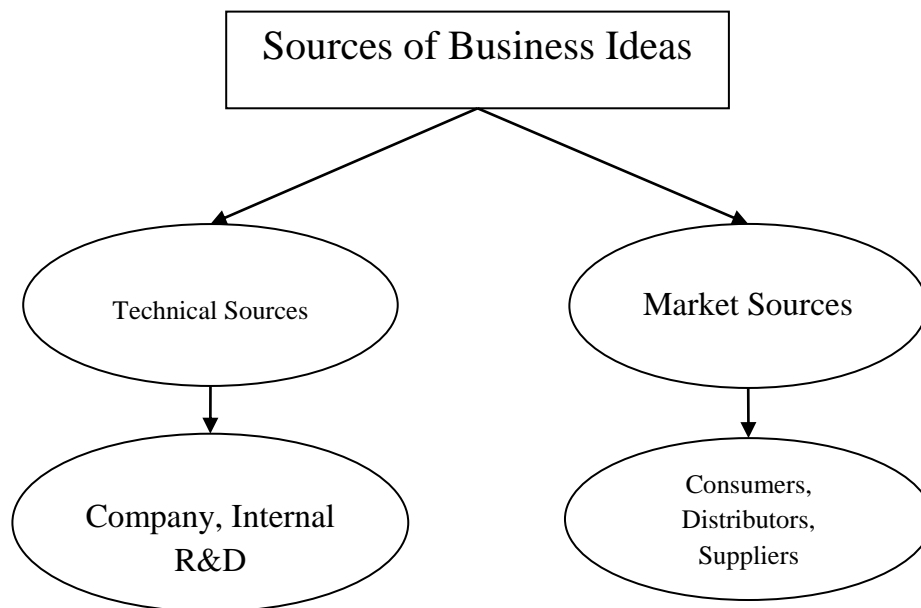
The EDPs should not only focus on motivating individuals to start own enterprises but also offer training to existing entrepreneurs for enhancing their performance. All the existing entrepreneurs may not start new enterprise, but even if they expand, grow, learn to manage properly, the programme will be regarded as quite successful.

UNIT – II

BUSINESS IDEA

I – Business Idea:-

A Business idea is a business seed, which expands and grows into a business tree. Business ideas can emerge from technical source.



Business Idea from Technical Source

Generally, new ideas are generated within the company. They are generated -

- (a) By the scientists working in the research and development department,
 - (b) By the engineers working in the production department; and
 - (c) Also by the field staff who may get a new idea while solving problems.
- Generally, these ideas relate to the

- (a) New methods to be adopted for production,
- (b) New product design;
- (c) New machinery; etc.

Business Ideas from Market source

These are various methods of generating ideas from market source. We shall discuss each one of them in brief below:

(i) Focus Groups:-

In this method, a group of consumer is going to be interviewed. A moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participants' response.

(ii) Brain storming:-

In this method also, a group of consumers is selected. They focus on specific market or product area. Freewheeling discussion is encouraged to generate wide ideas.

(iii) Reverse Brainstorming:-

Reverse brain storming is similar to brain storming, except the criticism. Infact, this technique is based on finding fault by asking questions.

(iv) Rawlinson Brain Storming:-

Rawlinson Brain storming gets round the problem of group behavior by having the groups interact individually with the leader rather than with each other.

(v) Problem Inventory Analysis:-

This method uses individuals rather a group to generate new product ideas. Instead of generating the ideas themselves, participants are provided with a list of problems for a product category.

(vi) Synectics:-

Synectics is a creative process that forces individuals to solve problems through one or four analogy machanisms – personal, direct, symbolic and fantasy.

(vii) Gordon Method:-

The Gordon method begins with a group of members not knowing the exact nature of the problem. This ensures that the solution is not clouded by pre-conceived ideas and habit patterns.

(viii) Check List Method:-

In the check list method, a new idea is developed through a list of issues or suggestions.

(ix) Free Association:-

One of the simplest, yet the most effective method that entrepreneurs can use to generate new ideas is free association. This technique is helpful in developing an entirely new slant to a problem.

(x) Forced Relationship:-

Forced relationships, as the name implies, tries to force relationships among some product combinations. It is a technique that asks questions about object or ideas in an effort to develop a new idea.

(xi) Collective Note Book Method:-

In the collective notebook method, a small notebook that easily fits in a shirt pocket is prepared. It includes a statement of the problem, blank pages, and any pertinent background. Selected individuals consider the problem and its possible solutions recording ideas atleast once, but preferably three times a day.

(xii) Heuristics:-

Heuristics technique relies on an entrepreneur's ability to discover through a progression of thoughts, insides and learning.

(xiii) Scientific Method:-

The scientific method, widely used in various fields of inquiry, consists of principles and process, conducting observations and experiments and validating the hypothesis.

(xiv) Value Analysis:-

A Value analysis technique develops methods for maximizing values to the entrepreneur and the new ventures.

(xv) Attribute Listing:-

Attribute listing an idea-finding technique requiring the entrepreneur to list the attributes of an item or problem and itlook at each from a variety of view points.

Conclusion:-

An idea can be either generated internally or externally through various techniques. Some techniques are very structured while others are designed. The possible source of new ideas range from the comments of consumers to changes in government regulations and evaluations of competitors' products. Entrepreneurs can pick up new venture ideas by observing also.

Project Identification and formulation:-

II (a) Meaning of the project

A project is that it is a scheme, design; a proposal of something intended or devised to be achieved

Newman et.al. define that "a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission"

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

Project Classification

Project classification is a natural corollary to the study of project idea.

Different authorities have classified projects differently. Following are the major classifications of projects.

1. Quantifiable and Non-Quantifiable Projects:-

Projects for which a plausible quantitative assessment of benefits can be made are called 'quantifiable projects'. Projects concerned with industrial development, power generation, mineral development fall in this category. Projects involving health, education and defence are the examples of non-quantifiable projects.

2. Sectorial Projects:-

According to this classification, a project may fall in any one of the following sectors.

- (i) Agriculture and Allied Sector.
- (ii) Irrigation and Power Sector.
- (iii) Industry and Mining Sector.
- (iv) Transport and Communication Sector.
- (v) Social Services Sector.
- (vi) Miscellaneous Sector.

The project classification based on economic sectors is found useful in resource allocation more especially at macro levels.

3. Techno – Economic Projects:-

This type of classification includes factors intensity-oriented classification, causation-oriented classification and magnitude – oriented classification.

(a) Factor Intensity – Oriented Classification: Based on factor intensity classification, projects may be classified as capital intensive or labour intensive. If large investment is made in plant and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large number of human resources will be termed as 'labour intensive'.

(b) Causation – Orientated Classification: Where causation is used as a basis for classification, projects may be classified for certain as demand based or raw material based projects.

(c) Magnitude – Oriented Classification: In case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium-scale or small – scale projects.

II (b) Project Identification

Idea Generation

Project selection process starts with the generation of a product idea. In order to select the most promising project, the entrepreneur needs to generate a few ideas about the possible projects.

- (i) Knowledge of potential customer needs,
- (ii) Have to emerging trends in demands for certain products,
- (iii) Scope for producing substitute product,
- (iv) Going through certain professional magazines catering to specific interest like electronics, computers etc.,
- (v) Success stories of known entrepreneurs or friends or relatives,
- (vi) Making visit to trade fairs and exhibitions displaying new products and services,
- (vii) Meeting with Government agencies,
- (viii) Ideas given by the knowledgeable persons,
- (ix) Knowledge about the Government policy, concessions and incentives, list of items reserved for exclusive manufacture in small-scale sector, and
- (x) A new product introduced by the competitor.

This is also described as ‘opportunity scanning and identification’.

II (c) Project Selection

After having some project ideas these are analysed in the light of existing economic conditions, the government policy and so on. A tool generally used for this purpose is, what is called in the managerial jargon, SWOT analysis. The process involved in selecting a project out of some projects is also described as the “zeroing in process”.

III Project Formulation

III (a) Meaning of Project Report

Webster New 20th Century dictionary defines a project as a scheme, design, a proposal of something intended or devised. In simple words, project report or business plan is a written statement of what an entrepreneur proposes to take up.

III (b) Contents of Project Report

A project report should contain the following contents:

1. **General Information:** Information on product profile and product details.

2. Promoter: His/her educational qualification, work experience, project related experience.

3. Location: Exact location of the project, lease or freehold, locational advantages.

4. Land and building: Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

5. Plant and Machinery: Details of machinery required capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.

6. Production Process: Description of production process, process chart, technical know how, technology alternatives available, production programme.

7. Utilities: Water, power, steam, compressed air requirements, cost estimates, sources of utilities.

8. Transport and Communication: Mode, possibility of getting, costs.

9. Raw Material: List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternative raw material, if any.

10. Manpower: Manpower requirement by skilled and semi-skilled, sources of man power supply cost of procurement, requirement for training and its cost.

11. Products: Product mix, estimated sales, distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.

12. Market: End-users of product, distribution of market as local, national, international, trade pactices, sales promotion devices, and proposed market research.

13. Requirement of Working Capital: Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

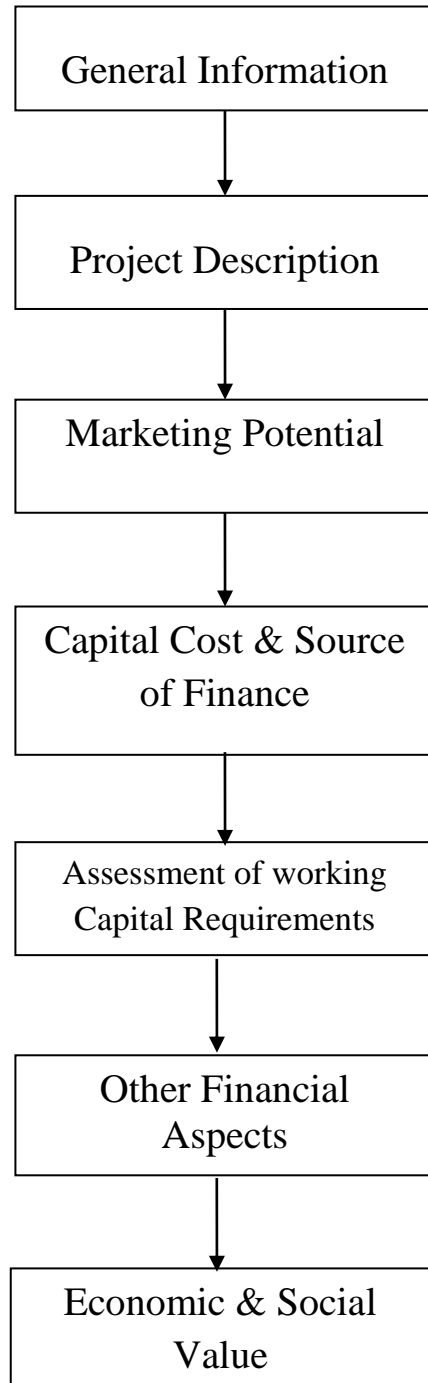
14. Requirement of Funds: Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

15. Cost of Production and Profitability of first ten years.

16. Break-Even Analysis.

17. Schedule of Implementation.

III (c) Formulation: Stages of project formulation



Formulation

A general set of information given in any project report is listed by Vinod Gupta in his study on “Formulation of a Project Report”.

Project formulation divides the process of project development into eight distinct and sequential stages.

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Source of Finance.
5. Assessment of working capital Requirements.
6. Other Financial Aspects.
7. Economic and Social Variables.
8. Project implementation.

General Information

Bio-data of promoter: Name and address of entrepreneur; the qualifications, experience and other capabilities of the entrepreneur.

Industry Profile: A reference of analysis of industry to which the project belongs, e.g., past performance; present status, its organisation, its problems etc.

Constitution and Organisation: The constitution and organizational structure of the enterprise.

Project Details: Product utility, Product range; product design; advantages to be offered by the product over its substitutes, if any.

Project Description

A brief description of the project covering the following aspects is given in the project report.

Site: Location of enterprise; owned or leasehold land; industrial area; No objection Certificate from the Municipal Authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report:

(i) **Raw Material:** Requirement of raw material, whether inland or imported, sources of raw material supply.

(ii) **Skilled Labour:** Availability of skilled labour in the area, arrangements for training labourers in various skills.

