MP-110

Vardhaman Mahaveer Open University, Kota

Entrepreneurship and Small Business Management

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Vardhaman Mahaveer Open University, Kota

Entrepreneurship and Small Business Management

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CONTENTS

Entrepreneurship and Small Business Management

Unit No.	Name of Unit	Page No.
Block -I:	**Introduction**	
1	Entrepreneurship : An Introduction	1-17
2	Entrepreneurship Environment	18-33
Block -II:	**Developing Entrepreneurship**	
3	Entrepreneurial Competencies	34-47
4	Entrepreneurship Development Programmes	48-61
Block -III:	**Small Business Planning**	
5	Small Scale Industries	62-75
6	Establishing a Small Business	76-87
7	Market Assessment for Small Business	88-101
8	Preparation of the Business Plan	102-116
9	Institutional Support System	117-130
Block -IV:	**Functional Management**	
10	Financial Management of MSME	131-145
11	Operations Management of MSME	146-162
12	Marketing Management of MSME	163-184
13	Organisational Management of MSME	185-197
14	Legal Framework & Government Policies	198-216
Block -V:	**Small Business Strategies**	
15	Family Business Management	217-233
16	Strategies for Small Business	234-242

Unit - 1 : Entrepreneurship : An Introduction

Unit Structure:

1.0 Objectives
1.1 Introduction
1.2 Entrepreneurship
1.3 Entrepreneur
1.4 Entrepreneurial Characteristics
1.5 Theories of Entrepreneurship
1.6 Roles of an Entrepreneur
1.7 Things to Know before Starting A Business
1.8 Qualities of an Entrepreneur
1.9 First Generation Entrepreneur
1.10 Summary
1.11 Self Assessment Test
1.12 References

1.0 Objectives

After completing this unit, you should be able to understand:

- The meaning of Entrepreneurship and Entrepreneur.
- The roles of Entrepreneurs.
- Things to know before starting a business.
- Qualities of an Entrepreneur
- First Generation Entrepreneurship.

1.1 Introduction

Entrepreneurship has become a generic term that describes all sorts of behaviors that involve being creative, mischievous and sneaky. It was discovered that the term 'entrepreneurship' could be found from the French verb 'entreprende' in the twelfth century although that meaning may not be that applicable today. This meaning of the word then was to do something without any link to economic profits, which is the antithesis of what entrepreneurship is all about today. It was only in the early 1700's, when French economist, Richard Cantillon, described an entrepreneur as one who bears risks by buying at certain prices and selling at uncertain prices which is probably closer to the term as applied today.

In the thought-provoking book 'The Wealth of Nations', Adam Smith (1776) explained clearly that it was not the benevolence of the baker but self-interest that motivated him to provide bread. From Smith's standpoint, entrepreneurs were the economic agents who transformed demand into supply for profits. In 1848, the famous economist John Stuart Mill described entrepreneurship as the founding of a private enterprise. This encompassed the risk takers, the decision makers, and the individuals who desire wealth by managing limited resources to create new business ventures. After the Second World War entrepreneurship received new meaning for attaining economic development within the shortest possible time. But in the process they were seriously handicapped by the rigid institutional setup, political instability, marketing imperfection and traditional value system. The entrepreneur is one who runs or creates his own business i.e., a person who organizes, operates and assumes the risk of a business venture. Entrepreneur is one who looks for the opportunities, identifies the opportunities and seizes opportunities. Entrepreneurship is a creative and innovative response of people to the environment. It is the process of setting up a new venture by an entrepreneur.

1.2 Entrepreneurship

Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise. Entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture. It comprises of numerous activities involved in conception, creation and running an enterprise. Entrepreneurship is the dynamic need of developing nation. Entrepreneurship helps in solving problems related to employment generation, national production, dispersal of economic power, balanced regional development and so on. According to Peter Drucker Entrepreneurship is defined as 'a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.'

Entrepreneurship is a discipline with a knowledge base theory. It is an outcome of complex socio-economic, psychological, technological, legal and other factors. It is a dynamic and risky process. It involves a fusion of capital, technology and human talent. Entrepreneurship is equally applicable to big and small businesses and to economic and non-economic activities. Different entrepreneurs might have some common traits but all of them will have some different and unique features. Entrepreneurship is a process. It is not a combination of some stray incidents. It is the purposeful and organized search for change, conducted after systematic analysis of opportunities in the environment.

Entrepreneurship is a philosophy. It is the way one thinks, one acts and therefore it can exist in any situation be it business or government or in the field of education, science and technology or poverty alleviation or any others. Entrepreneurship is the terminal stage of the entrepreneurial process wherein after setting up a venture one looks for diversification and growth. An entrepreneur is always in search of new challenges. An entrepreneur is not a routine businessman he might not have resources but he will have ideas. He is innovative and creative. He can convert a threat into an opportunity. Small businessmen might shut-down or change his business if he anticipates losses but an entrepreneur will try again after analyzing the situation. On the other hand an entrepreneur can leave a perfectly running business to start another venture if he so desires.

Defining Entrepreneurship:

Defining entrepreneurship might seem simple, but it isn't! Everyone seems to have his or her own views about what it is and in the same way they have defined it. Let's look at some of the various ways in which entrepreneurship has been defined. "Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making." In another view "Entrepreneurship refers to an action process of entrepreneur towards establishing an enterprise. It is a creative and innovative process and adapting response to environment. Entrepreneurship has long been described by researchers and writers with terms such as new, innovative, flexible, dynamic, creative, and risk-taking. Many authors have said that identifying and pursuing opportunities are an important part of entrepreneurship.

According to Frank Knight, "It involves a specialized group or persons who bear 'risks' and meet the uncertainty". **According to Musselman and Jackson,** "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful."

In the words of B. Higgins, "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique, discovering new sources of raw materials and selecting top managers for day to day operations of the enterprise." This definition highlights risk-taking, innovating and resource organizing aspects of entrepreneurship. **According to Franklin Lindsay,** "Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources". **According to H. Cole,** "Entrepreneurship is the purposeful activities of an individuals or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services". This definition states that entrepreneurship is goal-oriented process involving production or distribution of products and goods. It may be undertaken by person or by group of persons. **Schumpeter defines,** "Entrepreneurship is an innovative function. It is a leadership rather than an ownership." Other authors have said that entrepreneurship involves the creation of value, the process of starting or growing a new profit-making business, the process of providing a new product or service, and the intentional creation of value through organization by an individual contributor or a small group of partners.

According to Rao and Mehta, "Entrepreneurship can be described as creative and innovative response to the environment". **According to John Kao,** "Entrepreneurship is the attempts to create values recognition of business opportunity, the management of risk-taking appropriate to the opportunity and through the communicative and management skills to mobilize human financial and material resources necessarily to bring a project to fruition." This definition recognizes that entrepreneurship involves the fusion of capital technology and human talent to complete a project successfully and with reasonable degree of risk.

According to Howard W. Johnson, "Entrepreneurship is a composite of three basic elements-invention, innovation and adaptation". **In the words of W.N. Loucks,** "Entrepreneurship is a mixture of willingness to take risks, a desire for income and prestige, the urge for self-expression, creativeness, and independence with a dash of the gambling spirit and possibly additional subtle psychic components".

Let's look closer at these common themes so that we can begin to better understand what entrepreneurship is.

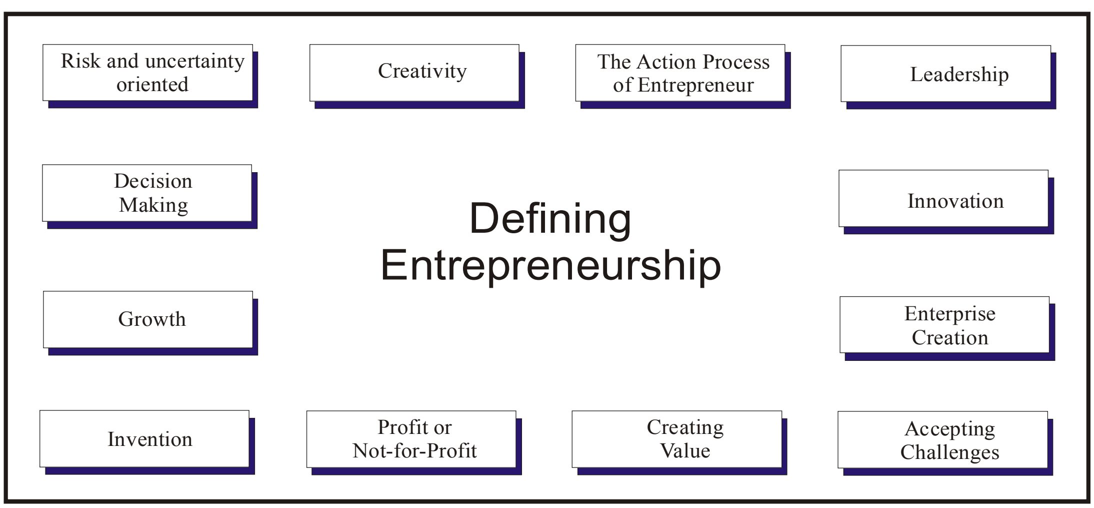

Figure 1.1: Common Themes in Definitions of Entrepreneurship

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

Entrepreneurship is concerned with creating wealth through production of goods and services. This results in a process of upward change whereby the real per capita income of a country rises overtime or in other words economic development takes place. Thus, entrepreneurial development is the key to economic development. In fact it is one of the most critical inputs in the economic development of a region. It speeds up the process of activating factors of production leading to a higher rate of economic growth, dispersal of economic activities and development of backward regions. If a region is unable to throw up a sufficient number of entrepreneurs then alien entrepreneurs usually step in to provide goods and services needed by the people. However, the profits earned by these entrepreneurs are usually not ploughed back but repatriated to their place of origin. As a result development in that region cannot take place. The above reiterates the importance of entrepreneurship development for fuelling economic growth of a region.

Entrepreneurship begets and also injects entrepreneurship by starting a chain reaction when the entrepreneur continuously tries to improve the quality of existing goods and services and add new ones. e.g. when computers came into the market there was continuous improvement in the models, their functions etc.. like first generation computers, personal computers, laptops, palmtops etc.. Not only had this fostered the development of the software industry, computer education institutes, computer maintenance and stationery units but also other industries like banking, railways, education, travel, films, medical and legal transcriptions, and business process outsourcing [BPOs]. In this manner by harnessing the entrepreneurial talent a society comes out of traditional lethargy to modern industrial culture. India needs entrepreneurs to capitalize on new opportunities and to create wealth and new jobs.

1.3 Entrepreneur

Functionally all entrepreneurs are self-employed and income generating persons but the reverse is not true. All self-employed and income generating persons are not entrepreneurs. If seen on a continuum, income generation, self-employment and entrepreneurship can be considered as the initial, middle and final stages of the entrepreneurial growth process. Income generating experience encourages self-employment, which in turn facilitates graduating into entrepreneurship. An entrepreneur is a person who starts an enterprise. He searches for change and responds to it. The economists view him as a fourth factor of production along with land labour and capital. The sociologists feel that certain communities and cultures promote entrepreneurship like for example in India we say that Gujaratis and Sindhis are very enterprising. Still others feel that entrepreneurs are innovators who come up with new ideas for products, markets or techniques.

Therefore, entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it. Computers, mobile phones, washing machines, ATMs, Credit Cards, Courier Service, and Ready to eat Foods are all examples of entrepreneurial ideas that got converted into products or services.

According to Richard Cantillon (1725): "An entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise." **According to J.B. Say (1803):** "An entrepreneur is an economic agent who unites all means of production- land of one, the labour of another and the capital of yet another and thus, produces a product. By selling the product in the market he pays rent of land, wages to labour, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." **According to Schumpeter (1934): "**Entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, services."

According to David McClleland (1961): "An entrepreneur is a person with a high need for achievement. He is energetic and a moderate risk taker."**According to Peter Drucker (1964):** "An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource." **According to Kilby (1971):** "Emphasizes the role of an imitator entrepreneur who does not innovate but imitates technologies innovated by others. They are very important in developing economies." **According to Albert Shapero (1975):** "Entrepreneurs take initiative, accept risk of failure and have an internal locus of control."

A fairly complete description of what an entrepreneur does in practice is described by Wickham (1998). **According to Him** "An entrepreneur is someone who has a good business idea and can turn that idea into reality. To be successful, the entrepreneur must not only identify an opportunity but also understand it in great depth. He or she must be able to spot a gap in the market and recognise what new product or service will fill that gap. He or she must know what features it will have and why they will appeal to the customer. The entrepreneur must also know how to inform the customer about it and how to deliver the new offering". It can be seen that entrepreneurship can be seen as a collection of skills, attitudes and traits which, in a particular context may combine to lead to new venture creation.

The modern myths about entrepreneurs include the idea that they assume the risks involved to undertake a business venture, but that interpretation now appears to be based on a false translation of Cantillon's and Say's ideas. The research data indicate that successful entrepreneurs are actually risk averse. They are successful because their passion for an outcome leads them to organize available resources in new and more valuable ways. In doing so, they are said to efficiently and effectively use the factors of production. Those factors are now deemed to include at least the following elements: land (natural resources), labour (human input into production using available resources), capital (any type of equipment used in production i.e. machinery), intelligence, knowledge, and creativity. A person who can efficiently manage these factors in pursuit of an opportunity to add value, may expand (future prospects of larger firms and businesses), and become successful.

Entrepreneur is often synonymous with founder. Most commonly, the term entrepreneur applies to someone who creates value by offering a product or service. Entrepreneurs often have strong beliefs about a market opportunity and organize their resources effectively to accomplish an outcome that changes existing interactions. Some observers see them as being willing to accept a high level of personal, professional or financial risk to pursue that opportunity, but the emerging evidence indicates they are more passionate experts than gamblers. Business entrepreneurs are viewed as fundamentally important in the capitalistic society. Some distinguish business entrepreneurs as either "political entrepreneurs" or "market entrepreneurs," while social entrepreneur's principal objectives include the creation of a social and/or environmental benefit.

1.4 Entrepreneurial Characteristics

Good health is a major characteristic required for every entrepreneur. Most of the successful entrepreneurs are physically resilient and in good health. They can work for extended periods of time and while they are in the process of building their business, they refuse to get sick. In small businesses, where there is no depth of management, the entrepreneur must be there. In that case entrepreneur may not be able to afford a support staff to cover all business functions, and therefore he will need to work long hours. At the end of the eight-hour day, when everyone else leaves for home, the entrepreneur will often continue to work into the evening, developing new business ideas. The major characteristics of a successful entrepreneur are as follows:

1. Self-Control: Entrepreneurs do not function well in structured organizations and do not like someone having authority over them. Most believe they can do the job better than anyone else and will strive for maximum responsibility and accountability. They enjoy creating business strategies and thrive on the process of achieving their goals. Once they achieve a goal, they quickly replace it with a greater goal. They strive to exert whatever influence they can over future events. In large structured organizations, entrepreneurs are easy to recognize by the statements they make: "If they wanted that job done right, they should have given it to me." A dominant characteristic of entrepreneurs is their belief that they are smarter than their peers and superiors. They have a compelling need to do their own thing in their own way. They need the freedom to choose and to act according to their own perception of what actions will result in success.

2. Self-Confidence: Entrepreneurs are self-confident when they are in control of what they are doing and working alone. They tackle problems immediately with confidence and are persistent in their pursuit of their objectives. Most are at their best in the face of adversity, since they thrive on their own self-confidence.

3. Sense of Urgency: Entrepreneurs have a never-ending sense of urgency to develop their ideas. Inactivity makes them impatient, tense and uneasy. They thrive on activity and are not likely to be found sitting on a bank fishing unless the fish are biting. When they are in the entrepreneurial mode, they are more likely to be found getting things done instead of fishing. Entrepreneurs prefer individual sports, such as golf, skiing, or tennis, over team sports. They prefer games in which their own brawn and brain directly influence the outcome and pace of the game. They have drive and high energy levels, they are achievement-oriented, and they are tireless in the pursuit of their goals.

4. Comprehensive Awareness: Successful entrepreneurs can comprehend complex situations that may include planning, making strategic decisions and working on multiple business ideas simultaneously. They are farsighted and aware of important details, and they will continuously review all possibilities to achieve their business objectives. At the same time, they devote their energy to completing the tasks immediately before them. Accounting reports illustrate this characteristic. Accountants spend hours balancing the accounts and closing them out. For them, the achievement is to have balanced books. The entrepreneur only wants to know the

5. Realism: Entrepreneurs accept things as they are and deal with them accordingly. They may or may not be idealistic, but they are seldom unrealistic. They will change their direction when they see that change will improve their prospects for achieving their goals. They want to know the status of a given situation at all times. News interests them if it is timely and factual, and provides them with information they need. They will verify any information they receive before they use it in making a decision. Entrepreneurs say what they mean and assume that everyone else does too. They tend to be too trusting and may not be sufficiently suspicious in their business dealings with other people.

6. Conceptual Ability: Entrepreneurs possess the ability to identify relationships quickly in the midst of complex situations. They identify problems and begin working on their solution faster than other people. They are not troubled by ambiguity and uncertainty because they are used to solving problems. Entrepreneurs are natural leaders and are usually the first to identify a problem to be overcome. If it is pointed out to them that their solution to a problem will not work for some valid reason, they will quickly identify an alternative problem-solving approach.

7. Status Requirements: Entrepreneurs find satisfaction in symbols of success that are external to themselves. They like the business they have built to be praised, but they are often embarrassed by praise directed at them personally. Their ego do not prevent them from seeking facts, data and guidance. When they need help, they will not hesitate to admit it especially in areas that are outside of their expertise. During tough business periods, entrepreneurs will concentrate their resources and energies on essential business operations. They want to be where the action is and will not stay in the office for extended periods of time. Symbols of achievement such as position have little relevance to them. Successful entrepreneurs find their satisfaction of status needs in the performance of their business, not in the appearance they present to their peers and to the public and this thing required a lots of guts. They will postpone acquiring status items like a luxury car and a big bungalow until they are certain that their business is stable.

8. Interpersonal Relationships: Entrepreneurs are more concerned with people's accomplishments than with their feelings. They generally avoid becoming personally involved and will not hesitate to sever relationships that could hinder the progress of their business. During the business-building period, when resources are scarce, they seldom devote time to dealing with satisfying people's feelings beyond what is essential to achieving their goals. Their lack of sensitivity to people's feelings can cause turmoil and turnover in their organization. Entrepreneurs are impatient and drive themselves and everyone around them. They don't have the tolerance or empathy necessary for team building unless it's their team, and they will delegate very few key decisions. As the business grows and assumes an organizational structure, entrepreneurs go through a classic management crisis. For many of them, their need for control makes it difficult for them to delegate authority in the way that a structured organization demands. Their strong direct approach induces them to seek information directly from its source, bypassing the structured chains of authority and responsibility. Their moderate interpersonal skills, which were adequate during the start-up phases, will cause them problems as they try to adjust to the structured or corporate organization. Entrepreneurs with good interpersonal skills will be able to adjust and survive as their organization grows and becomes more structured.

9. Emotional Stability: Entrepreneurs have a considerable amount of self-control and can handle business pressures. They are comfortable in stress situations and are challenged rather than discouraged by setbacks or failures. Entrepreneurs are uncomfortable when things are going well. They'll frequently find some new activity on which to vent their pent-up energy. They are not content to leave well enough alone. Entrepreneurs tend to handle people problems with action plans without empathy. Their moderate interpersonal skills are often inadequate to provide for stable relationships.

1.5 Theories of Entrepreneurship

For any economic theory, it is important to focus on what questions the theory is designed to answer and what tools are being used to answer them. When the concept of entrepreneurship is used in economics, the purpose of analysis is mainly to explain (i) how the market system works and (ii) the various kinds of income -especially profit- and their relation with entrepreneurship. Entrepreneurship is always linked with profit, and the main emphasis of this paper will be on the part played by the entrepreneur in economic process. Even though there are several approaches to entrepreneurship, to profit and to functions that the entrepreneurs provide in the market process, the three main theories i.e. Neoclassical Theory (in general, the ideas of Marshall), the Schumpeterian approach, and the Neo-Austrian theories of entrepreneurship (Kirzner).

1.5.1 Marshallian Approach to Entrepreneurship

The Neo-classical theory and thereby the Marshallian analysis tries to explain equilibrium conditions in the markets under the assumptions of perfect knowledge and information, perfect competition (existence of many firms), existence of homogenous goods, and free entry and exit. Marshal main concerns and at the same time goal is to show that markets clear under the perfect competition assumptions and there are no excess profit opportunities and hence there is no exploitation of labor in production process since everyone earns his marginal contribution to production and national income. However, while he analyses zero profit equilibrium conditions, at the same time he has to explain without profit incentives how change and progress occurs and what leads producers to innovate or develop new production methods and techniques. To answer this question, Marshall uses small changes (innovations) in the market process by many small competitors and confusingly indicates that large scale production is essential for economic progress and economic innovation.

Marshall stresses the cooperative relationship between capital and labor based on the principle of partnership. The producer obtains his dominant position in the production process due to his superior managerial abilities. Hence this superior ability is the reason that producers get more of the income: their contribution to national income is greater than the labor. Marshall analyzes the normal running business as entrepreneurship, but he recognizes that some businessmen are much more enterprising than others. The firms have to organize their production and marketing functions in an evolving economy which is an environment of uncertainty and change. Producers face the uncertainties in various ways:

- Estimating the pattern of consumer preferences and technologies available to meet them;
- Anticipating the actions of rivals and
- Developing techniques to respond to changes in consumer preferences, to the emergence of new technologies or to new entrant firms.

In Marshall's analysis, the successful entrepreneur who produces for the market as a merchant and as an organizer of the production has true knowledge of the things in his own trade. He has the ability (i) forecasting of the movements (changes) of production and consumer preferences and (ii) seeing of new opportunities for supplying new goods or services that either will meet the demand or improve the plan of producing an old commodity and most importantly being able to take risk.

There are important problems in Marshall's analysis that create controversy in his own model:

- The manufacturer producing for the general market who is supposed to be represented by the perfectly competitive firm of the standard theory and in this, there is no introduction of neither new products or new methods. Marshall is contradicting with his competitive market theory by indicating that creating new products and technologies the entrepreneur will have monopoly power and earn monopoly rents in that market unless everybody in the market have same technology and will produce same good as efficiently at the same time and start to sell at the same time.
- Marshall gives role to his entrepreneur to anticipate the actions of his rivals. If the market is perfectly competitive and for each firms the market price is given, then there is no need for each firm to anticipate the actions of the other firms since their production decisions does not affect the market price.
- In Marshall's treatment of economies of scale, the economies themselves are related to knowledge and change: the law of increasing returns implies that an increase in inputs improves the organization of the production, which increases the efficiency of these inputs. Thus, the advantage of large scale is that it leads to innovation, not only in technology but also in products. If this is true, then the accumulation of capital leads concentration in the market and this leads existence of imperfect market competition that we in reality have.
- In Marshallian analysis manufacturers produce for the market getting zero profits but it is not clear what stimulates these people to be producers instead of labourers. Thus, there is no explanation for profit.

As a result, we see that Marshallian analysis has its own controversies to explain equilibrium conditions and is not able to explain the market process that gives accurate explanations about the role of entrepreneur and how profit is explained.

1.5.2 Schumpeter : Creative Destruction

Schumpeter (1991) defines entrepreneur as someone who establishes a new business to produce a new product or to make an old product in a new way. In his work, the entrepreneur takes the centre stage of socio-economic development. He takes the role of socio-economic leader since he has the ability to decide, to direct, push matters through. The Schumpeterian entrepreneur differs from imitators in applying new methods of production on the market in opening up new markets. This creative ability differences gives entrepreneur a chance of accumulation of a surplus but this eroded as imitators appear in the market using same methods. Thus, the temporary monopoly profits made by the entrepreneur shows the dynamic of the capitalist system and also show that each cycle of innovations by entrepreneurs is the main cause of business cycles.

He sharply differentiates himself from Marshallian-Neoclassical theories of economic development and growth. While in the Marshallian analysis, small contributions from a very large number of modest entrepreneurs lead economic progress, Schumpeter's entrepreneur plays the role of a revolutionary in creation of new production functions and methods. Thus, entrepreneurs create disequilibrium and this creative destruction is possible only under capitalistic system. He states that "Capitalism...is by nature a form or method of economic change and ...never could be stationary." As a result, unlike Marshall and Kirzner, he believes that due to capitalist system's dynamic nature the neoclassical general equilibrium model could never apply to capitalism. Schumpeter does not define those who are imitators or those who simply recognize and respond to the new situations as entrepreneurs unless their responses consist of forming new firms to create new innovations.

In contrast to Marshall, Schumpeter's analysis progress does depend on the "great man" and as an innovator, economic and social leader, the entrepreneur by definition is a monopolist. Since the entrepreneur is the engine of the economic progress in the capitalist system, monopolies should be encouraged to lead to new innovations. The entrepreneurship ability is scarce and the business of entrepreneurs is too risky. Since they undertake the economic activities that lie outside of the routine tasks and they do these under the social and economic resistant environments their activities should be encouraged, some protection should be provided and to reduce the risk they take. Entrepreneurial risk and uncertainty are reduced by large scale enterprise and restrictive practices such as patents.

Thus, the reward of innovations and taking entrepreneurial risky activities is profit. The profit for Schumpeter is the result of innovation and also the inducement to innovation and only the capitalist system allows the successful entrepreneur to take profit. With his analysis unlike Marshall, Schumpeter is able to explain how the system works and where the profits come from. There is some criticism against Schumpeter's creative destruction theory:

- Schumpeter puts all the responsibility of innovations on the shoulders of 'great man'. However, if innovations and the act of pushing them through commercially are carried out not by individuals, but by a generation, then the contrast between the leader and imitators is irrelevant.
- What about those who have tried but have not succeeded?

1.5.3 Kirzner's "Alert" Entrepreneur

While in Neoclassical analysis (Marshall) the main focus is the conditions necessary to sustain an equilibrium, and Schumpeter's focus was to explain the progress in capitalistic system by using innovator entrepreneur's destructive creation, Kirzner- representing the Neo-Austrian approach to entrepreneurship- focused on answering the question of whether a market economy works and, if it does so, what the process that leads the economy towards an equilibrium is. Kirzner claims that initially the economy is in disequilibrium and the competition among 'alert' entrepreneurs leads to equilibrium. Unlike Neo-classical economists, Kirzner realizes that markets are not always clear, there is no perfectly informed representative agent and for change the entrepreneurs need incentives and this incentives comes from the difference among agents in terms of information and knowledge.

In order to explain his model, Kirzner benefits from Mises' "profit seeking and speculating entrepreneur" and Hayek' "mutual learning" ideas. For Mises (1949), the driving force of the market process and cause of market equilibration is the profit seeking and speculating entrepreneurs. Since each agent has different knowledge and information set in a real economy, every actor (agent) is an entrepreneur and speculator. Hayek (1948) does not directly emphasize the role of entrepreneur in the market process but he states that the market process gives information about everyone's plans to every other person. He believes that there is tendency towards equilibrium, but this does not mean markets always reach to equilibrium. He has doubt whether the assumption of a perfect market where every event becomes known instantaneously to every member exists. According to Kirzner, The Neo-classical theory examines markets-abstracting from institutional detail- by focusing only on supply, demand and price and he goes on stating that "it explains in great detail the relationships that would prevail in markets that already do work; it is silent on the nature of the process that might generate those relationships."

For Kirzner (1997): "The entrepreneur who 'sees' (discovers) a profit opportunity, is discovering the existence of a gain which had...not been seen by himself or by anybody else." To Kirzner, profit opportunities stimulate entrepreneurship. Different from Schumpeter, the profit arises from arbitrage not from innovation. "The pure entrepreneurial function consists in buying cheap and selling dear- that is, in the discovery that the market has undervalued something so that its true market value has up to now not been generally realized. This permits the pure entrepreneur to buy something for less than he will be able to sell it for. His act of entrepreneurship consists in realizing the existence of market value that has hitherto been overlooked." Kirzner's entrepreneur does not cause destructive creation and his activities do not cause change. The alert entrepreneur realizes that a change has occurred and sees profit opportunities. An improvement in technique of production or a shift in preferences leads to change (disequilibrium) in a market that initially was in equilibrium. ".... Entrepreneurial discovery which enables decentralized decision-makers to recognize when present decisions can be improved upon and to anticipate future changes in the decisions being made by others. Movements in prices, production methods, choices of outputs, and resource owner incomes generated by entrepreneurial discovery tend to reveal where current allocation patterns are faulty, and stimulate changes in the corrective direction." However, in his analysis there is no explanation of why a change has occurred and who or what forces caused that change.

There is no representative agent in his theory and agents are not homogenous in terms of ability, alertness and ability to reach information. In his analysis there are mainly two types of agents in the economy. Entrepreneurs, who are seeking to exploit opportunities, take the decisions and the bulk of the population do not take decisions. Entrepreneurs differ from the second group since they are alert and they have the ability to see that a change has occurred and there are exchange opportunities to exploit. As long as agents have different level information and level of knowledge, the limitations of non-entrepreneurs' knowledge provide an incentive and a profit opportunity for entrepreneurs. The difference in knowledge and information lead to differences in the valuation of a particular good.

According to Kirzner, an improvement in the technique of production or a shift in preferences leads to change (disequilibrium) in market initially there was equilibrium. If there is equilibrium in the market there is nothing for the entrepreneur to do and no exchange and profit opportunities for them since everybody will be able to carry out his initially determined exchange plans. But whenever the change has occurred, some planned activities will not be realized. In this point, the importance of the entrepreneur is understood, since they realize that the market is not in equilibrium due to either excess demand or excess supply and competition among entrepreneurs leads to equilibrium again. Kirzner (1997) states that in an equilibrium world-the only world the Neo-classical model deals with because of perfect knowledge-there is no room "...for entrepreneurial discovery and creativity: the course of market events is foreordained by the data of market situation." and for the system to create profit opportunities for entrepreneur there is need for an exogenous shock to system.

In Kirzner's model, unlike the Neo-classical theory, complete and perfect information is not assumed. If there is no market clearing price, those who pay a higher price are unaware of the lower price that is available and thus, the divergence between the two prices constitutes a pure profit opportunity for alert entrepreneurs. Entrepreneurial discovery, by seizing profit, is a powerful force pushing the two prices towards each other and eliminating the opportunity it initially offered. After explaining the entrepreneurial discovery process, he states that "the tendency towards a single price is continually interrupted-but continually resumed."

The Kirzner's ideas about entrepreneurship can be summarized as:

- At any given moment economic agents are likely making errors as they try to estimate true present and future plans of other market participants.
- Such errors or miscalculations happen due to over optimism or over pessimism
- Entrepreneurial discovery process leads towards a single market price

1.6 Roles of an Entrepreneur

The economics theory reflected quite a lot on who is the entrepreneur and what roles he performs in the economy. Different authors were suggesting different answers to these questions through the years. The entrepreneur was typically viewed as:

1. Co-ordinator: J.B. Say (1817) describes the entrepreneur as a 'combiner and coordinator of productive resources'. He viewed the entrepreneur 'as the core of the market system', the link of communication, between the various classes of producers, between the producer and consumer. Say placed great emphasis on the risk-taking entrepreneur and even included him as the 'fourth' factor of production in his analysis.

2. Arbitrager: The entrepreneur as arbitrager come from Israel Kirzner (1973). He points out that an entrepreneur is someone with the ability to perceive profit opportunities and act upon them. The 'pure' entrepreneur observes the opportunity to sell something at a price higher than that at which he can buy it. He recognizes and acts upon market opportunities. In contrast to Schumpeter's viewpoint the entrepreneur moves the market toward equilibrium.

3. Innovator: Joseph Schumpeter believed the market system has an inherent tendency toward change and that the dynamic attributes of capitalism were its most useful characteristics. The entrepreneur is the innovator who implements change within markets states Schumpeter. As such, the entrepreneur moves the market away from its equilibrium. Schumpeter's innovation is an outcome of new combinations. These new combinations are broad, including new goods, new methods of production, new markets, or new organisations that define economic development. Similarly to Schumpeter, Drucker (1985) defines entrepreneurship as an act of innovation that involves adding a new wealth-producing capacity to existing resources.