- **Utilities:**
 - (i) Power
 - (ii) Fuel
 - (iii) Water
- **Pollution control**
- **Communication System**
- **Transport facilities**
- **Other Common Facilities**
- **Production Process**
- **Machinery and Equipment**
- **Capacity of the Plant**
- **Technology Selected**
- **Research and Development**

Market Potential

While preparing a project report, the following aspects relating to market potential of the product should be stated in the report-

- (i) Demand and Supply Position
- (ii) Expected Price

Marketing Strategy—Arrangements made for selling the products should be clearly stated in the project report.

After-sales Service

Transportation—Requirement for transportation means indicating whether public transport or entrepreneur's own transport should be mentioned in the project report.

Capital Costs and Sources of Finance

An estimate of the various components of capital item like land and building, plant and machinery, installation costs, preliminary expenses, margin for working capital should be given in the project report.

Assessment of Working Capital Requirements

The requirement for working capital and its sources of supply should be carefully and clearly mentioned in the project report.

Other Financial Aspects

In order to adjudge the profitability of the project to be set up, a project Profit and Loss Account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected Balance Sheet and Cash

Flow statement should also be prepared to indicate the financial position and requirements at various stages of the project.

Economic and Social Variables

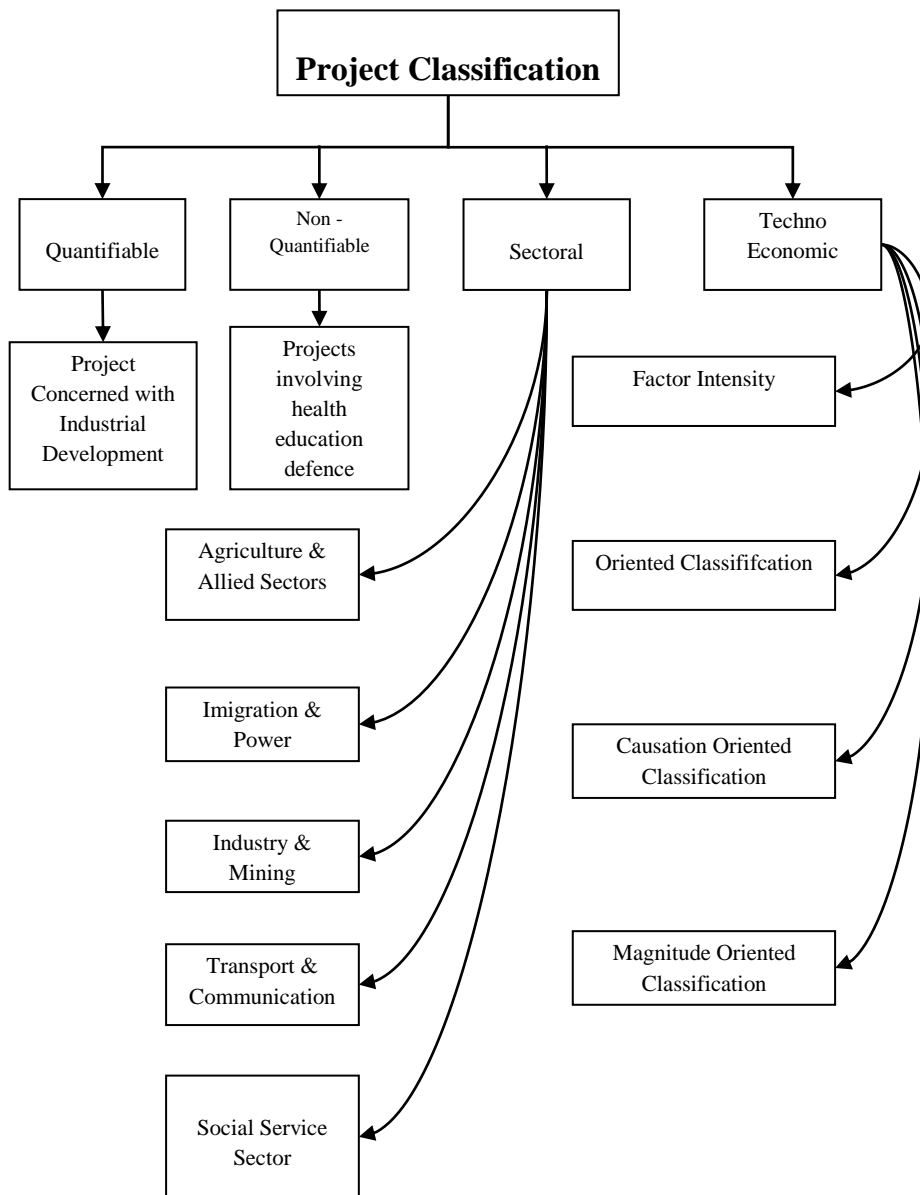
In the view of social responsibility of the business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project.

Following are the examples of socio-economic benefits-

- (i) Employment Generation.
- (ii) Import Substitution.
- (iii) Ancillarisation.
- (iv) Exports.
- (v) Local Resource Utilization.
- (vi) Development of the Area.

Project Implementation

Every entrepreneur should draw an implementation scheme or a timetable for his project to ensure the timely completion of all activities involved in setting up an enterprises. Timely implementation is important because if there is a delay, it causes, among other things, a project cost overrun. Delay in project implementation jeopardises the financial viability of the project, on the hand, and props up the entrepreneur to drop the idea to set up an enterprises, on the other.



V Feasibility Study

V (a) Introduction

Feasibility of a business viability of the business. A feasibility study is the evaluation of a business idea. The evaluation can be done by an entrepreneur himself or by professional consultants appointed by him. After project identification, project appraisal, is done. Information is collected through primary and/or secondary sources of information for determining market feasibility.

Marketing Feasibility

After a business idea is generated, market studies are conducted to find out the feasibility of the idea. In the market, with increasing competition, the rate of new product introductions has accelerated. In a survey, it is found that about 80% of the products do not meet the expectations of the customers and such products are only met failure. They attain premature death in the market. The cost of developing a new product and introducing in the market with the requisite promotional effort is extremely high. Besides, there is no certainty that the product introduced will be successful. In the light of this, study of marketing feasibility assumes significance.

Stages in New Product Development

There are eight stages in the new product development and introduction process. These are :

1. Idea generation
2. Screening
3. Concept Development and Evaluation
4. Business analysis
5. Product Development and Evaluation
6. Development and Evaluation of Marketing Mix
7. Test Marketing
8. Commercialization of the product

Generation

Ideas for a new product can come from almost anyone, although they often come from

- (i) Competitors
- (ii) Customers
- (iii) Company sales force and Members of distribution channels
- (iv) Research and development section.
- (v) Company executives

Companies that are constantly in search of new product ideas can benefit most from using such methods.

2. Screening

The purpose of screening is to evaluate and select the most promising idea of all the new product ideas. At this stage, a detailed evaluation is neither possible nor warranted. Therefore, subjective, but well informed, judgement of relevant individuals and agencies are often engaged to screen ideas.

3. Concept Development and Evaluation

Product ideas are mere expressions, often in functional terms of product possibilities. They need to be developed into product concepts before evaluating their worth and initiating product development. A product concept is fairly a complete ‘offering’ that a company presents to the consumers for possible adoption. Therefore, a product concept must address the following-

- Target consumer—Specific needs of the consumers it aims to satisfy,
- Form or the manner in which the needs is to be satisfied (*e.g.*, liquid, tablet, powder, cream)
- The primary benefit it offers to consumers
- The price (both monetary and non-monetary) that a consumer has to pay to receive these benefits.

Product concepts must be evaluated using relevant criteria, that includes sales and profit potential, product line completion, utilization of manufacturing and marketing infrastructure capacities, etc.,

An important decision that is related to concept development and evaluation is *product positioning*.

4. Business Analysis

At this stage, it is useful to undertake a fairly detailed appraisal of the new product proposal, involving financial analysis. By this time, sufficient details about the potential product are known for a detailed evaluation and yet substantial resource commitment in product development has not taken place. The critical elements of this appraisal are estimating future sales, costs, profits and the extent of investment required.

5. Product Development and Evaluation

Once the product concept has passed the business analysis stage, work can begin physically to develop the product *i.e.*, convert the concept into concrete product. Usually, this is a long drawn and costly process, necessitating a close coordination between marketing and research department. An acceptable prototype must be developed and subjected to evaluation including consumer tests.

6. Development And Evaluation of Marketing Mix

Concurrent with product development, other elements of marketing mix such as packaging, brand name, final price, channel and promotional strategies have to be planned.

7. Text Marketing

At this stage the entire mix, including the product, is tested in selected markets to determine the level of success *vis-a-vis* the objectives. Test marketing provides an opportunity to test the acceptability of the product and the mix with minimum resource commitment and minimize the risk of failure in the large market place.

8. Commercialisation of the Product

A product reaches the commercialisation stage when it is launched in regional or national markets. Lessons learnt from test marketing must be implemented to modify and improve the product and the mix. At every stage a check and re-check is made and go/no go decisions are made.

V Financial and Economic Feasibilities:-

Introduction:-

After marketing feasibility, the economic and financial feasibilities are ascertained. In this step, income and expenses are estimated on the basis of cost and price. Marketing feasibility tests the business idea for marketing, whereas in financial feasibility, the financial soundness of the idea is tested.

METHODS OF EVALUATION OF FINANCIAL FEASIBILITY

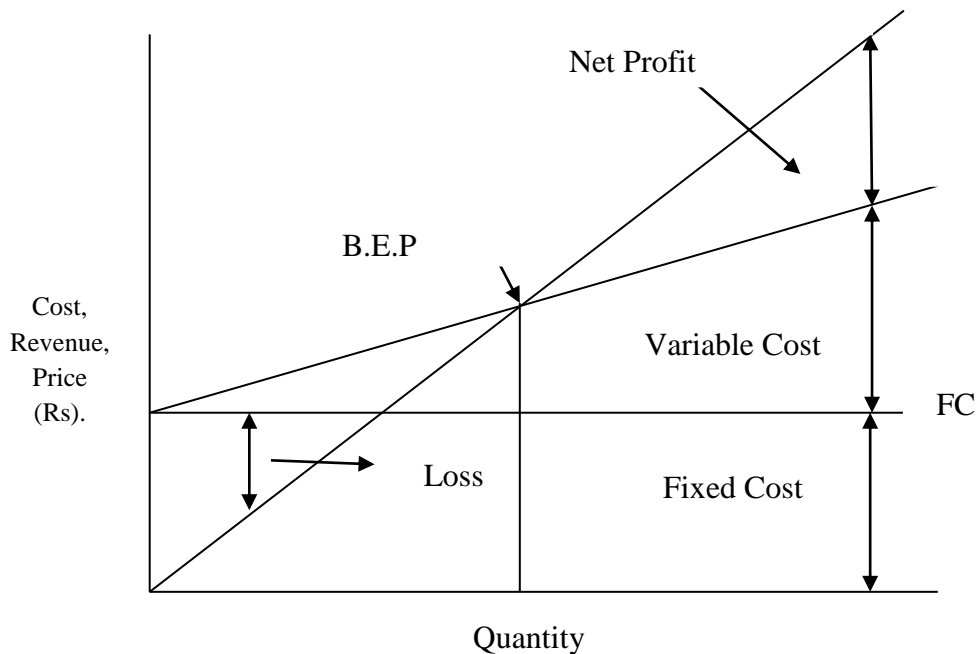
Cost of Production and Marketing

First, the cost of production—both short term and long term – is estimated. It depends on the selection of the technology and the size of the plant chosen in the technical feasibility study. the determination of the size depends on demand and the expected market share.

Break Even Analysis:-

Break even analysis helps to identify the minimum volume required to ensure that there is no loss. Break – even point is the level or point of operation where there is no profit and no loss. the total costs are equal to the total revenue ($TC=TR$). It is absolutely essential that the entrepreneur knows exactly the minimum number of units to be sold or how much sales volume must be achieved for a break. This analysis is the relationship of costs – volume – profit. It is the fundamental estimate which has to be forecast. Break even volume can be calculated by using a formula or by break even chart.

The following diagram presents the technique of Break-even point using graph



Break Even Formula:-

$$B/E = \frac{\text{Total Fixed Cost (TFC)}}{\text{Selling Price (SP) – Variable cost per unit VC /unit}}$$

Assessment of fixed and working capital requirements

Fixed capital is used for what are called fixed assets, viz., those tangible facilities which are purchased once and are used again and again. Land, building, plant and machinery are examples for fixed assets/capital.

In accounting, working capital means excess of current assets over current liabilities. Current assets refer to those assets which can be converted into cash within a short period. Current liabilities refer to those obligations which are payable within a short period. In short, working capital is the amount of funds which is needed in day-to-day business operations. In other words, it is like circulating money, changing from cash to inventories and from inventories to receivables and again converted into cash. This cycle goes on and on. Working capital is like a lubricant for any enterprise.

Capitalisation

Capitalisation means the total amount of capital employed in an enterprise. It means the determination of the amount of finance and also the mode of finance. As per the historical cost theory, the amount of capitalization

of a new enterprise is the total of the cost of fixed assets, working capital and the costs incurred in setting up the enterprise (e.g., preliminary expense, underwriting commission, expenses on issue of shares, etc.) the historical cost approach lays greater stress on current outlays than on the requirements for future.

Cost of Capital

Cost of Capital means the minimum rate of returns that a company must earn on its assets to satisfy investors. The cost of capital varies from source to source.

Capital Structure

An enterprise requires funds to run and it raises them from internal or external sources. In other words, there is ownership capital and borrowed capital respectively. The former is also known as equity and the latter as debt. The composition of equity and debt in the overall capital of an enterprise is called its capital structure. Cost of capital, in other words, is the ratio between debt and equity capital expressed as debt-equity ratio.

Requirements of Funds at Different Stages of Business:-

An entrepreneur requires funds at the different stages of business. They are

(i) Early – stage financing:-

Requirement of funds in the first stage is towards;

(a) Seed capital, involving relatively small amount, to prove concepts and conduct various feasibility studies.

(b) For start-up for product development and initial marketing only, without commencing commercial sales.

(ii) Expansion of three Development Financing:-

An enterprise passes through the following 3 stages while expanding – They are,

(a) Funds are provided for working capital to achieve initial growth phase. Second stage of requirement of funds in business.

(b) The third stage for major expansion for company with rapid sales growth, at break-even or positive profit levels.

(c) A business requires finance to prepare the company for public offer, which is the fourth stage.

(iii) Acquisitions Financing:-

In the last stage, funds are required to acquire ownership and control of another company.

In financial feasibility, the funds are required at various stages of the business as forecast and estimated. The estimation is followed by the choice of the sources of funds, to keep the cost of the capital low.

V (c) Technical, Legal, Managerial, Locational and Other Feasibilities:-

Technical Feasibility:-

Technical Feasibility is also known as techno-economic feasibility. The technical study evaluates the choice of technology, production process, and location of the business.

Technical Analysis:-

Several options are available to an entrepreneur in his choice of technology. Only after a careful analysis, he must take a suitable decision, as his decision will have a great impact on financial, marketing and legal feasibilities. For example, for a given product there may be three options as follows:

- (i) Highly labour-intensive.
- (ii) A fine balance of labour and capital
- (iii) Highly capital – intensive.

Raw Material Analysis:-

The raw materials requirement should be identified with their sources and the prices ascertained. The quality of the raw materials requirement depends on the choice of technology and the quality of products to be manufactured. If the raw material is not made available at the right time, then the production stops, since easy availability of the raw material is very essential for ensuring uninterrupted production.

The economic order quantity (EOQ) has to be decided. Too much stock of raw material only results in blocking of the working capital. On the other hand, just-in-time inventory ensures minimum purchase of raw materials. In this method, the raw materials are made available only when required, thus resulting in less storage place, less working capital requirement.

Generally, ABC classification of the items is done and the stocks are monitored, items are the ones which are high in value, cost more and are very critical. B is medium-value items, while C is low-value items like, say, nuts and bolts.

Make or Buy Decision:-

A firm has to decide whether to buy or make required inputs for manufacturing its products. Should it only have assembly operations? Should

they be subcontracted? In India, sub-contracting in the form of ancillarisation is very common.

Plant size and Location:-

The location and size of the enterprise are critical decisions. Many of the enterprises become sick due to the wrong location and size. Some entrepreneurs set up their enterprises chiefly because of the incentives provided by the States.

Generally, we see that the industries are located nearer to the availability of the raw materials or the market. For example, textile enterprises are found in Gujarat, Maharashtra, Coimbatore, Salem and Erode. The State Government develops the infrastructure required by these industries to attract entrepreneurs.

Market Oriented Location:-

An example of market oriented location is the drink industry, where not only the transportation cost of the final product is much higher than the cost of making the product. Most soft drink producers thus have bottling plants all over the world. Examples are Pepsi and Cola Cola. Market oriented location may also be favoured due to factors other than just the transportation cost.

Material Oriented Location:-

Laxmi Starch Ltd., producing starch for industrial use, started operations in Kerala because tapioca could only be obtained there, although its markets are in Bombay and Ahmedabad. Later on plants were set up in Andhra Pradesh and Gujarat for the same reason. For a project to extract drugs and produce medicines from herbs and medicinal plants, Zandu Pharmaceutical Works promoted the venture in Ankledwar in Gujarat as herbs and medicinal plants are grown nearby.

For a good location, availability of water and power should be ensured.

If the project requires skilled labour, availability of skilled labour has to be ensured or alternately training has to be provided to the labour force. The cost involved has to be estimated.

The technical feasibility study can be carried out by the entrepreneur himself or it can be done by others for him. This stage involves taking critical decisions after much thought and analysis.

Layout:-

Technical analysis also ensures that the production facilities are set up in such a manner that the operation takes place smoothly and at a lower cost. A good layout saves time in material movement. The alternative of product,

process or combined layout has to be evaluated and depending on the availability of space and the production process, the lay out should be designed.

Project Apraisal:-

Meaning of Project Appraisal:-

Assessing the viability or feasibility of a proposed project by the lending institutions is called “project appraisal”. The difference between feasibility and appraisal is, that the feasibility is done by the entrepreneur or his consultant, while appraisal is done by the investors and lending institutions.

Profitability appraisal methods used for evaluation. They are:-

1. Payback period
2. Return on investment
3. Discounted cash flow
4. Internal rate of return
5. Net Present value
6. Profitability index

Payback Period Technique:-

One of the most commonly used techniques for evaluating investments proposals is the cash pay back or payback period. It represents the number of years in which the investyment is expected to ‘pay for itself’.

Original cost of Investment

Payback Period = -----

Annual net cash inflows or savings

$$P = I/S \text{ or } I/C \text{ or } I/E$$

Where,

P = Payback period

I = initial Investment

S = Savings per year

C = Annual Cash inflow

E = Earnings per year

This method is suitable for relatively small projects that are expected to be completed in a short time.

Return on Investment (ROI)

ROI is defined as the ratio of profit (net of depreciation and taxes) to initial capital outlay.

$$\text{Average Rate of Returns} = \frac{\text{Annual net Income}}{\text{Average Investment}} \times 100$$

Average investment = initial investment + scrap value; life of asset.

Discounted Cash Flow:-

In discounting, the present value of the future money is calculated to enable us to make decisions today.

$$\text{Present Value} = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \dots + \frac{A_n}{(1+r)^n}$$

Where A₁, A₂, A₃, .. A_n = Future net cash flows (profit after tax before depreciation), r = rate of interest desired 2,3, - and n = number of years. Present value can also be found by the use of Present Value Tables.

Internal Rate of Return:-

Under this method, the ‘life’ of the projects is usually fixed and the discount rate at which the present value of net cash inflow during that chosen ‘life’ equals the initial outlay.

Net Present Value:-

In this method, the discount rate should be equal to the company’s weighted average cost of capital. In this method, future cash inflows are discounted to the present value. This is the Gross Present Value of the cash flows.

Profitability Index :-

It is also called present value profitability index or benefit cost ratio.

$$\text{Profitability Index} = \frac{\text{Present Value of gross cash inflows}}{\text{Initial cash outlay}}$$

$$\text{Present Value Index} = \frac{\text{Present Value of Operating Inflows}}{\text{Present Value of Net Investment}} \times 100$$

Risk Adjusted Discount Rate:-

In Risk adjusted discount rate (RADR), the discount rate is adjusted in accordance with the degree of risks. Higher the risk, higher the discount rate.

Formation of Business Idea through PERT and CPM Techniques

Network Techniques:-

It is important that an entrepreneur knows how a business idea is formulated. At this stage, the step by step approach of the project implementation is developed. In project formulation stage Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are widely used techniques.

Basic concepts in Network Analysis

A network is a series of related activities which are required to achieve the goals of a business.

Activity refers to action which is a time consuming effort necessary to complete a specific event. Each activity has a point of time where it begins and a point where it ends.

Event refers to the start or completion of some activity and as such consumes neither time or resources. Event denotes the beginning and end of an activity.

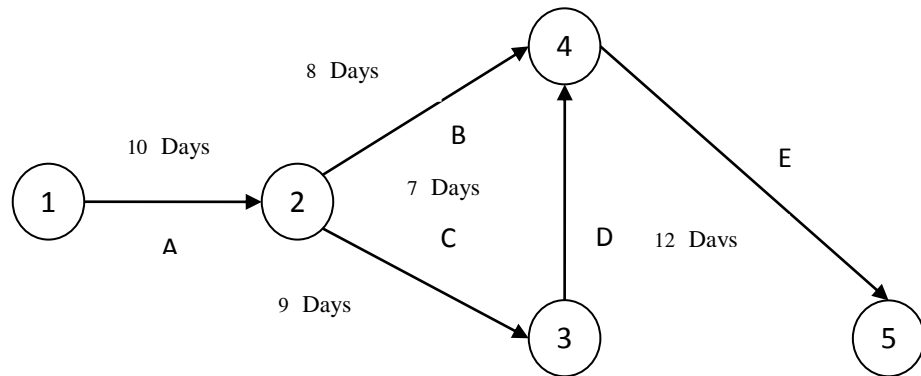
PERT Programme Evaluation and Review Technique

This technique was developed during 1950s by the Naval special projects office in Co-operation with Booz, Allen and Hamilton, a Management consultant firm.

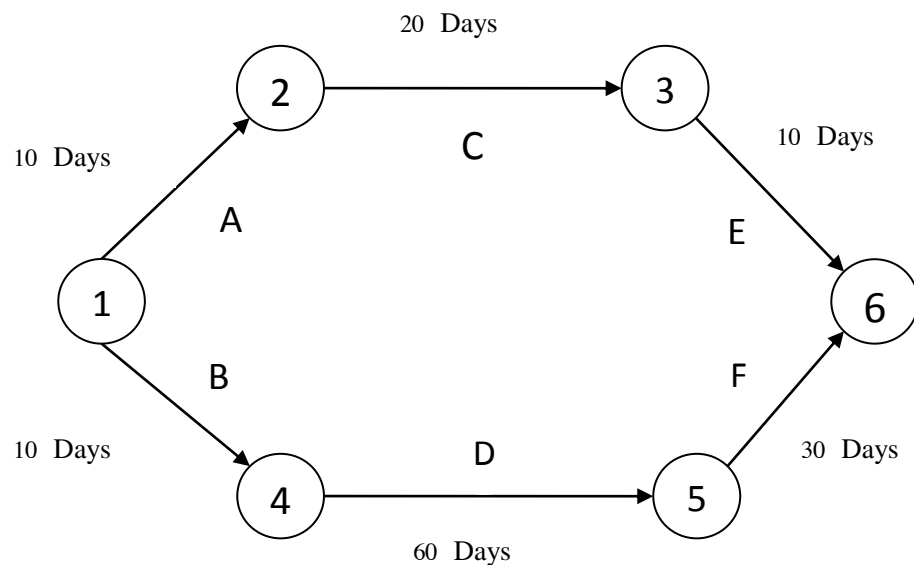
PERT schedules the sequence of activities to be completed in order to accomplish a project within a short period of time. It helps to reduce both the time and cost of the project. If the project is completed before schedule, then there is savings in cost. Similarly, if the project gets delayed, then the cost will go up beyond the budget. The steps involved in PERT are as follows:

- (i) Identification of the activities in the project and establishing the sequential relationship to show what activity follows after what.
- (ii) Activities that can be carried out simultaneously are identified.
- (iii) Estimation of the most optimistic time, most likely time and most pessimistic time required to complete each of the activity.
- (iv) The critical activities of the project are determined.
- (v) The variability of the project duration and probability of the project completion in a given time period are calculated.