4. Uncertainty Bearer: The uncertainty bearer is divided into two sub-groups. The fist subgroup is that of a speculator. Cantillon's entrepreneur is a speculator, but he is more than a mere arbitrageur (buying low and selling high) because of the presence of uncertainty. According to Cantillon, the entrepreneur, in conducting his transactions, buys at a certain price and sells at an uncertain one. Cantillon's entrepreneur is the key to the market system because of his willingness to bear risk. In uncertain conditions, the decision-making function forecasts demand and estimates the factors' marginal productiveness. Entrepreneurs attempt to predict and act upon change within markets. Thus, the entrepreneur is more than a manager or actual productive service. He is entrepreneur by virtue of his willingness to accept the results of a particular endeavour. Consequently, in their entrepreneurial decision entrepreneurs do not know the potential economic outcome but experimentally try different combinations. An entrepreneur is every economic agent who undertakes an 'entrepreneurial event', namely who performs:

i. Initiative taking - grabs a market opportunity.

ii. Consolidation of resources - uses the existing resources into new production combinations (the Schumpeterian view).

iii. Management - of the organisation and the organizational assets to the best of the venture.

iv. Relative autonomy - resources are disposed of and distributed with relative freedom.

v. Risk-taking - the venture's success or failure is assumed by the entrepreneur.

5. Desire to be Independent and to Control Over Situations: Much of the literature examining entrepreneurship appears to be guided by the presumption that, like crime, entrepreneurial acts represent deviant social behaviour affirms. But jumping into risky ventures could be easily explained by the need to be independent and to possess autonomy over one's work. In comparison with men in general, entrepreneurs had stronger needs for achievement and higher degree of independence desire.

6. Individualism: Further to the desire of independence entrepreneurs need autonomy and dominance and are not strongly absorbed by needs for support from others or conformity to the norms of others. Entrepreneurs are rugged individualists. Their research confirmed the idea that entrepreneurs favour independent action and separation from groups and clans. High individualism is associated with emphasis on individual initiative and achievement.

7. Locus of Control: The concept of locus of control refers to a generalized belief that a person can or cannot control his or her own destiny. People can be classified along a continuum from very internal to very external. Those who ascribe control of events to themselves are said to have an internal locus of control and are referred to as 'internals'. People who attribute control to outside forces are said to have an external locus of control and are termed as 'externals. Internals are alert, discover opportunities, and scrutinize their environment to find information needed to formulate the optimal approach to developing those opportunities.

8. Ability to Focus and Pursue a Goal: Furthermore, hyperactivity was observed to be higher than 4% (the average of an unselected population). ADHD-individuals were found to be highly over-represented among the entrepreneurs (12 out of 32), thus, explains entrepreneurs' innovation and creativity abilities. The results show that entrepreneurs differ cognitively from general population by a striking difference in the capacity to focus attention on a single task. Attention is defined as the individual reception to environmental stimuli and the ability to process information. Thus, the survey concludes that it is the environmental stimuli and the hyperoctivity ADHD that lead some individuals to react and to become entrepreneurs, motivating them for higher performance.

9. Optimism: Entrepreneurial insight is seeing something about an industry or a market that others miss or fail to understand. But is it a true opportunity that entrepreneurs see or they simply inflate their 'gut feeling' and sense of rightness to the point where they overlook critical elements and discount uncertainties. Entrepreneurs operate by a unique set of cognitive processes, thereby supporting their optimism. Furthermore, the literature on entrepreneurial behaviour suggests that entrepreneurs are likely to be optimistic and that they frequently make judgements based on subjective factors. Excessive optimism hurdles acknowledging some risks and may lead to serious damage on the business and even to its complete failure.

1.7 Things to Know before Starting A Business

There are certain things that a normal successful entrepreneur should know before jumping into the bandwagon of millions of new businessmen trying to make it out there. There are certain factors that that are considered, on the fulfillment of which, entrepreneur can go ahead with his business venture.

1 Why Would Anyone Be Interested in Conducting Business With New Entrepreneur?

It may be shocking to realize but the product what Entrepreneurs set out to sell will probably be another product in a sea of similar items. So what makes it so special? It only becomes special if entrepreneurs believe it. In other words, unless entrepreneur are convinced that it is a useful product or service, you cannot convince other people to buy it. Once an Entrepreneur can demonstrate that your product is the best on offer, the entrepreneur business will be ready to take off. Every business requires three things that form its support pillars, namely a lawyer, a CPA (Certified Public Accountant), and a creative person. While the first two are very easy to get, it is the third one that is difficult to find. As a matter of fact, it is the third person that will be vital for the business. In the early stages, business will depend heavily on promotional and branding activities. If firm business lacks attractive logos, slogans, marketing campaigns, etc., -i.e. creating and establishing a business identity - all of which is taken care of by the creative person, it will not get going.

2 Can Entrepreneur Sing Jingles and Impress Other People?

One of the crucial factors involved in getting any business established is promotion. Entrepreneurs have to do everything which they can to get their business noticed. Most businesses come and go before anybody ever registers their existence. Most people are too busy to notice and remember others business. Therefore, Entrepreneur constantly bring it to their attention, until they establish a brand identity. However, it is important not to mislead people, because that will create a negative reaction, resulting in the failure of your business.

3 Can Entrepreneurs Beat the Competition?

Positioning entrepreneur in the market is an important task. Check out their competitor's marketing patterns and then decide on Entrepreneur's positioning strategy. What will your positioning strategy be? Is it best quality or a more innovative price strategy? Is it better after-sales-service and a better marketing campaign, or to create own niche? Whatever entrepreneur plan, they have to just concentrate on giving their best.

4 Marketing is About Perception.

Marketing is a perception that entrepreneur wants to create in the mind of their customers. Perception basically encompasses what the public thinks about their business. An efficient and persuasive sales force can create a positive perception of their business. Along with this, they can use marketing strategies such as an eye-catching business name, graphics, and the like to also create an aura about business that will attract customers.

5 How Do Entrepreneurs Propose to Create their Business Identity?

Everyone loves to see a lovely face. Beautify it by giving it a face that the public will like and identify with. Also, evolve and make changes to the look every once in a while to prevent it getting jaded with time. However, while giving business identity a face-lift is useful, it is important not to change it altogether, or it will end up confusing the customers. Entrepreneur's main aim is to project it in the best possible way and not launch an entire new identity for the business.

1.8 Qualities of an Entrepreneur

Being a entrepreneur is about more than just starting a business, it is about having attitude and the drive to succeed in business. All successful entrepreneurs have a similar way of thinking and posses several key personal qualities that make them successful in business. Successful entrepreneurs like the ambitious Sunil Bharti Mittal have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field. All successful entrepreneurs have the following qualities:

1. Inner Drive to Succeed: The successful Entrepreneurs are driven to succeed and establish their business and then they plan for expansion. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieve them regardless of the obstacles that get in the way.

2. Strong Belief in Themselves: Successful Entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often been seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time for thinking about un-constructive criticism.

3. Search for New Ideas and Innovation: All Entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They are creative, innovative and resourceful.

4. Openness to Change: If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They are up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

5. Competitive by Nature: The exclusive quality of successful entrepreneurs is that they thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

6. Highly Motivated and Energetic: Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated.

7. Accepting of Constructive Criticism and Rejection: Entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

The successful Entrepreneurs are resourceful, passionate and driven to succeed and improve. They are pioneers and are comfortable fighting on the frontline. The great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream. In the past, words like "rebel," "driven," "controlling", "risk taker", and "lone ranger" were routinely used to describe entrepreneurs. These are people who ventured out on the their own were viewed as ruthless business owners completely caught up in amassing wealth, much to the detriment of a personal life.

1.9 First Generation Entrepreneur

First Generation Entrepreneurs (FGEs) are those entrepreneurs who starts the business first time from their family. It means that no other persons from their family was associated to any direct business activities. There are so many successful FGEs who created history in the development of their country and world. Some of these well known FGEs are Bill Gates, Dheeru Bhai Ambani, Narayan Murty, Aziz Prem Ji, Sunil Bharti Mittal, Jamshed Ji Tata, Jamnalal Bajaj, Lala Shri Ram etc.. Basic features of first generation entrepreneurship are described below:

1 Choosing a Business to Start

If anybody have decided to start a business, the first question they need to ask from themself is, "Is owning a business right for them?" Are they cut out for entrepreneurship? Not everybody is. The rewards can be great, but so are the risks. And it will change their lifestyle in ways that you may not be prepared for. Once someone have decided to walk the entrepreneurial path, the next question to ask himself is, "What type of business does he want to start?" There are, of course, thousands of choices. Even things he might think are out of his reach may not be.

2 The Traditional Approach

The traditional approach to entrepreneurship is a methodical, scientific process. Generally speaking, the approach consists of researching the market, identifying a need and creating a business to fill it. More specifically, the steps of the process are:

i. Select the industry someone is interested in working with.

ii. Research the kinds of businesses and various business models within that industry.

iii. Perform market research to see where there is an unmet need — geographically, pricewise, complementary products and services, etc.

iv. Analyze the competition.

v. Develop a preliminary business plan for a business to meet that need.

vi. Do some more market research to assess the realistic market potential for your business. Will people buy it?

vii. Revise the business plan and determine your funding requirements.

viii. If needed, seek out lenders or investors.

ix. Start the business.

Needless to say, this is not something someone just knock out in a weekend. The most obvious problem to this approach is that it's extremely labor-intensive and potentially expensive to even decide whether or not to go into business. Of course, that time spent on the front end reduces the risk of failure down the road. The other problem is that one's may very well end up realizing far too late that he is doing something which he really don't want to be doing, just because he figured he could make some decent money at it. Even when he is the boss, he can still end up feeling stuck and unfulfilled.

Do What You Love, and the Money Will Follow

In recent years, this philosophy has become increasingly popular following the success of the book Do What You Love, The Money Will Follow by Marsha Sinetar. While the approach sounds great, as career coach Dr. Marty Nemko puts it, "Millions of people have followed their passion and still haven't earned enough money to even pay back their student loans, let alone make even a bare middle-class living doing what they love." It's not the book's fault. In fact, it's a very fine book that will take you through a number of exercises to help someone to discover his true life purpose and find a number of different ways in which he can fulfill that purpose in his work. It will teach him to distinguish the true inner voice from the flash-in-the-pan ideas that constantly run through his head. And maybe it will help you be one of the few to beat the odds and pursue his dream career. The problem is that most people don't read the book and go through the intensive self-discovery exercises it prescribes. And when it gets boiled down to a mere slogan, it's more likely to become, "Do what you love until you go broke and can't do it any more." Some of the common scenarios include:

i. **No one wants to buy it.** You're passionate about it, but apparently no one else is. You can't sell people something they don't want to buy.

ii. **Someone else already thought of it.** You have a great idea, but it's a niche market, and someone's already beat you to it. And if they're better funded, they may be doing it better/faster/cheaper.

iii. **A lot of people already thought of it.** Highly competitive markets are no fun. I don't care how much you love the business you're in, if you're constantly having to go head-to-head with competitors, it will get old very quickly.

iv. **There's more to it than you realized.** You underestimated the costs, or the development time, or the incubation period for the marketing to take effect, or the amount of energy required, or the toll it would take on your personal life.

So while pursuing one's passion is an admirable goal, doing so to the exclusion of all reason and responsibility isn't. If someone has family depending on them for income then they have to consider that, as well.

The Best of Both Worlds

These approaches are not entirely mutually exclusive. Let's start with the idea, rather than with formal research. Some of the possible sources for business ideas include:

i. **Self-discovery.** Find out what you're truly passionate about and figure out how to make a business out of it.

ii. **Inspiration.** That idea that just popped into your head one day may not be so crazy after all.

iii. **Observation.** Be constantly looking for unmet needs. Is there a product or service that you would buy if it were accessible and affordable?

iv. **Imitation.** One way to increase your odds of success is to find a proven business model and replicate it in a different market. Or, consider buying a franchise, where you'll not only have a proven business model, but outside support for your business.

It doesn't matter where the idea comes from. What matters is what someone does with it. And no matter how brilliant anyone think the about the idea is, they need some external input - a "sanity check", if they will. Even if they don't have the time or money for extensive formal market research or business planning, they have to do the informal research themself to find out if there's a market for their idea and to assess the viability of their business concept. They can ask their friends and family, but when they do, they have to make sure to let them know exactly what they are looking for — honest, detailed feedback on the idea. True friends will be supportive of their ability to succeed, but they will also be willing to be honest with them. If they make it past the friends and family round and still think they have got a viable business concept, they have to put together a basic business plan. They have to think of the three to five most successful entrepreneurs. They have to contact them and see if they'll take a look at their business plan and meet them over coffee or lunch to discuss it.

1.10 Summary

Entrepreneurship is a process. It is not a combination of some stray incidents. Entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it. There are certain characteristics and quality of the entrepreneur that is required to be successful. There are different theories in which the role of the entrepreneur is defined differently but the ultimate goal is to run the successful business. First generation entrepreneur are those who start the business in their family for the first time.

1.11 Self Assessment Test

1. What is entrepreneurship?
2. Explain roles of entrepreneur according to different economic theories?
3. Explain the different characteristics of an entrepreneur?
4. What are the things to know by entrepreneurs before starting a business?
5. Who are first generation entrepreneurs?

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Unit - 2 : Entrepreneurship Environment

Unit Structure:

2.0 Objectives
2.1 Entrepreneur
2.2 Entrepreneurship
2.3 Types of Entrepreneurship Environment
2.4 Hurdles Entrepreneurship Environment
2.5 Entrepreneurs of India
2.6 Summary
2.7 Key Words
2.8 Self Assessment Test
2.9 Case Study
2.10 References

2.0 Objectives

After studying this unit, you should be able to understand the following:

- The concept of Entrepreneur
- Various traits of an Entrepreneur
- Entrepreneurial Process
- The concept of Entrepreneurship Environment
- Relationship between Entrepreneurship and Environment
- Importance of Entrepreneurship Environment
- Types of Entrepreneurship Environment
- Hurdles in the growth on Entrepreneurship Environment\

2.1 Entrepreneur

The word "entrepreneur" is derived from the French verb enterprendre. It means "to undertake". Today, an entrepreneur is considered as a co-coordinator who combined all means of production and managed them. Today he is an innovator who introduces new means of production, and techniques. Schumpeter emphasized innovative aspect more than managerial aspect. According to McClelland (1961) "entrepreneurs is one who likes to take responsible risk, and who has high degree of achievement motivation".

According to Michael Palner, "The word entrepreneur carries a deluge of identified with "uncertainty bearing ","co-ordination of production resources", "introduction of innovation", and the "provision of capital". **According to Alfred Marshall,** "Entrepreneur is an individual who "adventures" or "undertakes" risks, who brings together the capital and labour required for the work, who arranges or engineers its general plan, and who superintends its minor details." **According to Gerald A. Silver,** "An entrepreneur is an individual who conceived an idea for a new product or service, then finds some way of raising capital to form a business to produce the product or service."

2.1.1 Traits of an Entrepreneur

1. **Risk Bearer:** An entrepreneur likes to assume risks. He always takes calculated risk .Evan T. Robbins says "Entrepreneurship is not the same thing as throwing darts and hopping for the best. It is about planning and taking calculated risks based upon knowledge of the market, the available resources or products, and a predetermined measure of the potential for success".
2. **Innovator:** An entrepreneur introduces new products and technologies. He is considered as the creator, innovator of new products. Drucker writes "Entrepreneur create something new, something different, they change or transmute values".
3. **Achiever:** IT is an important trait of an entrepreneur. He has an urge to achieve his goals and objective.
4. **Dynamic in Nature:** He is dynamic in nature. He has the ability to forecast new plans, needs and desires.
5. **Future Oriented:** An entrepreneur is future oriented. He has the ability to forecast the things in advance and then plan the activities accordingly.
6. **More than a Manager:** An entrepreneur is more than a manager. His work does not end with managing the affairs but he needs to act as a leader from the panning till the completion of the work.
7. **Action Oriented:** A real entrepreneur is action oriented. He needs to adopt a "hands –on" approach. Entrepreneur is both planner and doer.
8. **Energetic:** An entrepreneur has to be all the time energetic .Long working hour and grasping the opportunities in right time is the task of an entrepreneur.
9. **Sense of Urgency:** Entrepreneurs understand the value of time and money. They know what is urgent and what not?
10. **Responsible:** Entrepreneurs are responsible human beings of the society. They are the people who will bring the change in the economy.

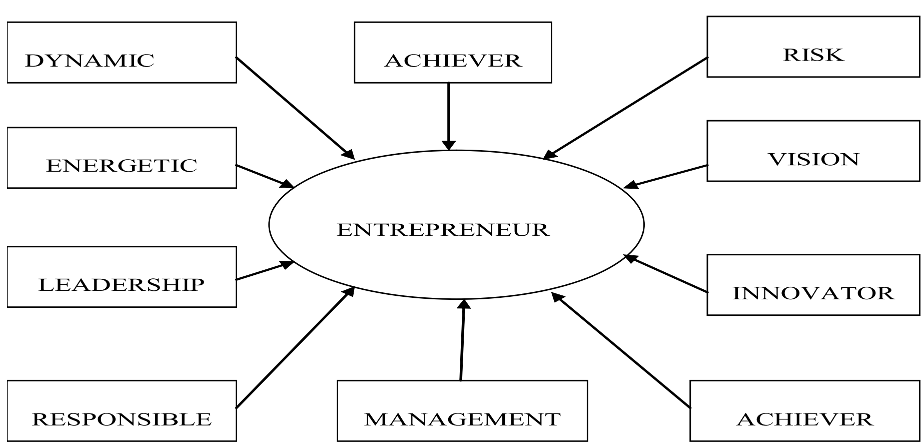

Figure 2.1 : Traits of an Entrepreneur

2.1.2 The Entrepreneurial Process

Entrepreneurial process is a leadership function which centres round the dynamics of entrepreneurial growth and change. It is a process comprising several distinct stages.From exploring the various aspects of the entrepreneurial context to identifying opportunities, to starting and managing the entrepreneurial venture, choosing the competitive strategy in action. Let's look at each of these decisions and activities in figure 2.5:

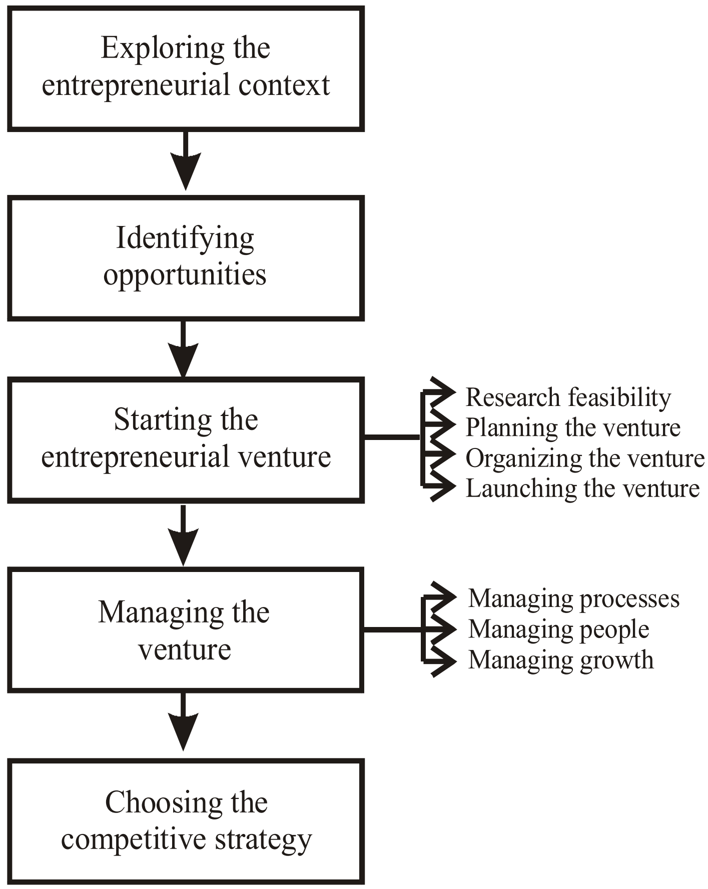

Figure 2.2 : Components of Entrepreneurial Process

1. **Exploring the Entrepreneurial Context:** Why is it important to look at the entrepreneurial context? Because the context determines the "rule" of the game and what decisions are likely to be successful. The context includes the realities of the new economy, society's laws and regulations that compose the legal environment, and the realities of the changing world of work. Entrepreneurs should be aware of the context within which entrepreneurial decision are made. Only through exploring the context can entrepreneurs discover the untapped opportunities and competitive advantage(s) that may lead to the development of a potentially successful entrepreneurial venture.

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

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

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

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

5. **Choosing the Competitive Strategy:** One the entrepreneurial venture is up and running, the last step is to choose competitive strategy. Peter Drucker mentions following specific entrepreneurial strategies. These are:

   - Being fastest with the most.
   - Creative imitation.
   - Entrepreneurial judo.
   - Finding and occupying a specialised ecological niche.
   - Changing values and characteristics by creating utility, by delivering what represents true value to the customer, by adoption to the customer's social and economical reality, by appropriate pricing.

2.2 Entrepreneurship

Entrepreneurship is not an inborn skill; it is a product of environment. To be a successful Entrepreneur one has to be dynamic and be responsible to the whole environment. The social values, work culture, government policies, Business ethics, customs, traditions etc. influence the growth of entrepreneurship. In fact, the entrepreneurship cannot be kept aloof from the changing social values, ideologies, new emerging aspirations, religious beliefs, environmental forces, customer wants and needs. As a part of total system business can only grow in a right kind of environment.

According to Pareekand Nadkarni, "Entrepreneurship refers to general trend of setting-up new enterprises in the society". **According to Musselman and Jackson,** "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful". **According to Franklin Lindsay,** "Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting theses needs with new, creative and imaginative combination of resources". **According to Rao and Mehta,** "Entrepreneurship can be described as creative and innovative response to the environment"

2.2.1 Relationship between Entrepreneurship and Environment

The total business is composed of many internal as well as external forces. It is a combination of economic, political, technological and legal factors. Environment is a mixture of dynamic, complex and uncontrollable forces under which an entrepreneur has to grow. Some of the important aspects of relationship between entrepreneurship and environment are as under:-

1. **Uncertain and Dynamic:** An entrepreneur has to work in an uncertain and dynamic environment. Environment includes all the internal and external factors that are beyond the control of an entrepreneur. Changes happen from time to time with accordance to changing conditions entrepreneur has to face the challenges.

2. **Creates Opportunities and Threats:** Environment contains various factors which create risks, challenges, opportunities, gains and threats for an entrepreneur. This needs a rational vision to take advantage and to cope up with such conditions.

3. **Symbiotic Nature:** Entrepreneurship is a group activity. It is cooperative and reciprocal in nature. Entrepreneurs have to realize the symbiotic nature of entrepreneurship which is so inextricably integrated with real life situations and environment.

4. **Mutually Dependent:** Both the environment and entrepreneur are mutually dependent on each other. External environment affects the working of an entrepreneur in same manner entrepreneur shapes the environment.

5. **Product of Environment:** Entrepreneur is not an inborn skill; it is a product of environment. The entrepreneurial traits or qualities are grown in an environment through an individual's positive response to opportunities.

2.2.2 Importance of Entrepreneurship Environment

It is wisely said that "Entrepreneurship can flourish the right type of environment". There are many reasons to understand the importance of Entrepreneurial Environment.

1. **Need for Growth:** It is the environment that regulates the entrepreneurial activities. One needs to understand the impact of various environments on the business such as political, social, legal and economic. Study of such environment helps in the growth of an entrepreneur.

2. **Awareness About Problems and Complexities:** There are many problems in business. Theses can have harmful effect of the success of an entrepreneur. So an entrepreneur need to have a clear vision or perspective about the opportunities and threats that can be faced and the way they can overcome such problems in business.

3. **Information of Economic Policies:** Government policies plan a very vital role in the growth and expansion of business. Changes may occur in government policies from time to time such as Industrial policy, taxation policy, and export- import policies which have a great impact on the business. A detailed study of such policies is very helpful for entrepreneur.

4. **Market Conditions:** It is very important for an entrepreneur to have complete information about the changing market conditions and structure. This will help in grasping more opportunities.

5. **Need to Understand Global Changes:** Export and import have become a part of today's business. No entrepreneur can remain aloof from the various changes being happening at the international front.

6. **Optimum Utilization of Resources:** In order to be profitable in business, an entrepreneur needs to manage the resources in such a way that there is optimum utilization of resources.

7. **Ignorance Can be Risky:** Ignoring the changing environment can lead to lose of opportunities and can also lead to disaster. In business any minute activity which is ignored can be harmful in future.

8. **Planning Strategies:** For the purpose of formulating long term policies and strategies for business it is necessary of an entrepreneur to keep himself updated with all the latest changes in the environment.

9. **Improves Performance:** Environment is dynamic and it keeps on changing with time. So it becomes essential to be updated with all the necessary information and knowledge. Being aware of the future changes helps the entrepreneurs in improving the performance leading to confidence in entrepreneurs.

10. **Helps in Decision Making:** The decisions on an entrepreneur are highly effected by external factors such as market conditions, government policies, and geographical factors. Environmental forces influence potentially every important functional decision area of entrepreneur.

2.3 Types of Entrepreneurship Environment

Our society is composed of lot of forces that have impact on the entrepreneur decisions and activities. Entrepreneurship environment is divided in two broad categories:-

1. Internal Environment
2. External Environment

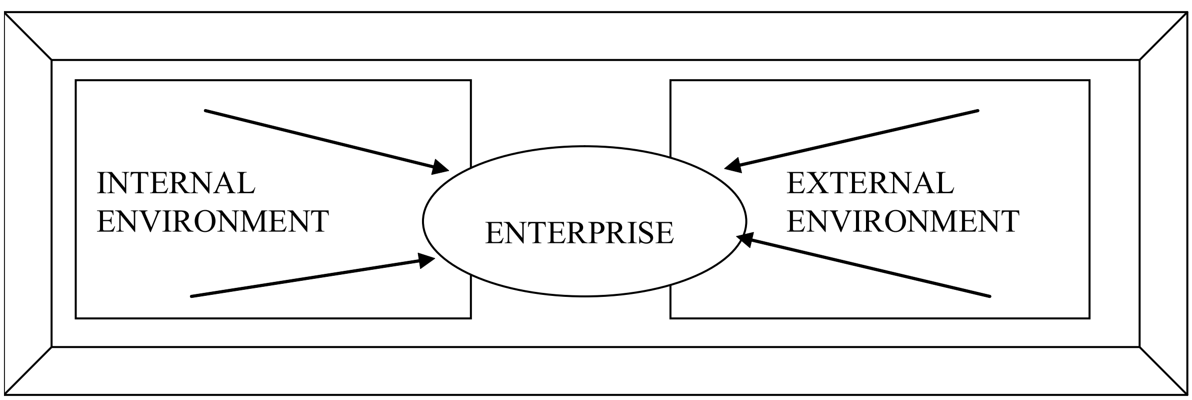

Figure 2.3 : Entrepreneurship Environment

A. Internal Environment

The internal Environment refers to the controllable factors by an entrepreneur though it creates complexities and hurdles. So it becomes necessary for a firm to identify its weaknesses and strengths. A brief description of internal environment is given below.

1. Mission and Objectives: Every business is guided by its missions and objectives. Ranbaxy thrust in to the foreign markets and development has been driven by its mission "to become a research based international pharmaceutical company". It is essential for every entrepreneur to formulate its mission and objective and then plan the other aspects.

2. Management Structure: The organizational structure, composition are important factors that influence decisions of an entrepreneur. Some management structure and their styles delay decision making while others facilitate the decision making process.

3. Internal Relationship: Factors like internal relationship play a very vital role in the progress and development of entrepreneurship. Relationship between the internal public can take an organization at a higher scale. Work culture or environment plays a very vital role in the smooth working of entrepreneurship.

4. Availability of Human Resources: Traits of human resources like skill, quality, morale, motivation, commitment etc. contribute to the strengths and weaknesses of an organization. It it the human resources that make an entrepreneur reach its mission or goal.

5. Customers: The major task of business is to create and sustain customers. Business exists only because of its customers. With the growing globalization it becomes essential on the part of entrepreneur to be exposed to the global market. Entrepreneur can not depend on single customer so to grow and develop in future entrepreneur has to face the competition keeping the customer delight in mind.

6. Marketing Intermediaries: Marketing intermediaries are vital link between public and enterprise. Any disturbance can lead to heavy loss for an entrepreneur. Wrong selection of the link may also cost heavily in the future planning for an entrepreneur.

B. External Environment

The external environment refers to the uncontrollable factors by an entrepreneur. An entrepreneur has to take decisions after considering the effects and pressures of external environment. A brief description of external environment is given below.

1. Physical Environment: The physical environment is largely influenced by nature of demand, price, and distribution, use of material, publicity and consumer behavior. Physical environment includes:

a. Climate and temperature
b. Communication network
c. Land area
d. Electricity and power supply
e. Roads, airports and seaports.

In recent times, natural environment has become a very important aspect while taking the decisions by an entrepreneur. There are various issues which is essential while taking over the activities by an entrepreneur such as water and air pollution, disposal of waste, ozone depletion and global warming.

2. Economic Environment: This covers vast area/ region. It exercises the most and immediate influence on the working of an entrepreneur. Some of the important points while which has a direct impact on the decisions of an entrepreneur are:

a. Economic System: Economic system determines the nature and scope of entrepreneur. The availability of resources also depends on the system to a large extent.

b. Economic Policy: Various policies such as industrial policy, import- export policy, monetary and fiscal policy has a great impact on the activities being carried on by an entrepreneur.

c. Trade Cycles: changes or fluctuations in the trade cycles also create problems and hassles in the working of an entrepreneur to a large extent. Trade cycles create many challenges and problems in the growth and development of entrepreneurship.

d. Structure of Economy: factors like national income, development of capital market, and rate of investment and savings form the structure of economy. Favorable growth of these factors may promote entrepreneurship.

e. **Financial Resources:** Availability of capital also plays a vital role in running the activities of an entrepreneur. It also encourages creativity and innovation. Lack of capital may discourage the entrepreneurs from showing their calibre.

f. **Human Capital:** Human capital can be increased by sharpening the knowledge, skills and capabilities of the people who are associated with activities related to entrepreneurship. Low level of knowledge and abilities can lead to a disaster.

g. **Statutory Laws:** The government enacts various laws to regulate the organizations. Favorable conditions of laws lead to development and growth of entrepreneurship.

h. **Labour:** Availability of capable labour, prevailing wage rate, labour union also has a great impact on the working of entrepreneurship. Prevailing wage rate, demand and supply of labour, expectations from management all have direct influence on the enterprise.

i. **Raw Material and Machinery:** Supply of right raw material, machinery, availability of raw material, latest technology when required also has a huge impact in the working of an entrepreneur.

j. **Consumer Factors:** factors such as needs, preferences, taste, likes and dislikes also influence the business of an entrepreneur. Changes in the consumer behavior influence the growth of entrepreneurship.

3. Technological Environment: Technology refers to application of scientific knowledge to practical knowledge. Technology helps in changing the life, thinking, attitude, values, and habits of the people. Technology environment brings changes in form of:

a. Production method

b. Development of new techniques and machinery

c. Development of new resources

d. New innovations and creativity

e. New changes in purchasing, publicity and advertising method

f. New changes in buying behavior of consumer

4. Social Environment: Social environment plays a very vital role in the development of an entrepreneur. It includes factors like values, customs, traditions, culture, habits and behavior. Some of the factors which are related to entrepreneurship are:-

a. **Culture:** Culture creates distinctions. It gives an identity. It is the culture that determines the growth and development of an entrepreneur. Culture plays a very vital role in forming the environment of an enterprise.

b. **Traditions:** Traditions play a very important role in the lives of human beings. Religious beliefs effect the decisions of an entrepreneur. In developed countries the traditions change rapidly as compared to developing countries like India where the traditions are difficult to change.

c. **Life Style:** Changing role, emphasis on quality products, also lead to effect the decisions of an entrepreneur. Life style changes with changes in society further leading to change in the attitude of an entrepreneur.

d. **Ambitions:** An individual ambition to grow in future depends on the social environment. Ambitions grow with age which finally has influence on the environment.

e. **Collectivism and Individualism:** Entrepreneur bridges the gap between individualism and collectivism. It becomes the duty of an entrepreneur to change the attitude of society towards collectivism.

f. **Social Problems:** Various problems related to society like pollution, safety and welfare affect the nature of entrepreneurship.

g. **Social Institutions:** Social institutions like family, school play a significant role in the working out the activities of entrepreneurship. Decisions taken by entrepreneur are largely affected by these social institutions.

h. **Class Structure:** Growth of entrepreneur is influence by the class of the society. Decisions of an entrepreneur largely depend on the class such as rural or modern.