This technique does not cover the resources required at the different stages of the project.



In the diagram shown above, each circle presents an event and each arrow represents an activity. Circle 1 is the starting event and circle 5 is the finishing event. The names of the activities such as A,B,C and E are – Forecasting of sales, sales pricing, production scheduling, cost determination and preparation of judge.



The Critical Path Method (CPM) was first developed in U.S.A by the Du Pont Company and Remington Rand. It differentiates between planning and scheduling. Planning refers to the determination of activities that must be accomplished and the order in which they should be performed in order to achieve the objectives of the project. Scheduling, refers to the introduction of time into the plan thereby creating a time schedule for the various so that there is a precise known time that each activity in the project will take. The duration of different activities in CPM are deterministic.

The Salient features of C.P.M are:

- (a) It determines the critical or bottleneck activities and the critical path on which the project duration depends.
- (b) It gives the most economical schedule for a fixed duration.
- (c) It determines the pattern of the allocation of available limited resources.

There are few differences between PERT and CPM. They are

Differences Between PERT and CPM

PERT	CPM
<ul style="list-style-type: none"> • Its origin is in military • It is an even-oriented approach. • It allows uncertainty. • It is a probabilistic model. • It does not demarcate between critical and non-critical activities • It average time. • It is suitable when high precision is required in time estimates, e.g. defense projects. • It estimates 3 different times of completion. 	<ul style="list-style-type: none"> • Its origin is in industry. • It is an activity-oriented approach. • It does not allow uncertainty. • It is a deterministic model. • It is cost based. • It marks critical activities. • It does not average time. • It is suitable when reasonable precision is required e.g. construction projects, industrial expansion schemes, etc., • It estimates only one completion time.

Financial Analysis:-

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods.

1. Assessment of the financial requirements both – fixed capital and working capital – needs to make properly make. Fixed capital normally called 'fixed assets' are those tangible and material facilities which purchased once are used again and again. Land and buildings, plants and machinery are the familiar examples of fixed assets.

But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer's fees, electrification and installation charges, depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration.

2. In accounting, working capital means excess of current assets over current liabilities. Current assets refer to those assets which can be converted into cash within a period of one week. Current liabilities refer to those obligations which can be payable within a period of one week. In short, working capital is that amount of funds which is needed in day today's business operations. Thus, working capital; serves as a lubricant for any enterprise.

However, the enterprise sometimes fails to achieve the targeted level of capacity due to various business difficulties like unforeseen shortage of raw material; un expected disruption in power supply, inability to penetrate the market mechanism. Break-even analysis gives an answer to it. In brief, break-even analysis indicates the level of production at which there is neither profit nor loss in the enterprise. This level of production is, accordingly, called 'break-even level'.

NOTES

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UNIT – III

FINANCING ENTREPRENEURS

Institutional Finance to Entrepreneurs:-

Finance is one of the essential requirements of any enterprise. Before actually setting up their units, small entrepreneurs need to know very clearly about the type of extent of their financial requirements. The Government of India as a part of its policy of promotion of small-scale sector in the country has set up a host of institutions to meet the financial requirements of small entrepreneurs. The financial assistance given by various institutions to small entrepreneurs to set up their enterprises are discussed below.

I - Role of 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.

The financial resources of the IFCI are constituted of the following three components:

- (i) Share Capital
- (ii) Bonds and Debentures
- (iii) Other Borrowings.

The major sources of the IFCI are issue of bonds and debentures, borrowing from the Government, the Reserve Bank of India, Industrial Development Bank of India and Foreign Loans.

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 modernization of tiny, small-scale ancillary units; and
- (d) Control of pollution in the small and medium scale industries. the IFCI has shown its growing concern in the development of backward districts.

(i) The IFCI's lending operations have encouraged concentration of wealth and capital.

(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.

II Role of Industrial Development Bank of India (IDBI)

The Government established the IDBI in 1964 under an Act of Parliament as the principal financial institution in the country. Initially, it was a wholly owned subsidiary of the Reserve Bank of India. In 1976, the IDBI was made an autonomous institution with the following objects.

The main objects of IDBI

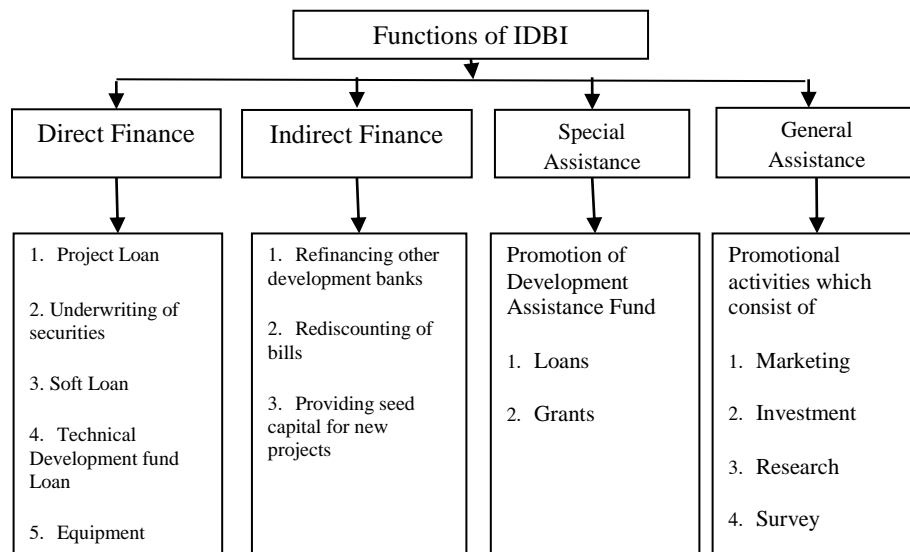
- (i) Promoting rapid and balanced growth in the country.
- (ii) Guiding in the field of industrial refinance by co-coordinating with other development banks.
- (iii) Providing technical guidance and administrative assistance in promotion of industries.
- (iv) Undertaking market and investment research for development of industries.

IDBI provides assistance to the Small Scale Industries through the scheme of refinance. IDBI has set up the Small Scale Industries Development Fund (SIDF) in 1986, to facilitate the development of Small Scale Industries. In 1988, it launched National Equity Fund Scheme for providing support in nature of enquiry to tiny and small scale industries engaged in manufacturing, the cost not exceeding Rs. 5 Lakhs.

It also introduced a single window assistance scheme for grant of term loans and working capital assistance to new, tiny and small scale industries. It also established Voluntary Executive Corporation Cell (VECC) to utilize the services of experienced professionals for counseling small, tiny and cottage units and for providing consultancy support in specific areas.

Functions of IDBI:-

The functions of IDBI can be explained in a chart as given below.



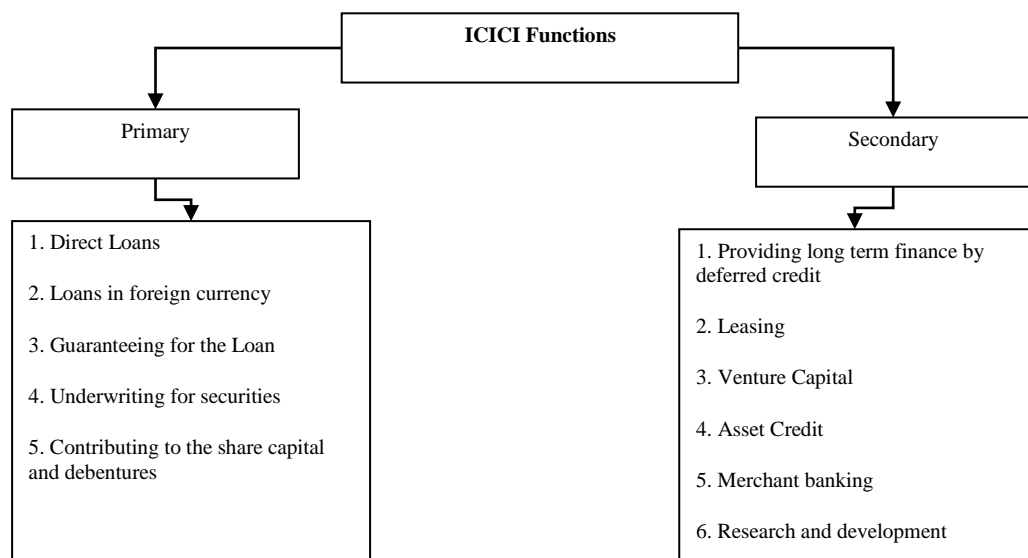
III Role of Industrial Credit and Investment Corporation of India (ICICI)

It was set up in 1955, under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector.

Objectives of the ICICI:-

- (i) Assisting in the creation, expansion and modernization of private sector.
- (ii) Encouraging and promoting private capital participation.
- (iii) Encouraging and promoting private industrial investment.

Functions of the ICICI:-



ICICI has set up an *Asset Management Company Ltd* and a *Merchant Banking Division*.

Project Finance:-

Like other development banks, project finance is the core business of ICICI.

A distinguishing feature of ICICI's financial assistance is the significant share of foreign currency loans in the total sanctioned assistance.

IV - Role of Industrial Investment Bank of India Ltd (IIBI) or (IIBI) or (IRBI)

IRBI was set up under Companies Act in 1971, mainly to look after the special problems of sick units and provide assistance for their speedy reconstruction and rehabilitation. In 1984, Industrial Reconstruction Corporation of India (IRCI) was converted into IRBI.

The primary task was the revival of the sick industrial units. Subsequently, Board of Industrial and Finance Reconstruction (BIFR) has taken over the role of rehabilitation of sick industries. Besides, all financial institutions and commercial banks are nursing sick units. IRBI has been converted to IIBI as a full-fledged, all purpose development finance institution.

It extends assistance to sick small scale units, IRCI attempts to help banks and financial institutions to assess intrinsic worth of sick units which are industrial units in the process of amalgamation, merger and reconstruction. Equipment leasing was an extension of hire-purchase scheme.

It has started sanctioning short term and working capital loans to industries.

The analysis of assistance sanctioned in 1997 shows that out of a total of Rs. 3551 crores, 75% has been disbursed for expansion, renovation, balancing equipment, diversification and modernization. 14% margin money for working capital.

Small Industries Development Bank of India (SIDBI)

The management of SIDBI is controlled by its Board of Directors.

Objects of Functions of SIDBI

The functions and objects of SIDBI are achieved through various schemes. They can be classified into following categories:

- (i) Schemes of Refinance Assistance
- (ii) Direct Assistance Scheme
- (iii) Bills financing
- (iv) Resources support to institutions
- (v) Project financing

- (vi) Equity assistance
- (vii) Promotional and development services; ans
- (viii) Credit Guarantee Fund scheme for small industries.

(i) Schemes of Refinance Assistance:-

1. General scheme for projects, their costs not exceeding Rs. 300 lakhs.
2. Scheme for Cottage, Village and Tiny industries.
3. Specific Schemes – Diesel Generating sets, pollution control equipment, import substitutions, computers, renewable energy.
4. Scheme for professionals.
5. Equipment refinance scheme.
6. Scheme for small Road Transport Operators (SRTOS) having more than 6 and less than 20 vehicles.
7. Scheme for medical profession:
 - (a) Scheme for hospital and nursing home
 - (b) Medical equipments.
8. Scheme for marketing activities:
 - (a) Scheme for marketing organization (KVIC)
 - (b) Scheme for purchase of Mobile sales vans (KVIC)
9. Scheme for Tourism activities:
 - (a) Tourism related industries.
 - (b) Hotels and restaurant.
10. Single window scheme.

(ii) Direct Assistance Scheme:

11. Scheme for specialized marketing agencies, Ancillaries, Sub Contracting.

(iii) Financing:

12. Bills rediscounting scheme
13. Direct Discounting scheme for equipment and components.

(iv) Project Financing:-

14. Project Finance.
15. Equipment Finance.
16. Technology Development and Modernization Fund.
17. Scheme of Integrated Infrastructural Development.
18. Venture Capital Assistance.

The assistance provided by way of refinance to the banks and financial institutions accounted for more than half of the total assistance. Financial support in the form of short loans of banks has increased.

VI – Life Insurance Corporation of India (LIC)

LIC was established in 1956 under the Life Insurance Corporation Act. It is wholly owned by the Government of India. It offers variety of insurance policies and funds. It gives assistance to corporate sector and financial institutions in the form of term loan, underwriting, direct subscription to shares and debentures of corporate sectors.

The analysis of the assistance by LIC to corporate sector in 1998 shows that LIC has employed its resources in corporate sector in the form of debts or through debt instruments.

The corporate sector is sanctioned assistance for varied purpose such as establishment of new units, expansion, diversification, modernization, also for balancing equipment and rehabilitation. The private sector claimed 58% of its total sanctions.

The new projects account for 37% expansion/diversification for 31% and modernization / rehabilitation / equipment for 12% of the assistance given.

VII - State Finance Corporations (SFCs)

In order to promote small and medium scale industries at the State level, 18 SFCs were established under State Financial Corporation Act, 1951. In India, TIIC, Tamilnadu was established first. Two or more States can enter into an agreement for the establishment of joint state financial corporation. The capital is contributed by the State Government, Scheduled banks, Reserve Bank of India and other financial institutions.

Functions of SFCs:-

- (1) Providing long term loans to small and medium scale industries.
- (2) Promoting tiny sector, village, and cottage industries.
- (3) Providing infrastructure facility by promoting industrial estates.
- (4) To guarantee for the loan taken by small industries in the market.
- (5) To undertake modernization of small scale industries.
- (6) To help in purchase of capital equipment on a deferred basis.
- (7) Providing seed capital.
- (8) Merchant banking services.
- (9) Trustee for the debenture holders.
- (10) Factoring

- (11) Export credit and services
- (12) Setting up Mutual funds and asset management
- (13) Opening or confirming or endorsing Letter of Credit, negotiations, collecting bills.
- (14) Providing Special Capital Assistance which offers equity support to a tune of Rs. 4 lakhs to bridge the gap equity of promoter's contribution.

The management consists of two directors, each nominated by state government, SIDBI, financial institutions and 2 from the individual shareholders. The Board of Directors, the Chairman and the Managing Director are appointed in consultation with SIDBI.

SFC's grant financial assistance to small road operators, hotels, tourism, hospitals, floriculture, tissue culture, poultry farming and construction of commercial complex, etc. The assistance granted by SFCs accounted for 90% to SSI and SRTOs. A major portion of the assistance has been provided in the form of term loans to industrial enterprises.

VIII – Tamilnadu Industrial Investment Corporation (TIIC)

In Tamilnadu, the Madras Industries Investment Corporation was started as early 1`949 and it was the first State Level Finance Corporation in whole of India. This was renamed as Tamilnadu Industrial Investment Corporation (TIIC). It has schemes to assist the rechnocrats, educated unemployed and self-employment and also the development of backward regions.

Various Schemes offered by TIIC

- (i) General Scheme
- (ii) Nursing Home Scheme
- (iii) Transport Operator Scheme
- (iv) Generator Scheme
- (v) Hotel Scheme
- (vi) Single Window Scheme
- (vii) Ex-servicemen Scheme [SEMFDX]
- (viii) Mahila Udhayam Nidhi Scheme: Women entrepreneurs can avail assistance to set up new projects.
- (ix) Refinance Scheme for Technology Development and Modernization.
- (x) Technology Development Fund Scheme.
- (xi) Refinance Scheme

(xii) **TAHDCO Scheme:** The Tamilnadu Adhi Dravidor Housing Development Corporation (TAHDCO) provides subsidy and margin money assistance.

(xiii) **Soft Loan:** Soft Loan is a loan repayable in a longer period with lesser rate of interest.

(xiv) **National Equity Fund :** TIIC is the implementing agency for the national equity fund scheme.

(xv) Hire Purchase Scheme & Lease Financing Scheme.

(xvi) Warehouse/ Storage Godown

(xvii) Marketing Assistance Scheme.

(xviii) Computer Training Institute.

(xix) Marriage Hall / Community Hall / Conventional Centres.

(xx) Commercial Complex.

(xxi) Bill Discounting / Factoring

(xxii) Scheme for Qualified Professionals.

TIIC sanctions Term Loans up to Rs. 30 lakhs for new units besides modernization, expansion and diversification of existing units.

Terms and Conditions of Financial Assistance:

The following are the terms and conditions of financial assistance offered by TIIC.

(i) Repayment holiday of 1 to 2 years.

(ii) Repayment period – 8 to 10 half yearly installments.

(iii) Deferred payment guarantees commission of 2% payable half yearly on the outstanding amount.

(iv) Underwriting commission – 2.5% of the amount underwritten and 1.25% for backward region units.

(v) Commitment charges 1% and only ½% for backward regions.

(vi) Minimum Promoter's contribution – 15% for technician, 17.5% backward region, 20% non/backward areas

(vii) Deferred payment guarantee – 25% of the amount as the margin of security.

(viii) Personal Guarantee of the promoters/directors and guarantors.

(ix) Collateral Security documents ranging from 25% to 50% of the loan based on risk – Mortgages in favour of the corporation.

(x) The project cost should not exceed Rs.20 crores.

(xi) The promoter's contribution shall be 33.3% of project cost as per SIDBI norms.

(xii) The debt-equity ratio shall be 3:1 up to Rs. 10 lakhs and 2:1 for loans above Rs. 10 lakhs.

IX – Commercial Banks:-

The commercial banks, particularly, after nationalization, have been playing a key role in the economic and social transformation and in the development of our country.

Through their various schemes, they are catering to the needs of retail traders, rural artisans, village craftsmen, small businessmen, transport operators and self employed.

(a) Role of Commercial Banks in Assisting SSI Sector

(1) Credit to Small Scale Industries

(2) Financing the Establishment of small-scale units by Technical Entrepreneurs.

(3) Financing and Development of Khadi and Village Industries.

(4) **Financé to Tiny Sector of SSI:** Banks provide terms loans as well as working capital loans to borrowers covered under the tiny sector at an interest rate of 9.5% for borrowers in backward areas and 11% for those in other areas.

Schemes relating to traders and small entrepreneurs:

Traders can get finance from bank to satisfy their working capital needs as well as for the purchase of any equipment.

Schemes relating to self-employed and professionals:

Banks provide credit facilities to engineers, technicians, architects and other self employed persons and professionals to enable them to meet medium term as well as short term financial needs.

Entrepreneurial Assistance by Banks:-

(1) **Entrepreneurial banking:** Under this scheme, assistance is provided to technicians for acquisition of fixed assets and current assets and also these technicians and provided in plant training in established units.

(2) **Entrepreneurial Clinics:** This is a scheme from Bank of India. Under this scheme, a panel of industrialists adopts budding entrepreneurs to guide and assist them

(3) **India Bank entrepreneur advisory service:** Indian Bank offers consultancy services to persons who graduate from colleges and institution of engineering technology, etc., unemployed engineers, diploma holders and other

graduates or business executives. Consultancy is provided right from the beginning of identification of project up to implementation stage and marketing. For this purpose, a Cell is established comprising of bank employed and selected experts.

Banks are not merely financing capital requirements of the industry, but stimulate entrepreneurial activity by providing management consultancy, developing new skills, conducting entrepreneurial development programmes and creating the much needed entrepreneurial awareness.

Conclusion:

We have seen their apart from Government institutions, there are Non Governmental Organization (N.G.Os) promoting and supporting the cause of entrepreneurship. Various Rotary clubs and voluntary associations are also contributing towards the entrepreneurial growth of the country. At present there are too many agencies to assist entrepreneurs offering various schemes. It is preferable to have a Single Window policy, wherein an agency can co-ordinate Governments and NGO's efforts and streamline their functions.

UNIT – IV

SMALL SCALE ENTREPRENEURS

Entrepreneurs whose size of business is small, their operations are also small in terms of volume. First the term ‘small scale industry’ has to be defined, followed by the problems faced by the segment.

A Small Scale Industry consists of small industrial units having investment on fixed capital not exceeding Rs. 1 crore. The Government of India has reserved 836 items exclusively for small scale production and 409 items for exclusive purchase from small scale industries. This is done in order to promote the Small Scale Sector. This sector is treated as priority sector by the banks for lending purposes. These do not include KVIC units.

Small scale units

There are thousands of small scale enterprises, but they all can be classified into main categories

- (i) Manufacturing or Industrial undertaking, and
- (ii) Services.

Status of Small Scale Industrial Undertakings

(a) *Ancillary industrial undertaking*: An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and undertaking supplies or proposes to supply or renders not more than fifty per cent of its production or services as the case may be, to one or more industrial undertakings and whose investment in fixed assets in plant and machinery, whether held on ownership basis or on lease or on hire purchase, does not exceed rupees one crore.

(b) *Tiny industries*: All small scale units wherein investment on plant and machinery (excluding land and buildings) is up to Rs. 25 lakhs are classified as tiny industries.

(c) *Export oriented units*: All small scale units which export more than 50% of their output are classified as Export Oriented Units.

(i) *Small Scale Service Business Enterprises (SSSBE)*: Industrial related service/business enterprises with investment on plant and machinery up to Rs. 10 lakhs, excluding land and buildings are registered under this category.

Contribution of SSIs to the growth of Indian Economy

Small scale industries play an important role in the economic growth of the country.

(i) **Support large sector:** But for the existence of small scale industries, large scale industries may find it difficult to operate. Small scale industries have been playing a supportive role for several large scale industries, both in public and private sectors such as Bharat Heavy Electricals Limited (B.H.E.L) and Ashok Leyland, etc.

(ii) **Creates employment opportunities for Educated youth:** Since it uses low technology, it is labour-intensive and thus more people are employed. This sector has employed 178.50 lakhs persons which is more than twice the employment generated by the entire public sector of the country.

(iii) Brings revenue to state in terms of sales and excise duties.

(iv) Contributes about 35% to the country's exports which was to the order of Rs. 53,975 crores in the year 1999-2000 of country's total exports.

(v) Contributes significantly to the Indian economy. In the year 1999-2000, SSI have contributed Rs. 5,78,470 crores which accounted for 32% of the Gross Domestic Product.

Benefits for Small Scale Industries

Small entrepreneurs are offered a number of incentives. Such incentives are given

(i) to encourage them to take up industrial ventures

(ii) to ensure technology transfer and up gradation to ensure competitive strength; and

(iii) for attaining balanced economic growth and development resulting in regional development.

The incentives are classified into three different categories. They are:

(i) Concessions

(ii) Subsidies and

(iii) Bounties.

The term *incentives* mean 'encouraging productivity'. It acts as a motivational force. Economic incentives, both financial and non-financial push an entrepreneur towards decisions and actions. *Concessions* are given for certain actions. *Subsidy* denotes a lump-sum which is given by the government to an entrepreneur to cover the cost. The term *bounty* denotes a bonus or financial aid given to the industry to help compete with other units in the country or in the foreign market. These terms are used interchangeably by people but their mean differently. The incentives are provided by central and state governments.

Taxation Benefits and Concessions

Taxation benefits relate to

- (a) Income tax
- (b) Excise Duty
- (c) Sales Tax
- (d) Electric Duty; and
- (e) Octroi.

Various taxation benefits are available to small business units both at the central and state levels. The central government levies direct taxes, whereas indirect taxes are levied by the state governments, provided, various benefits in sales tax, water tax, octroi duty, electricity tariff, etc.

(a) Tax Benefits under Income Tax Act

(i) Tax Holiday: For SSI units, tax holiday under Income Tax Act to a maximum of 6% per annum of their capital employed is available. This exemption is allowed for a period of five years from the commencement of production.

(ii) Depreciation: Depreciation is allowed up to a tune of Rs. 20 lakhs. The amount of depreciation is calculated on the diminishing balance method. For plant and machinery that are used in manufacturing in double or triple shifts, an additional allowance called “Extra Shift allowance” is allowed.

(iii) Rehabilitation Allowance: Rehabilitation Allowance is granted to those business has been discontinued on account of flood, cyclone, earthquake, or natural calamities, and also due to riot or civil disturbance, accident, fire or explosion. The rehabilitation amount has to be used for the business purposes within 3 years of the unit’s re-establishments, reconstruction or revival.

(iv) Investment Allowance: Investments allowances at the rate of 25% of the cost of acquisition of new plant or machinery installed is allowed.

(v) Expenditure Allowance: Deductions on any revenue expenditures incurred on scientific research related to the business in the previous year is allowed for any sum paid to any scientific research association, university, collages, institution, or public company which has its object of research.