5. Ethical Environment: Ethics are set of morals and values which conduct our lives. It is the task of entrepreneurs to keep a check on its activities on ethical values. Ethics should act as a guide for an entrepreneur. Ethics not only guides professionalism but helps in purifying out inner mind and soul of an entrepreneur.

Some of the ethical issues that are related to entrepreneurs are:

a. Issues Related to Customers: It includes providing

1. Quality and quantity products
2. Misleading media and publicity
3. Protection of consumer rights

b. Issues Related to Government: These include

1. Payment of taxes on time
2. Maintenance of proper records and accounts
3. Implementation of government policies and decisions

c. Issues Related to competition: These include:

1. Healthy form of competition
2. Misleading competitor with wrong advertisement

d. Issues Related to Community as a Whole: These include:

1. Creating better living standards
2. Improving conditions of the community
3. Introducing innovations and creativity
4. Maintaining standards up to the mark

e. Issues Related to Nation: These include;

1. Upliftment of backward people
2. Providing equal opportunities to all

3. No discrimination
4. Providing employment
5. Decentralization of economic power

f. Issues Related to Enterprises: Theses include:

1. Reasonable profit
2. Maximization of profits
3. Objectives to be fulfilled on ethical grounds.

6. Cultural Environment: Cultural environment is formed by religion, arts and literature. Culture has a large influence on the decisions of an entrepreneur. No entrepreneur can ignore country's culture, heritage and its values. Awareness about culture is an important aspect for an entrepreneur to keep in mind while making decisions such as:

1. To resist change.
2. To have better understanding of attitude and behavior.
3. To know the needs, preferences of the society.
4. To forecast the future needs of people.

7. Government Environment: The significance of government in corporate environment is profound. All the management depends on the political and government arenas. It is a true to say that no business can work properly if not approved by government. Government has set up various rules related to labeling, publicity, advertising, packaging, and safety and welfare measures. Lewis says "No country has made progress without positive stimulus from the intelligent government". Entrepreneur does not only get support from the government but has certain responsibilities towards government.

8. Legal Environment: George Steiner writes ""Not only have legal actions against business in all areas increased rapidly, but potential liability for business has also risen explosively". Entrepreneur has to abide by legal liabilities essentially. Various laws have also been passed by the government to make ensure that affect the entrepreneurs in India. Major areas related to legal environment are:

1. **Fair Employment Practices:** it becomes necessary for an entrepreneur to legally provide fair employment to all without making any discrimination. Various legal issues related to employment are mentioned in Minimum Wages Act
2. **Product Safety, Worker Safety and Health:** to provide safety related to aspects like products being purchased by customers to serve the society as a whole. Various legal issues related to safety and welfare is mentioned in Factories Act, 1948.
3. **Air, Water and Noise Pollution:** To keep a regular check on various aspects of pollution such as air, water and noise and try to make the environment pollution free. Various legal issues related to pollution and clean environment are mentioned in Factories Act, 1948.
4. **Unfair Trade Practices Act:** An entrepreneur has to make ensure that fair practices are being followed while trading with other parties. Only fair practices can lead to real development of an entrepreneur. Various legal issues related to unfair trade practices are clearly mentioned in Monopolies and restrictive Trade practices Act, 1969

5. **Consumer Complaints and Protection:** It is the duty of every organization to make ensure that the complaints and suggestions are welcomed by the public. Consumer protection Act, 1986 has been passed to make ensure of all the complaints.

6. **Government Contracts:** Indian Contract Act, 1872, has been passed by the government to make ensure that all the entrepreneurs abide by the rules which are mentioned in the act.

7. **Practices of Price Discrimination, False and Misleading Advertising, and Deceptive Sales Promotion Devices:** ASCI, Advertising Standards Council of India has been set up by government as a self regulatory voluntary organization of the advertising industry which makes ensure of the issues related to advertising and media.

9. Political Environment: Political factors play a very significant role in the working of entrepreneurs. Major of the decisions and activities being carried by entrepreneurs are largely affected by political environment. Political environment is formed by factors such as:

1. Political administrative system
2. Administrative work culture
3. Functioning of political parties and pressure groups
4. Political stability in the country
5. Concept of industrial democracy and workers participation
6. Nature and extent of State regulations
7. Foreign policy of the government

10. International Government: In today's world of cut throat competition on country can stay isolated. With the coming up of new technology, innovation in all the spheres of life it has become essential to be in touch with the latest advancements. The activities of entrepreneurs are affected by international factors such as:

1. Trade barriers between various countries
2. Trade promotion activities.
3. Global market structures.
4. Changes in perceptions. attitude and behavior
5. Research , modern tolls and techniques
6. Taxes imposed on trade
7. Commercial agreements

2.4 Hurdles in Entrepreneurship Environment

There are many hurdles that retard the growth of entrepreneurship. Some of the problems that impede the development of entrepreneurship are as follows:-

1. **Education System:** There are various institutions that provide knowledge and degree on various courses like arts, science, engineering, finance, human resource, computers etc. but there is no institution that provides degree or complete knowledge of being a good entrepreneur. This leads to a bi problem in the development of entrepreneurship.

2. **Traditional Thoughts and Ideas:** Old beliefs and thoughts also act as big hurdle in the growth of entrepreneurship. People are restricted to new ideas, innovations and new fields.

3. **Society:** Society also acts as a bid hurdle in the path of entrepreneurship. Problems related to society such as castism, family ties, hereditary jobs, forefathers occupation hinders to choose new tastes and ideas.

4. **Inequalities of Income and Wealth:** In developing countries like, India there is unequal distribution of income and wealth which leads to a problem in the growth of entrepreneurship.

5. **Backwardness in Technology:** In underdeveloped countries technological backwardness is a big obstacle in the growth and development of entrepreneurship. Such countries which lack technical know- how are not able to face the cut throat competition.

6. **Lack of Government Facilities:** Government too sometimes act as an obstacle in the growth and development of entrepreneurship. Government many times discourage coming up of new ventures, policies etc.

7. **Resistance to Change:** People are resistance to new changes. They still want to abide by their old thoughts and beliefs. New innovations, ideas, research and creativity are still discouraged by people.

8. **Lack of Positive Attitude and Behavior:** People still lack the positive attitude and believe in negative side of life. Acc to Prof Myrdral in his book "Asian Drama" points out that Asian societies lack entrepreneurship not because they lack money or raw materials but because they have very few men with the 'right attitude'.

9. **Lack of Motivation:** Due to lack of motivation and morale entrepreneurs are not able to grow and develop. Families are still reluctant for their kids to join new business which further demotivates the young entrepreneurs to show creativity.

10. **Other factors:**

    a. Social evils

    b. Lack of positive environment

    c. Strict rules and regulations

    d. Lack of training

    e. Lack of information and communication

2.5 Entrepreneurs of India

1) Sunil Bharti Mittal (Chairman & Managing Director of Bharti Enterprises)

He was one of the first Indian entrepreneurs to identify the mobile telecom business as a major growth area. His plans were finally approved by the Government in 1994 and he launched services in Delhi in 1995, when Bharti Cellular Limited (BCL) was formed to offer cellular services under the brand name AirTel.

Within a few years Bharti became the first telecom company to cross the 2-million mobile subscriber mark. Bharti also brought down the STD/ISD cellular rates in India under brand name 'Indiaone'.IndiaOne was India's first private national as well as the international long-distance service provider, and, thus, became a major factor in Bharti's success by providing services cheaply.

2) N.R. Narayan Murthy (Co-founder of Infosys Technologies)

Murthy's first job position was at IIM Ahmedabad, where he worked as the chief systems programmer.[4] He developed a time-sharing system and designed and implemented a BASIC interpreter for ECIL (Electronics Corporation of India Limited)

After IIM Ahmedabad, he started a company named Softronics in 1976. When that company failed, he joined Patni Computer Systems in Pune. Mr. Murthy met his wife Sudha Murthy in Pune who was an engineer working at Tata Engineering and Locomotive Co. Ltd. (Telco, now known as Tata Motors) at the time.

After settling down in Pune, Mr. Murthy founded Infosys in 1981 with an initial capital injection of Rs 10,000, which was invested by his wife Sudha Murthy. Murthy served as the CEO of Infosys for 21 years and was succeeded by co-founder Nandan Nilekani in 2002. At Infosys he articulated, designed and implemented the Global Delivery Model which has become the foundation for the huge success in IT services outsourcing from India. He also lead the company through several key decisions including its listing on the Indian stock exchange and on the NASDAQ.

He held the executive position of Chairman of the Board from 2002 to 2006, when he became the "non-executive" Chairman of the Board and Chief Mentor. In August 2011, he retired completely from the company and taking the title Chairman Emeritus

3) Dhirubhai Ambani (Founder of Reliance Industries)

He was an Indian business magnate and entrepreneur who founded Reliance Industries, a petrochemicals, communications, power, and textiles conglomerate and one of the 3 privately owned Indian companies in the Fortune 500. Ambani took his company public in 1977. Dhirubhai has been one among the select Forbes billionaires and has also figured in the Sunday Times list of top 50 businessmen in Asia. His life has often been referred to as a true "rags to riches" story.

Dhirubhai started off as a small time worker with Arab merchants in the 1950s and moved to Mumbai in 1958 to start his own business in spices. After making modest profits, he moved into textiles and opened his mill near Ahmedabad. Dhirubhai founded Reliance Industries in 1958 and today the company, with over 85,000 employees, provides almost 5% of the Central Government's total tax revenue. Ambani was credited with introducing the stock market to the average investor, and thousands of investors attended the Reliance annual general meetings, which were sometimes held in a football stadium, with millions more watching on television.

4) Sabeer Bhatia (Founder of Hotmail)

After graduation, Sabeer briefly worked for Apple Computers as a hardware engineer and Firepower Systems Inc. While working there he was amazed at the fact that he could access any software on the internet via a web browser. He, along with his colleague Jack Smith, set up Hotmail on July 4th 1996.

Today, Hotmail remains the world's largest e-mail provider with over 369 million registered users. As President and CEO of, he guided Hotmail's rapid rise to industry leadership and its eventual acquisition by Microsoft in 1998. Bhatia worked at Microsoft for a little over a year after the Hotmail acquisition and in April 1999, he left Microsoft to start another venture, Arzoo Inc, an e-commerce firm.

5) J.R.Tata (Founder of Air India and Chairman of Tata Group)

J. R. D. Tata was inspired early by aviation pioneer Louis Blériot, and took to flying. On February 10, 1929 Tata obtained the first pilot licence issued in India. He later came to be known as the father of Indian civil aviation. He founded India's first commercial airline, 'Tata Airlines', in 1932, which in 1946 became Air India, now India's national airline. He joined Tata & Sons as an unpaid apprentice in 1925. In 1938, at the age of 34, JRD was elected Chairman of Tata & Sons making him the head of the largest industrial group in India. For decades, he directed the huge Tata Group of companies, with major interests in Steel, Engineering, Power, Chemicals and Hospitality. He was famous for succeeding in business while maintaining high ethical standards - refusing to bribe politicians or use the black market.Under his chairmanship, the assets of the Tata Group grew from US$100 million to over US$5 billion. He started with 14 enterprises under his leadership and half a century later on July 26, 1988, when he left, Tata & Sons was a conglomerate of 95 enterprises which they either started or in which they had controlling interest.

6) Raj Anand (founder of the Kwiqq and winner of Business Week Europe's Young Entrepreneur 2007)

He has a bachelors degree in computer system engineering and Master of Research in Computer science and Artificial intelligence from University of Sussex. Raj was one of six entrepreneurs chosen by the panel and won Government funding to take a short Master of Business Administration course at Cranfield University. Things snowballed quickly when Raj found a Brighton-based business angel, David Hill, prepared to invest [6] into setting up a business. Raj built Kwiqq at the age of 23, building majority of the software himself. Anand is a major supporter of entrepreneurship/young entrepreneur speaking at British Library, Foreign and Commonwealth Office, Make Your Mark campaigns etc. Raj now works as a consultant developing creative use of Social network/media and is involved in developing strategies to innovate new social tools at Kwiqq. Kwiqq's parent business, Anderstand Ltd was closed in September 2009. Kwiqq's final blog post gave details of why the company had failed. Raj is also the creator of SUE, Sussex University Entrepreneurs, through which he is trying to support and promote entrepreneurship.

7) K.C Mahindra (Co-founder of Mahindra Group)

Mahindra & Mahindra was set up as a steel trading company in 1945. It soon expanded into manufacturing general-purpose utility vehicles, starting with assembly under licence of the iconic Willys Jeep in India. Soon established as the Jeep manufacturers of India, M&M later branched out into the manufacture of light commercial vehicles (LCVs) and agricultural tractors. Today, M&M is the leader in the utility vehicle segment in India with its flagship UV Scorpio and enjoys a growing global market presence in both the automotive and tractor businesses. Over the past few years, M&M has expanded into new industries and geographies. They entered into the two-wheeler segment by taking over Kinetic Motors in India. M&M also has controlling stake in REVA Electric Car Companyand acquired South Korea's SsangYong Motor Company in 2011. The US based Reputation Institute recently ranked Mahindra among the top 10 Indian companies in its 'Global 200: The World's Best Corporate Reputations' list.

2.6 Summary

The concept of entrepreneurship is assumed to be the prime force for the economic growth in both developed and developing countries. It creates wealth, capital for the economy. The prosperity of a nation is judged by the ability to produce satisfying goods and distribute it widely which is the task on entrepreneur. Peter Drucker writes, "The emergence of the entrepreneurial society may be a major turning point in the history."In true sense entrepreneurs are the builders of nation and creators of economy.

Entrepreneurship is essentially a socio- economic phenomena. There are various factors that stimulate the growth of entrepreneurship which helps in the growth of development of economic environment. Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. In assessing a new venture, entrepreneurs consider a number of different environments, typi-cally, they begin with the macro and then move on to the micro, focusing on data that help them decide how to establish the venture. Internal and external both play a vital role in making the decisions of entrepreneur. It is rightly said that "Entrepreneurship can flourish in the right type of environment"

2.7 Key Words

- **Innovator:** it is a person or an organization who is one of the first to introduce into reality something better than before
- **Strategy:** refers to a plan of action designed to achieve a particular goal
- **Statutory:** Enacted, regulated, or authorized by *statute*
- **Depletion:** to reduce or lessen
- **Transmute:** it refers to change from one form, nature, substance, or state into another
- **Symbiotic:** it refers that both symbionts entirely depend on each other for survival
- **Anticipating:** it refers that someone foresees an event and has prepared for it
- **Trade Cycle:** it refers to the recurrent fluctuation between boom and depression in the economic activity
- **Collectivism:** it refers to the principles or system of ownership and control of the *means* of production and distribution by the people collectively
- **Unfair:** it refers to what is not fair or not conforming to approved standards
- **Deceptive:** it refers to having power to mislead
- **Resistance:** it refers to a force that tends to oppose or retard motion

2.8 Self Assessment Test

1. To assess the economic environment of a venture, an entrepreneur would like a number of questions answered. Identify and discuss five of these questions.
2. Discuss the relationship between Entrepreneurship and environment?
3. Discuss the socio-economic forces of environment that have deep impact on entrepreneurship?
4. Explain the need and importance of Entrepreneurship environment?
5. What are the various obstacles in the growth and development of entrepreneurship?
6. "Entrepreneurial qualities are in-born and cannot be acquired," Analyze this statement.
7. Give satisfactory definitions of an entrepreneur .Discuss the main qualities of a successful entrepreneur.
8. What are the components of "Entrepreneurial Process"? Describe them in detail give examples?
9. What are the various types of environment that relate most to the entrepreneurship?

2.9 Case Study

Packaged Well: Computer Systems

Founders: Uday Kothari and Vishwas Mahajan

Niche: Product Packaging

Revenue: Rs 1,000 lakh

No. of employees: Nearly 100

Many a techie and his best friends have decided to start a venture together but never got their act together. Compulink Systems is a story of how two Indian geeks- Vishwas Mahajan and Uday Kothari-actually got together after completing their foreign stints to set up their own company. Coming from middle –class backgrounds, their venture started out of a garage in 1996 with money borrowed from friends. They two professionals realized there was a good opportunity to do offshore work for small product development companies.

However, in 2000, on the advice of former Nasscom head Dewang Mehta, the two decided to develop their Intellectual Property (I.P).They decided to devote a certain amount of the resources, both in terms of manpower and money, to create IP. That led to the making of its flagship product ProjectByNet, which helps manage projects and software engineering practices. It is a scalable product, where the pricing depends on the number of users-this means both large and small customers can use it effectively.

Clients include software companies such as Accenture Datamatics, Geometric, Tata Consulting Engineers and Tata Industries. So far, 50 percent of Compulink's revenues have come from India, but now that the set-up for international marketing is being put in place they expect that by 2005 the India component will be down to 25 per cent. Hard work, team spirit and an eye on the market is helping Compulink Systems to grow and increase exports. (Source: Economic Times 9th January 2004 Corporate Dossier)

Questions:

(1) What are entrepreneurial qualities of Vishwas Mahajan and Uday Kothari and what are the strategies to build up the organization?

(2) If you were in position, what are the strategies you will take for the future of the company?

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Unit - 3 : Entrepreneurial Competencies

Unit Structure:

3.0 Objectives
3.1 Introduction
3.2 Characteristics of Entrepreneur
3.3 Major Entrepreneurial Competencies
3.4 Developing Competencies
3.5 Summary
3.6 Key Words
3.7 Self Assessment Test
3.8 References

3.0 Objectives

After studying this unit you should be able to understand:

- Concept of Entrepreneur and Entrepreneurship and Entrepreneurial Competencies.
- Research studies undertaken by different experts on Entrepreneurial Competencies.
- Major competencies that an entrepreneur should possess.
- How entrepreneurial competencies should be developed

3.1 Introduction

The concept of 'entrepreneurship' is an elusive one. It was in the 16th century that for the first time the concept of entrepreneurship was used in France for the purpose of providing leadership to the army. Then in the 17th century it was used for craftsman and contractors. It was in the 18th century that the term was applied from the economic point of view. Risk bearing activity was connected to the term in the 19th century and by the 20th century, entrepreneurship was accepted as an innovation activity.

Thus, the concept of entrepreneurship evolved from a long time where it changed according to time, place and the environment. It is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandise profits by production or distribution of economic goods and services (Cole, 1959).Entrepreneurship is the activity which an entrepreneur performs. It is the act of being an entrepreneur, an individual who undertakes innovations, finance and business acumen in order to transform innovations into economic goods. This may result in new organizations or may be an effort towards developing an established organization. The most popular form of entrepreneurship is that of starting new businesses also termed as Startup Company.' However, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. An entrepreneur is solely responsible for the overall growth of his organisation. Experts like Joseph Schumpeter defines entrepreneur as an innovator who introduces new products, institutes a new production technology, discovers a new market, or discovers a new source of raw material. Richard Cantillon, on the other hand, describes entrepreneur as a risk bearer. Likewise many other qualities are associated with the term entrepreneur. Following are some of the important concepts of entrepreneurship:

1) Risk Bearing Concept: This is one of the oldest and most popular concept of entrepreneurship, which was propagated by Richard Cantillon. He was the first person who introduced the term 'Entrepreneur' and his unique risk bearing function in economics in the 18th century.He was of the view that an entrepreneur is such a person who takes the risk of establishing, organising and managing a business enterprise.He defines entrepreneur as an agent who purchase various factors of production at certain prices, combines them and produces products, and sells them at uncertain prices in a future course of time.Another eminent personality, F.H.Knight described entrepreneur to be a specialised group of persons who bears uncertainty.

2) Organising Concept: This concept was propagated by Jean Baptiste Say who viewed that an entrepreneurship is an economic factor which organises and co-ordinates different factors of production.He states that an entrepreneur combines the land of one,labour of another person and the capital of yet another individual, combines them and produces a product. After selling the product, he pays off rent on land, wages to labourers and interest on capital. Whatever amount remains is his/her profit.

3) Innovation Concept: This concept was propagated by Joseph A. Schumpeter. He assigned a crucial role of 'innovation' to the entrepreneur. He was of the view that economic development is a result of certain discrete dynamic change bought by entrepreneurs by constituting new combinations of production which maybe in the following five forms:

a. The introduction of a new product in the market

b. The instituting of a new production technology which has not yet tested by experience in the branch of manufacture concerned.

c. The opening of a new market into which the specific product has not previously entered.

d. The discovery of a new source of supply of raw material.

e. The carrying out of the new form of organisation of any industry by creating of a monopoly position or the breaking up of it. (Khanka,2006)

4) High Achievement Concept: David Mc Clleland was the advocator of this concept through his famous Kakinada experiment.He states that entrepreneurship is the result of high achievement.According to his theory, individuals having high level of achievement needs is a successful entrepreneur.Specific characteristics of such individuals include:

a) Is of the view that the economic undertaking is a problem that has to be solved.

b) Believes that goals can be achieved by his/her own efforts.

c) Believes that he/she possesses the required skills to achieve goals

d) Likes to take risks.

e) Is open and responsive to feedback.

5) Managerial and Leadership Skill Concept: The main propagator of this concept includes Hostelify and J.S.Mill. They are of the opinion that the main ingredients of entrepreneurship are managerial and leadership skills. An entrepreneur should have the capacity to inspect, direct and control resources for attaining successfulness.

6) Searching Opportunities Concept: According to this concept, an entrepreneur is a person who looks for opportunities always.Entreprenuership, itself involves changing, revolutionizing , transforming and introducing new approaches(Pathak and Kalwar,2008). He exploits the opportunity in the right direction.

7) Professional Concept: According to this concept, entrepreneurship is regarded as a profession.It is viewed that entrepreneurship can be developed through education and training.At present, a number of entrepreneurship development programmes are conducted by both government and private institutions for imparting entrepreneurship training among the public.

From the above discussion, we can observe that the term entrepreneurship has evolved a long way.Basically, it is associated with the important functions of innovating, risk bearing and organising.Success of the enterprise, to a great extent, is attributed by the success of the entrepreneur himself.The concepts ultimately forms the basis of entrepreneurial traits.

3.2 Characteristics of Entrepreneur

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

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

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

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

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

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

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

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

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

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

Table 3.1 Characteristics of Successful Entrepreneurs

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

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

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

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

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

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

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

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

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

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

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

1. **Innovator:** Within the constraints of available resources that society or a nation offers, entrepreneurs make the best use of them. Entrepreneurs have a creative vision to recognise a business opportunity. An entrepreneur should have creative thinking and be able to engage in the analysis of various problems and situations in order to deal with them. An entrepreneur introduces new products, new technologies and new economic activities. He creates new demands and new aspirations and new methods to fulfil them. Entrepreneur should anticipate changes and must be able to study various situations in which decisions may have to be made. Drucker Writes, "Entrepreneur create something new, something different, they change or transmute values".

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

3. **Ability to Handle Uncertainty:** The ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhide says that entrepreneurs exhibit "a willingness to jump into things when it's hard to even imagine what the possible set of outcomes will be."

4. **Moderate Risk Taker:** Entrepreneurs are not wild risk takers but are instead calculating risk takers. Unlike "high-rolling, riverboat" gamblers, entrepreneurs rarely gamble. Their goals may appear to be high-even impossible-in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable. They usu-ally spot opportunities in areas that reflect their knowledge, backgrounds, and experi-ences, which increase their probability of success. Entrepreneurs prepare themselves to anticipate problems, create ways to share those problems with suppliers, creditors etc. and minimise the risk by creating likely-to-be successful ventures. In other words, successful entrepreneurs are not as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a solid busi-ness plan for a venture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

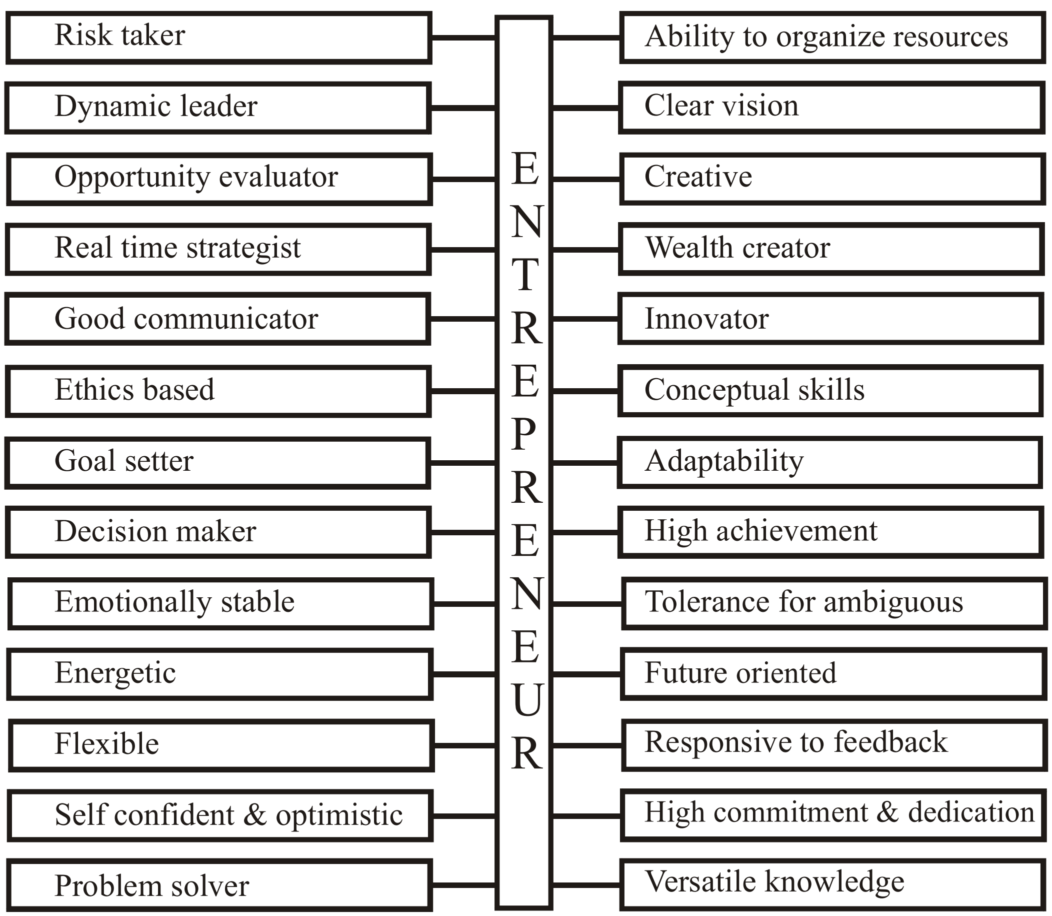

Figure 3.1 : Characteristics of Entrepreneur

3.3 Major Entrepreneurial Competencies

The role of entrepreneurship in economic development involves more than just increasing per capita income and output. It involves constituting change in the structure of business and society.An entrepreneur, being the torch bearer of an enterprise,should possess certain traits or competencies. A 'competence' is an underlying characteristic of a person which leads to his/her effective or superior performance in a job (Boyatzis, 1982).

Possession of certain competencies, also known as entrepreneurial competencies, will help entrepreneurs to operate their business successfully. These competencies or traits may not be known to the person concerned.The traditional viewpoint was that entrepreneurs were born, not made. Most people used to think that a person becomes a successful entrepreneur because he/she belongs to a business family background. But gradually, studies have shown that it is not merely the possession of a business family background that makes a person a successful entrepreneur, but there are certain other qualities and skills which an entrepreneur should acquire to be successful. The additional skills and knowledge can however be acquired only through education and experience.Certain factors however hamper the creation of entrepreneurs which basically include lack of capital, raw material, market, social mobility etc.

Entrepreneurial competencies enhances entrepreneurial performance.Research studies have been conducted by different individual and institutions regarding major entrepreneurial competencies that should be acquired by an entrepreneur. A study conducted by Entrepreneurship Development Institute of India (EDI), Ahmedabad under the guidance of Prof. David Mc Clleland has identified the following major competencies to be acquired by an entrepreneur which results in superior performance.

1. **Initiative**: An entrepreneur is one who initiates a business activity.
2. **Persistence:** He follows the Japanese proverb "Fall seven times,stand up eight." He makes repeated efforts to overcome obstacles that get in the way of reaching goals.
3. **Looking for opportunities:** He looks for an opportunity and takes appropriate action as and when it arises.
4. **Information seeker:** Takes individual research and consults experts to get information to help reach the goal.
5. **Quality conscious:** He has always strong urge to excel to beat the existing standards.
6. **Commitment:** He does every sacrifice to get the work completed.
7. **Efficiency Seeker:** Makes tenacious efforts to get the task completed with minimum cost and time.
8. **Proper Planning:** He formulates realistic plans and implements them rigorously.
9. **Self Confidence:** He possess strong self confidence
10. **Well wisher :** He is a well wisher of his employees.
11. **Efficient monitor :** He personally supervises the work of his subordinates.
12. Again, James J. Berne(1960) emphasized on the following qualities of a good entrepreneur:
    - He is an enterprising individual, energetic and hard working.
    - He is interested in advancing technologically and in improving the quality of his product or service.
    - He is interested in expanding the scale of his operations.
    - He visualises changes and adopts them.
    - He is a firm believer in planning and systematic work.

Likewise eminent experts like B.C.Tandon and James T.Mc Crory have identified and stated various competencies of an entrepreneur.The much required traits that makes a good entrepreneur can be summed up as follows:

1. **Motivation Towards Achievement:** An entrepreneur is always motivated towards the need for high achievement. Moreover, he should also have the capacity to get things done through others.

2. **Risk Bearing Capacity:** A successful entrepreneur should always be alert to new opportunities and should have the capacity to bear risk. Hull and colleagues (1980) found that the personality characteristics most important in identifying entrepreneurial types of individuals are (a) functional task preference and (b) personality constructs of creativity, risk and flexibility.

3. **Tactful:** An entrepreneur should be tactful and should have the capacity to make rational and quick decisions.

4. **Leadership:** An entrepreneur must have the ability to lead and manage.

5. **Resource Utilisation:** The entrepreneur should take steps for mobilising available resources to the optimum for achieving organisational goals.He should try to keep the cost of production to the minimum, but without compromising the quality of goods or services.

6. **Communicator:** An entrepreneur should be a good communicator.He should communicate plans and policies to his subordinates in a proper and effective manner.

7. **Motivator:** A good entrepreneur is a person who can motivate others to perform for the effectiveness of the organisation.

8. **Willingness to Change:** An entrepreneur should update himself with new technological improvements and should adopt it in the business to keep pace with the competitive environment.For this purpose, he should possess necessary technical knowledge

9. **Optimistic:** An entrepreneur should be optimistic in his approach.

10. **Innovative:** He should be innovative in nature. He should always look for new opportunities and try to implement them.Gartner (1989) refers to innovation as the central value of the entrepreneurial behavior, since it is successfully taking an idea or invention to market. Innovation and problem solving capabilities are expected to be the core of the entrepreneurial capability of an entrepreneur.The entrepreneur, in his way of searching new opportunities, have to face innumerable challenges.Thus, innovativeness is a major issue in this aspect, since he have to bring an idea which is completely new.Schumpter (as cited in Sexton and Smilor, 1986) felt that innovation was one of the central characteristics of entrepreneurial endeavor.

11. **Value:** An entrepreneur should have certain values within him/her. Value refers to an individual's perception on people , places and things.

12 Locus of Control: The concept of locus of control is closely related to the concept of a high need for achievement .

Locus of control maybe internal or external based. People having internal locus of control believe that they themselves can control their destiny. On the other hand, people having external locus of control believes that there are certain external factors,which have a dominating influence over their fate.It is believed that people having high internal locus of control have high achievement motive.Individuals who are reluctant in believing in their ability to control the environment though their actions, would also be expected to be reluctant to assume the risks that starting a business entails (Chen, Greene, and Crick, 1998; Mueller and Thomas, 2000, Sexton and Smilor, 1986;)

13.Strong Commitment: An entrepreneur is characterized by strong commitment and will power.He takes every step to

make his enterprise successful even at the cost of his own interest.He motivates others to get work done.