(vi) Amortization of Expenses: Amortization of certain preliminary expenses incurred in connection with preliminary and development expense in preparation of feasibility report, legal charges, engineering expenses are allowed to be written off.

(vii) Tax Concessions: 20% of their profits are allowed to be deducted for 10 years for SSI units from the year of commencement of business for units

set up in rural areas. However, mining activity is not eligible for this concession.

(b) Excise Duty

Modified Value Added Tax (MODEVAT) scheme for all SSI units:

The MODEVAT scheme sets off excise and other countervailing duties paid on various inputs of final products. Thus, the excise tax burden is shifted from inputs to their final products which is the core of the MODEVAT scheme. MODEVAT envisages special tax benefits on inputs and final products of small scale industries.

(c) Sales Tax

The nature and quantum of sales tax incentives vary from state to state. Concessions also vary for new and existing units. A new industrial unit is entitled to get refund of the central and state tax in the form of interest free unsecured loans for 6 to 10 years. The loan is subjected to 8% of the fixed asset. An existing unit is eligible for refund of 25 to 35% of the fixed asset.

(d) Electricity Tariff

All SSI units having a maximum demand of 200 Kw or more in a month are eligible to claim for a rebate on electricity tariff for the first nine years from the date of commencement of production.

Water tax: Water tax is exempted for 6-10 years for all units which lift water from public water sources.

(e) Octroi

Octroi duty paid on capital equipment, buildings and imported raw materials is refunded. It is limited to 1.6% of the value.

Subsidies to Small Scale Industries

The difference between concessions and subsidies is that concessions are given for certain actions, whereas in subsidies, the facilities are provided at a subsidized rate, For example, if water charges are say, Rs. 250 per annum, it can be subsidized for a SSI unit and made available for Rs.200.

Subsidies are available to SSI units on various aspects of their business, which are given below:

- i. Developed land and factory sheds at subsidized cost
- ii. Central and State investment subsidy
- iii. Interest subsidy
- iv. exemption of stamp duty
- v. Seed Capital Loan
- vi. Machinery purchase

- vii. Transport subsidy
- viii. Subsidy for electricity
- ix. Subsidy for buying testing equipment
- x. Subsidized water charges
- xi. Subsidies for market studies and consultancy services
- xii. Subsidies for industrial housing, etc.

Now let us look at one subsidy in detail to understand how it operates. For example, we shall study the transport subsidy scheme.

Transport Subsidy Scheme

Subsidy is granted on the transport of raw-materials and finished goods with a view to promote growth of industries *vis-a-vis* small scale industries.

Industrial units in the above mentioned areas will be given a transport subsidy in respect of the raw materials brought into and the finished goods which are taken out of such areas. No transport subsidy is allowed for the internal movement of raw materials and finished goods within the State. The subsidy is equivalent to 50% of the transport cost of raw materials and finished goods. Pre-registration of units with DIC is essential for such eligibility. Existing as well as new units are eligible for the subsidy.

State Incentives and Subsidies for Small Scale Industries in Tamilnadu

(i) *State Capital Investment Subsidy*: In addition to the Central Government, the Tamilnadu State Government also gives incentives for setting up units in backward areas.

To encourage certain specified industries like electronics, drugs, automobile ancillary, solar energy, jute processing, etc., a subsidy of 10% on the value of the assets or at the rate of Rs. 20,000 may be given.

(ii) *Supply of Raw materials*: SIDCO procures certain raw materials like iron and steel, coke, paraffin wax, caustic soda ash, fatty acids, etc., and supplies them to the needy SSI units. As per the norms agreed, SIDCO releases the materials every month.

(iii) *Interest free sales tax(IFST) Loan*: All new small scale industries located beyond 15 kilometers of Chennai city and 8 kilometers around Coimbatore, Trichy, and Salem are eligible for this assistance. The maximum assistance available is 20% of the fixed asset or Rs. 20 lakhs, whichever is less. An application should be filed with DIC to avail this subsidy

(iv) Concessional Power tariff: Any new industry set up anywhere is given a concession in power tariff for the first five years and further 15% for units in backward regions. 30% charges of the actual energy in first year and 10% in third year are waived. An application for availing this subsidy should be submitted to DC.

(v) Seed Capital for New Entrepreneur: If a new entrepreneur wishes to private medium scale project and does not sufficient capital, IDBI offers financial assistance in the form of seed capital. It provides assistance in the form of seed capital through four schemes.

Seed Capital Assistance by IDBI

- (a) The Special Capital Scheme operated by SFCs and smaller SIDCs
- (b) The Seed Capital Scheme operated through SIDCs and SFCs as agents of the IDBI (in exceptional cases, directly by the IDBI itself)
- (c) The National Equity Fund to entrepreneurs with feasible projects, who also possess technical and managerial skills but lack finance. Assistance is also given from this fund for the rehabilitation of sick but potentially viable units;
- (d) A scheme for assisting ex-servicemen operated by SFCs and SIDC.

We shall briefly discuss the four schemes mentioned above.

(a) Special capital Scheme: Special capital Scheme of SFCs to SSI units is given in the form of assistance. It is limited to 20% of project cost, subject to maximum of Rs. 4 lakh per project.

(b) The Seed Capital scheme: This scheme is operated through SFCs and SIDCOs. It is limited to a maximum amount of Rs. 15 lakhs and provided in the form of interest free soft loans to proprietary or partnership firms.

(c) National Equity Fund Scheme provide support to new projects in tiny or SSI sector and for rehabilitation of sick but potentially viable units in SSI sector. The scheme is operated through public sector banks /SFSs/SIDCOs.

(d) Scheme for ex-servicemen: Under the scheme of assistance to ex-servicemen, maximum support is 1.8 lakhs per project. The minimum project cost should be Rs.12 lakhs for eligibility. Promoter's contribution

should be 10% of the project cost. Normal interest will be 1% per annum on equality assistance with a repayment period of 10 years. The D.E should be 3:1.

In Tamilnadu, the seed capital assistance is taken up by TIIC for small units and SIPCOT for medium and large units. It is disbursed through DIC.

(vi) **Subsidies in water Royalties:** Subsidies in water royalties for new Industries set up in the backward areas. Payment of Rs. 300 per annum is enough for drawing any quantity of water in the first 6 years.

(vii) **Exemption in Stamp Duty:** Exemption from stamp duty for the plots acquired and developed by SIPCOT in the growth centers located at Hosur, Ranipet, Puddukottai, Cuddalore, Gummidipoondi and Manamadurai.

Reasons for Sickness in the units of Small Entrepreneurs

- (i) Management deficiency
- (ii) Inadequate and non-timely availability of finance
- (iii) Outdated technology
- (iv) Marketing problems
- (v) High Power and interest costs
- (vi) De-reservation.

(i) Deficiency in Management:

Deficiency in management could be due to lack of education, dishonesty, rift among the promoters and partners, incompetency, over-centralization, lack of professionalism, lack of control, etc.

(ii) Inadequate and non-timely availability of finance:

Experiencing financial crunch may be because of faulty costing, over trading, inadequate working capital, using short term funds for long terms gains, lack of discipline in financial matters, diverting funds for personal needs, lack of effective collection of debts and lack of financial planning. In any business, collection of outstanding amount is a very critical aspect which generally gets ignored, resulting in financial problems.

(iii) Outdated Technology:

The technology used may produce poor quality of products with low productivity. Labour problems, lack of trained and technically competent personnel may also be reasons for sickness.

(iv) Marketing problems:

Poor services, wrong choice of markets, mismatch between product and market, dependence on single or limited numbers of customers, limited range of products are reasons for sickness. The entrepreneur will busy with the

procedure of excise, sales tax, labour problems and may not find time to visit customers and maintain a healthy business relationship. Pricing policy may also be inappropriate.

(v) High Power and interest costs:

As there are frequent interruptions in power supply, even small entrepreneurs are forced to install generators. Often they are unable to bear the additional financial burden in this regard.

(vi) De-reservation:

With the signing of WTO treaty by India, all the quantitative restrictions on imports are removed. Free import and export will be the order of the day, As per WTO norms, there should be no restrictions what so ever resulting in free movements of goods and services across the countries.

SICKNESS IN SMALL SCALE INDUSTRIES

When a small entrepreneur is unable to overcome the problems faced by him in running his industry, his unit becomes sick. According to Reserve Bank of India(RBI), (i) a sick unit is one which incurs cash losses for one year and, in the judgement of the bank, it is likely to continue to incur cash losses for the current year as well as for the following year (ii) if the unit has an imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt-equity ratio, *i.e.* the ratio of total outside liabilities to the net worth; and (iii) when the cumulative losses exceed capital and reserve. The emphasis is on profitability, liquidity and solvency.

Definition of Sick industry

The Sick Industries Companies (Special Provisions) Act (SICA) defines as “an industrial company (being a Company registered for not less than seven years) which has, at the end of any financial year accumulated losses equal to or exceeding entire net worth and has also suffered cash losses in such financial year immediately preceding such financial year. “SICA also calls a company sick if it has eroded 50% or more of its peak net worth during any of the preceding five financial years.

State Bank of India defines a sick unit as “one that fails to generate internal surplus on a continuing basis and depends on its survival upon frequent infusion of external funds”.

Symptoms of Industrial Sickness

The concept of industrial sickness is viewed from financial angle using cash loss as the criterion. The performance of a unit in terms of production, marketing, etc., gets reflected on the financial performance of the unit. The financial results of the unit are easily seen, understood and calculated also.

Industrial sickness does not occur overnight; it is a gradual process, taking 5 to 7 years to erode the health of the unit. At first, the cash profit gets reduced, and then working capital shortage is experienced, and subsequently the net worth. The symptoms of sickness are

- (i) Persisting shortage of cash.
- (ii) Deteriorating financial ratios.
- (iii) Frequent requests to banks and financial institutions for loans;
- (iv) Delay and default in the payment of statutory dues like

Provident Fund, E.S.I., and sales tax. Excise duty, import duty etc., and also

- (v) Delay in the audit of annual accounts.

Sickness in small industries is growing rapidly in India. There are more number of units becoming sick than new units being set up. One out of ten SSI units is sick. The sickness in industry has become all-pervasive in terms of ownership (public and private sector), across scale of operation (small, medium and large), across States and Industries.

Causes of Industrial Sickness

The various causes of sickness can be classified into external and internal. External causes are changes in the industrial policies of the Government, low demand and recession, inadequate and ultimately availability of necessary inputs like raw materials, power, transport and skilled labour, natural calamities like drought, floods etc., Internal Causes are deficiencies in various functional areas like production, finance, personnel and marketing, labour unrest, working capital shortage, poor management, mis-match between product-market location of the unit.

Role of Bureau of Industrial Finance and Reconstruction (BIFR)

Once a unit is declared sick, the matter is referred to BIFR to explore the possibility of revival with adequate concession and appropriate controls. While the objective has been laudable, it has not met with much success. The role of BIFR is only recommendatory in nature. It has no statutory powers to implement the recommendations. The risks have to be borne by the banks and financial institutions and not BIFR. Thus, it plays only a limited role.

Future

In future, small scale units will survive only when they are well managed and remain focused. More so at present because of liberal imports after India becoming a signatory to the W.T.O. Besides, small units are also taken over by large units.

UNIT – V

ENTREPRENEURIAL GROWTH

Role of the government in Entrepreneurial Growth

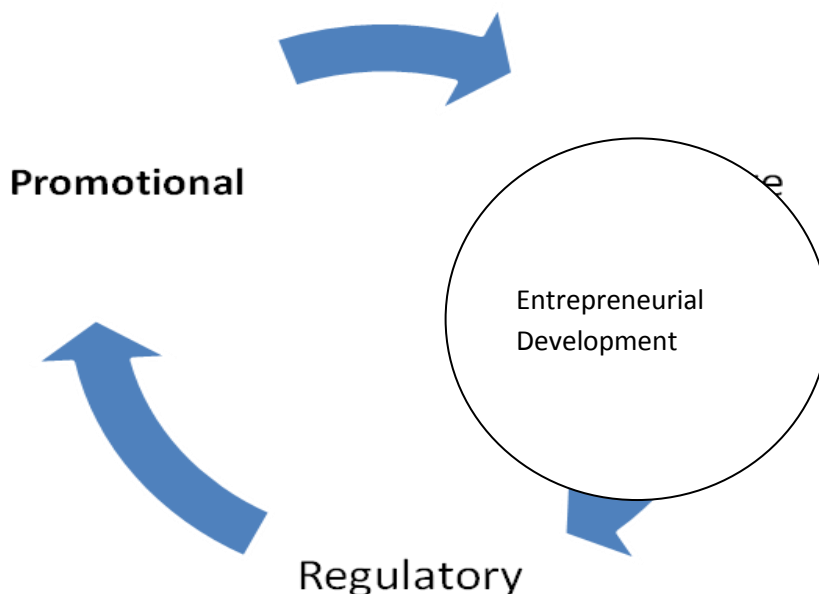
Role played by the Government and NGO in promoting entrepreneurship development.

Rabindra Kunango in his book ‘**Entrepreneurship Innovation – Models for Development**’ presents 10 conceptual models for entrepreneurship.

Role of governmental and non-governmental agencies in promoting entrepreneurship in India

In India, three types of roles are played by government and non-governmental agencies. They are:

1. Promotional
2. Supportive; and
3. Regulatory



1. Promotional Role

In this role, both government and non-government agencies try to promote entrepreneurship by awareness building, encouragement, motivation, guidance, etc. The various Entrepreneurial Development Programmes (EDPs) fall in the category.

These programs are target –group oriented (*e.g.*,for women, rural, technical entrepreneurs). Also Product- process specific (*e.g.*, food product, jute product etc); and location –specific (*e.g.*, Tamilnadu, Andra Pradesh, etc.)

2. Supportive role

Various agencies lend support in establishing and managing enterprises. Institutions such as State Industries Promotion Council of Tamilnadu (SIPCOT), play multiple roles, SIDBI, SIET, NABARD, KVIC, etc.

District level Institutions are DIC, KVIC.

State level Institutions are SFC, TCO, SSIDC, SIDC, KVIB, EDI, SISI, SIBDI.

National level Institutions are ICICI, IIC, EDII, KVIC, NABARD, IDBI, IFC.

3. Regulatory Role

After the promotional and supportive roles, the need for regulation and control emerges. Through various laws, a government tries to regulate and control entrepreneurs. The regulatory institutions give clearance for construction of factories, supply of power, tax reliefs, concessions, etc. For example, providing land, factory shed, water and power, providing Reservation for small and tiny sectors, under Factories Act, Shop and Establishments Act, and Sick Industries Corporation Act, etc.

District Industries Centre (DIC)

As the name suggests, the centers are located at the district level. At present, there are 422 DICs operating, in 431 districts of our country. The DIC scheme was started in 1978 with the intention that under a single roof, an entrepreneur should get details of benefits and guidance about all matters relating to set up and running an industrial unit. They act as a co-coordinator and 'multiple functions' agency. They are the implementing arm of the various Central and State Government Schemes and programmes offered from time to time.

The organizational structure of DICs consists of a general manager in the rank of joint director of industries. Under him there are 4 functional managers and 3 project managers. To provide technical service in the areas relevant to the needs of district concerned. The success of DICs largely depends on the general manager and his team.

The expenses are shared equally, between the state and central governments. The main objective of the DIC is to develop and to promote cottage, small, tiny sectors in the country and to generate employment opportunities, especially among the rural and backward areas of the country.

Functions of District Industries Centre

(i) Identification of entrepreneurs by conducting motivational campaigns through out the district especially in Panchayat Union Headquarters.

(ii) Selection of projects by conducting survey on the potential of industries. Keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for products, etc.

(iii) Provisional and permanent Registration under SSI and issue of the certificate.

(iv) Recommendation of the loan application for land and building acquisition to State level institutions and nationalized banks.

(v) To guide an entrepreneur in selection of the appropriate machinery, equipment and raw materials. Issue certificates for the import and export of machinery and raw materials. Under Rural Industries Project (RIP), sanction margin money for the purchase of plant and machinery and recommend applications to state and central institutions and nationalized banks.

(vi) Pursue with the electricity board for power connection.

(vii) Recommendation of Interest Free sales tax loan at 8% of the total fixed assets to SIDCO.

(viii) Sponsoring applications for subsidy under Industries Rural Development Project.

(ix) Disburse the interest subsidy for engineers for setting up industries in the rural areas.

(x) To assist entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.

(xi) To conduct artisan training programmes and provide sheds.

(xii) To prepare an Action Plan to implement DRDA, IRD, TRYSEM and other schemes from time to time.

Even though the DICs were envisage to function as a single window clearance agency and be entrepreneur- friendly, often, the prospective entrepreneurs are made to run from pillar to post to get one clearance or the other for starting their projects.

Small Industries service Institutions (SISI)

SISIs were set up to provide consultancy and training to small entrepreneurs- both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training Division of the DCSSI's office. There are 28 SISIs set up all over the country.

Functions

(i) To serve as interface between Central and State Governments

(ii) To render technical support services

(iii) To conduct Entrepreneurship Development Programmes

- (iv) To initiate promotional programmes
- (v) To assist in preparing project profiles, Training, Trade and market information, Economic consultancy, and state industrial potential survey and modernization studies.

Small Industries Development Corporation (SIDCs)

They were set up in various States under the Companies Act to cater to the primary development needs of the small, tiny and village industries.

Functions

- i. To procure and distribute scarce raw materials
- ii. To supply machinery on hire purchase system
- iii. To provide assistance in marketing of the products of SSI
- iv. To construct industrial estates/ sheds, providing allied infrastructure facilities and their maintenance
- v. To extend seed capital assistance on behalf of the state Government concerned
- vi. To provide management assistance to production units

Technical Consultancy Organizations (TCOs)

A network of TCOs was established in collaboration and as a subsidiary of the Industrial Development Bank of India (IDBI). It was realized that providing only financial support to entrepreneurs is not sufficient. Entrepreneurs require other support as well to be successful. They may require assistance in identification of business for new enterprises and consultancy for the existing enterprises. At present there are 17 TCOs operating in various states- in A.P, Maharastra, West Bengal, Rajasthan, U.P, Orissa, M.P, J&K, Haryana, Delhi, Gujarat, Bihar and Tamilnadu.

The functions of TCOs

- (i) To prepare project profiles and feasibility profiles
- (ii) To undertake survey on potential of industries
- (iii) To identify potential entrepreneurs and provide them with technical and management assistance
- (iv) To undertake market research and survey for specific products
- (v) To undertake export consultancy for export oriented projects
- (vi) To conduct entrepreneurship development programmes
- (vii) To offer merchant banking services
- (viii) To offer consultancy for modernization and rehabilitation of industrial units.

- (ix) To undertake turn- key assignments.

Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT)

ITCOT was incorporated in 1979 as a joint venture of ICICI, IDBI, IFCI, SIPCOT, TIIC and SIDO. Leading Financial Institutions, State Development Corporations and Commercial Banks came together to provide consultancy services to industry and service sectors.

The services offered can be classified into:

- (i) Core consultancy services
- (ii) Energy consultancy services
- (iii) IT consultancy
- (iv) Training programmes

It offers a wide range of consultancy services such as project identification, project profiles, project reports, market surveys, techno-economic feasibility studies, detailed project reports, project management, escort services, project appraisals, asset valuation, stock audit, sick unit rehabilitation, restructuring, skill up gradation programmes, industry specific studies, energy audits, environment impact assessment, computer training programmes and so on.

The organization undertakes turnkey project on wind mills, sugar and paper mills, diesel captive power plants and solar energy projects.

They organize seminars and training programmes and 'industry meets' on current topics.

The services are offered to corporate sector, small and medium enterprises, individual entrepreneurs, public sector undertakings, banks, financial institutions, cooperatives and governments.

They undertake assignments in industries such as agro-based, food processing, bio-technology, chemicals and fertilizers, plastics and packing, drugs and pharmaceuticals, infrastructure, conventional and renewable energy, environment, hotel and tourism, electronics, software and information technology and textiles.

It has a talented and experienced pool of professionals in agriculture, textiles, chemicals, engineering, software, energy, management and other disciplines.

ITCOT has undertaken surveys at the instance of state/central government. It has also helped entrepreneurs in setting up ancillary units for the automobile and chemical industries. It has conducted feasibility studies and

prepared project reports, EDPs were also conducted by it. ITCOT adopted Palani in Madurai District and Rasipuram in Namakkal district under IDBI's block adoption scheme.

National Small Industries Corporation limited (NSIC)

NSIC was set up under the Union Ministry of Industries in 1955 to promote aid and foster the growth of SSI in the country. It provides a wide range of services, predominantly promotional in character to SSIs.

Objectives of NSIC

(a) Stimulation and Support: To develop new enterprises through financial, marketing and technology support schemes.

(b) Sustenance: Raw material supply, Bill financing, Human resources.

(c) Growth: Strategic alliances with institutions, International Programmes, Technology information dissemination and awareness programmes.

Function of NSIC

Schemes and Assistance

1. Financial Services:

Financial assistance for the production and marketing activities under one roof. Spot assistance in preparing the proposals and completion of documentation formalities.

2. Equipment Leasing Scheme:

The equipment leasing scheme is for the new as well as existing units for modernization, expansion and diversification. The corporation undertakes to complete the formalities for imported equipment under single window scheme. It procures license, opens letters of Credit, etc. there is a tax rebate of full 5 years on lease rental. The lease period for 5 years.

3. Hire Purchase of Machines:

Small scale units registered with DIC having investment in fixed assets in plant and machinery not exceeding Rs. 300 lakhs, irrespective of the number of persons employed is eligible. The rate of interest for units in backward regions, tiny and non tiny sectors is 14.5%. The collateral security or 25% investment in NSIC has to be given as security.

4. Single point registration Scheme:

The units can register with NSIC and they will receive tender sets free of cost, advance intimation of tenders issued by DGS & D, exemption of

earnest money deposit, waiver of security deposit, competency certificate, 15% price consideration.

5. Technical service Centers:

There are five TSCs at Okhla (New Delhi), Howrah, Madras, Rajkot and Hyderabad. They provide practical training, organize special training programmes, develop prototypes of machines, tools and import substitutes.

6. Technology Transfer Center:

The centre is aimed at assisting small scale enterprises in technology acquisition, adoption and up gradation through information and promotion services. Publishes monographs, journals, catalogues, conference papers in the field of science, technology and industry. NSIC also organizes seminars and conferences.

7. Marketing assistance:

NSIC, on behalf of small units, participate in global tenders. Assists units to manufacture quality products and establish credibility.

8. Exports:

NSIC is a recognized export house and so the units can export through the corporation and enjoy export benefits. The marketing and export promotion costs are absorbed by the corporation.

Entrepreneurial Guidance Bureau (EGB)

The Indian Investment Centre (IIC) has set up Entrepreneurial Guidance Bureau to guide entrepreneurs, in identification of investment opportunities assist to select location for the projects, prepare project profiles, and help to financial assistance. ECB provides statistical information on demand and production capacity, sources of raw materials, types of equipment required, investment involved, source of finance, etc. Information on the procedures pertaining to obtain letter intent, imports of capital equipment, export of finished products is also provided. It helps entrepreneurs to obtain letter of intent, submit proposals, etc. It establishes direct contacts with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship.

3. Khadi and Village Commission (KVIC)

KVIC was established in 1957 by an Act of the Parliament and is engaged in promoting khadi and village industries with a view to create employment opportunities in the rural areas, thereby strengthening the rural economy. It is an autonomous body which took over from its predecessor, the All India Khadi and Village Industries board, set up in 1953. KVIC supports

Tiny Sector with investment in plant and machinery up to Rs. 5 lakhs. Gandhian philosophy and thought are the backbone of KVIC's policy.

The tiny sector in India accounts for 96% of SSI units, 72% of employment generation and 48% of credit flow.

The Objective of the KVIC

1. Identification of beneficiary
2. Providing financial support to eligible individuals and institutions.
3. Providing training, ensuring quality control.
4. Conducting marketing and undertaking product research and development
5. Supply of raw materials at reasonable rates.
6. Promoting KVIC products through publicity, and exhibition.
7. Providing consultancy for the revival of sick units

Package Assistance consisting of finance, training, marketing and other support assistance is also offered to 25 industries. Some special schemes like transport subsidy, industrial estate, refinance are also available. To effectively offer these services, KVIC has a unit at National, State, and District/ block levels in the country.