14.Change Agent: The entrepreneur is a change agent.He introduces changes in the enterprise to make it sustain in this competitive globalised environment

3.4 Developing Competencies

Entrepreneurial competency results in superior performance of a job.It is a crucial factor in attaining success.Competency has a direct bearing on human behaviour and performance which necessitates that entrepreneurial competencies are need to be developed in a very systematic manner. The main components of entrepreneurial competence are knowledge, skill and motive.Any procedure aimed at developing entrepreneurial competence should examine that there is adequate improvement in the knowledge, skill and motive of the trainee/participant.The well known Kakinada experiment has proved that it is through education and training that entrepreneurial competencies can be injected in human behaviour.Thus,it was this experiment which made people believe that it was training that plays a significant role in inducing entrepreneurial competencies and hence the idea of conducting entrepreneurial training, popularly known as Entrepreneurship Development Programme (EDP) has evolved. EDP is a broad concept involving techniques of developing competencies alongwith providing ideas assisting potential entrepreneurs to set up their enterprises.It means a program which is designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively(wiki.answers.com) An entrepreneur should possess adequate skills, ability to grasp opportunities , knowledge to maximize gains, business skills, and leadership qualities. This can be made possible through entrepreneurship development.Various entrepreneurship development models are as follows:

A) Psychological Models

These model gives preference to the psychology of an individual in learning entrepreneurship traits.For instance, David Mc Clleland, in his entrepreneurship model, puts more emphasis on achievement motives and suggested that motivation training programme is the policy measure which makes entrepreneurs willing and eager new opportunities.Again, John Kunkel, in 1965, provided a behaviourist model which suggested that entrepreneurial behaviour is a function of the surrounding social structure, both past and present, and can be influenced by manipulating economic and social incentives (Charantimath,2005).The need to achieve is a drive to excel, to achieve a goal in relation to a set of standards (Chell, Haworth, and Brearley, 1991, Johnson, 1990).Other criticisms of McClelland's achievement motivation theory on entrepreneurs look at the attempt to relate economic development to the prevalence of achievement imagery (Chell, Haworth and Brearley, 1991). In certain cultures, failure is seen as a positive learning experience, while in others it is not.

However, some empirical support have been provided by various experts on the idea that entrepreneurs have a higher motive to achieve as compared to non-entrepreneurs. Begley (1995) and Hornaday and Aboud (1971) consistently found that the achievement motivation exists as a stable characteristic and is more prevalent among entrepreneurs when compared to others.

B) Social Models

The social approach focuses on the novice entrepreneur and his intention to creating a business. For this purpose, the entrepreneur needs help in developing self-efficacy and a support system from the community to help in planning, self-regulation, and converting ideas into a potential business enterprise.One of the popular sociological model is Frank W.Young's theory of entrepreneurship which is mainly based on the incorporation of relative sub groups by the society.

C) Integrated Models

Approaches under this category basically emphasizes on the fact that there are certain factors which when combined results in entrepreneurship.These factors include need for motive, long term commitment, availability of personal, social and material resources and an effective socio-political system.The models consider entrepreneurship to be a behaviour rather than a trait.

1) Acquiring knowledge and understanding: The first step towards acquiring a new behaviour is to gain knowledge and understanding what a particular competence means. Competencies cannot be cultivated without having an adequate knowledge on its meaning, importance and relevance.

2) Recognising competency: Under this step, the competency should be recognised. This will assist an entrepreneur to know as to which competencies are required to perform a particular task in a specific manner when someone exhibits the same.

Once a particular competency is understood and recognized, the next step is to find out where one stands with respect to a given competency. In other words, a person should try to determine that whether he possesses a given competence and if yes, how frequently one exhibits the same in one's day-to-day activities for achieving his desired goal.This can be done by preparing a self-rating questionnaire

3) Competence Application: At this stage the person having determined that at what position he stands with respect to a particular competency,should practice the same on a continuous basis in various activities.

4) Feedback: Finally, after understanding, internalising and practising a particular behaviour, one must make an introspection of the same to determine the strengths and weakness of one's behaviour. This will assist the person to take a decision on whether to sustain or give up that behaviour.

3.5 Summary

Development of entrepreneurial competencies involves various steps, viz, acquiring knowledge and understanding, competence recognition, self assessment, application of competence and feedback.Adoption of these methods would assess a person to identify the competencies he is possessing alongwth the areas of strengths and weaknesses and to determine whether to retain or quit a particular competence. Entrepreneurial competencies or traits are necessary for entrepreneurial success. This requires that proper knowledge of these competencies should be injected in human behaviour through education and training.Some of the major competencies includes innovativeness, leadership, high achievement motive, communication skill, decision making ability, creativity, ambitious, change agent, good organiser and risk bearing capacity.

The major components of entrepreneurial competencies involves knowledge, skill and motive.Knowledge indicates collection and retention of information. However, mere knowledge is not sufficient for a person to perform something. For this, skill is required. Skill is defined as the application of knowledge.It enhances the ability to display behaviour. Again, mere possession of skill and knowledge is also not sufficient. The person should have the willingness to perform. This is motive.Therefore, programs and methods aimed at developing entrepreneurial competencies should examine that development in knowledge, skills and motive goes hand in hand.

3.6 Key Words

- **Competence**: It is an underlying characteristic of a person which assists him in demonstrating superior performance.
- **Entrepreneurship:** It is a dynamic activity which assists entrepreneurs to bring about significant changes in the process of production, innovation concept, new usage of raw materials and explorer of new market.
- **Entrepreneur:** He is a person who innovates new things such as new methods of production, new sources of raw materials, new marketing techniques etc. He is a businessman with long term mission and vision.

3.7 Self Assessment Test

1. What is Entrepreneurial Competence?
2. Discuss the major entrepreneurial competencies?
3. State in brief the procedure of developing entrepreneurial competencies?
4. Discuss the different development models of entrepreneurship?
5. 'Entrepreneurs are made, not born.' Discuss.
6. What are the factors that motivate people to go into business?

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Unit - 4 : Entrepreneurship Development Programmes

Unit Structure:

4.0 Objectives
4.1 Introduction
4.2 Meaning of EDP
4.3 Objectives
4.4 Course Contents and Curriculum
4.5 Phases of Entrepreneurship Development Programmes
4.6 Evaluation of Entrepreneurship Development Programmes
4.7 Summary
4.8 Self Assessment Test
4.9 References

4.0 Objectives

After completing this unit, you would be able to:

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

4.1 Introduction

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

The entrepreneurs should exhibit these under-mentioned qualities necessarily:

- **Initiative:** Initiation of any business activity should come from the entrepreneur. It is the entrepreneur who takes action that goes beyond job requirements or the demand of the situation. He does things before being asked or forced by the events.

- **Looking for Opportunities:** A successful entrepreneur is one who always is on the look for and takes action on opportunities. He must be always in readiness to exploit it in maximising the interest of the organization.

- **Persistence:** An entrepreneur should take repeated actions to overcome the obstacles that get in the way of reaching goals. He should never be disheartened by failures.

- **Systematic Planning:** Entrepreneurs develop and use logical, step-by-step, realistic and proper plans to accomplish their goals. They believe in systematic planning and its proper execution to reach goals.

- **Problem Solving:** Successful entrepreneurs are challenging by nature. They always try to find out ways and means to overcome the problems that come in their way. They also identify new and potentially unique ideas to achieve their targets.

- **Self-Confidence:** Successful entrepreneurs must have a strong belief in themselves and in their own abilities. They have full faith and confidence on their own knowledge, skill, and competency to complete a task or meet a challenge. They are not at all cowed down by difficult situations.

- **Assertiveness:** A successful entrepreneur must be assertive in nature so that he can assert his issues with others for promotion of interest of his enterprise. He tells others what they have to do and rebuke or disciplines those failing to perform as expected.

- **Persuasion:** A successful entrepreneur must be able to persuade others to do the work the way he wants them to do. He is able to convince others through his knowledge and competence. He asserts strong confidence in his own company's product or services. He must possess the ability to convince everybody - sellers, consumers, employees, creditors etc.

- **Information Seeking:** An entrepreneur is always in search of new ideas and information from various sources to help reach objectives or clarify problems. He can consult experts for business or technical advice. He personally undertakes research, analysis or investigation on his own to get information in realising his goals.

- **Concern for Quality Products:** Successful entrepreneurs always believe in high quality standards of their products with reasonable prices. They believe in excellence. They act to do things that meet or beat existing standards of excellence.

- **Commitment to Work:** Successful entrepreneurs do every sacrifice to get the task completed. They put highest priority for accomplishing their objective. They are committed to their work. They also express a concern for satisfying their customers.

- **Efficiency Orientation:** Successful entrepreneurs find ways to do things faster with fewer resources at lower costs. They are always interested in devising new methods aimed at promoting efficiency.

- **Monitoring:** Successful entrepreneurs ensure regular monitoring of the working to achieve the organization's goal in the best possible manner. They personally supervise all aspects of their project to ensure completion of the work within the schedule time and cost.

- **Concern for Employee's Welfare:** Concern for employee's welfare should be at the top of the agenda of successful entrepreneurs. They give priority to improve the welfare of the employees because it is the employees whose dedication and commitment services lead to super performance of the organization.

- **Effective Strategist:** Successful entrepreneur develops and uses varieties of effective strategies to accomplish own objectives. They also evolve relevant strategies which will safeguard and promote the interest of the organization.

It has been rightly told that entrepreneurs are not born, they are made. Entrepreneurship does not emerge and develop of its own. Its emergence and development depends upon an environment in which entrepreneur can learn and discharge his/her assigned responsibility in an efficient manner. The government can also play a positive role in the emergence and development of entrepreneurship by providing training, incentives, concessions etc. and by creating an environment conducive for the growth of entrepreneurship. All these help the entrepreneurs to undertake creative actions thus, entrepreneurial development is essentially a process in which persons are injected with motivational drives of achievement and insight to tackle uncertain and risky situations, especially in business enterprises. But the real problem is how to develop entrepreneurship. Entrepreneurship Development Programmes (EDPs) are designed and developed to offer solutions to this problem.

4.2 Meaning of EDP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.3 Objectives

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

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

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

4.4 Course Contents and Curriculum

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    The selection of those who are most likely to succeed as entrepreneurs should be based on clear and transparent criteria. Potential entrepreneurs display initiative and ambition, have business sense and foresight, and are decisive. Promising entrepreneurs should be nurtured and helped to serve as role models am mentors for their communities. Measures to target groups rather than individuals can mitigate income inequality and be effective in empowering disadvantaged groups, especially women, youth and minorities.

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

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

13. Provide Support for Conduct of EDPs through Efficient Organizations

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

14 EDPs may have to include Support

Entrepreneurship orientation and awareness, improvement of business performance for growth and competitiveness etc. Entrepreneurship Development training is usually more effective when linked to finance and other services such as marketing, quality assurance and productivity improvement. A balance must to be struck between overloading an EDP with numerous services needs and providing an effective, integrated package and addressed by coordination between programmes or entrepreneurship development providers so that each provides a different and specialized service. Programmes usually begin with developing competencies and move on to supporting the trained candidate with counselling and other business support. One mechanism for integrated support is business incubators. An incubator nurtures early-stage businesses through continuing entrepreneurship development, counseling and administrative services and by accessing external professional support and facilities all under one roof. It is particularly relevant where intensive assistance is appropriate.

4.5 Phases of Entrepreneurship Development Programmes

An Entrepreneurship Development Programme consists of the following three phases:

- **Initial or Pre-training Phase:**

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

a) Creation of infrastructure for training

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

- **Training or Development Phase**:

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

a) Is he/ she attitudinally tuned very much towards his/ her proposed project idea?
b) Is there any change in his/her entrepreneurial outlook, role and skill?
c) How should he/she behave like an entrepreneur?
d) What kind of entrepreneurial behaviour does the trainee lack?
e) Is he/she skillful in choosing the right project, mobilizing the right resources at the right time?
f) Does he possess the knowledge of technology, resources and other related entrepreneurial knowledge?

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

- **Post-training or Follow-up Phase**:

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

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

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

4.6 Evaluation of Entrepreneurship Development Programmes

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

Developing entrepreneurship has become a movement in India in the recent years. EDPs have been considered as an effective instrument for entrepreneurship in the countryside. Hundreds of EDPs are conducted by more than 700 organizations to impart entrepreneurial training to participants in thousands. The main objective of these EDPs is to train enterprise creators. Having spent lot of public money and effort for organising EDPs it was also necessary to evaluate whether the objectives of EDPs are fulfilled or not. In simple words, there is a need to have a data as to how many participants of these EDPs have actually started their own enterprises after completing the training. With this feedback evaluation of EDPs was imminent. So far some 16 evaluation studies have been conducted by various organizations and individual researchers. No doubt, these studies vary in their objectives, coverage and content. But, one common thread in all of them is the assessment of effectiveness or impact of EDPs, howsoever, loosely defined. One of the earliest attempts in this direction was made by a team of researchers and experts appointed by the Gujarat Corporations to evaluate the effectiveness of EDPs. One of the most comprehensive evaluation studies on EDPs was one carried out by the Entrepreneurship Development Institute of India, Ahmedabad (Awasthi and Sebastian, 1996). It was observed that one out of every four trainees (26 per cent) actually started his/her enterprise after undergoing entrepreneurial training. However, the expected final start-up rate was slightly higher around 32 per cent. About 10 per cent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If not helped effectively, they may join the category of those 29 per cent trainees who have already given up the idea of launching their ventures. According to the secondary sources, viz., family, friends and neighbours, out of 430 trainees who could not be contacted personally during this field survey, 17 per cent have given up the idea of venture launching as they are engaged in other activities. According to Awasthi and Sebastian (1996), the performance of EDPs across the states and across the ED organization has not been uniform. The actual startup rates are observed to be oscillating between 9 per cent and 56 per cent, bringing down the overall national start-up rate to about 26 per cent. This by any count cannot be considered as impressive performance. And in this non impressive performance lies the need for looking at the problems and constraints of EDPs.

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

- Trainer-motivations are not found up to the mark in motivating the trainees to start their own enterprises.
- Entrepreneurship Development organizations lack in commitment and sincerity in conducting the EDPs (Patel, Trivedi and Raval, 1984). In some cases, EDPs are used as a means to generate surplus (income) for the Entrepreneurship Development organizations.
- Non-conducive environment and constraints make the trainer-motivators' role ineffective (Awasthi, 1989).

- The apathetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.
- Selection of wrong trainees also leads to low success rate of EDPs.

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

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

In other behavioural experiments (Sah, et al, 1974) the impact of EDPs is measured with the help of indices relating to the entrepreneurial behaviour. The entrepreneurial behaviour is measured on the following four dimensions:

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

The EDPs are to be evaluated on the following basis:

• Programme Objectives:

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

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

- Everyone cannot be an entrepreneur. An individual must have certain traits in order to be successful entrepreneur.
- The traits required for successful entrepreneurship can be identified and measured through psychological test and certain social indices.

- Persons who possess these traits will be more successful than those not having.
- Persons possessing such traits can be trained to further develop them on other dimensions of entrepreneurship too.

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

• Selection Strategy and Procedures:

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

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

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

• Training Programme:

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

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

- Comparison of a random sample of entrepreneurs from the trained group with those of a random sample from untrained group.
- Comparison of a random sample of entrepreneurs from the trained group with those from the rejected group.
- Interviewing the trained group to find out their opinion on the training programme.

- Surveying the expectations and experiences of those under training.
- Examination of the curriculum content by a group of experts.
- Assessment of trained entrepreneurs in their business operations.

• Organizational Policies and Structures:

Entrepreneurial development programmes are generally institutionalized. A local, regional, national or international agency often takes the initiative in starting, funding and executing the programme. These are promotional agencies. Without an institutional support entrepreneurial development programmes are not likely to be successful. Therefore, the assessment of such programmes should begin with the evaluation of the effectiveness of the organizations or agonies concerned with the sponsoring, funding and execution of the programme. Such assessment may cover the evaluation of the agencies resources and development needs. Such needs may relate to financial resources, faculty requirements, viable structures to attract entrepreneurs and to provide them with continuous support, physical facilities, such as a workshop, a study cell, etc.

The policies and strategies of the concerned agencies are equally significant. The training strategy of the organization concerning an EDP depends upon its overall view about entrepreneurial development. For instance, one agency might take a limited view and relate entrepreneurship to making industrial organization. Another organization on the other hand might adopt a broader view of developing entrepreneur spirit in the community as a whole. Such a view might be appropriate in cultures facing occupational stability. Such specific orientation of sponsoring of executing agencies would provide direction to the training courses. Therefore, command needs will also have to be evaluated. Like the assessment of policies, strategies, community needs and the organizations of training courses the structure and process of the organization should also be evaluated. Creative and flexible structures and processes may set an example to the trainees. The dynamics of the organization and its working may have to be examined to see if it has requisite self-renewing characteristics.

4.7 Summary

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

4.8 Self Assessment Test

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

2. What do you understand by EDPs? Explan.

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

4. Discuss the various phases involved in EDP?

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

6. On what parameters EDPs should be evaluated? Discuss.

4.9 References

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Unit - 5 : Small Scale Industries

Unit Structure:

5.0 Objectives

5.1 Introduction

5.2 Definition

5.3 Objectives of Small Scale Industries

5.4 Contribution of Small Scale Sector

5.5 Characteristics of Small Scale Industries

5.6 Classification

5.7 Policy Support for Small Scale Business

5.8 Registering SSI Unit

5.9 Challenges Faced by Small Scale Industry

5.10 Summary

5.11 Key Words

5.12 Self Assessment Test

5.13 References

5.0 Objectives

After completing the unit, you should be able to :

- Understand the role and objectives of small scale business
- Define a SSI unit.
- Explain the nature and characteristics of small scale business.
- Discuss the challenges faced by small scale business.

5.1 Introduction

Small-scale industries play a very vital role in the country's economy despite the phenomenal growth in the large-scale sector. In fact, the small-scale sector is playing a vital role in the growth of national economies the world over and is considered to be the engine of growth in most countries. Due to scarcity of capital and finance in India, the Government of India has encouraged small scale industries, as an alternative to agriculture and heavy industries, as these can operate on limited resources. A small scale industry can be operated by an entrepreneur without sophisticated machinery and modern technology. These small scale industrial units can be established in semi urban and rural areas where the infrastructure is underdeveloped. The objective is to use local raw material for raising production with the help of local skills. The small scale units need short gestation period in establishment, are less dependent on imported raw material and machinery and help in meeting a substantial part of demand of consumer goods. These units also help in balancing regional disparities in economic growth.

The small scale sector has acquired a prominent position in the economic structure of India. The contribution of the sector both towards economic development and removal of economic disparities among the cross section of society has been tremendous. This sector owes its definition to Regulation) Act 1951. The sector is defined in terms of investment limits in plant & machinery (original values) up to a prescribed limit. According to present definition "Industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchase does not exceed Rs. 50 million. However, no small-scale undertaking shall be subsidiary of, or owned or controlled by any other industrial undertaking.

The small scale sector in India comprises of a widely divergent spectrum of industries, ranging from the micro and rural enterprises - using rudimentary technology, on the one hand - to modern units using sophisticated technology, on the other. This traditional sector in India is considered to have huge growth prospect with its wide range of products. It has a significant contribution in the growth of GDP, employment generation and exports. The small scale industrial sector in India is acting as engine of growth in the new millennium. It contributes almost 40 percent of the total industrial output and 35 percent share in exports. The small scale sector has grown rapidly over the years. The number of small scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 33.70 lakhs in the year 2000 and accounts for 95 percent of the industrial units. The production of small scale sector at current prices is about Rs. 6,45,496 crores. It gives employment to 186 lakh persons.

5.2 Definition

The definition for industrial undertakings has changed over time. Prior to the year 2006 the term SSI was being, and after enactment of MSMED Act 2006, in Oct 2006, the term MSME (Micro, Small and Medium Enterprises) is being use.

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

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

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

Table 5.1: Changes in the Definition of SSI in India

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

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

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

Table 5.2 : Classification of Micro, Small and Medium Enterprises

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

* Investment limit in Plant & Machinery   ** Investment limit in equipment

Further, the term *Village industries* has been redefined in amended KVIC Act 1956, as 'any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. 1 lakh (Rs 1.5 lakh in case of village industry located in a hilly area.)

MSMED Act, 2006:

A single comprehensive act for development and regulation of small enterprises had been a long outstanding demand of the Sector so as to free it from a plethora of laws and regulations and visit of inspectors, which it had to face with limited awareness and resources. The need has been emphasized from time to time by stake holders at different fora. In addition, recommendations to provide for a proper legal framework for small sector to relieve it of the requirements to comply with multiple rules and regulations were made by the Committees such as the Abid Hussain Committee (1997) and Study Group under Dr. S.P. Gupta (2000). While the small scale industries continued to be important for the economy, in the recent years the small scale services have also emerged as a significant sector contributing substantially to the economy and employing millions of workers. Therefore, it became necessary, as is the practice worldwide, to address the concerns of both the small scale industries and services together and recognize them as small enterprises. In a fast growing economy like ours, the natural mobility of small enterprises to medium ones has to be facilitated through appropriate policy interventions and legal framework. With these objectives in view, the Government came with an exclusive legislation for micro, small and medium enterprises known as the Micro, Small and Medium Enterprises Development Act, 2006.

This act was notified in 2006 and it to addresses policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The salient features of the Act include: classification of enterprises, setting up of a National Board for MSMEs, advisory committees to support MSMEs, measures for promotion, development and enhancement of MSMEs, etc. On 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, the Ministry of Small Scale Industries (SSI) and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (MSME). This Ministry is now responsible for promoting, facilitating, monitoring and assisting MSMEs in India.

5.3 Objectives of Small Scale Business

The emphasis on small scale industries has always been an integral part of the Indian industrial strategy. The socio-economic policies adopted by India since the Industries (Development and Regulation) Act, 1951 have laid stress on small scale industries as a means to improve the country's economic conditions. After independence it was envisaged that small scale industries would play an important role as producer of consumer goods and absorber of surplus labour thereby addressing to the problems of poverty and unemployment. The SSI sector has been considered as a powerful instrument for realizing objectives like 'Accelerated Industrial Growth' and 'creating additional Productive Employment Potential', in rural and backward areas.

The following are some of the important objectives fulfilled by small- scale industries in India.

1. **Employment Generation:** Increasing population needs massive employment opportunities. This problem is solved to larger extent by small scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. It is a powerful tool of job creation.

   The SSI sector in India creates largest employment opportunities, next only to agriculture. The generation of employment by the small scale sector is more than five times to that of the large-scale sector. It has been estimated that 100,000 rupees of investment in fixed assets in the small scale sector generates employment for four persons.

2. **Mobilisation of Resources and Entrepreneurial Skill:** The Government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host

of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills. Small scale industries can mobilise a good amount of savings and entrepreneurial skill from rural and semi-urban areas. A huge amount of latent resources are also being mobilised by the small scale sector for the development of the economy.

3. **Regional Dispersal of Industries:** There has been massive concentration of industries in a few large cities of some states of India. People migrate from rural and semi urban areas to these highly developed centres in search of employment. This results in many unwanted consequences like over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small- scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promoting balanced regional development.

4. **Supports the Growth of Large Industries:** The small scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them.

5.4 Contribution of Small Scale Sector

The role of small enterprises in the economic and social development of the country is well known. It is the nursery for entrepreneurship, often driven by the individual creativity and innovation, with a significant contribution in the country's GDP, manufacturing output, exports and employment generation. The statistics regarding the contribution of small and medium business is being provided by the Ministry of MSME. Prior to the year 2006, the statistics contain data about micro and small units. After the year 2006, the data include medium enterprises- both manufacturing and services.

Office of the Development Commissioner, Micro, Small and Medium Enterprises, had so far conducted three censuses on micro and small enterprises. The latest being 4th Census conducted with reference period 2006-07 was completed during 2010-11. This census showed that MSMEs contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSMEs and the overall growth in the MSMEs are much higher than in the larger industries. MSMEs are better dispersed. In view of these factors, MSMEs are important for achieving national objectives of growth with equity and inclusion.

As per the quick estimates of 4th All-India Census of MSMEs:

- The number of enterprises is estimated to be about 26 million
- These 26 million units provide employment to an estimated 60 million persons.
- Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment.
- Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89% and 0.17% respectively. This comprises of 67.10% manufacturing enterprises and 32.90% services enterprises.
- About 45.23% (7.07 lakh) of the units were located in rural areas and the rest in urban areas.
- 90.08 % of the enterprises in the registered MSME sector were proprietary concerns. About 4.01 % of the enterprises were run by partnerships and 2.78 % of the enterprises were run by private companies. The rest were owned by public limited companies, cooperatives/trusts or others.

- An enterprise (Manufacturing or Services) managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as partners/ share holders/ Directors of Private Limited Company/ Members of Co-operative Society is called a 'Woman Enterprise'. It was found that 13.72% (2.15 lakh) of the units in the registered MSME sector were women enterprises, whereas the share of enterprises actual managed by women was 13.72%.
- The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships.

***Production* :** It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive.

MSMEs in the Country Produce Over 6,000 Products: Some of the major subsectors in terms of manufacturing output are food products (18.97%), textiles and readymade garments (14.05%), basic metal (8.81%), chemical and chemical products (7.55%), metal products (7.52%), machinery and equipments (6.35%), transport equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).

Employment: SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. Employment from the MSE sector (including SSSBEs) in the country as per the Fourth Census of MSEs with Reference Year 2006-07 was 594.61 lakh numbers. As per the estimates compiled for the year 2009-10, the employment was 695.38 lakh persons in the sector.

Export: SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. It is interesting to note that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products.

The contribution of small scale sector to India's economy can be further summarised in form of a table, as follows:

Table 5.3 : Contribution of Small Scale Sector to India's Economy

S. No	Year	Total units SSI/ MSME (lakh numbers)	Fixed Investment (Rs. Crore)	Production (Rs crore)	Employment (lakh person)	Exports (Rs.crore) Current Prices
1	2005-06	123.42 (4.07)	188113 (5.27)	497842 (15.83)	294.91 (4.37)	150242 (20.76)
2	2009-10	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.47)	N. A.

(The figures in brackets show the percentage growth over the previous year. The data for the period up to 2005-06 is of small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises (MSMEs) are being compiled as per the new classification of MSMED Act, 2006.)

Data source : Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, page 16

5.5 Characteristics of Small Industries

Following are the characteristics of small scale business:

1. **Seed Bed of Entrepreneurship:** A small scale unit is generally a one-man show. It is mostly set up by individuals. Even some small units are run by partnership firm or company; the activities are mainly carried out by one of the partners or directors. Therefore,' they provide an outlet for expression of the entrepreneurial spirit. As they are their own boss, the decision making process is fast and at times more innovative.

2. **High Labour Intensity:** Small scale industries are fairly labour-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.

3. **Low Capital Intensity:** Small scale industries can be started with very less investment. They usually have much smaller capital than larger enterprises. The term "shoe-string budget" refers to businesses that operate under very tight budgets. Small businesses are sometimes run out of a room in the business owner's home; this cuts the cost of renting office space.

4. **Use of Local Skills and Knowledge:** The Government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills.

5. **Flexibility:** Small scale industries are flexible in their operation. They adopt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing environment.

6. **Use of Indigenous Raw Materials:** Small scale industries use indigenous raw materials and promote intermediate and capital goods. They contribute to faster balanced economic growth in a transitional economy through decentralisation and dispersal of industries in the local areas.

7. **Lesser Gestation Period:** Gestation period is the period after which the return on investment starts. It is the time period between setting the units and commencement of production. Small scale industries usually have a lesser gestation period than large industries. This helps the entrepreneur to earn after a short period of time. Capital will not be blocked for a longer period.

8. **Workplace Culture:** Small businesses have fewer employees. Employees of small businesses are less specialized than in larger businesses. In larger enterprises, employees have specific job descriptions, but in small businesses employees are more often expected to help with a variety of tasks, because there are fewer people to do everything.

5.6 Classification

The traditional small scale industries clearly differ from their modern counterparts in many respects. The traditional units are highly labor consuming with their age-old machineries and conventional techniques of production resulting in poor productivity rate whereas the modern small scale units are much more productive with less manpower and more sophisticated equipments.

Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the traditional small scale industries in India. The modern small industries offer a wide range of products starting from simple items like hosiery products, garments, leather products, etc to more sophisticated items like electronics control system, various engineering products especially as ancillaries to large industrial undertakings.
Nowadays Indian small scale industries (SSIs) are mostly modern small scale industries. Modernization has widened the list of products offered by this industry. The items manufactured in modern Small scale service and business enterprises in India now include rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, hardware, electrical items, transport equipment, electronic components and equipments, automobile parts, bicycle parts, instruments, sports goods, stationery items and clocks and watches.
The SSI units can be broadly classified as:

Table 5.4: Classification of SSI Units

Traditional	**Modern**	
food processing, handlooms, coir industries, sericulture, cottage industries, handicrafts, khadi industry etc.	With Power	Without Power
	power looms, engineering industries, chemical products, glass and ceramics, automobile parts, bicycle parts packaging units, service units, etc.	Insence sticks, tobacco, bidi, paper covers, etc.

5.7 Policy Support for Small Scale Industries

The basic policy support of small scale sector had its roots in the Industrial Policy Resolution 1977, which laid emphasis on reservation of items. The other policy support include excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from small scale industry sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support etc. The policy initiatives taken by the Government in India to SSI sector can be divided into the following six categories:-

a) **Financial Concessions:** Credit prescription (Priority sector lending), differential rates of interest, Excise Exemption Scheme, Exemption under Direct Tax Laws., Statutory support such as reservation and the Interest on Delayed Payments Act.

b) **Reservations:** The government provides protection to the small scale sector, through the policy of reserving items for exclusive manufacture in the small scale sector. The reservation policy is an attempt to protect SMEs from competition from big corporations and 44 goods were specified to be exclusively manufactured by SMEs (large corporations were allowed to enter this sector on condition that 50% of their produce would be exported). As a result, SMEs dominated readymade garments, leather goods, auto components, electrical appliances and the hand tool industries.

Over the years, the number of items reserved for SMEs increased and it stood at over 800 in 1989. However, the Abid Hussain Committee set up by the Government of India which submitted its report in January 1997 observed that the reservation policy was inconsistent with the current trade reforms which allow free import of a large majority of the goods and most of the remaining can be imported under the special Import License. The number of reserved items has, therefore, been coming down. At present only 20 items are in the reserved list. A list of items reserved for exclusive manufacture in micro and small enterprises sector is as follows:

Table 5.5: List of Items Reserved For Exclusive Manufacture by Micro and Small Enterprise Sector (Last revised on 30 July, 2010)

S No	Name of the Product	S No	Name of the Product
1	Pickles & chutneys	**11**	Agarbatties
2	Bread	**12**	Glass bangles
3	Mustard Oil (except solvent extracted)	**13**	Steel almirah
4	Ground nut oil (except solvent extracted)	**14**	Rolling shutters
5	Wooden furniture and fixtures	**15**	Steel chairs-All types
6	Exercise books and registers	**16**	Steel tables-All other types
7	Wax candles	**17**	Steel furniture-All other types
8	Laundry soap	**18**	Padlocks
9	Safety matches	**19**	Stainless steel utensils
10	Fire works	**20**	Domestic utensils-Aluminium

Data source : Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, page 325-326

c) **Infrastructure Support:** The government has launched a program of infrastructure development in regional and rural areas. Infrastructure facilities like power, water, communications are funded by the government and SIDBI with the government providing equity and SIDBI providing the loans. Government has implemented Integrated Infrastructure Development (IID) Scheme, is upgrading various Industrial Estates, facilitating Cluster Development and setting incubation centre etc.

d) **Technological Support:** Scheme of Capital Subsidy for investment in technology up gradation, acquisition of technical knowhow, upgrading of process technology, financial grant to units for opting ISO-9000 Certification etc.

e) **Training:** Entrepreneurship Development programmes, Capacity building programmes both for entrepreneurs as well as workers etc.

f) **Marketing and Export Promotion:** Vendor Development Programmes, Buyer-Seller Meets and Exhibitions, providing export incentives, trainings and awards for exporters etc.

There exists a strong institutional structure at the State and Central level for the promotion and development of the sector and the schemes/programmes of the Central and State Governments span across major areas of operations of MSMEs.

5.8 Registering SSI Unit

The scheme of voluntary registration of Small Scale, Village and Cottage Industries with the State Directorate of Industries was introduced in 1960 and such registered industrial units were made eligible for different types of assistances by the Governmental Agencies. Initially a uniform norm for registration were not laid down with the result that some of the States had granted different registration numbers to different lines of manufacturing processes to the same unit thereby resulting in multiple registration.

Small Scale units should seek registration with the Director of Industries of the concerned State Government as a small industry is basically a state subject. States have generally adopted the uniform registration procedures. However, there may be some modifications done by States. It must be noted that States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

- **Benefits of Registering:** There is no statutory compulsion for registration. Units normally get registered to avail benefits, incentives or support extended either by the Central or the State government. The regime of incentives offered by the Centre generally contains the following:

  - Credit prescription (Priority sector lending), differential rates of interest etc.
  - Excise Exemption Scheme
  - Exemption under Direct Tax Laws.
  - Statutory support such as reservation and the Interest on Delayed Payments Act.

  It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI.

  States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

- **Objectives of the Registration Scheme:** The objectives of registration are as follows:

  - To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
  - To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
  - To serve the purpose of collection of statistics.
  - To create nodal centres at the Centre, State and District levels to promote SSI.

- **Features of the Scheme:** Various features of the registration scheme are as follows:

  - DIC is the primary registering centre
  - Registration is voluntary and not compulsory.
  - Two types of registration are done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.

- PRC is normally valid for 5 years and permanent registration is given in perpetuity.

- **Provisional Registration Certificate (PRC):** Provisional registration is granted to a unit at its pre- investment period to enable it to take necessary steps to apply for financial credit, land or an industrial set, water, power or telephone connections, etc.
  - This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
  - Obtain facilities for accommodation, land, other approvals etc.
  - Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

- **Permanent Registration Certificate:** Provisionally registered industrial unit when it is about to go into production is to apply for grant of Permanent / Final Registration. An existing and functioning industrial unit is eligible to apply for Permanent / Final Registration without going into provisional registration processes. The permanent registration certificate enables the unit to get the following incentives/concessions:
  - Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
  - Incentives and concessions in power tariff etc.
  - Price and purchase preference for goods produced.
  - Availability of raw material depending on existing policy.
  - Permanent registration of tiny units should be renewed after 5 years.

- **Procedure for Registration:** Features of the present procedures are as follows:
  - A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licensing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
  - Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.

    PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
  - Once the unit commences production, it has to apply for permanent registration on the prescribed form.

- **The following form basis of evaluation:**
  - The unit has obtained all necessary clearances whether statutory or administrative, e.g., drug license under drug control order, NOC from Pollution Control Board, if required, etc.
  - Unit does not violate any locational restrictions in force, at the time of evaluation.
  - Value of plant and machinery is within prescribed limits.
  - Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

- **De-Registration:** – A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration:
  - It crosses the investment limits.

- It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

5.9 Challenges Faced by Small Scale Industry

The small-scale sector is capable of addressing itself to the basic problems of Indian economy viz. unemployment and disparities in regional development. The process of liberalisation and economic reforms has created wide ranging opportunities for the development of small-scale sector. However, at the same time changes in world scenario have thrown-up new challenges to the very existence of this sector, as the integration of global markets has made competitiveness both in terms of quality and cost.

Though this sector has shown substantial progress, its major problems like inadequate credit flow from banks and financial institutions, inadequate infrastructure facilities, low quality standards of products, lack of access to technological information and consultancy, marketing problems, use of old technology and machinery and equipments and inefficient management techniques, are still inhibiting the sector. In addition to these, this sector has to face challenges of competition from the opening up of economy to globalization, need for increasing exports and to meet World Trade Organization commitments.

The major issues concerning small business are:

1. Difficulty in Obtaining Finance: Access to adequate and timely credit at a reasonable cost is the most critical problems faced by this sector. The major reason for this has been the high risk perception among the banks about this sector and the high transaction costs for loan appraisal. While the quantum of advances from the public sector banks (PSBs) to this sector has increased over the years in absolute terms, from Rs.46, 045 crore in March 2000 to Rs.1, 85,208 crore in March 2009, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has declined from 12.5 per cent to 10.9 per cent during the same period. Similarly, there has been a decline in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009. This further affects their operations like their ability to hire the good workers, to purchase the latest machinery and equipment or to acquire sophisticated technology.

2. Access to Equity Capital is another problem faced by small business. At present, there is almost negligible flow of equity capital into this sector, despite the fact that overall capital inflows have witnessed significant increase in the recent years. Absence of equity capital pose a serious challenge specially to development of knowledge-based industries.

3. Obsolete Technology: Most small businesses use old technologies because of financial problems and lack of awareness about sources of technological up gradation. As a result the quality of their goods is inferior and the cost of production is higher as compared to products of big businesses. This weakens the position of small businesses in local and global market.

4. Marketing Problems: The small entrepreneur cannot compete with products of large companies as they do not have a brand name. Lack of funds for advertising or sales promotion further makes it difficult for them to compete with big business.

5. Poor Managerial and Organizational Skills: Compared to big business, management in small business is more difficult and complex. The entrepreneur managing the small business have an experience in only one or two functions usually production and selling and find himself unable to effectively manage other areas like human resource, auditing and control, marketing etc.

6. Poor Infrastructural Facilities: In the present global environment, the small businesses have to be competitive to survive and thrive. To ensure competitiveness of this sector, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends. Small units are either located in industrial estates set up many decades ago or are functioning in an unorganised manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable. The majority of the units are poorly served in terms of roads, electricity, drainage and water supply.

Some other constraints faced by small business are:

- Problems of storage, designing, packaging and product display;
- Lack of access to global markets;
- Lack of skilled manpower for manufacturing, services, marketing, etc.;
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily.

Presently, the small scale sector is associated, in public perception, with low quality standards. It is envisioned that the small scale sector will be upgraded through modern and new technologies to achieve global quality standards. Niche markets will be identified and developed for small scale products, including khadi and coir products. To make their products globally competitive Indian SMEs need to upgrade their technology and put more emphasis on innovation as innovation is an important tool for businesses to differentiate products that can compete and are cost effective. Without this, SMEs will not be able to produce competitive products globally.

5.10 Summary

The small scale sector has acquired a prominent position in the economic structure of India. The contribution of the sector both towards economic development and removal of economic disparities among the cross section of society has been tremendous. This sector owes its definition to Regulation) Act 1951. The sector is defined in terms of investment limits in plant & machinery (original values) up to a prescribed limit. According to present definition "Industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchase does not exceed Rs. 50 million. However, no small-scale undertaking shall be subsidiary of, or owned or controlled by any other industrial undertaking. Recognizing the contribution and potential of the sector, the definitions and coverage of the Small Enterprises sector was broadened significantly under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The SSI sector in India creates largest employment opportunities, next only to agriculture. Small scale industries are fairly labour-intensive, can be started with very less investment, use indigenous raw materials, operate in local areas and have short gestation period. The basic policy support of small scale sector had its roots in the Industrial Policy Resolution 1977, which laid emphasis on reservation of items. The other policy support include excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from small scale industry sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support etc. Though this sector has shown substantial progress, its major problems like inadequate credit flow from banks and financial institutions, inadequate infrastructure facilities, low quality standards of products, use of technology, plant and machinery and equipments and inefficient management techniques, are still inhibiting the sector.

5.11 Key Words

- **Small Scale Business-**Small Scale Business is the one having an investment of more than Rs 25 lacs and less than Rs 5 crore.

- **MSME-** Medium, Small and Micro enterprises
- **MSMED Act, 2006-**This act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector.
- **Village Industries-**The industries industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. 1 lakh..

5.12 Self Assessment Test

1 Define small scale business.

2 Define small service enterprise.

3 Explain the role of small scale industry in India.

4 Differentiate between a traditional and a modern small business.

5 Differentiate between a small scale business and an ancillary unit.

6 Narrate various facilities provided to small scale sector by the Government.

7 Give your views regarding the current status of reservation provided to small scale sector.

8 Write short notes on:

a. Classification of small business.

b. Small business as a seed bed of entrepreneurship

9 What are the main challenges faced by small scale industry in India?

10 Write a note on recent trends in position of small scale businesses.

11 'The small businesses today are capable of facing global competition'. Comment.

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Unit - 6 : Establishing a Small Business

Unit Structure:

6.0 Objectives
6.1 Introduction
6.2 Concept of Small Business
6.3 Steps Involved in Establishing a Small Business
6.4 Legal Framework
6.5 Raising Funds
6.6 Registering SSI Unit
6.7 Summary
6.8 Key Words
6.9 Self Assessment Test
6.10 References

6.0 Objectives

After studying this unit you should be able to understand:

- Concept and meaning of Small Scale Business
- Steps involved in starting a small business

6.1 Introduction

Small Enterprises play a significant role in the development of an economy.The concept of small scale sector has evolved in India since ancient times.The development of small scale enterprises have been viewed as a powerful instrument for achieving the twin objectives of accelerated industrial growth and creating productive employment opportunities in an economy (Srivastav and Syngkon,2008). They also have the reputation of acting as intermediaries which assists in reducing and facilitating effective mobilization of resources which would otherwise remain unutilized. Small Scale Business was mainly in the form of family business in the earlier days, where the members of a family are involved in business activities.They were basically known as Hindu Undivided Family(HUF) firms.Gradually, the small scale industrial sector flourished and it began to be formed on joint stock company pattern due to reasons like increase in investment pattern alongwith employment pattern. Small scale industries however, were not considered to be a significant sector because of its informal set-up,but slowly alongwith the people, the government also began to feel its importance. The idea of developing the small scale sector started during the time of Gandhiji, who emphasized upon the development of small household industry, thereby focusing on traditional manufactures. The Ford Foundation Team also acknowledged the need and importance of small scale industries, and recommended measures for its improvement.Subsequently, Small Scale Industries Board (SSIB) was set up in 1954 to encourage industrial enterprises which did not serve the criteria of being regulated under Industrial Development Act and other traditional industrial boards. Over and above, Small Industrial Service Units(for industrial extension and technical assistance) and Small Industries Service Institute were also set up.Thus , a kind of revolution in the small scale industrial structure developed which translated the entire scenario of small scale industries.Today, the small scale sector acquires a prominent place in the socio economic scenario of the country. Even during uncertain times, the sector has demonstrated positive growth trends. It has assisted in enhancing employment, increasing per capita and national income and capital formation.Initiatives taken under various Industrial Policy Resolutions and Five Year Plans continues to boost small business development.

6.2 Concept of Small Business

The concept of small scale enterprises in India have been defined differently in different periods taking employment pattern and investment pattern as the basic criteria. In 1950, the Fiscal Commission, for the first time defined a small scale unit as one which is operated mainly with hired labour with 10 to 50 hands. Thereafter, the Small Scale Industries Board defined small scale unit as an unit employing less than 50 employees, if using power and 100,if not using power, and having capital assets not more than Rs.5 lakhs. During 1959,the investment limit for small scale industries is adopted on the basis of original price paid on the value of machine and having employment of 50,if using power and 100,if not using power. In March 1997,the investment ceiling was raised to Rs.3crores for small scale industries and Rs.50 lakhs for tiny units. The limit was reduced to rupees one crore in the New Policy Initiatives(1999-2000) which remained intact till the passing of Micro, Small and Medium Enterprises Development (MSMED)Act,2006.During 2006,the MSMED Act was passed which classified micro, small and medium enterprises. Further sub classifications of each sector into manufacturing and services were done. Here ,small scale enterprise is defined as one having investment of Rs.25 lakhs to Rs 5crores ,if it is in the manufacturing sector and as one having investment between Rs.10 lakhs to Rs.2 crores,if it is in service sector . The unique characteristics of SME sector are:

- Both small scale and medium scale enterprises can be formed by even a single individual.
- SMEs mainly deal in indigenous resources, thereby, enhancing utilization of local resources to the maximum extent possible.
- SMEs can be formed with minimum investment.
- SMEs are flexible to adapt to new technological changes and it has lesser gestation period.

6.3 Steps Involved in Establishing a Small Business

Establishment of a small business enterprise is not an easy task. Before going to set up a small business certain formalities to be completed. This generally includes the following:

1. Generation of Idea and Project Selection: It involves:

a) Product/Service Selection: The first stage involved in setting up a small business is to identify business opportunities and then select a project which will be more suitable.The process of product selection starts with the generation of a product idea (product or service selection) which maybe derived from various internal and external sources. This may include knowledge of the needs of potential consumers, emerging product trends, scope of producing substitute products, knowledge on government policies regarding small scale sector, specifically ,the list of reserved items meant exclusively for manufacture by the small scale units etc.The entrepreneur should select such a product or service, on which he/she is confident of starting a project.

Attention should be given on the following factors before starting a project:

i) Background and Experience: The background and experience of the entrepreneur should be counted while selecting a project. This is because longevity of the project depends upon the skill of the entrepreneur.

ii) Investment Capacity : While selecting a project, the capacity of the entrepreneur to invest should be determined.

iii) Availability of Plant and Machinery: Another important consideration is the availability of plant and machinery.Mere selection of a project is not sufficient, if adequate plant and machinery is not available to execute the project.

iv) Marketability: Availability of market for the manufactured product or service should be checked properly.The entrepreneur should anticipate beforehand the potential demand for the product going to be produced or service to be rendered.

v) Raw material Availability: The availability of raw material in sufficient amount should be checked.

vi) Availability of Infrastructural Facilities: Infrastructural facilities play an important role in determining the success of the project. Lack of adequate facilities may force the entrepreneur to leave the project midway.

b) Decision on Location: The second decision is related to the selection of location. While deciding on location, the entrepreneur should keep in mind factors like :

i) Availability of Raw Materials: This is one of the major factor to be considered while selecting location.Lack of raw materials may interrupt the entire production process which will affect profitability.Thus, the place where the small business is going to be established should have sufficient amount of raw materials. However, mere availability of quantity is not sufficient, quality of the raw material should also be taken into consideration.

ii) Nearness of Market: Another factor influencing location is the nearness to the market.Industries which manufacture perishable materials are generally preferred to be located near the market.Nearness to market assists in reducing transportation costs and to remain up-date with market information.

iii)Transportation Facilities: Transportation costs have a bearing on the price of the products which may affect profitability. Thus, location decisions should be taken keeping into mind the availability of transportation facilities at cheap cost.

iv) Soil and Climate: Location of industries are generally affected by factors such as climatic conditions, topography, ground-level etc. Thus, soil and climatic conditions of a place should be given due importance.

v) Momentum of an Early Start: The phrase 'Momentum of an early start' indicates the tendency of an entrepreneur to start a business in those places where similar ventures have attained success.This is because of the reason that since already successful enterprises are there, a new unit will not have to face the lack of transportation, banking, repair services and other such facilities.

vi) Availability of Human Resources: This is another important factor that has to be considered. Since success of an enterprise depends upon the availability of skilled human resources, therefore the place should have sufficient manpower sources.

vii) Power Resources: Location decision should be based on the availability of power resources. Cheap and regular supply of fuel and power will ensure the continuity of a business unit.

viii) Communication Facilities: There should be an adequate communication facilities near the place of business.

Over and above these, factors such as price and availability of land, existence of subsidies and concessions, social infrastructural position etc also imfluence location decision.

c) Project Feasibility Study: Once decisions on location have been taken, the entrepreneur has to conduct project feasibility study.The important aspects of a project feasibility study includes:

i) **Market Analysis:** Analysis of the market seeks to find out the demand trend of a proposed product in the market in the future alongwith analyzing the market share of the project under appraisal.For answering these, the market analyst requires various kinds of information like structure of competition, demand elasticity, production possibilities and related constraints, consumer behaviour etc.

ii) **Financial Analysis:**Analysis of finance seeks to ascertain whether the proposed project will be financially viable.While conducting financial appraisal, aspects that should be taken into consideration includes Investment outlay, project cash flows, projected profitability, breakeven point etc.

iii) **Technical Analysis**:Analysis of technical aspects seeks to find out whether formalities involved in successful commissioning project have been considered. Moreover, decisions regarding location, size, process etc are evaluated.

iv **Economic Analysis:**It involves evaluating a project from the social point of view. Emphasis is given on the social costs and benefits that is expected to come from the project.

v) **Ecological Analysis**: This type of analysis is done specifically for projects which have major social implications. Significant relevance is provided to question like 'what would be the likely damage to be caused by the proposed project to the environment', and so on.

d) Preparation of Business Plans: Once analysis have been conducted, the entrepreneur take steps to prepare the business plan. A business plan is used to establish realistic goals and targets to be achieved. The plan should have a solid business strategy. It should explain the market, industry, competitors and targeted consumers. The main contents of a business plan includes the features, capacity and uses of the product proposed to be made, market prospects, production process and technical arrangements, plant and machinery to be used, location, infrastructural facilities, raw materials, manpower required and available sources, working capital requirements, sources of finance, project cost, expenditure, risk analysis etc.

e) Project Profile: It is prepared basically for obtaining Provisional Registration Certificate (PRC) from the District Industries Centre. Moreover, it also assists in applying for land and other infrastructural facilities in respective institutions.

2. Constitution:

While deciding to establish a business unit, the second major aspect to select the form of ownership on the basis of which the business is to be established.The form of ownership however depends on the nature of the business, objective, availability of capital and the like. Some of the major forms of ownership are:

i) Sole Proprietorship: It is a form of business which is owned and managed by a single individual.This ownership form has the advantage that it is very easy to form since it requires less capital investment and there are no such legal formalities involved.The proprietor may however obtain a Provisional Registration Certificate from the District Industries Centre. The sole trader is totally responsible for all the debts of the business.

ii) Partnership: A partnership is an association of two or more persons, who come together to do business with the objective of earning profits. This form of ownership has the advantage that the capital investment is less. However,the major disadvantage is that if a partner does a mistake, then every other partner will be held liable. Moreover, the death, insolvency or retirement of a partner dissolves the partnership business. Registration of a partnership business is not compulsory. However, it is advisable that the firm should get itself registered. Registration involves certain legal formalities to be completed.An application in the prescribed form has to be submitted with the Registrar of Firms alongwith the authenticated copy of the Partnership Deed and prescribed fees. The Registrar of Firms will record an entry of the statement if satisfied with the formalities and issue a certificate.

iii) **Joint Stock Company:** A small business maybe formed as a joint stock company also. A company maybe a private or a public limited company. But complex legal formalities are involved in this form. Firstly, an application for accepting the proposed name of the company is to be made. The name should not be similar to the name of any other company.After the name have been approved, the entrepreneur should make preparation for the following:

- drafting the Memorandum and Articles of Association and submit it o the Registrar for the purpose of scrutiny.

- Printing the Memorandum and Articles of Association on a stamp paper of prescribed value.

- Memorandum and Articles of Association should be signed by two subscribers in case of a public limited company and seven members in case of a private limited company.

After this , an application in the prescribed form alongwith prescribed fees should be made to the Registrar alongwith the following documents:

- Three copies of Memorandum and Articles of Association

- A copy of agreement if any, as referred in he Articles.

- Agreement, if any, for the appointment of Managing Directors

- A power of attorney signed by all subscribers on prescribed stamp paper for the purpose of collecting the Certificate of Incorporation.

- Form No.14 signed by directors and chartered accountant as prescribed

- Form No.18 which involves location of registered office.

- Form No.19 which involves director's consent, in case of public limited company.

- A copy of letter given by Registrar of Companies approving the name.

- Form No.32 which involves appointment of directors in duplicate.

- A copy of approval/sanction

- A filing fee

- Contribution from NRI's by way of share capital or otherwise.

It takes about fourteen days in case of normal circumstances for the company to get approval of the name. Another fourteen days are required for scrutiny of the documents and thereafter again fourteen days for issuing the Certificate of Incorporation. In case of a public limited company, it has to again issue a prospectus or a statement in lieu of prospectus and submit a copy to the Registrar alongwith certain documents to get the Certificate of Commencement.

iv) Co-operatives: A co-operative is an enterprise owned and controlled by its members. Its membership is voluntary. These type of organizations are governed by the Co-operative Societies

Act and Multi-State Co-operative Act,2002.

Apart from the above mentioned forms, a small business unit may take a franchise. However, it is advisable that small business units should be formed basically under sole proprietorship and partnership since it involves less investment.

3. Registration

The unit , in order to commence business, should obtain certain documents.Small scale and ancillary units with investment in plant and machinery of less than Rs 1 crore should seek registration with the Director of Industries of the concerned state government.. Initially they have to obtain a Provisional Registration Certificate. Once the unit goes into production, the Provisional Registration Certificate will be converted into a Permanent Registration Certificate.

4. Clearance

Depending on the type of industry, several clearances are required which must be obtained by the small business unit.

5. Arrangement of Land/Shed

A suitable industrial site or a ready industrial shed should be selected. For setting up a Small Scale Enterprise, it is preferable to use a ready industrial shed.

6. Arrangement of Plant and Machinery

Plant and machinery should be purchased from recognized manufacturers or dealers. The National Small Industries Corporation, a Government of India Corporation, provides plant and machinery on hire purchase basis. This is suitable for small business unit**.**

7. Infrastructural Facilities

The major infrastructural facilities required by small business like power connection, water supply, telephone facility etc. The entrepreneur should contact respective agencies for bringing these facilities. Single Window Agencies are set up at district level for the benefit of small scale enterprises.

8. Preparation of Project Report

The entrepreneur has to prepare a project report. The report generally contains generation information on product profile and product details, educational qualification, work experience and project related experience of the promoter, location, details of plant and machinery, transportation and communication mode and related costs, manpower requirement, product mix, estimated sales etc. The report assists in showcasing the potentialities of the organization in front of other parties. It also helps the businessman to acquire finance and other clearances for the project. The project report should be prepared keeping the following objectives in mind:

- Standard format
- Completeness of the data
- Specific definition of assumptions
- Importance on the main objectives of the project
- Scientific analysis of data
- Cost effectiveness and timeliness

9. Obtaining Finance

Finance is the life blood of business. There are various sources through which finance can be obtained. Small business can obtain finance mainly in the form of term loan and working capital loan. Term loans are generally accrued for purchasing fixed assets and can be availed from State Financial Corporation and commercial banks.On the other hand ,working capital loan required for conducting day-to-day operations of he business can be availed from commercial banks.

For the purpose of getting loans, the small business unit have to make an application to the financial institution through which the loan is to be taken. Certain documents have to be enclosed alongwith the application form which includes:

- Balance sheet of Profit and Loss statement for three consecutive years.
- Income tax assessment certificates of the partners or directors.
- Copies of Partnership deed or Memorandum and Articles of Association.
- Proof of possession of land or building
- Construction cost estimates by architects
- Budgetary quotations of plant and machinery.

10. Project Implementation and Obtaining of Final Clearances

After obtaining of various licenses, the entrepreneur have to take necessary measures for implementing the project.The entrepreneur should generally take the following steps:

- Industrial shed is to be constructed in case they have obtained land in an industrial estate or have purchased a land privately.For this purpose, they should obtain suitable quotations from contractors or may construct it themselves.
- Orders should be placed for necessary machinery, equipment and so on.
- Suitable manpower should be recruited, depending upon the nature of work.
- Raw material arrangements should be made.They should try to get the necessary samples for basic raw materials and finalise the sources at the earliest.
- Marketing strategies should be formulated to create demand for the manufactured products or services to be rendered.
- Erection and commissioning of plant and machinery should be done and final clearances should be obtained for starting operations.

6.4 Legal Framework

An entrepreneur should be aware of various legal aspects for setting up and running of a small business. The knowledge about the legal framework helps an entrepreneur in running business successfully. Some of the legal considerations are as follows:

1. Intellectual Property: Any resource which gives a trade a commercial advantage is called Intellectual Property. The resources may be a formula, data, compounds, new processes, compiled information, list of customers etc. The Intellectual Property laws in India have been implemented following WTO's agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

The Intellectual Property laws cover the following:

A. **Trademark:** A trademark is a distinguishing word, figure, symbol, design, numeral or a combination of these that identify particular goods or services. The current trade Mark Act, 1999, which replaced the Trade Mark Act, 1958 has been developed in light of TRIPS obligations. The trademark has to be registered with a Trade mark Registry, working under the Registrar of Trade Marks. The head office of the Trade mark Registry is at Mumbai and its branches are at Delhi, Kolkata, Chennai and Ahmadabad. The trademark can be filed for registration with the Trade mark Registry. Prior use of trademark is not required for filing an application. Before applying for registration of a trademark, an applicant can go for a paid search at the registrar's office to browse through their records to check out whether or not this particular trademark has been registered earlier.

   The trademark gives the proprietor the exclusive right to use the trademark in relation to the goods or services for which it was registered. Trademarks can also be transferred with or without transmitting the goodwill of the business. The trademarks can be established in the market through brand building activities.

B. **Copyright:** The copyright laws protect the legal rights of a person for his or her work of writing or authorship. This law prevents others from reproducing the work in any other way. The intellectual property under copy right include:
   - Literary work (books, articles, manuscripts etc.)
   - Dramatic work (drama, dance choreography, costumes etc.)
   - Musical work (lyrics, music, graphical notations etc.)
   - Artistic work (drawing, painting, sculpture, photographs etc.)
   - Cinematographic work (recoding, sound tracks, sound effects etc.)
   - Computer work (programmes, tables, databases etc.)

C. **Patents:** A patent gives protection to the inventor of a new product/ process/ design to solely use the copying/ selling/ using of the invention for a limited period of time. This right acts as an incentive for the inventors who have worked hard and created something innovative. The term 'invention' is defined as 'a new product involving an innovative step and having industrial application'. In India, the rights of patents are granted to the person who first applies.

   Anything, for which a patent is desired, should be:
   - *New:* patents are not granted for things already well known and well established.
   - *Useful:* inventions should be beneficial for people and should be capable of industrial applications.

2. Licensing: Licensing may be defined as a contractual agreement between two parties where one party having some proprietary rights agrees to transfer its rights to another party by charging some kind of fee or royalty in a proper mode. Licensing has acquired great importance in today's global world. There are many examples where a company owning the intellectual property of a product, manufactures it in its country and gives license to other businessmen in other countries to manufacture the same product.

3. Contract: A contract is a written document that is enforceable legally. Generally an entrepreneur starting a business gets into discussions with landlord, suppliers, service providers, buyers and sellers, government authorities, etc. After finalisation of the discussions, contacts will take place which binds the two parties legally. Broadly, a contract document will contain the following things:
- Name of parties involved in the contract and their roles.
- Detailed description of transaction taking place between the two parties.

- Specification of contract value in terms of price and charges.
- Signature of competent persons from each of the organization who are party to the contract.

6.5 Raising Funds

The various external sources of raising funds available to an entrepreneur for setting up of a business are:

1. **Debenture:** it is a form of long term loan obtained by a public limited company for a large sum and paid back over several years. It is usually borrowed from specialised financial institutions.

2. **Share Issue:** it involves a business selling new shares that entitle the shareholder to share in the control of the business. There are two types of share: equity and preference.

3. **Commercial Banks:** Banks provide two types of funds: overdrafts and loans. Overdraft mean drawing more than what is present in your account. This credit is provided for a short duration of time. Bank Loans is a long term source of finance. Interest is charged for the loan provided which has to be deposited as per the rate and terms.

4. **Venture Capital:** It is a contemporary method of raising finance. It is the money provided by professionals who invest in rapidly growing companies that have high potential to grow. Venture capitalists generally purchase equity securities and also actively participate in managing the company.

6.6 Registering SSI Unit

The scheme of voluntary registration of Small Scale, Village and Cottage Industries with the State Directorate of Industries was introduced in 1960 and such registered industrial units were made eligible for different types of assistances by the Governmental Agencies. Initially a uniform norm for registration were not laid down with the result that some of the States had granted different registration numbers to different lines of manufacturing processes to the same unit thereby resulting in multiple registration.

Small Scale units should seek registration with the Director of Industries of the concerned State Government as a small industry is basically a state subject. States have generally adopted the uniform registration procedures. However, there may be some modifications done by States. It must be noted that States use the same registration scheme for implementing their own policies. It is possible that some states may have a ‘SIDO registration scheme’ and a ‘State registration scheme’.

• **Benefits of Registering:** There is no statutory compulsion for registration. Units normally get registered to avail benefits, incentives or support extended either by the Central or the State government. The regime of incentives offered by the Centre generally contains the following:

- Credit prescription (Priority sector lending), differential rates of interest etc.
- Excise Exemption Scheme
- Exemption under Direct Tax Laws.
- Statutory support such as reservation and the Interest on Delayed Payments Act.

It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI.

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

- **Objectives of the Registration Scheme:** The objectives of registration are as follows:
  - To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
  - To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
  - To serve the purpose of collection of statistics.
  - To create nodal centres at the Centre, State and District levels to promote SSI.

- **Features of the Scheme:** Various features of the registration scheme are as follows:
  - DIC is the primary registering centre
  - Registration is voluntary and not compulsory.
  - Two types of registration are done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.
  - PRC is normally valid for 5 years and permanent registration is given in perpetuity.

- **Provisional Registration Certificate (PRC):** Provisional registration is granted to a unit at its pre-investment period to enable it to take necessary steps to apply for financial credit, land or an industrial set, water, power or telephone connections, etc.
  - This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
  - Obtain facilities for accommodation, land, other approvals etc.
  - Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

- **Permanent Registration Certificate:** Provisionally registered industrial unit when it is about to go into production is to apply for grant of Permanent / Final Registration. An existing and functioning industrial unit is eligible to apply for Permanent / Final Registration without going into provisional registration processes. The permanent registration certificate enables the unit to get the following incentives/concessions:
  - Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
  - Incentives and concessions in power tariff etc.
  - Price and purchase preference for goods produced.
  - Availability of raw material depending on existing policy.
  - Permanent registration of tiny units should be renewed after 5 years.

- **Procedure for Registration:** Features of the present procedures are as follows:
  - A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licensing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
  - Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued. PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.

- Once the unit commences production, it has to apply for permanent registration on the prescribed form.
- The following form basis of evaluation:
- The unit has obtained all necessary clearances whether statutory or administrative, e.g., drug license under drug control order, NOC from Pollution Control Board, if required, etc.
- Unit does not violate any location restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

- **De-Registration**
  - A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration:
  - It crosses the investment limits.
  - It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
  - It does not satisfy condition of being owned, controlled or being a subsidiary of any other industrial undertakin.

6.7 Summary

Small Business can be set up by any person with entrepreneurial competence with a small amount of capital investment.People deciding to set up a small business unit have to initially decide on suitable projects or business opportunity.This involves the selection of a product or service and a suitable location for the enterprise based on various factors.After this, a project feasibility study have to be implemented followed by preparation of a brief project profile.The nature of ownership of the business have to be decided upon and necessary formalities have to be completed. Finance should be obtained from adequate sources alongwith necessary clearances. The entrepreneur should then proceed for establishing the unit

6.8 Key Words

- **Environmental Scanning :** Scanning of different variables, in the external and internal environment so as to analyse the viability of a business.
- **Feasibility Study:** Feasibility study is a detailed study conducted to analyse the feasibility of the project in a particular environment. Feasibility study is undertaken after environmental scanning.
- **Business Plan Development:** It is a written document prepared after environmental scanning and feasibility analysis that describes step by step, strategies designed for starting and running a business
- **Trademark:** A trademark is a distinguishing word, figure, symbol, design, numeral or a combination of these that identify particular goods or services.
- **Copyright:** The copyright laws protect the legal rights of a person for his or her work of writing or authorship.
- **Patents:** A patent gives protection to the inventor of a new product/process/ design to solely use the copying/ selling/ using of the invention for a limited period of time.

- **Licensing:** Licensing may be defined as a contractual agreement between two parties where on party having some proprietary rights agrees to transfer its rights to another party by charging some fee or royalty.

- **Contract:** A contract is a written document that is enforceable legally.

6.9 Self Assessment Test

1 What is small business? Explan.

2 Discuss the steps involved in setting up a small business unit.

3 What are the factors necessary for deciding the location of a business unit?

4 What are the various forms of ownership under which a small business unit can be established?

5 State the different documents which an entrepreneur must submit for getting loans.

6.10 References

- Srivastav,N. and Rickey J Syngkon,J.R.2008. Emergence of SSIs and entrepreneurship in the rural areas of North-eastern states of India: An analytical approach.*The ICFAI University Journal of entrepreneurship development.*

Unit - 7 : Market Assessment for Small Business

Unit Structure:

7.0 Objectives
7.1 Introduction
7.2 Objectives of Market Assessment
7.3 Importance of Market Assessment
7.4 Areas of Assessment
7.5 Porter's Five Forces Model
7.6 Feasibility and Environmental Analysis
7.7 SWOT Analysis
7.8 Summary
7.9 Key Words
7.10 Self Assessment Test
7.11 References

7.0 Objectives

After studying this unit, you should be able to understand :

- The concept of Market Assessment.
- The objectives, importance and areas of Market Assessment.
- Environmental Analysis with Porter's Five Forces Model.
- Feasibility Analysis for new Small Scale Venture.
- The process of doing SWOT Analysis.
- Preparation of ETOP.