The benefits of KVIC are traditional artisans, rural unemployed youth.

Thus, the objective of KVIC is to promote, plan, organize, assist and implement programmes of development of Khadi and 25 village that KVIC has identified.

To guide the first generation entrepreneurs the KVIC has launched a "Rural Industry Consultancy Service". The consultancy service will provide "hand holding services and support" for new and first generation entrepreneurs.

Suggestions:

The scope of promotional measures has to be extended to all the rural industries and not limited to specified village industries and crafts. The protective and promotional measures are to focus on growth rather than on survival of rural industries.

National Alliance of Young Entrepreneurs (NAYE)

NAYE sponsored an entrepreneur development scheme with Bank of India in 1972 on a pilot basis. The scheme was known as BINDES. It is an operation in the States of Punjab, Rajasthan, Himachal Pradesh, Jammu and Kashmir and Union territories of Chandigarh and Delhi. NAYE entered into similar arrangements with a few other banks as follows:

- Dena bank
- Punjab National Bank
- Central bank of India
- Union bank of India

The main objective of the scheme is to help young entrepreneurs in identifying investment and self-employment opportunities; securing properties, training, developing their manufacturing capabilities, financial assistance and consultancy services. The financial assistance which is granted by commercial banks is restricted to Rs. 2 lakhs in case of individual entrepreneur and Rs.3 lakhs for two or more entrepreneurs. The term loan is granted for acquisition of land, building, plant and machinery and is repayable out of cash generation of the unit.

DEVELOPING WOMEN & RURAL ENTREPRENEURSHIP

Women Entrepreneurship

The characteristics of men and women entrepreneur are generally very similar. The differences are only in the age, personality, motivation and type of business started. Men start an enterprise between the age group of 25-35 years, whereas women do so in 35-40 age group. Women are goal oriented, independent, flexible, tolerant, creative, realistic, enthusiastic and energetic because of which the management style differs from their male counterpart.

Definition

Women entrepreneurs may be defined as a “women or a group of women who initiate, organize and run a business enterprises”.

Problems of Women entrepreneurs

1. Problems of Finance:

To raise finance, they do not have properties in their names to use them as collateral securities. Thus, their access to external sources of funds is restricted. They have to rely on their own savings and negligible loans from friends and relatives. They have to satisfy themselves with small size of business operations. Because of limited funds, they are not able to (a) stock raw materials; and (b) spend on advertising.

2. Limited Mobility:

Due to primary household responsibilities towards her family, her time gets divided between the two worlds. She has restricted timings for work due to which, she is not in a position to travel frequently and be away for longer periods. Thus, her mobility is restricted. This also has an implication on business.

3. Lack of Education:

Women have lower rate of literacy. Nearly 60% of the women are illiterate in India, because of which they are not aware of the latest developments that have taken place in technology. Low level of education results in low achievements motivation amongst women entrepreneurs.

4. Male dominated society:

A woman is dominated by men in her family as well as business. Often she has to obtain permission from men for almost everything. They are not as equals. Her freedom is restricted. She always has to consult and get the approval from males.

5. Low risk-bearing ability:

This is so because right from the childhood, her parents take decisions for her and after marriage her husband takes over. She is protected throughout and thus the risk bearing ability gets reduced.

6. Social recognition:

Society does not give due recognition to women entrepreneurs. They are looked down as small and weak.

On account of the above mentioned reasons, the enterprise of women faces several problems in finance, marketing and expansion etc.

Steps to encourage Women Entrepreneurship

To encourage women entrepreneurs, the Government of India and non-government organizations (NGOs) promote various schemes. Some of the schemes are promoted exclusively for women. There is a women's wing of National Alliance of Young Entrepreneurs (NAYE) which assists women entrepreneurs in:

- (i) Providing access to capital, infrastructure and markets
- (ii) Development of management and production capabilities
- (iii) Identifying investment opportunities
- (iv) Sponsoring, delegation, participation in trade fairs, exhibitions, arranging buyer-seller meet and specialized conference, etc.,
- (v) Organizing seminars, workshops and training programmes for giving wider exposure to women entrepreneurs to develop their entrepreneurial capabilities.
- (vii) Advocating effectively for securing their rightful place in the Indian economy.

Business Opportunities for Women Entrepreneurs

Women in rural areas, where agriculture is the prominent activity, can take up agro based industry like food preservation, bakery, diary and poultry. In industrial areas, ancillary units can be managed by women. In the areas dominated by textiles, weaving and hand loom activities can be taken up. In urban areas dominated by teaching, nursing, electronic, and computer services can be started. Women entrepreneurs can start some of the industries like Agarbathi manufacturing, papad making, bedspread making, embroidery, handicraft exports, batik paintings, apparel manufacturing, catering services, restaurants, snack bars, sweetmeat stalls, soft drink stalls, retail shops- textiles, readymade garment, tailoring, grocery, drug store, run crèches, tutorial classes, typewriting-shorthand classes, computer instates, florist shops, dry cleaning, pickle, dairy, contract for maintenance of office, milk distribution, service centers like plumbing, electrical repairs, stationary manufacturing unit, block printing on paper, textiles, packing materials, pathological clinics, travel agencies, photo-copier firms, telephone booths, photographic studios, working women's hostel, design and events managements etc.,

Future of Women Entrepreneurs

In future, with the help of high technology, women will be able to work from home and thus balance better between the work place and home. The opportunities for women will increase manifold with the changes in technological, cultural and social environment, Women need assistance and support in the marketing their products. An organization could be set up for making of the women entrepreneur products exclusively. A private distribution agency with wide distribution network can take up the marketing of products produced by women entrepreneurs.

RURAL ENTREPRENEURSHIP

About 80% of India's population lives in rural areas. If India has to develop well, villages have to develop well. Gandhiji had realized and recognized this fact and encouraged Khadi and Village industries.

Definition of Rural Entrepreneurship

Rural entrepreneurship means entrepreneurship emerging in rural areas. In other words, establishing industrial units in rural areas in rural entrepreneurship.

Village industries have been grouped into seven categories which are as follows:

- (i) Mineral Based
- (ii) Forest based

- (iii) Agro based
- (iv) Polymer and chemical based
- (v) Engineering and non-conventional
- (vi) Textiles including Khadi; and
- (vii) Service Industry.

The need to develop rural industries in India should be accorded the top priority because they will help in

- (i) The reduction in migration of rural population to urban areas.
- (ii) Balanced regional growth.
- (iii) Reducing rural - urban
- (iv) Increasing rural income
- (v) Reducing the heritage of the country.
- (vi) Reduction in the urban pollution.
- (vii) Higher economic growth.

Since a majority of the population lives in villages, it becomes necessary to develop rural villages to register a quantum leap in economic growth.

Problems of Rural Entrepreneurship

Developing rural entrepreneurship is not an easy task. There are lots of difficulties in the development of rural industries. They are:

- (i) Domination by agricultural mindset.
- (ii) Lack of education with low literacy.
- (iii) Poor infrastructure because of which access is difficult and costly. Some villages do not have roads, drinking water, electricity, drainage and telephones.
- (iv) Lack of information.
- (v) Lack of technical knowhow and skilled labour.
- (vi) Lack of quality control.
- (vii) Attitude of people with mistrust of new comers.
- (viii) Language barriers.
- (ix) Primitive and low technology.
- (x) High input cost due to transportation.
- (xi) Management problems.
- (xii) Lack of storage and warehouse facilities.
- (xiii) Inadequate finance and credit.

(xiv) Lack of awareness and knowledge about the opportunities.

(xv) Preference for salaried jobs than self-employment.

Because of these innumerable problems, entrepreneurs shy away from rural areas. This does not mean that these problems insurmountable. Since the potential is quite high in rural areas, it is not possible to ignore it. Let us see how these problems could be solved to promote rural entrepreneurship.

Overcoming the problems of rural Entrepreneurship

There are two directions in which we need to work. The way we look at rural entrepreneurship has to change. Rural entrepreneurship has two face:

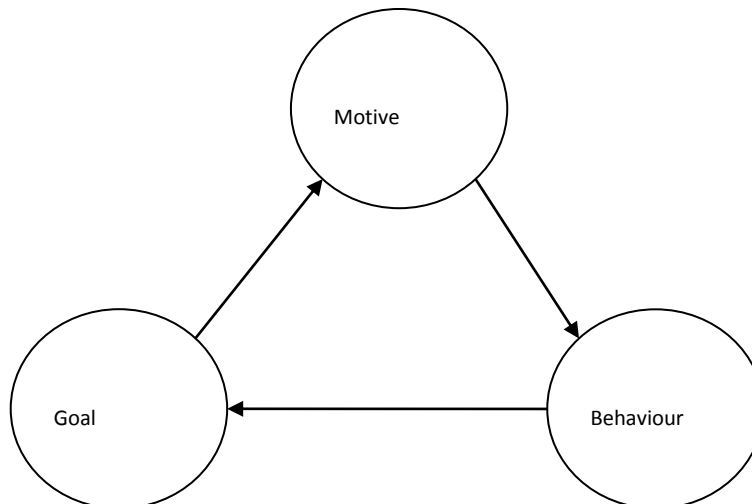
(i) Manufacturing of rural products in rural areas and marketing in rural and urban areas: and

(ii) Manufacturing of urban products in rural areas and marketing in rural and urban areas.

Entrepreneurial Motivation

The term '*motivation*' has been derived from the word 'motive'. Motive may be defined as an inner state of our mind that moves or activates or energies and directs our behavior towards our goals.

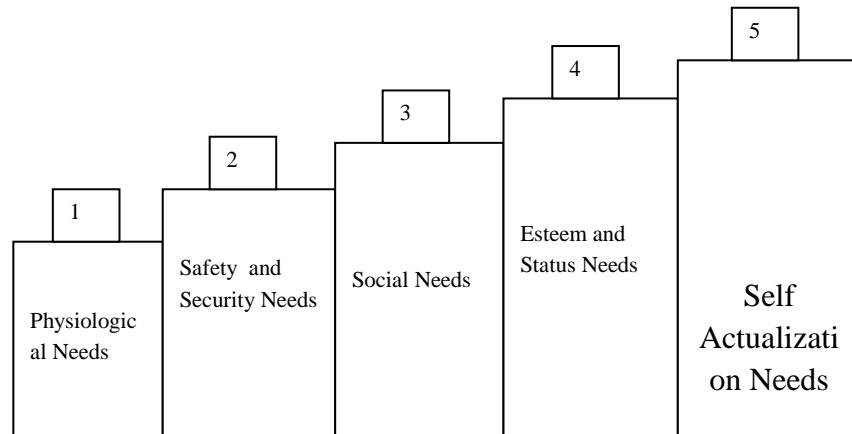
According to Dalton E. McFarland, "*Motivation refers to the way in which urges, drives, desires, striving, and aspirations or needs direct, control or explain the behavior of human being*".



Maslow's Need Hierarchy Theory

Maslow's theory is based on the human needs. These needs are classified into a sequential priority from the lower to the higher. According to

him, all human needs are classified into the five needs-clusters as shown in the following Figure.



These five need-clusters are now discussed one by one.

1. Physiological Needs: These needs are basic to human life and include food, clothing, shelter, air, water and other necessities of life.

2. Safety and Security Needs: After satisfying the physiological needs, the next needs felt are called safety and security needs. These needs find expression in such desires as economic security and protection from physical dangers.

3. Social Needs: Man is a social animal. These needs, therefore, refer to belongingness.

4. Esteem Needs: These needs refer to self-esteem and self-respect. They include such needs which indicate self-confidence, achievement, competence, knowledge and independence.

5. Self-Actualization: The final step under the need hierarchy model is the need for self actualization. This refers to self-fulfillment.

Motivational Factors:

Now, let us address the larger question what factors motivate entrepreneurs to start enterprises. Several researches have tried to answer this question by conducting research studies to identify the factors that motivate people to start business enterprises. Here, we are presenting the finding of some of these studies.

In his study, Sharma' classified all the factors motivating the entrepreneurs into two types as follows:

1) Internal Factors: These included the following factors:

- (a) Desire to do something new.
- (b) Educational background

(c) Occupational background or experience

2) External Factors: These included:

(a) Government assistance and support

(b) Availability of labour and raw material

(c) Encouragement from big business houses.

(d) Promising demand for the product.