7.1 Introduction

After liberalisation, there was an immense rise in nature of occupation adopted by the people for earning their livelihood. Industrialisation was given a boost up by various government grants and promotion schemes. As majority of India's population is rural based having average economic status, it is important to create awareness regarding setting up of small scale business. Setting up of a small scale venture accelerates employment opportunities, production level and encourages entrepreneurship. Entering into a new venture whether new or small requires rigorous assessment of the market with respect to the technology, availability of resources, competiveness, proposed threats & opportunities, financial requirements, demand & supply positions and so on.

7.2 Objectives of Market Assessment

Market Assessment gives a wide perspective of the market and provides a platform to gain confidence into the viability of the proposed small scale venture. Following are some of the objectives of market assessment:

1. To Carry Out the New Project Idea Screening In order to Validate It. Ideas for the new business are generated but which idea is the most promising idea, this may be verified through market assessment.

2. To Carry Out Thorough Market Research Which Helps us to Know About the Market Potential. Market

potential means how much demand can be created and at present how much percentage is catered by the present market players. .

3. It Will Help to Analyse the Prominent Competitors in the Associated Area of Business. Competition may be observed as direct or indirect. The substitute products offer direct competition and the complementary, as well as others, offer indirect competition.

4. It Gives a Direction for Consolidation of Resources in the Pioneer Stage of the Business. Pioneer stage means the introduction stage of the business in which gathering the resources is the most crucial part. Thus, market assessment aims to sort out this problem.

5. To find Out the Potential Opportunities Which Can Be Exploited In order to Establish the New Undertaking. Opportunities help to grow at a fast pace, thus identifying and grabbing them at the right time is one of the key objectives of market assessment.

6. To Find Out Whether Appropriate Technology Required for the Project is Available or Would be Availed at Reasonable Cost. The trade off between technology advancement and the cost involved is necessary for the viability of the project. This is possible through correct market assessment.

7.3 Importance of Market Assessment

Market assessment plays a crucial role in the pioneer stage of the business, since, the scale of the business is small the viability of the venture becomes a critical issue. Thus, market assessment enables to rule out the initial and proposed hindrances through market information and formulation of plants accordingly. The following points will illustrate its importance in varied aspects:

1) **Pilot Survey:** - Pilot Survey means to carry out a survey on a small scale & get a glimpse of the future conditions. It helps to get a holistic view about the market & ensures that the project is feasible. It gives an idea whether the direction of market research/assessment is correct or not.

2) **Testing Viability of the Project:** - Any business is viable if it is able to generate enough revenue to sustain in the market as well as has the capacity to accelerate them to grab the future growth opportunities. Market assessment would help in gathering information about various components of the market so that viability may be worked out.

3) **Screening & Finalization of Business Idea:** - Generation of business idea does not lead to its success. Thus, market assessment is done for idea screening & support it with market facts and consumer surveys. Business idea can be turned into reality only when relevant. Market information is obtained and it is ensured that translating the idea would give promising returns.

4) **Testing the Product Concept:** - After finalizing the business idea, we need to test the product concept. Product concept means the consolidated idea of product features and function which is developed keeping in mind the requirements of the consumers. During market assessment, the product concept of the business should be put forward before the consumers in order to know their view. If they have a different opinion or they want some more features in the product, the same should be worked out & again tested unless consumer approval is ensured.

5) **Demand Forecasting:** - Market assessment helps in forecasting the demand of the proposed product. It gives an idea as to what should be the scale of operation, requirement of raw material, labour requirements, capacity of the plant required and arranging finance for the same.

6) **Formulation of Strategies and Tactics: -** Market assessment helps in environmental screening and analysis so as to find out the strengths, weakness, opportunities & threats of the business. Internal environment analysis is not a plant of market assessment but external environment may be studied through market assessment. Once the opportunities and threats are sensed then appropriate strategies may be formulated. In line with the strategies, the tactics (short term plants) may be streamlined accordingly.

7) **Assessing Financial Requirements: -** Market assessment given an idea of the finance required for the proposed venture. The requirement of finance may be divided into two categories – initial investment and working capital requirements. Working capital means the money required to meet the day to day expenses of the business. Thus, pre-arrangements of finance may be done.

8) **Assess the Need for Advertising & Sales Promotion Schemes: -** Market assessment helps in knowing the marketing strategies adopted by the competitors, their market share and extent of rivalry among them. All this detailed information may be further utilized to finalise the promotion tools to be applied in future. Thus, the type and frequency of advertisements, formulation of innovative sales promotion scheme can be done.

9) **Technology Assessment and Frequency of Up Gradation Required in the Related Industry:** - Market assessment will give us the information regarding the technology status in the industry. It also helps to analyse the availability of technology required in the proposed venture. The importance of technology up gradation differs from industry to industry. Thus, it is essential to find out the average frequency of technology up gradation required so that plans may be formulated accordingly.

10) **Guide to Business Decision Making: -** Market assessment helps to reveal various factors which may be essential and act as a basis for decision making. Certain disclosures about the market conditions may change the direction of analysis done before decision making. Thus, market assessment helps to gain important information which may act as an effective guide to optimum decisions.

11) **Contribution to Business Success: -** Market assessment plays a crucial role in the success of the proposed venture. Various key (critical) success factors may be identified through systematic market assessment. Key success factors mean those factors which may become a unique reason for the success of the business in future. For example: If you want to start a business with its key product nail paints. Market assessment may reveal that all prevailing brands offer 10 colour varieties of glitter nail paints. Now, this information may be used as a critical factor and the business may focus on glitter nail paints only, with above 40 colour varieties. This may become a key success factor i.e. a contribution to business success.

7.4 Areas of Assessment

The key area of assessment includes the determination of the unique needs of the industry and marketplace. Apart from this, we need to determine the customer expectations and the demand which the new venture can fulfil. Many opportunities exist in the external environment but since the available resources are always limited, we need to be careful in selecting the means. Opportunities should be reassessed in order to ensure them and support them by appropriate knowledge and information obtained through market assessment.

The evaluation process begins with some fundamental questions to help entrepreneurs assess the potential for the new venture to succeed. Evaluation of business opportunities should be conducted not just by the entrepreneur but also by as many stakeholders in the new venture as possible: potential customers or clients, employees, advisors, investors and suppliers.

Four Primary Areas for Assessment: -

1. **The People Behind the Idea: -** The background, talents, and experience of the entrepreneur and the management team, employees, and advisers. Even a great idea with high market potential requires an entrepreneur or team behind it that can effectively (and passionately) support and grow the idea. It is then much more likely to be successful. An entrepreneur's skills and talents might have led to the discovery of the idea, but does the entrepreneur have the competence to turn the idea into a business. Thus, everybody as a team must be coordinated and motivated towards the mission of the proposed venture.

2. **The Resources** available to the entrepreneur and the management team, including the equity and debt sources of capital that are available and accessible, additional assistance from people with expertise needed by the firm, and the technology required to support the idea. What relationships can the entrepreneur or team rely on to acquire the necessary resources. The consolidation of the resources according to the requirement is the prime responsibility of the entrepreneur.

3. **The Knowledge and Information** possessed by the entrepreneur, including knowledge of the new venture concept, the industry, the market research. Apart from these, there are many areas which might remain covered and needs to be uncovered via suitable market assessment strategy. To make the venture successful, the information regarding the competitors, consumer preferences, latent needs and much more needs to be explored.

4. **The idea's Ability to Generate Revenue.** Goodness and acceptability of the idea by the entrepreneur and other persons associated with the venture does not ensure profitability. How great is the potential to sell something that will generate actual revenues? One of the mistakes would be entrepreneurs make is to assume that everyone will love the idea and that people will be standing in line to buy it, once the business opens. To what degree can the entrepreneur manage and contain the costs while maximizing returns? All these must be kept in mind before sailing into the new boat. The risks and uncertainties are always connected with future and so every possible contingency should be taken into consideration and plans should be made accordingly.

7.5 Porter's Five Forces Model

Porter's Model may be used in assessing the market in a comprehensive way. It provides a holistic approach which considers the bargaining power of buyers as well as suppliers, the policies of potential new entrants and prevailing substitutes and of course last but not the least the king of the market i.e. the potential buyers.

Market assessment streamlined according to the Porter's Five Forces Model would make the assessment effective and further may be used as a yardstick for future viability of the new venture. This model also depicts the proposed entry barriers which might curb the entrance or act as a hindrance in availing the growth opportunities.

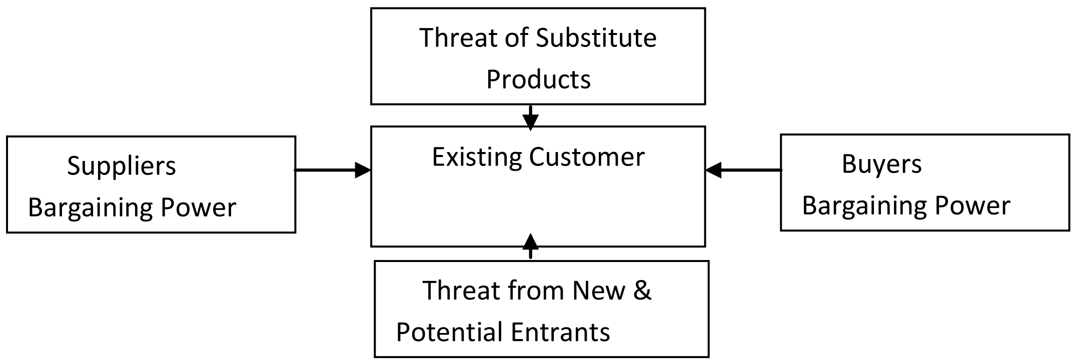

Figure 7.1 : Porter's 5 Forces Model

1. Threat From New & Potential Entrants :

If industry is profitable then more competitors enter in the business. New entrants bring new capacity, desire to gain market share & have substantial resources. The following may act as the Entry Barriers in any new venture:

i) Economies of Scale: It means savings in the cost when production is done on a large scale. It arises due to wide area of operation: It reduces the cost dramatically for existing firms.Economies may be in the area of production, marketing, finance etc.

ii) Product Differentiation: It means creating uniqueness with respect to product features, its design or tools of promotion. It is difficult to enter in the industry where there exists:

a) High brand loyalty.

b) Effective advertising.

Examples: Cosmetic product, soaps, soft drinks etc.

iii) Capital Requirement: Those business which require heavy initial investment and the payback period is very long also acts as a entry barrier.

iv) Access To Distribution Channels: Access to distribution channel can be monopolized by the existing firms on the basis of their long term relationship with distributors. Due to this the new entrants has to create own distribution channels which costs very high.

v) Government Policy: Govt. policies through licensing and other means can prevent the entry of new firms into the industry. Govt. can ban the entry if it feels that there is balanced demand and supply of a particular product.

vi) Experience Curve As Entry Barrier: It is also called Learning curve. It means efficiency achieved over a period of time by workers through performing repetitive work. It includes many factors besides factor efficiencies. There are significant performance rewards over time as an organization grows in size and experienced. This is due to decline in per unit cost of production. An experience curve results from a variety of factors:

a. Economies of scale.
b. Labour efficiency.
c. Improved processes

d. Product redesign.
e. Product Standardization.

Example: Bajaj Auto and Maruti.

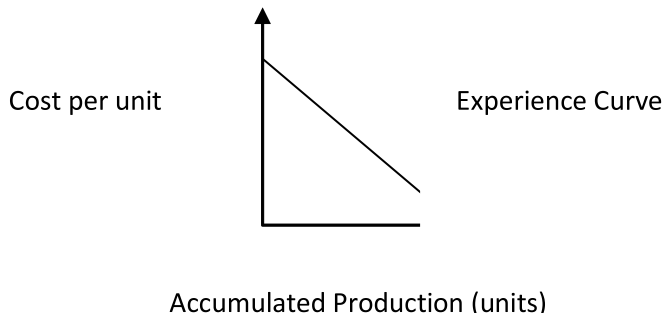

Figure 7.2 : Experience Curve

2. **Bargaining Power of Buyers**:

It is a force created by the buyers for reducing the prices of the products and services, get higher quality and better services. It is a negative feature for the new entrants. A Low bargaining power of buyer enables a firm to pass on the cost increases to the buyers or to make the buyers accept a lower quality of products and services at a higher price.Buyer bargaining power is high because of following factors:

a) When the buyer are few in number.
b) When the buyer place large orders.
c) When alternative suppliers are available.
d) When buyer are more price sensitive.
e) Switching cost is low.

3. **Bargaining Power of Suppliers**:

It is a force created by the suppliers to increase the price of products and services to make the buyers accept a lower quality of product or services. The high supplier bargaining power constitutes a negative feature for entry in an industry. The supplier can exercise this power by raising prices of goods and services and thus affect the profitability. High bargaining power of suppliers is due to following reasons:

a) When suppliers are few and buyers are many.
b) When product of the supplier is unique or differentiated.
c) When the substitute of the product are not freely available.
d) When switching cost of supplier from one buyer to the other is very low.
e) When the buyer buys in small quantities and therefore is not important to the supplier.

4. **Threat of Substitutes Product**:

Availability of close substitutes discourage the new firm to enter. The reason is that the firm can not charge higher price on its products and thus looses higher returns.

5. **Rivalry among Competitors**:

The extent of the rivalry among competitors in an industry affects the competition within that industry. When the rivalry is weak, there is likely to be lesser competition and vice versa. High rivalry among competitors is a threat for new entrants.

Reasons for High Rivalry among competitors are as follows:

* To increase the market share.
* When industry growth is very slow.
* When product lacks differentiation.
* Switching cost is less.
* When exit barriers are high.

7.6 Feasibility and Environmental Analysis

A feasibility study is an analysis of the viability of an idea through a disciplined and documented process of thinking through the idea from its logical beginning to its logical end.

Why to do a feasibility study?

- It provides a thorough examination of all issues and assessment of probability of business success
- Give focus to the project and outline all the possible alternatives
- Surface new opportunities through the investigative process
- Enhance the probability of success by addressing and mitigating factors early that could affect the project
- Provide quality information for decision making
- Help to increase investment in the company
- Provide documentation that the business venture was thoroughly investigated
- Help in securing funding from lending institutions and other monetary sources

One of the first steps required in assessing the feasibility of an idea is to become aware of forces and factors in the internal and external environment that directly influence the new venture opportunity i.e. conduct '**Environmental Analysis'** should be done.

Internal Factors

- The knowledge, skills, and abilities of the entrepreneur, the management team members, employees, and advisers.
- The resources available to the entrepreneur, including people, financial resources, and technologies that can be acquired for the launch and growth of the opportunity.

External Factors

- **The Industry:** Competitors, structure of the industry, barriers to entry, and trends that effect businesses in the sector in which the new venture intends to locate.

- **The Market:** Knowledge of the preferences, values, and buying behaviour of the target market, including demographic and psychographic information necessary to appropriately position, promotes, and prices the products and .services.
- **Social Norms, Values, and Trends Surrounding the New Venture Idea:** Is it a fad? Is there an increasing need for or awareness of the product or service? Are there ethical concerns about the product, service, or its effects? Realize that a product or service (and any of its components) may be legal but unethical. The social environment of a few venture often involves the perceptions – not necessarily the reality - of the opportunity in the minds of customers and citizens.
- **Legal and Regulatory Forces** that could affect the business operations, including laws, policies, procedures, and regulations pertinent to the industry or municipality in which the new venture is located.

The surroundings in which the proposed business will be caried out must be analysed thoroughly to ensure successful formulation of the strategies. Environment refers to the internal as well as external environment. Internal environment is controllable to a great extent by adopting specific policies or modifying the work ethos. External environment is characterized by its extreme dynamic nature, multifacetedness and uncertainty.

The following analysis and evaluation technique may be useful in studying the worthiness of the proposed business.

Business Evaluation Scoring Technique (BEST):

The business evaluation scoring technique (BEST) was developed to help entrepreneurs evaluate a group of ideas before deciding which ones to pursue. The tool considers the various "Windows of Opportunity" related to new ventures.

For instance, one can answer the following questions by scoring them on a 1-5 scale:

1 = low and 5 = high.

1. Is the business really differentiated from other similar businesses?
2. Does the business have growth potential?
3. Will the business require capital? (Note: A low dollar requirement receives a higher score, while a high dollar requirement should receive a low score)
4. Can financing be secured?
5. Does the business suit the individual's entrepreneurial profile (e.g., mind-set, experience)?

Conducting an environmental feasibility analysis will help the entrepreneur to prepare a strategic plan. The following analysis should be done, before doing the feasibility analysis:

The product or service:

- **Describe product/service how it will benefit your customers**. It is important that you can concisely and accurately describe your product or service in terms that are relevant to your customer and that the customer can understand. The ability to describe your product or service will be a critical factor in the success of your marketing and advertising. What are the things about your product or service that are important to your customer? What words immediately create an image of your business?

- **What are the unique characteristic of your product or service?** What are the unique features of the product or service? How do these features meet your customers' needs or preferences? What are the benefits of this product or service compared to the competition? Describe your product or service very simply, and use photos or drawings to illustrate how it works.
- **What are the specific shortcoming of the product or service?** Can it become obsolete soon? Is it perishable, is it difficult to use or install, or are there legal restrictions? An honest assessment of your product or service is extremely important during this analysis. Entrepreneurs do themselves no favor by being in denial or failing to see the disadvantages before going into business. It will help to prepare solutions or ways to minimize these issues.
- **What is your products stage of development?** Is the product still in the idea stage, or is there a model or working prototype available? Have any samples been manufactured? If it is still in the idea or prototype stage, what is the time frame for getting it ready for production.
- **Research any legal restrictions and rights.** List any patents, copyrights, trademarks, or licenses that apply to your product or service. If you are entering into a franchise agreement, partnerships, distributorships, and so on. Seek the assistance of patent attorneys or intellectual copyright specialists for assistance. Also, list the government regulations with which you must comply, including any government approvals required, and research zoning restrictions carefully.
- **What are the insurance requirements?** Research the liability of your product or service, and consult an insurance specialist to be sure you are protected adequately. This will depend on the nature of your business. A landscape design firm is in a different liability situation then children's gymnastics and fitness center, for example. If you have employees, you will need insurance to protect them from harm also, along with any insurance benefits you want to provide your staff.
- **Estimate production or service delivery costs.** Will you be producing or subcontracting out the manufacturing or delivery of your product or service? List all the costs, including labour, supplies, shipping, repairs, and so on.

The Management

- **What is your management and technical experience?** Briefly describe your management/ technical skills related to this product or service. Who will you also have on your management team? Will you develop a board of advisers, including industry experts, accountants, or lawyers?
- **Consider the three crucial areas of experience and expertise:**
  1. **Marketing Strategies:** This means knowing what kind of product or service to sell, how to target and reach your customers, and how to sell your product or service at a price that maximizes your profits.
  2. **Technical Ability:** The fact that we can manage the type of technology we are planning to use in the proposed business should be ensured.
  3. **Financial Knowledge:** If not a financial expert, there is need to know how to plan and control your business's cash flow, how to raise or borrow the money to start your business, and how to get through tight periods without being caught short of cash. A certain amount of financial sophistication is becoming more and more important in today's increasingly complex financial world, even for the small business owner.

The Feasibility Analysis: Beginning the Evaluation Process:

1. Industry and Market Feasibility

The industry feasibility means analysing the working pattern of the different attributes in the industry. It will give a thorough crux of the industry whether entering into it would be a wise decision. For testing the feasibility, the following factors needs to be analysed:

Current Industry Analysis

- Describe the industry as specify as possible. Some business ideas fall into more than one industrial classification.
- What are the current trends in the industry?
- What is the current size of the industry? Is it dominated by large players? Are there a significant number of small to medium-size enterprises in the industry?
- Where is the industry located? Is it local, regional, national, or global?
- What is the average sales and profitability for this industry?

Competitor Analysis:

- Obtain basic information on the competitors you have identified. Who are the direct competitors of the new venture?
- Where are the competitors located? Be careful not to assume that a competitor located across the country – or the world – is not a direct competitor. Many firms conduct business on-line, and a remote competitor may prove to be a formidable one if it has a strong on-line presence.
- What are the advantages and disadvantages of the competitors?
- What features of their products or services are similar to yours?
- How are your products or services distinctive from those of your competitors? This is a key part of the competitive analysis.

Following points should also be considered related to market:

- **What is the market potential for your idea?** Describe the market for your product or service as specifically as possible. Is the industry in a period of growth, stability or decline? Can you predict the demand for your product or service over the next six months to two years? Would be entrepreneurs should interview business owners, managers, or other insiders in the industry to learn about trends and market potential for the industry.
- **What ethical values are associated with this industry?** Are there any ethical guidelines for the industry? How can you be proactive and develop a set of ethical norms and behaviours in this business? Are there concerns perceived by customers or others in the industry about ethical behaviour?
- **Who are your customers or clients?** You will need demographic information, including statistics on where they live, income, educational level, number of children, and so on – whatever factors are relevant to your business opportunity. Searching by zip code through library database (see the earlier section on sources in this chapter) will be helpful.

- **How will you accomplish market penetration?** How will you reach your target customers? What forms of distribution, advertising and promotion will you use? How will your potential customers become aware of your business?
- **Others :** The information about the pattern of consumption growth, supply and demand position, composition of the market, income and price elasticity of demand, availability of substitutes, distribution channel, marketing policies, income and price elasticity, motives of purchase and distribution practices should also be taken into consideration.

2. Financial Feasibility

Finance is the life blood of the business. Without finance even successful market players cannot survive for long. Thus, availability of finance, cost associated with it, revenue generated by the proposed business will be able to stand through the financial cost or not, all these should be ensured in order to work out the financial feasibility of the project.

- **How much seed money do you need?** Entrepreneurs must estimate the costs of the new venture for at least the first several months. Every business is different and has its own specific cash needs at different stages of development, so there is no universal method for estimating your start-up costs. Some businesses can be started on a shoestring budget whereas others may require considerable investment in inventory or equipment. It is vitally important to know that you will have enough money to launch your business venture.
- **What expenses will you have during the start-up phase?** Some of these expenses will be one-time costs such as the fee for incorporating your business or the price of a sign for your building. Some will be outgoing, such as the cost of utilities, inventory, insurance, and so on. While identifying these costs, decide whether they are essential or optional. A realistic start-up budget should include only those things that are necessary to start the business. These essential expenses can then be divided into two separate categories: fixed and variable.
- **Allow for surprise expenses.** Even with the best of research, opening a new business has a way of costing more than you anticipate. There are two ways to make allowances for such expenses. The first is to add a little padding to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, which we call contingencies, to account for the unforeseeable.
- **Use a worksheet that lists all the various categories of costs.** Appendix 1 at the end of this chapter contains a worksheet you can use to estimate your initial expenses (both one-time and ongoing). When listing your start-up costs, be sure to explain your research and how you arrive at your forecasts of expenses. Give sources, amounts, and terms of proposed loans.
- **Others:** Along with the above analysis, different aspects must also be considered like Profitability measurement, Financial appraisal, Economic analysis, Comparing similar projects, Incentives offered by govt.

3. Technical Feasibility

It refers to the analysis of the technology and operations related aspects in order to justify the proposed business idea in terms of the following aspects:

- Plant capacity
- Production technology
- Machinery and equipment
- Plant location and sites
- Material inputs and utilities
- Product mix
- Plant structure and civil works
- Project charts

All the above points will help the entrepreneur to obtain replies of the following queries:

- What is the impact of technology on the industry & market?
- What is the level of technology in use in the industry today?
- How available or accessible is that technology to the entrepreneur?
- How can you remain up-to-date with technological changes in this industry?
- What resources will be required to access the technology at start-up?
- During the growth stage several months ahead?

The results of a feasibility analysis can provide entrepreneurs with a much better understanding of the capabilities of the new venture.

7.7 SWOT Analysis

Business firms undertake SWOT analysis to understand internal and external environment. SWOT analysis refers to the analysis strength and weakness existing within an organization can be matched with the opportunities and threats operating in environment so that an effective strategy can be formulated. An effective organization strategy therefore is one that capitalizes on the opportunities through the use of strengths & neutralizes the threats by minimizing the impact of weakness. SWOT analysis is useful in reversing organization mission & objectives as these are set within context of various internal and external factors.

Opportunity is a favorable condition in the organization environment which enables it to consolidate and strengthen its position e.g. growing demand of products or services that a co. provides.

Threats is an unfavorable condition in the organization environment which creates risk for, or causes damage to the organization e.g. emergence of strong new competitors.

Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors e.g. superior R&D skills help in new product development and gain competitive advantage.

Weakness is an inherent limitation or constraint which creates a strategic disadvantage e.g. over dependence on single product line.

The SWOT analysis will help in comprehensive market study and feasibility in precise terms. Further it would serve the ingredients for the preparation of Environmental Threat and Opportunity Profile. **ETOP ANALYSIS:** (Environment threat and opportunity profit) ETOP is a summarized depiction of the environmental factors and their likely impact on the organization. It involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. ETOP is the most useful way of structuring the results of environmental analysis.

Steps:

1. We identify relevant environmental factors.
2. We assess the importance of each factor on business in terms of opportunity and threats.
3. Analyze the impact of these factors which will decide whether you are actually having opportunity or facing the threat.
4. Combination of importance and impact factors can give a clear picture of the industry sector.

SWOT analysis is an essential outcome of market assessment wherein the strengths can be materialized into opportunity and the risk associated with the potential threats can be minimized. Thus, to enter into a successful entrepreneurship program, the varied aspects of finance, market, operations and technology are worked upon by appropriate market assessment. A systematic market analysis will help to identify the potential opportunities and threats. After identification, the entrepreneur can select the most promising opportunities keeping in mind the potential constraints. The threats which are likely to have a substantial impact on the business idea are scrutinized. Finally, to study the blended effect an Environmental Threat and Opportunity Profile may be formulated and thus further leads the way to effective entrepreneurship.

7.8 Summary

Small scale industries success milestone is achieved by carrying out thorough market assessment. Market assessment not only helps in idea screening, analysis of market forces and ensuring right technology within cost constraints, but also helps the new entrepreneur to gain confidence in the business concept by supporting facts. Market assessment involves the study of potential consumers and competitors on priority basis. Further feasibility study must be conducted to ensure the venture's viability in all respects, whether it is the matter of resources, land, technology, potential demand, availability of requisite finance, consumer's preferences and so on. The overall market assessment will help to create an opportunity and threat profile which may be referred while framing of the business strategies.

7.9 Key Words

- **Entrepreneur:** He is a key resource person who initiates a business idea & arranges all resources to convert it into reality. He is the person who assumes the business risk and is responsible for all activities carried on in the business.
- **Decision Making:** It is a process of generating various alternative solutions to a problem & then selecting the most appropriate alternative keeping in view the objectives of the business.
- **Critical success factors:** These are also called the key success factors. These factors are those important factors which it worked upon in a differentiated manner, can contribute immensely to the success of the business. Example: - product features, product design, strategy, structure of organization, staff etc.
- **Feasibility:** It means possibility of getting converted into reality and ensuring availability of resources for the same. Feasibility may be judged from different perspectives – technical, economical and financial.
- **Assessment:** It means evaluating the various aspects connected to a particular issue.

- **Market assessment:** It means evaluating the various market components including competitors, government policies, consumers, financial institutions etc. in order to provide relevant information which ma be used to support decisions on how to use the business strengths to grab the opportunities and to minimize the threats by working upon the weakness.

7.10 Self Assessment Test

1. What do you understand by Market Assessment? Explain the objectives of Market Assessment of Small Scale Industries?
2. Discuss the major areas of Market Assessment?
3. Explain the feasibility analysis of small scale new venture with respect to operations and technology?
4. Discuss the relevance of Porter's Five Forces Model in Environmental Analysis?
5. Hoe does environmental scanning contributes to formulate appropriate strategy for the new venture?

7.11 References

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Unit - 8 : Preparation of the Business Plan

Unit Structure:

8.0 Objectives
8.1 Introduction
8.2 Meaning, Objectives and Benefits
8.3 Business Planning Process
8.4 Elements of Business Plan
8.5 Summary
8.6 Key Words
8.7 Self Assessment Test
8.8 References

8.0 Objectives

After completing this unit you will be able to:

- Explain the meaning of business plan,
- Know about the objectives of preparing business plan
- Understand the benefit of Business Plan
- Understand the importance of well-conceived business plan
- Understand the steps involved in preparation of a business plan.
- Learn about business plan development

8.1 Introduction

One of the important and fundamental segments of the industrial sector is Small Scale enterprises and its contribution in the manufacturing sector and also in total direct exports is significant. Small Scale enterprises play important economic, social and political roles in employment creation, resource utilization and income generation, which may bring about change in a gradual manner, in the patterns of capital formation and employment creation in the country. In India, as in most developing countries, an effective development policy needs to attempt to increase the use of labour relative to capital, to the extent that it is economically efficient. Small scale enterprises are generally more labour-intensive than larger organizations and include small but relatively modern manufacturing industry. In India, focus has been mainly on small scale industries and policies and programs put emphasis on promotion of Small Scale industry.

8.2 Meaning Objectives and Benefits

8.2.1 Concept of Planning:

The word "plan" originated from then Medieval Latin word 'planus' which meant a level or flat surface. This evolved in French into being a map or a drawing of any object made by some kind of projection upon a flat surface. In English this has become a more general sense of a scheme of action, design or method. Planning in its current usage in business implies a consciousness of what is happening in the business. It does not preclude creativity or instinct, but it does add a layer of awareness that spells the difference between survival and extinction in a changing environment. Planning does involve: an understanding of the business' history; an examination of the business' environment; an assessment of the business' mission, goals; a process for reaching those goals; a process for gathering information; and a realization that planning is a continuing process that is constantly evolving. Planning does not necessarily mean trying to project the future, but being aware of a range of likely futures and being prepared for them as occur.

Planning is the first and most crucial step not only for starting a business but it is also essential to the success of any undertaking and is a never ending process. Planning as a part of the business operation is extremely important in the early stages of any new venture when the entrepreneur will need to prepare a preliminary business plan. The plan helps the entrepreneur in providing better sense of group of customers/markets, the product or service to be marketed, the financial needs of the venture and the management team. Planning will continue from early start-up business to a mature business as entrepreneur seeks to meet its short-term and long-term goals of business. Plans may be short-term or long-run; strategic or operational and depending upon the type of business and anticipated size of the start-up operation the scope of plan differ. Though plan helps an entrepreneur to serve different purposes, all these plans have one important purpose of providing guidance and framework for successfully handling business in rapidly changing market environment. A carefully and thoroughly prepared plan can convert a simple idea or innovation into a successful business venture.

8.2.2 Meaning of Business Plan:

The business plan is written document prepared by entrepreneur that describes all the relevant external and internal elements involved in starting a new venture. The business plans combines many functional plans such as finance, marketing, human resources and manufacturing. A business plan is a written statement of what entrepreneur hope to achieve in his/her business and how he/she is going to achieve it. It is a course of action that has been developed in order to reach the destinations determined by an entrepreneur.

A business plan, also known as venture plan, loan proposal, investment proposal, is the written document that details the proposed venture. Business plan must describe the current status, expected needs, and projected results of the new venture. Every aspect of the new venture needs to be covered i.e., the project, marketing, research and development, manufacturing, management, critical risks and financing. A description of all these aspects of the proposed new venture is necessary to demonstrate a clear picture of what the new venture is where it is projected to go and how entrepreneur proposes to reach there. It can be said that business plan is the entrepreneur's roadmap for a successful enterprise.

Business plan is the minimum document required by any financial source. The business plan allows the entrepreneur entrants in to the investment process. Although it should be used as a working document once the venture is established, the major thrust of business plan is to summarize the strategic development of the project in a comprehensive document for outside investors. The business plan describes all of the events to investors and financial sources that may affect the proposed venture.

8.2.3 Objectives of Business Plan:

A business plan is outline of the step-by-step procedure that would be followed to convert a business idea in to a successful business venture. Before preparing a business plan an entrepreneur identifies an innovative idea, followed by identification of opportunities and threats through scanning of external environment and identify the internal strength and weaknesses by evaluating internal environment, and finally assess the feasibility of idea so that proper allocation of resources is achieved and the business plan get success.

Following purposes/objectives are served through business plan.

- Vision formulated by entrepreneur gets direction.
- Prospects of business evaluated neutrally.

- Help in identifying resources required to implement the plan.
- Provide guidelines to an entrepreneur for implementation of business plan.
- Implementation of plan could be monitored through follow-up.
- Others find incentive to join the business.
- Financial institutions grant the loan easily to entrepreneur.
- Organizational, operational and financial feasibility and market availability can be easily visualized.
- Strength, Weakness, Opportunities and Threats could be identified y scanning internal and external environment.
- Help in identifying gap in information required about competition and market.
- Ownership arrangement, future prospects and projected growths of the business venture can be documented.

8.2.4 Importance of Well-Conceived Business Plan:

One of the important reasons for preparing a business plan is the realization it brings to entrepreneur about the amount of financing that entrepreneur will need and the times at which he/she will need it. Whenever entrepreneur go to a financial institutions or a tender to borrow money, financial institutions would certainly want to see how investment worthy an entrepreneur are, by taking a look at entrepreneur's business plan or the project report. Having a plan also enables an entrepreneur to look ahead and prepare for future developments. In accordance with these planned developments than, entrepreneur would need to start activating the enterprise in the direction that would lead him to realize those future plan.

The business plan must be read by different groups for different purposes and such groups includes bankers, investors, employees, suppliers, customers, advisors and consultants. An entrepreneur must prepare himself and concern to address to the requirement of all these groups in order to satisfy their needs. It is agreed by many that well-conceived business plan can gather the required support from these groups. The important perspective should be considered while preparing business plan are (a) New venture's creativity and technology (b) New venture's Marketability – Customer orientation (c) Investor orientation. Entrepreneur should have clear understanding of the technology or the creativity involved in new venture. Entrepreneur must be in a position to express very clearly about what the new venture is all about. Such understanding is most common and essential viewpoint along with customer and investor orientation. The creativity in product or use of technology will not serve the purpose of an entrepreneur if they failed in considering who would buy it. Entrepreneur should be market driven to demonstrate benefits of new venture to its users and ensure existence of substantial market. Entrepreneur must try to view their business through eyes of their customers. For the new venture success the valuable consideration is establishing actual market of the product or the service and documenting the forecast of the actual market available to new venture. The investor perspective is concerned with financial forecasts. An entrepreneur should try to view his/her business through eves of the investor. In order to help the investor in evaluating the worth of their investment the sound financial projections are necessary for entrepreneur.

The business is valuable to entrepreneur, potential investors and for those who are trying to familiarize themselves with goals, objectives and venture itself, because business plan help in determining viability of the venture considering its market, provide guidance to entrepreneur in planning and organizing activities and act as an important tool in obtaining required finance for new venture.

8.2.5 Benefits of Business Plan:

A business plan describes every major aspect of the business, including products, services, marketing, staffing, and finance facilities. Financial projections are also central to any business plan. Since business plans summaries operations of proposed business, lenders and investors demand to see them as tools for evaluating requests for financing.

- **Benefits to Entrepreneur:**

Benefits of developing business plan available to entrepreneur are given below.

1. Path for Business Success: Entrepreneurs often ask, “Why do they need a business plan?” Because, writing a well-thought-out and organized business plan dramatically increases their odds of succeeding as an entrepreneur. Running or starting a business without a business plan is like walking through the dark without a flashlight. Entrepreneur can probably go a long way using just his/her senses and relying on basic instincts. But operating in such a manner leaves them wide open to the risk that something will get in their way, like a competitor, and entrepreneur probably won’t see it until it is too late.

2. Provides Information for Business Operations and its Smooth Functioning: The benefits of having a business plan include: help an entrepreneur in clarifying their vision and deciding whether or not to proceed ahead with the idea; help in determining if entrepreneur product and/or service has a sufficient market to support it and whether or not it will be profitable; providing an estimate of venture’s start-up costs and how much entrepreneur need to invest or finance; convincing investors and lenders to fund your business; help in defining entrepreneur target market (who are or will be the customers) and how to best reach them through strategic marketing actions or expanding market coverage or reach; help in establishing or re-evaluating entrepreneur competitive position within the marketplace by conducting a thorough analysis of the competition ; help in defining corporate objectives and programs to achieve those objectives; help business how to make money from the starting by developing effective operational strategies; help in understanding the risks involved and anticipating potential problems so entrepreneur can solve them before they become disasters.

3. Ensure Analysis and Evaluation of All Aspects of Business: The entire business plan process compels the entrepreneur to analyze all aspects of the new venture and to prepare effective strategy to deal with uncertainties that arises. Entrepreneur view the venture critically and objectively as the time, effort, research and discipline needed to put the formal business plan together compel him to do so. The entrepreneur does close scrutiny of his or her assumptions about the venture’s success as the competitive, economic, and financial analyses done by an entrepreneur in business plan compel him to monitor success of plan.

4. Monitoring of Business Plan Success: Since all aspects of the business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results for outside evaluators. The business plan quantifies objectives, and therefore providing measurable benchmarks for comparing forecasts with actual results. Business plan provides the entrepreneur with a communication tool for outside financial sources as well as an operational tool for guiding the venture towards success.

5. Provide Direction Towards Goals: Business plans provide a guideline for employees by outlining a company's best practices and mission statement. Employees can reference the business plan when unclear about what direction the company is headed. Business plans inspire employees to act in conjunction with the goals of the organization.

● **Benefits to Financial Sources/Investors:** The financial sources are interested in evaluating business plan and able get following details from business plan. Benefits of developing business plan available to investors are given below:

1. Market Potential: Business Plan provides details about the market potential and plans for securing a share of that market.

2. Venture's Ability to Overcome Debt: Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.

3. Indentify Critical Aspects: Business plan identifies critical risks and vital events with a discussion of contingency plans that provide opportunity for the venture's success.

4. Provide Information for Financial Evaluation: Business plan provides comprehensive overview of the entire operations and gives financial sources a clear, concise document that contains the necessary information for a thorough business and financial evaluation.

5. Evaluation of Managerial Ability: The financial source does not have prior knowledge of entrepreneur or the venture; it is the business plan that provides a useful guide for assessing the individual entrepreneur's planning and managerial ability.

8.2.6 Errors to be avoided in Formulating Business Plan:

A number of critical factors must be addressed when planning and the pitfalls in the business plan should be avoided.

1. Avoid Errors in Setting Realistic Goals: The entrepreneur should avoid a situation of lacking any attainable goals, lack of time frame to achieve goals, lack of priorities and lack of action steps. The goal should be realistic in a sense that it should be specific, measurable and set within the time frame parameters.

2. Failure to Recognize Future Problems: Many times an entrepreneur is so engrossed in their idea that that objectivity goes out of consideration and entrepreneur failed in recognizing the possible future problems associated with goals and there is no room for contingency or alternative plans. What is needed is that obstacles must be anticipated, and alternative strategies must be formulated.

3. No Commitment: Many entrepreneurs found lacking commitment to their venture which is reflected in their desire for not to invest personal money in business; would like to initiate the business as a hobby and not as passion and avoidance of professional appointments etc. What is needed is that the venture must be supported by all involved i.e. family, partners, employees, team members etc.

4. Lack of Knowledge/ Experience of Business Idea: It is very important that entrepreneurs must demonstrate their background especially with reference to their knowledge and experience in the area of business idea. Many ideas fail because many beginners of business attempt to promote ideas for which they lack any knowledge; lack of experience; lack of understanding of the venture's industry etc. to avoid this entrepreneur needs to provide evidence of his/her personal experience, knowledge and skills related with proposed venture.

5. No Clarity about Market Segment: Many ideas are proposed by an entrepreneur without identifying the potential customer groups because the product or service is the liking of entrepreneur and it does not guarantee that others will also like the same product. The only possible way to avoid this is to have a market segment specifically targeted and entrepreneur must demonstrate that why and how the specific product or service will meet the needs of this target group.

8.3 Business Planning Process

Entrepreneur does the business planning in many forms, but it requires creativity, independent thought and strategic planning skills. Many times, if required, learning from a professional entrepreneur is the best option for an entrepreneur, when it is available. Starting with a feasibility plan, a business plan and a proposal will be useful in the preliminary process. These will provide a blueprint, and the ability to convey the message of the business. The planning process should follow the sections of a feasibility study, which investigates whether the idea is capable of becoming successful. The business plan shows the details of why, and the proposal is the pitching portion of the planning process. All materials can help get investors or funding. Once the business is in operation, the planning does not end. Entrepreneurship requires constant innovation and change. Subscribe to Entrepreneur Magazine, and others to get more strategic insight. If required, stay informed by local, national, and global media outlets to plan ahead for the next year or quarter.

A plan which looks feasible at the first instance might actually not be when its details are referred. Before preparing the plan entrepreneur should make an effort to do preliminary review starting should be from making review of the available plans; followed by drawing key assumptions about competition, growth of market economic variables; SWOT analysis by scanning internal and external environment; and if required get the professional advice from a person engaged in a similar business activity. Therefore, documenting business plan is important activity and preparation of business plan needs to follow process which is given below.

(1) Identifying and Generating the Idea

(2) Assessment of Environment

(3) Analysis of Idea's Feasibility

(4) Preparation of Project Report

(5) Evaluation and Monitoring

(1) Identifying and Generating the Idea: The basic function of an entrepreneur is not only to do innovation in the form of creating a new product, service but they need to offer concept, product and service to customers, employees and shareholders with major or key value addition in its offerings. Hence, an entrepreneur keep in mind the key word of value addition right from the first activity he initiate for his venture. An entrepreneur as a creative person work on entirely new innovative idea, add the value to the idea and come out with a product as a solution to the needs of people. Even if idea is not new only value addition to existing product is also considered as creation of innovative product or service. So idea generation is the first stage of planning process involves creation of new ideas, or service to satisfy existing demand, latent demand or future demand of the market. If entrepreneur does not have idea he can use various sources of idea generation which includes consumers; employees; intermediaries such as dealers and retailers; existing companies offerings; laboratories; research and development activity etc.

In order to get ideas from such sources entrepreneur use various methods of generating new ideas such as Brainstorming, Reverse Brainstorming, Brain writing; Group discussion; Collection of information through questionnaires from existing customers, dealers, retailers; Ideas are invited through Advertisements, Mails and use of Internet; Market research; addition of value to the current product/service etc. Many times entrepreneur organize contest to identify ideas through TV channels and other Medias to invite participation to get best business ideas. Entrepreneur should do screening of these new ideas to eliminate impractical ideas.

(2) Assessment of Environment: After generating ideas the next step is to assess the environment for analyzing prospective strengths, weakness, opportunities and threats of the business enterprises. In order to know whether opportunity exists for the idea generated it is advisable to scan both external and internal environment which help in collecting information about the possible opportunities, threats from the external environment and strength and weaknesses from the internal environment. Various variables to be scanned includes economic, socio-cultural, technological, Governmental and demographic changes taking place in external environment and variables of internal environment includes availability of finance, machinery, raw material manpower etc. Entrepreneur fulfill the objective of collecting maximum information from informal sources such as friends, family, colleagues etc. and formal sources such as newspapers, magazines, Government records, seminars and conferences, dealers, competitors, suppliers etc.

The appraisal of socio-cultural environment includes variables such as norms, beliefs, values, fashions of a particular society which help in understanding the level of flexibility and rigidity of a given society towards a new product or service or concept. Technological assessment includes appraisal of available technological know-how and future technologies to convert an idea in to a product. Appraisal of economic environment includes assessing the economic status in terms of per capita income, inflation, consumption pattern, and balance of payments, fiscal and monetary policies which help in identifying whether opportunities for growth and development exists in economy. Such knowledge provides confidence to entrepreneur for success of their business venture. The appraisal of various policies, incentives, legislation, grants, and procedures formulated by Government help an entrepreneur to decide whether to run or establish the business or wait for favourable approach form the Government. The demographic environment assessment includes apprising overall population pattern in a particular geographic region considering variables like age profile, population distribution, income distribution etc. which help in identifying size of market available for product or service of an entrepreneur.

Assessment of internal environment includes assessment of availability of required raw material; production machinery, equipments, techniques, tools; availability of required finance in terms if start-up expenses, fixed and running expenses etc. It also includes assessing the present, potential and latent demands of the market as well as assessing kind of human recourse required and its availability in the labour market. The basic objective of environmental scanning is to collect as much information as possible to from as many sources as possible to meet the information requirement for enhancing the probability of success in this business.

(3) Analysis of Idea's Feasibility: Considering the scanning of the environment entrepreneur is interested in knowing whether the entire project of new venture is feasible or not. For this reason entrepreneur would conduct feasibility study considering various variables or dimensions or areas such as analysis of market; analysis of technical and operational aspect; financial feasibility and drawing various functional plans such as marketing plan, production plan, ownership plan and financial plan.

The market analysis includes estimating demand and market share of the proposed product or service in future based on factors like availability of substitute goods, consumption pattern, competition etc. For estimating demand preliminary discussions were made with intermediaries, consumers, suppliers, competitors etc. and consumer preferences and potential demands estimation is made.

Analysis of technical and operational aspect includes assessment of operational ability of proposed business considering the cost and availability of technology which is critical for business. For technical /operational analysis information is collected considering parameters such as availability of material; planning of required material; feasible/economic location of business; production capacity of proposed business; machinery and equipment and plant layout etc. Analysis of financial feasibility includes carrying out cost estimates of land and building; plant and machinery; preliminary estimates of marketing and administrative expenses; provision for contingencies; working capital estimates; cost of production and projection of profits. Thus, financial analysis includes projection of Break-Even Point, Cash Flow Statement, and Balance Sheet Statement.

After positive indication form feasibility study the functional plans are drawn. The marketing plan includes formulating potential strategies in terms of marketing mix based on target market identified by market feasibility study. Production plan is drawn by entrepreneur involved in a manufacturing sector and entrepreneur involved in service sector prepare operational plans. These production and operational plan includes strategies related with suitable location of business; physical layout of plant; availability and cost of raw material, machinery, and equipment; cost of manufacturing and operations, production capacity; production planning and scheduling; inventory management; quality management and control and expansion of business.

The organizational plan includes choosing ownership pattern form various forms of business organization such as sole proprietorship; partnership; company of franchising. It will determine the organization structure in which the relationship between human resources and other resources are developed. Financial plan indicates the financial requirements of the proposed business considering costs related with marketing, operations, human resources and smooth functioning of business. In covers preparation of projected cash flows, income statement, break-even point, ratios and balance sheet.

(4) Preparation of Project Report: After assessing environment and feasibility of idea entrepreneur now start preparing report which is a written document describes the strategies involved in starting and running the business. Report helps entrepreneur to monitor whether the business is growing as projected in business plan. Project report can be an evaluation tool for investors and financial institutions to provide required finance to proposed business. Project report ensures utilization of resources and put the organization on a path of sustainable growth. The project report should be arranged in a sequence; cover all the details about the proposed venture; should not be very lengthy; should be logical and subjective; should justify financial needs, market prospects and should be professionally made to demonstrate that promoters of business possess entrepreneurial insight and sound experience.

(5) Evaluation and Monitoring: It is important to continuously review and evaluate the business because technology is changing continuously and business is facing intense competition in globalized world. The dynamic environment compels an entrepreneur to evaluate, control and review the business at regular interval to introduced changes and match with dynamic environment.

8.4 Elements of Business Plan

A business plan consists of the following sections:

1. Executive Summary: The statement should be short, may be of one or two pages. It should explain the fundamentals of the proposed business: What will be the product? Who will be the customers? Who are the owners? What future holds for the business and the industry?

It should be professional, complete, concise and above all should sound enthusiastic. If purpose of making the business plan is to get a loan, it should be clearly stated that how much loan is required, how it is going to be used, and how the money will make the business more profitable, thereby ensuring repayment.

2. Business Description: It is important to describe what business will you be in and what will you do. To describe one's business, following key elements may be included:

- **Mission Statement:** Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. Although it is not compulsory to have a mission statement, but it is a good to have one as it serves as a guiding point.
- **Company Goals and Objectives:** Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a successful company that is a leader in providing quality products. Objectives might be annual sales targets and some specific measures of quality achievement.
- **Industry Description:** Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?
- **Target Market:** Target market tells about the customers to whom the product will be marketed. It should be briefly stated here as detailed explanation will be covered under marketing plan section.
- **Competitive Edge:** Describe your most important company strengths and core competencies that will make the company succeed? It could be a better service, a wider range of products, better after sales services etc. What background experience, skills, and strengths do you personally bring to this new venture?
- **Structure:** describe the type of operation, i.e. wholesale, retail, manufacturing or service-oriented. Also state whether the business is new or already established.
- **Legal form of Ownership:** State the form of ownership adopted like - Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

3. Market Plan: A good entrepreneur with poor marketing plan will face an early disaster. Any product or service has to be marketed competently. A market plan describes the strategies to be adopted for marketing of the product. It is a result of market analysis. A market analysis helps in knowing about various aspects of the market so that the target market can be defined and the company can be positioned in order to capture desired market share. Market analysis enables the entrepreneur to establish the strategies regarding the marketing mix i.e. the four P's- product, price, place (distribution) and promotion. These strategies:

- Will allow the company to become profitable within a competitive environment.
- Provides an indication of the growth potential within the industry.
- Helps in developing estimates for the future of proposed business.

As discussed in earlier section, market analysis has enabled the entrepreneur in:

- **Defining the Market** in terms of size, structure, growth prospects, trends and sales potential.
- **Defining the Target Market:** The segmentation factors can be geographic, customer attributes or product oriented. If the distribution of the product of the proposed business is confined to a specific geographic area being a small business, the target market can be defined as number of users of that product within that geographic area.
- **Defining Total Feasible Market:** The total feasible market is the market that can be captured provided every condition within the environment is perfect and there is very little competition. Although this situation is not true in most industries. The factors that affect the share of the feasible market a business can are obtain are - structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.
- **Estimating Market Share for the Time Period the Plan will Cover:** It is calculated after considering the projected growth of the market and the expected conversions from the competitors.

After the above mentioned details have been estimated through market analysis, the strategies regarding the marketing mix i.e. the four P's- product, price, place (distribution) and promotion should be developed and included in the business plan. The key strategies should be regarding:

- **Describing Product:** Describe in depth the products or services (technical specifications, drawings, photos, sales brochures, and other bulky items are to be included in Appendices). Describe the most important features including the after-sale services provided like warranty, service contracts, support, follow-up, and refund policy.
- **Pricing of Product:** Pricing strategy should fit with what was revealed in competitive analysis. Prices should be compared with those of the competitor.

  Most small businesses go for low pricing. This is not a good strategy as it decreases profit margin; customers may not care as much about price if they have a good quality product. The better strategy will be to have average prices and competing on quality and service.
- **Distribution:** includes the entire process of moving the product to the customer. The type of distribution set up chosen will depend on the structure of the industry and the size of the business. The business plan should clearly indicate how products or services will be sold (Retail, Direct mail order, Web catalog, Wholesale, Sales force, Agents, Independent representatives, etc.)
- **Promotional Plans:** promotional plans will have to be initiated over a period of time. Promotion strategy regarding advertising campaigns, seasonal discounts or improved packaging have to de described in detail like: What media, why, and how often? Cost effectiveness of various methods to get the most out of the promotional budget? Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals? What image do you want to project? What will be the promotional Budget? How much will be spend on what all items listed above, before startup and after startup?

4. Competitive Analysis: The purpose of the competitor analysis is to determine the strengths and weaknesses of the competitors within the market, strategies that will provide business with a distinct advantage, the barriers that can be developed in order to prevent competition from entering the market, and weaknesses that can be exploited within the product development cycle. The questions to be answered are: What products and companies will compete with you? List your major competitors and state whether competition is full or just for certain products, certain customers, or in certain locations? Will you have important indirect competitors from businesses? (For example, mobile phones manufacturing companies compete with cameras making companies, although they are different types of businesses). Strategies should be so designed that they are primarily based on competitive advantage and that they set the product or service apart from the competitors.

5. Operations and Management Plan: This section will describe:

- Operational procedures, manufacturing equipment, level of production required, locations, licensing and other aspects related to providing the product or service.
- The organizational structure has to be well defined and based within a realistic framework given the parameters of the business. Organize tasks into departments that produce an efficient line of communications between staff and management. Establish the function of each task and how it will relate to the generation of revenue within the company.
- Human resource requirement: Determine the number and type of personnel required to perform each task, where the right employees will be found, what will be the pay structure, what type of labor (skilled, unskilled, and professional) will be required? Determine who does which tasks and prepare schedules and written procedures. If the business seems to have more than 10 employees, it is good to create an organizational chart showing the management hierarchy and who is responsible for key functions. Include position descriptions for key employees.
- If purpose of business plan is to secure loans from investors, resumes of owners and key employees should be included. List of following should also be included: Board of directors, Management advisory board, Attorney, Accountant, Insurance agent, Banker, Consultant or consultants, Mentors and key advisors.

6. Financial plan: The enterprise should have sound financial regulations. An exact assessment of the revenue, costs, profits and losses, cash-flow dynamics, stock of raw materials and finished products, loans etc. has to be reflected in the financial profile. Critical assessment of the finances and its dynamics help in the holistic assessment of the enterprise. More important, the process of thinking through the financial plan will improves insight into the inner financial workings of the company.

The three common financial statements need to be prepared are - cash flow statement, profit and loss account and the balance sheet. Together they constitute a reasonable estimate of the company's financial future.

- The profit and loss statement tells how much money the business earns over a given period of time. A twelve month profit and loss projection and a four-year profit and loss projection (optional) are to be prepared.
- The cash flow statement is an information tool telling how much cash is needed to meet obligations, when will it be needed and where is it coming from. If the profit projection is the heart of a business plan, cash flow is the blood. Every part of the business plan is important, but none of it means a thing if the business run out of cash. Businesses fail because they cannot pay their bills. It is important to plan how much cash is needed before startup, for preliminary expenses, operating expenses, and

reserves. It will enables to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan.

The cash flow projection is just a forward look at the checking account. For each item, determine when actual receipt of cash (for sales) will happen or when actually the cash will be needed. Essential operating data, should be kept track of, which may not be the part of cash flow as it allows controlling items that have a heavy impact on cash flow, such as sales and inventory purchases. Cash outlays should also, be kept track of, prior to opening in a pre-startup stage. Cash flow shows whether the working capital is adequate.

- Balance sheet is a summary of all the financial data giving a macro view of the company at a given point of time. It is one of the fundamental financial reports that any business needs for reporting and financial management. It shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.
- Break-Even Analysis can be prepared. It predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

7. Appendices: It includes details and studies used in the business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

A detailed business plan consists of ten sections and its length depends upon the need for detail to be provided.

Section	Particulars
	Introductory Page
	A. Name and Address of the Business
	B. Name(s) and address(es) of principal(s)
	C. Nature of Business
	D. Statement of financing needed
	E. Statement of confidentiality of report
I	Executive Summary (Three to Four pages summarizing the complete business plan)
II	**Business Description**
	A. General description of business
	B. Industry background (Future outlook and trends, Analysis of Competition; Industry and market forecast)
	C. Goals and potential of the business and milestones (significant event or change)
	D. Uniqueness of product or service
III	**Marketing Activities**
	A. Research and analysis
	(1) Identification of target market
	(2) Market size and trends
	(3) Estimated market share
	(4) Competition
	B. Marketing plan
	(1) Marketing strategy (Product, Price, Placement, Promotion)
	(2) Marketing controls
IV	**Manufacturing/Operations**
	A. Identify location (Advantages, Taxes)
	(1) Proximity of supplies
	(2) Access to transportation
	B. Production plan
	(1) Manufacturing process
	(2) Physical plant (Machinery and equipment)
	C. Operational Plan
	(1) Description of company's operation
	(2) Flow of order for goods and /or service
	(3) Technology utilization
V	**Management**
	A. Organizational plan
	(1) Form of ownership
	(2) Identification of partners or principal shareholders
	(3) Board of Directors, advisors, consultants
	B. Management Team
	(1) Team background
	(2) Key personnel
VI	**Assessment of Risks**
	A. Evaluate weakness of business
	B. Potential problems
	C. New technologies, obstacles and risks
	D. Contingency plans (Alternative courses of action)
VII	**Financial Plan**
	A. Pro-forma income statement – Profit and loss
	B. Cash flow projections
	C. Pro-forma Balance sheet
	D. Break-even analysis
	E. Cost control and Budgeting plans
	F. Sources and applications of funds
VIII	**Harvest Strategy**
	A. Transfer of assets
	B. Continuity of business strategy
	C. Identify successor
IX	**Milestone schedule**
	A. Timing and objectives
	B. Deadlines and milestones (benchmarks)
	C. Relationship of events
X	**Appendix or Bibliography (contains backup material)**
	(Letters, Market Research data, Leases or contracts, Price list from suppliers etc.)

8.5 Summary

A business plan is used when one is starting a new business or a new process or product within a business. It includes not only a description of the new business, process or product, but also a discussion of how one plans on managing the marketing, development, production, and financing of this new venture. A business plan is a written description of your business's future. It is to a document that describes what entrepreneur plan to do and how he plans to do it. Business plans can help to perform a number of tasks for those who write and read them.

They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better. A business plan conveys business goals, the strategies use to meet them, potential problems that business may confront and ways to solve them, the organizational structure of business, including titles and responsibilities, and finally, the amount of capital required to finance venture and keep it going until it breaks even.

A good business plan follows generally accepted guidelines for the business concept, where entrepreneur discuss the industry, its business structure, particular product or service, and how it was planned to make business a success. It also covers the marketplace section, in which entrepreneur describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, entrepreneur also describes the competition and how entrepreneur position his business to beat competition. It also cover financial section contains business income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses.

Business plan is dynamic in nature and act as a guiding tool to the entrepreneur and therefore, it needs continuous review and updating to keep the plan viable in continuous changing environment. The concepts of productivity, product selection, location, layout decision, value engineering and quality awareness are as important determinants of success for a small enterprise. Business plan is an outline of a business and provide details of the finance, assets, staff, products or services and markets of proposed business venture. Business plan guides entrepreneur by identifying possible problems and sets out how entrepreneur intends to realize its objectives. Steps in business plan includes identifying and generating the idea; assessment of environment; analysis of idea's feasibility; preparation of project report and evaluation of and monitoring of business plan. Entrepreneurs thinking process is solidified through the business planning process. Bank or financial institution will need to be convinced of the viability of business, or business expansion and the same are done by business plan. The business plan also provides some guideposts in running business.

8.6 Key Words

- **Environmental Scanning :** Scanning of different variables, in the external and internal environment so as to analyse the viability of a business.
- **Feasibility Study:** Feasibility study is a detailed study conducted to analyse the feasibility of the project in a particular environment. Feasibility study is undertaken after environmental scanning.
- **Business Plan Development:** It is a written document prepared after environmental scanning and feasibility analysis that describes step by step, strategies designed for starting and running a business
- **Contract:** A contract is a written document that is enforceable legally.
- **Executive summary:** It should explain the fundamentals of the proposed business.

- **Business Description:** Describe what business will you be in and what will you do.
- **Market Plan:** Describes the marketing strategies regarding product, price, place and promotion

8.7 Self Assessment Test

1. What is Business Planning? Explain the process of business planning by relating it with real life examples considering any organization of your choice.
2. Write Short Notes on following;
   (a) Importance of Well-Conceived Business Plan
   (b) Elements of business plan.
3. Discuss the types of environmental analysis.
4. What is a business plan? Describe in detail.
5. What are the objectives of preparing business plan?
6. What are the essentials of a good business plan?
7. What are various financial statements that need to be included in a business plan?
8. Make a business plan for your intended business.

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Unit - 9 : Institutional Support System

Unit Structure:

9.0 Objectives
9.1 Introduction
9.2 National Level Institutions
9.3 State Level Institutions
9.4 Fund Based Institutions
9.5 Summary
9.6 Key Words
9.7 Self Assessment Test
9.8 References

9.0 Objectives

After studing this unit, you should be able to:

- Introduce the functions and activities of various Central and State Government agencies supporting small scale industries.
- Discuss various schemes and incentives relevant for small scale industries.

9.1 Introduction

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

Since independence the Government of India has nurtured this sector with special care. The emphasis on small scale industries has always been an integral part of the Indian industrial strategy, more so often after the Second Five Year Plan. It was envisaged that small scale industries would play an important role as producer of consumer goods and absorber of surplus labour thereby addressing to the problems of poverty and unemployment. There exists a strong institutional structure at the Central and State level for the promotion and development of the sector and the schemes/programmes of the Central and State Governments span across major areas of operations of small scale enterprises.

9.2 National Level Institutions

To assist and facilitate the small scale sector, the Central and State governments have an elaborate institutional framework in the country. The institutions providing assistance to small scale industries can be broadly classified as National Level Institutions, State Level Institutions and Funding Institutions.

The National Level institution may be further classification as:

1. Ministry of Micro, Small and Medium Enterprises

The role of the Ministry of Micro, Small and Medium Enterprises and its organisations is to assist the states in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of Micro, Small and Medium Enterprises (MSMEs) in the changed economic scenario.

The Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged on 9 May 2007 to form the Ministry of Micro, Small and Medium Enterprises (MSME). This Ministry now designs policies and promotes/facilitates programmes, projects and schemes and monitors their implementation with a view to assisting MSMEs and helps them scale up.

The schemes/programmes undertaken by the Ministry and its organizations seek to facilitate/ provide: i) adequate flow of credit from financial institutions/ banks; ii) support for technology up gradation and modernization; iii) integrated infrastructural facilities; iv) modern testing facilities and quality certification; v) access to modern management practices; vi) entrepreneur ship development and skill up gradation through appropriate training facilities; vii) support for product development, design intervention and packaging; viii) welfare of artisans and workers; ix) assistance for better access to domestic and export markets, and x) cluster-wise measures to promote capacity-building and empowerment

The Ministry of MSME has two Divisions called Small and Medium Enterprises (SME) Division and Agro and Rural Industry (ARI) Division. The Ministry is duly assisted in its efforts by its attached organizations like the Khadi and Village Industries Commission (KVIC); the Coir Board; the Mahatma Gandhi Institute for Rural Industrialization (MGIRI); the National Small Industries Corporation (NSIC) Ltd.; National Board for Micro, Small and Medium Enterprises (NBMSME) and the three autonomous national level entrepreneurship development/ training institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA; National Institute for Micro, Small and Medium Enterprises (NIMSME), Hyderabad and Indian Institute of Entrepreneurship (IIE), Guwahati.

2. National Small Industries Corporation (NSIC)

NSIC was set up in the year 1955 to promote, aid and foster the growth of small industries in India with a focus on commercial aspect of their operations. It is an ISO 9001 certified company. It provides wide range of promotional services to small-scale industries.

It provides machinery to small-scale industries under hire purchase schemes and also on lease basis. It helps in export marketing of the products of small-scale industries, in development and up gradation of technology and implementation of modernisation programme of small-scale industries, raw material procurement, product marketing, credit rating, adoption of improved management practices, etc. Various schemes of NSIC are:

(i) Marketing Support to MSMEs

a) **Raw Material Distribution**: NSIC has made arrangements with bulk manufacturers like Steel Authority of India Ltd. (SAIL); Rashtriya Ispat Nigam Ltd. (RINL); National Aluminium Company Ltd. (NALCO), Sterlite Group; Indian Oil Corporation Ltd.; Hindustan Zinc Ltd. and Chennai Petrochemical Corporation Ltd. etc., for procuring raw materials like steel, aluminium, zinc; petrochemical products and coal etc. These arrangements are aimed at making available raw materials to MSMEs at reasonable prices and in small quantities.

b) **Consortia and Tender Marketing**: Micro and Small Enterprises (MSEs) in their individual capacity face problems in procuring and executing large orders, which deny them a level-playing field vis a vis large enterprises. NSIC accordingly forms consortia of small units manufacturing the same products, thereby pooling in their capacity which provides comfort level to MSEs (suppliers) and also to buyers. The Corporation applies for Tenders on behalf of consortia of MSEs and secures orders for bulk quantities. These orders are then distributed amongst MSEs in tune with their production capacity. Testing facilities are also provided to enable MSEs to improve and maintain the quality of their products conforming to the standard specifications of the buyers.

c) **Single Point Registration** for Government Purchase: NSIC operates a Single Point Registration Scheme under the Government Purchase Programme, wherein the registered small enterprises get purchase preference in Government Purchase Programme. The small enterprises registered under this Scheme get the following facilities:-

i) Issue of Tenders free of cost.

ii) Advance intimation of Tenders issued by DGS&D.

iii) Exemption from payment of earnest money deposit.

iv) Waiver of security deposit up to the monetary limit for which the enterprise is

registered; and

v) Issue of competency certificate after due verification, in case the value of an order exceeds

the monetary limit.

d) **Exhibitions:** To showcase the competencies of Indian MSMEs, NSIC facilitates their participations in International Exhibitions, Fairs, etc. on concessional terms under the Marketing Assistance Scheme.

e) **Buyer – Seller Meets**: Large and institutional buyers such as Railways, Defence, Communication Departments and large companies are invited to participate in buyer-seller meets

(ii) Technology Support to MSMEs

NSIC offers MSMEs the following support services through its Technical Services Centres and Extension Centres:

a) **Material testing facilities** through accredited laboratories Product design including CAD;

b) **Common facility** support in machining, EDM, CNC, etc.;

c) **Energy and environment services** at selected Centres; and

d) **Practical training** for skill up gradation

(ii) Credit Support to MSMEs

a) **Meeting credit needs of MSMEs** through tie-up arrangements with Banks: NSIC has entered into tie-up arrangements with 12 banks for helping MSMEs in accessing term loans and working capital loans.

b) **Financing Procurement of Raw Materials & Marketing Activities:** NSIC provides financial assistance for raw material procurement by making the payment to suppliers. NSIC facilitates financing for marketing activities such as Internal Marketing, Exports and Bill Discounting.

c) **Performance and Credit Rating Scheme for Small Enterprises:** The scheme is being operated through 7 accredited rating agencies i.e. CARE, CRISIL, FITCH, ICRA, ONICRA, Dun & Bradstreet and SMERA. The fee to be paid by the MSEs for the rating is subsidized by the

Government to the extent of 75% of the rating fee up to a maximum of Rs. 40,000 for the first year of rating.

Support Services to MSMEs

a) **Information Services** under B2B portal for MSMEs: NSIC has hosted sector-specific portals for focused information dissemination. NSIC has hosted a B2B web portal (www. nsicindia.com) which provides comprehensive and integrated facilities to MSMEs for business to business (B2B) relationship. NSIC has also hosted a dedicated B2B web portal to promote International Trade,

b) **Consultancy services:** NSIC provides consultancy services in diverse areas namely Policy and Institutional Framework, Business Development Services, Capacity Building of Institutions engaged in MSME development.

3. Office of the Development Commissioner (Micro, Small and Medium Enterprises),

The Office of the Development Commissioner (Micro, Small and Medium Enterprises), also known as the **Small Industry Development Organization (SIDO),** is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring different policies and programmes for the promotion and development of MSMEs in the country.

It provides a comprehensive range of common facilities, technology support services, marketing assistance, etc., through its network of 30 MSME Development Institutes (MSME - DIs); 28 Branch MSME-DIs; 4 MSME Testing Centres (MSMETCs); 7 Field Testing Stations (MSMETSs); 18 Autonomous Bodies – which include 10 MSME Tool Rooms (MSME-TRs); 6 MSME Technology Development Centres (MSME-TDCs) and 2 MSME Footwear Training Institutes (MSME-TDC-CFTIs). There are also 2 Departmental Training Institutes (MSME-TIs). The functions of the main bodies of the office are as follows:

i) ***MSME Development Institutes*****:** formerly called **SISIs** (Small Industries Service Institutes) are operational one in each state. They performs the following functions:

- Organizing Industrial Motivation Campaign/Entrepreneurship, Management and Skill Development Programmes;
- Assistance / Consultancy to prospective and existing entrepreneurs;
- Preparing State and District Industrial Potential Survey Reports;
- Preparation/updation of Project Profiles of Products /Industries suitable and feasible in the MSME Sector;
- Conducting Energy Conservation, Pollution Control, Quality Control & Upgradation;
- Assisting Ancillary Development by way of organizing VDPs;
- Making available Common Facility Services in Workshops/ Laboratories;
- Preparation of Directory of specific industries;
- Market Surveys;
- Coordination with DICs and linkages with state government functionaries.

ii) ***MSME Technology Development Centres:*** are product-specific Centres for addressing product specific problems and rendering technical services, developing and upgrading technologies and manpower development and training in respective product groups like Foundry & Forging, Electronics, Fragrance & Flavour, Sport Shoes, Electrical Measuring Instruments and Glass.

iii) ***MSME Testing Centres*:** have facilities for quality up gradation, training/consultancy in testing, quality control, quality management, process quality control systems, etc.

iv) ***MSME Tool Rooms*:** assist MSMEs in technical up gradation and provide good quality tooling through designing and producing tools, moulds, jigs & fixtures, components etc. These Tool Rooms also provide technical training and consultancy in the area of tool and die making.

v) ***MSME Footwear Training:*** at Agra and Chennai are engaged in developing designs and development of footwear and also providing training for skill development footwear industry.

vi) ***MSME Training cum Product Development Centres:*** Four Training - cum – Product Development Centres (TPDCs) are being set up for Agro and Food Processing Industries in the campus of MSME - Development Institutes at Ludhiana, Kanpur, Indore and Guwahati.

The main services rendered by DC MSME office are:

i) Advising the Government in policy formulation for the promotion and development of MSME Sector;

ii) Providing techno-economic and managerial consultancy, common facilities and extension services to the MSME Sector;

iii) Making available facilities for technology up gradation, modernisation, quality improvement and infrastructure;

iv) Developing Human Resources through training and skill up gradation;

v) Providing economic information services;

vi) Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other organisations concerned with development of MSME Sector; and Evolving and coordinating Policies and Programmes for development of the Sector as ancillaries to large industries.

4. Small Scale Industries Board (SSI Board)

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advice to the Government on all issues pertaining to the small scale sector. The Board was first constituted in 1954. The Board is reconstituted every two years and is headed by the Minister In charge of Small Scale Industries in the Government of India. The Board comprises among others State Industry Ministers, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field. The Additional Secretary and Development Commissioner (SSI) is the Member Secretary of the Board. The Board is serviced by the Board and Policy Division in the office of the DC (SSI). The Board was last constituted on 18th January 2003, with 101 members and held its 48th meeting on 17 January, 2004.

5. Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body established by an Act of Parliament in the year 1956. It was amended by act in the year 1987 and 2006. KVIC is functioning under the administrative control of the Ministry of Micro, Small and Medium Enterprises, Government of India. The Commission functions with its Head Office in Mumbai and six Zonal Offices located in New Delhi; Bhopal; Bangalore; Kolkata; Mumbai and Guwahati and 36 State/Divisional Offices spread all over the country to facilitate speedy implementation of KVI programmes.

The broad objectives of KVIC are as follows:

- The social objective of providing employment opportunities in villages by utilising local resources and skills so that rural people can get work in the villages itself.
- The economic objective of producing saleable articles.
- The wider objective of creating self-reliance amongst the poor and building up of a strong rural community spirit.

The KVIC is charged with the planning, promotion, organisation and implementation of programs for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

Its functions also comprise building up of a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods and provisions of facilities for marketing of KVI products apart from organisation of training of artisans engaged in these industries and encouragement of co-operative efforts amongst them.

The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques and equipment employed in the Khadi and Village Industries sector and providing facilities for the study of the problems relating to it, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and arranging for dissemination of salient results obtained from such research. Further, the KVIC is entrusted with the task of providing financial assistance to institutions and individuals for development and operation of Khadi and village industries and guiding them through supply of designs, prototypes and other technical information.

6. Training Institutes

There are three National Level Training Institutes. These are:

- **National Institute of Small Industry Extension Training (NISIET), Hyderabad.**

The NISIET was setup as an apex institute in 1960 by the Government of India, with the charter of assisting in the promotion, development, and modernization of small and medium enterprises (SMEs) to progress towards success and prosperity. It works in the areas of entrepreneurship, policy, technology, management, and information services. The institute assists the SMEs to face the challenge of globalization. The main focus of the institute is on providing SMEs, with various solutions in the form of consultancy, training research, and education to retain their competitive edge in ever evolving markets.

- **National Institute for Entrepreneurship & Small Business Development (NIESBUD), Nodia**

The National Institute for Entrepreneurship & Small Business Development (NIESBUD) is a registered society under the Ministry of Small Scale Industries. The major activities of the institute include, development of model syllabi for training of various target groups, providing effective training strategies, methodology, manuals and tools, facilitating and supporting Central/State Governments and other agencies in executing programmes of entrepreneurship and small business development, maximizing benefits and accelerating the process of entrepreneurship development, conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies and organizing activities which help in developing an entrepreneurial culture in the society.

• Indian Institute of Entrepreneurship (IIE), Guwahati

With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry (now Ministry of MSME), Government of India as an autonomous national institute. It is an autonomous body under the administrative control of the Ministry and works towards strengthening the capacity in the field of entrepreneurship development, training, entrepreneurship education, research, consultancy, publication and sanitization of environment for promotion of entrepreneurship, enterprise creation and self-employment in the North Eastern Region. It provides hand-holding and escort services to the entrepreneurs in the North Eastern regions for which a Business Facilitation & Development Centre (BFDC) has also been set up.

9.3 State Level Institutions

Various promotional and developmental projects and schemes providing support to small scale sector in States are executed through State Directorate of Industries, who has District Industries Centres (DICs) under them to implement Central/State Level schemes. The State Industrial Development Corporations also look after the needs of the small scale sector. The state level institutions supporting small scale sector are as follows:

1. State Small Industries Development Corporation (SSIDC)

SSIDCs are set up in various states of our country as wholly owned companies for promotion of industrial development in states. The main functions of SSIDC's are as follows:

- Providing term finance to all small, medium and large industrial enterprises set up in state.
- Underwriting and directly subscribing to shares, and debentures of industrial enterprises being set up in the state.
- Preparing feasibility studies, conducting market surveys and motivating entrepreneurs to set up their industrial ventures in the state.
- Collaborating with entrepreneurs to set up industrial ventures in joint and assisted sector.
- Implementing scheme of 'Industrial Development Bank of India' for seed capital in the state.

2. State Directorate of Industries (SDIS):

Promotion and development of small scale industries is a State subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each State. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub-division and block level respectively. The main functions of Directorate of Industries are as follows:

- Registration of small scale units.
- Providing financial assistance
- Distributing scare and indigenous raw materials to industrial units.
- Granting essentiality certificates for import of raw material
- Establishing industrial estates and industrial co-operatives
- Developing industrial infrastructure

- Undertaking industrial surveys and collecting information
- Arranging concessions and incentives for industries
- Overall administration of village and small scale industries
- Maintaining liaison with other agencies for industrial development.

3. The Rajasthan State Industrial Development & Investment Corporation (RIICO)

It was incorporated as RIMDC on 28th March, 1969 and later changed to RIICO on 1st January, 1980. It provides financial and investment support services to small scale sector in the state of Rajasthan. It is also involved in development of land for industrial enterprises.

Services provided by RIICO to investors and entrepreneurs include:

- Site selection and Acquisition of land
- Financial assistance to smalls medium and large scale projects
- Equity participation in large projects on merit
- Technical consultancy for project identification and technical tie up
- Escort services ,facilitation of government clearances
- Merchant banking and financial tie – ups
- Extending incentives and concessions according to the policy of the State Government.

As an infrastructure developer, RIICO has so far developed 322 Industrial Areas by acquiring about 66054 acres of land. Each industrial area is provided with power, street light, water supply, road linkages and also with basic social infrastructure.

As a financial institution, various schemes offered by RIICO are as follows:

- Project Loan, Equipment Finance Scheme (EFS) ,
- Working Capital Term Loan
- Multi Purpose Medium Term Loan for Good Borrowers,
- Hotel and Tourism Related Activities,
- Flexi Loan for Hotels, Hospitals & Nursing Homes,
- Credit Scheme for Builders/Commercial Complex/ Residential Complexes,
- Medium Term Loan against securitisation of Fixed Assets,
- Credit Limit under Equipment Finance Scheme,
- Short Term Loan to Existing Good Borrowers,
- Incentive Scheme for Good Borrowers,
- Graded Interest Rebate Scheme for Fresh Term Loan,
- Graded Interest Rebate Scheme for Existing Borrowers, etc.

4. Rajasthan Financial Corporation (RFC)

The Rajasthan Financial Corporation (RFC) was constituted under a notification of the State Government on 17 January, 1955 under the SFCs Act, 1951, for providing long term financial support to tiny, small scale and medium scale industries in the State of Rajasthan. Its prime objective is to provide various loan schemes for the tiny, small and medium scale industries.

RFC grants loans for meeting the long term requirements of the concerns in the form of land, building, plant and machinery etc. Working capital requirement is also considered in its special schemes such as composite term loan scheme and single window scheme.

5. District Industries Centres (DIC)

For promotion of small industries in District Industries Centres (DICs) are set up at district level. They conduct industrial potential survey keeping in view the availability of resources. Their main function includes implementation of various schemes of central and state governments. They appraise the worthiness of various proposals of the entrepreneurs to establish new units, guide them in choosing suitable machinery, equipment and raw materials.

The main functions of DICs are as follows:

- It prepares an action plan for industrial development.
- It conducts surveys to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand, etc.
- It appraises the various investment proposals received from entrepreneurs.
- It guides and assists entrepreneurs in buying appropriate machinery and equipment and raw material.
- It maintains links with research and development institutions for up gradation of technology, quality improvement, industrial training etc.
- It suggests appropriate marketing strategies to entrepreneurs.
- It conducts training programmes for artisans.
- It has been operates special schemes to provide self-employment to educated unemployed youths.

9.4 Fund Based Institutions

To provide adequate finance and credit support not only for running the enterprise and operational requirements but also for diversification, modernisation/ up gradation of facilities, there are a number of financial institutions. They have been described in the following section:

Small Industries Development Bank of India (SIDBI):

SIDBI was set up in 1990 as a principal financial institution for promotion, financing and development of small-scale industrial enterprises. It acts as an apex institution for all state financial corporations (SFCs), state industrial development corporations, commercial banks, regional rural banks etc. providing credit facility to small-scale industries in our country. It also been provides direct finance through its 103 branches.

Some of the financial products of SIDBI are:

- **Special Financing Scheme** for energy efficiency / environment protection,
- P**roviding Equity / Risk** capital to start-ups and high growth MSMEs,
- **Receivable Finance** to improve the working capital cycle of MSMEs,

- **As the Principal Financial Institution for the MSME** sector helps in developing the Micro Finance Institutions (MFIs) sector with a view to target bottom-of-the-pyramid segment while promoting responsible financing.
- **For Promotion and Capacity Building** of the MSME sector SIDBI, through its 'Rural Industries Development' programme sets micro enterprises in rural areas, thereby providing employment to rural people.
- **Cluster Development Programmes** in the areas of marketing support, IT training, skill development, regulatory compliance, awareness programmes, testing facilities, business information and counseling, centres for micro enterprises, promotion of energy efficiency measures, etc. is another thrust area of the SIDBI.
- **Venture Capital:** SIDBI Venture Capital Ltd. (SVCL), a wholly owned subsidiary of SIDBI set up in July 1999, is providing venture capital to emerging sectors, such as, life sciences, biotechnology, pharmaceuticals, engineering, information technology, etc. At present, it manages two SEBI registered venture capital funds, viz. the National Venture Fund for Software and Information Technology Industry (NFSIT).
- **Credit Guarantee:** Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set up in July 2000 by Government of India and SIDBI, to provide credit guarantee support to enable collateral free / third-party guarantee free loans upto Rs100 lakh being extended by banks and FIs for micro and small enterprises (MSEs).
- **Transfer of Technology:** India SME Technology Services Limited (ISTSL) provides a platform for MSMEs for technology matchmaking, technology transfer, carbon credit, etc. in the MSME sector.
- **Credit Rating :** SME Rating Agency of India Ltd. (SMERA) was set up in September 2005 by SIDBI, some public, private and foreign banks and Dun & Bradstreet Information Services India Private Limited (D&B) as an MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable ratings and risk profiling.
- **SIDBI** provides Indirect and Direct credit.

  Indirect Credit assistance is provided by way of:

  (a) Refinance Assistance resource base of Primary Lending Institutions (PLIs) like banks, SFCs, MFIs, etc

  (b) Micro Finance

  (c) Promotional & Developmental Assistance

  Direct retail credit assistance is provided by way of:

  (a) Term Loan,

  (b) Working Capital through arrangement with IDBI Bank,

  (c) MSME Receivable Finance and

  (d) Non - Fund based facility: The Bank also provides various non-fund based services like Letters of Credit (both foreign and inland), Guarantees, services for appraisal, loan syndication, etc.

- SIDBI as Nodal Agency for Government Schemes: In addition to its direct and indirect operations, SIDBI acts as a Nodal Agency to various subsidy schemes of Government of India for the MSME sector as given below :

  a) Credit Linked Capital Subsidy Scheme (CLCSS) [Ministry of MSME]

  b) Technology Upgradation Fund Scheme for Textile Industry (TUFS) [Ministry of Textiles]

  c) Integrated Development of Leather Sector Scheme (IDLSS) [Ministry of Commerce & Industry]

  d) Scheme of Technology Upgradation / Setting up / Modernisation / Expansion of Food Processing Industries (FPTUFS) [Ministry of Food Processing Industries]

2. National Bank for Agriculture and Rural Development (NABARD):

The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex institution for financing agricultural and rural sectors. It provides financial assistance through Regional Rural banks and cooperative banks to agriculture, small-scale, cottage and village industries, handicrafts and other allied activities in rural areas.

3. Commercial Banks:

Credit requirement of SSIs is basically of two types - long term loans and working capital. Commercial banks with their extensive network of branches operating nationwide are primary channel for working capital requirement.

Banks are required to compulsory ensure that defined percentage (currently 40%) of their overall lending is made to priority sectors as classified by RBI. These sectors include agriculture, small industries, export etc. The inclusion of small industries in this list makes them eligible for this earmarked credit. With the liberalisation of the Indian economy, greater emphasis was placed on meeting the credit needs of SSIs. This was manifest through the following initiatives taken by RBI.

- Credit for tiny sector has been earmarked within overall lending to small industries. In order to ensure that credit is available to all segments of SSI sector, RBI has issued instructions that out of the funds normally available to SSI sector, 40% be given to units with investment in plant and machinery up to Rs. 5 lakhs, 20% for units with investment between Rs. 5 lakhs to Rs. 25 lakhs and remaining 40% for other units.

  It shows that the share of credit to tiny sector out of the total credit available to SSIs is continuously increasing, from 30% in the year 1995 to 51% in 2003. The table also focuses that in 1999 the entire credit share of tiny sector was allocated to units with investment in plant and machinery up to Rs. 5 lakhs. Similarly, in the year 2000 the slice of credit received by tiny sector was directed towards units having investment in plant and machinery up to Rs. 25 lakhs.

- Public sector banks have been advised to operationalise more specialised SSI branches at centres where there is a potential for financing many SSI borrowers. As on March 2002, 391 specialised SSIs.

- Laghu Udyami Credit Card (LUCC) Scheme was launched by Public Sector Banks for providing simplified & borrower friendly Credit facilities to SSI, tiny enterprises retail traders & artisans.

- Composite loan limit was enhanced to Rs. 50 lakhs from Rs. 25 lakhs.
- Limit on collateral free loans was increased to Rs. 25 lakhs in deserving cases.

It shows that the banking system over the year has played a major role in the development of SSIs in the country. Analysis of the data reveals that while the overall flow of credit from banking sector to SSIs continuously increased from 15% in 1999 to 17% in 1999. After that declining trend in bank credit to SSIs is observed. It came down to 11% in 2003. This may be attributed to increase in non-performing assets of SSIs.

9.5 Summary

The small scale industrial sector is an important pillar of the Indian economy. To assist and facilitate the small scale sector, the Central and State governments have an elaborate institutional framework in the country. The institutions providing assistance to small scale industries can be broadly classified as All India Institutions, State Level Institutions and Funding Institutions.

All India Institutions : The role of the Ministry of Micro, Small and Medium Enterprises and its organisations is to assist the states in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of Micro, Small and Medium Enterprises (MSMEs) in the changed economic scenario. NSIC was set up to promote, aid and foster the growth of small industries in India with a focus on commercial aspect of their operations. The Office of the Development Commissioner (Micro, Small and Medium Enterprises), also known as the Small Industry Development Organization (SIDO), is an apex body for assisting the Ministry in formulating, coordinating, implementing and monitoring different policies and programmes for the promotion and development of MSMEs in the country. The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advice to the Government on all issues pertaining to the small scale sector. The Khadi and Village Industries Commission (KVIC) is a statutory body established by an Act of Parliament in the year 1956. The KVIC is charged with the planning, promotion, organisation and implementation of programs for the development of Khadi and other village industries in the rural areas. The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry. There are three autonomous national level entrepreneurship development/ training institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA; National Institute for Micro, Small and Medium Enterprises (NIMSME), Hyderabad and Indian Institute of Entrepreneurship (IIE), Guwahati working for development of entrepreneurship.

State Level Institutions : RIICO provides financial and investment support services to small scale sector in the state of Rajasthan. It is also involved in development of land for industrial enterprises. RFC's prime objective is to provide various loan schemes for the tiny, small and medium scale industries. RFC grants loans for meeting the long term requirements of the concerns in the form of land, building, plant and machinery etc. District Industries Centres (DICs) appraise the worthiness of various proposals of the entrepreneurs to establish new units, guide them in choosing suitable machinery, equipment and raw materials. SIDBI was set up in 1990 as a principal financial institution for promotion, financing and development of small-scale industrial enterprises. It acts as an apex institution for all state financial corporations (SFCs), state industrial development corporations, commercial banks, regional rural banks etc. providing credit facility to small-scale industries in our country. It also been provides direct finance through its 103 branches. The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex institution for financing agricultural and rural sectors. Commercial banks with their extensive network of branches operating throughout the country are primary channel for working capital requirement for small scale industries.

9.6 Key Words

- **Small Scale Business:** Small Scale Business is the one having an investment of more than Rs 25 lacs and less than Rs 5 crore.
- **Medium Enterprise:** Medium Enterprise is a business having an investment of more than Rs Rs 5 crore and less than Rs 10 crore.
- **MSME:** Medium, Small and Micro enterprises.
- **NSIC:** National Small Industries Corporation helps small scale enterprises in raw material procurement, product marketing, credit rating, adoption of improved management practices, etc.
- **SIDO:** The Office of the Development Commissioner (Micro, Small and Medium Enterprises) is also known as the Small Industry Development Organization.
- **SISI:** MSME Development Institutes were formerly called SISIs (Small Industries Service Institutes)
- **KVIC:** Khadi and Village Industries Commission works for development of Khadi and other village industries in the rural areas
- **Coir Board:** It works for promotion and overall development of the coir industry
- **NISIET:** National Institute Of Small Industry Extension Training, Hyderabad assists in promotion, development, and modernization of small and medium enterprises.
- **NIESBUD:** National Institute For Entrepreneurship And Small Business Development, Noida, orks towards development of model syllabi for training of various target groups and providing effective training strategies.
- **IIE:** Indian Institute Of Entrepreneurship, Guwahati, undertake training, research and consultancy activities in the small industry sector with a focus on entrepreneurship development
- **RIICO:** Rajasthan State Industrial Development & Investment Corporation provides financial support services to MSME's and develops land for industrial enterprises
- **RFC:** It provides various loan schemes for the tiny, small and medium scale industries.
- **DIC:** These are district level bodies set up for promotion of small industries.
- **SIDBI :** It acts as an apex institution for all state financial corporations (SFCs), state industrial development corporations, commercial banks, regional rural banks etc. for providing credit facility.

9.7 Self Assessment Test

1. Name the various institutions at national and state level available to assist small scale industries
2. Why the development of small scale industry is important for the economy?
3. Explain the role of Ministry of MSME for the development of this sector.
4. Discuss the support provided by NSIC to small scale industries.
5. Explain various activities of DC- MSME (SIDO).
6. Explain the functions of SISI. Enumerate various types of assistances rendered by it.
7. Discuss the important functions of SSIDC.

8. Explain in brief the main function of DIC.

9. What is the difference in the functions of SIDO and NSIC for small scale industry?

10. Describe the support system available at state level for entrepreneur.

11. How Khadi and Village Industries Commission (KVIC) assist in development of village and cottage industries?

12. Explain in brief the objectives of "training institutes".

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Unit - 10 : Financial Management of MSME

Unit Structure:

10.0 Objectives
10.1 Introduction
10.2 Role of Fund Management in Small Scale Enterprises
10.3 Functions of Funds in Small Scale Enterprises
10.4 Financial Management of Small Scale Enterprises
10.5 Working Capital Management
10.6 Accounting and Book Keeping
10.7 Financial Statements
10.8 Summary
10.9 Self Assessment Test
10.10 References

10.0 Objectives

After completing this unit, you would be able to:

- Understand the importance of financial management
- Learn the functions of financial management
- Explain working capital management and various working capital schemes.
- Learn book keeping and accounting policies
- Understand financial statements – balance sheet, profit and loss account, cash flow statement

10.1 Introduction

Small Scale industries encompass vast scope covering activities like manufacturing, servicing, financing, construction, infrastructure etc. In view of Government of India's ever increasing importance given to the small scale industries in the national economy more & more small scale industries are to be set up in the years to come. By contributing it's increasing share to the national production, employment & exports, small scale industries also contribute to the economic development of the country.

However, these industries are also plagued by the problems of raw material, finance, marketing, underutilization of capacity, etc. cash has become a big problem for small & even big businesses today. Lack of finance has driven many small business units into bankruptcy. Unfortunately many small businesses will become bankrupt because their owners have neglected the principal of cash management which normally determines their successes or failure. Cash is like oxygen to a business. Small scale enterprises, given their small resources find it difficult to have these own. Finance has been the important resource to start & run an enterprise4because it facilitates the entrepreneur to procure land, labor, material, machine& so on from different parties to run his/her enterprise.

Report of third all India censuses also clearly indicate that lack of demand& shortage of working capital are the main reasons behind sickness/ incipient sickness of registered & unregistered small scale industries. Developing cash forecast is essential for new business because early sales do not generate enough cash to keep the company afloat. Better financial management can lead the company ahead in competition as well as it will help the entrepreneur to avoid the situation of bankruptcy & industrial sickness.

Finance is the key input of production distribution& development. It is therefore aptly described as the "life-blood" of industry& is prerequisite for accelerating the process of industrial development. Especially in case of small scale industries, finance is the key input in growth & development. The financial investment of these small units comes mainly from within; most of them invest their own funds or borrowed funds. Much less comes from banks & government channels. Small scale entrepreneurs face a lot of problem while availing loan facility form commercial banks as well as Government agencies.

Financial institutions ask for a lot of information& data, state financial corporation takes several months to take decision on extending term loans small scale sector are not in a position to offer guarantee required by the banking sector. Even when small loans can be raised from Government agencies the procedure is so cumbersome that most of the entrepreneurs, who either are illiterate or semiliterate, hesitate to make use of these facilities. This makes matter very difficult for the small industrialist, particularly when he is new to this way of life, & he has to deal with both state financial corporation as well as banks. Quite often few get fed up at this stage & give up.

10.2 Role of Fund Management in Small Scale Enterprises

Finance is a key input of production, distribution and development. It is therefore, aptly described as the "life-blood" of industry and is a pre-requisite for accelerating the process of industrial development. During the pre independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the Government has built up a network of specialized financial institutions to provide financial assistance to all types of industries, including small scale industries.

A growing economy needs the support of a financial structure which is responsive to the needs of development. In India, in the process of financial deepening, commercial banks have to shoulder special responsibilities for meeting the financial needs of diverse sectors of the economy, at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned various organizational innovations, moved away from traditional commercial banking and evolved into development banks, responsive to socio- economic needs.

Finance is now made available to entrepreneurs on a totality basis by commercial banks, except in cases where the State Financial Corporations and other similar financing agencies step in to meet their medium – term requirements. An appropriate type of credit is granted for the construction of the factory building, the purchase of plant, machinery and equipment, and for working capital requirements. In deserving cases, loans are advanced for the expansion, renovation and modernization of plant and machinery. Banks and financial institutions provide the export finance needed by small industries for letters of credit, issuance of guarantees and extension of pre - shipment and post - shipment credit facilities. The interest rate structure is generally graded on a slab basis, with a favorable bias towards the smaller loans. Institutional support and economic factors are stimulating entrepreneurial activity and thus generating more robust economic development.

Depending upon the nature of the activity, the entrepreneurs have three types of finance, viz., short term, medium term and long term finances. The distinctive features of these are enumerated below:

Short-term Finance

Short term finance which is required for less than one year is usually required to meet variable, seasonal or temporary working capital requirements. Borrowing from banks is a very important source of short term finance. Other important sources of short term finance are trade credit, installment credit and customer advances.

Medium-term Finance

Medium term finance in which period varies from one to five years is usually required for permanent working capital, small expansions, replacements, modifications and the like. Medium term finance may be raised by Issue of shares, Issue of debentures, Borrowing from banks and other finance institutions and Ploughing back of profits (by existing concerns).

Long term Finance

Long term finance which is for more than five years is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernization and the like. The important sources of long term finance are Issue of shares, Issue of debentures, Loans from financial institutions and Ploughing back of profits (for existing concerns).

10.3 Functions of Funds in Small Scale Enterprises

Efficient management of funds enables the firm to prosper and grow. It is the mismanagement of resources of the firm that converted an otherwise successful business into an unsuccessful one. Thus without adequate finance no business can survive and without efficient financial management no business can survive. The survival and growth of a firm depends in utilization of funds in an optimum manner. The maximization of shareholders wealth is possible if the funds of the company are procured from the right sources and invested in an efficient manner. Bad production management and bad sales management have slain their hundreds, but faulty finance has slain its thousands. If firm ignores finance, it does so at its own peril. Aproper financial management provides a strong motivation for work in the right direction. Therefore sound financial management is indispensable in a corporate organization. Following are the functions of financial management:

1. Estimating the Requirements of Funds: Long term as well as short term funds requirement, the investments in fixed assets and those in various current assets and the like, should be estimated through the techniques of budgetary control and long- range planning. This requires proper forecast of the physical activities of the organization.

2. Financial Decisions: Each source of funds involves different considerations regarding cost, risk and control. Keeping these in mind, a proper mix of the various sources has to be worked out. Long-term funds investments are to provide for the core working capital. Funds should be procured at optimum costs with the least risk and the least dilution of control of the present owners4. These decisions come under the broad term „the financial decision.

3. Investment Decisions: Long term funds should be invested in various projects only after an in-depth analysis has been carried out through capital budgeting techniques and uncertainty analysis. Asset management policies are to be laid down regarding various items of current assets also. This includes policies relating to management of inventories, book debts, cash, trade creditors, and the like.

4. Dividend Decision: From the economic point of view, the amount to be retained or to be paid to the shareholders would depend on whether the company or the shareholders can make a more profitable use of the funds. In practice, large number of other considerations like the trend of earnings, the trend of share market prices, the requirement of funds for future growth, the cash flow situation, restrictions under the Companies act, the tax position of the shareholders and the like is also kept in mind.

5. Evolution of Finance Function : Originally, the finance function was concerned with the procurement of funds and legalistic matters relating to them. Financial management at this stage concentrated on the description of financial markets, types of securities, and techniques of raising funds. The financial manager was not involved in the process of decision - making about critical financial matters. It looked at finance from the point of view of an outsider such as creditors and shareholders, rather than focus on financial decision making5.

Financial decision making occupied the prime place in the studies of corporate finance. Greater attention was paid to the administrative aspects of financial management such as cash budgeting and forecasting, management of assets, control of expenses etc. Capital budgeting decisions involving allocation of funds to individual investment projects on the basis of rational appropriate acceptance criteria become one of the major responsibilities of the financial executive. It has now developed from a descriptive discipline to an analytical and prescriptive one. It deals with rigorous analysis of the totality of the finance function, and provides practical guidance to decision - makers. It is now also concerned with capital budgeting, management of fixed and current assets, valuation of firm, dividend policy and the procurement of funds. It focuses on financial decision making within the firm. It is going through a process of further change and development.

10.4 Financial Management of Small Scale Enterprises

Finance is the key input for sustained growth of small scale sector and its accessibility continues to be a matter of concern. The small scale industries need both long run as well as short run credit. The financial management plays a vital role in the survival, growth and development of these industries. In India, Small scale industries account for 95 per cent of the industrial units in the country.

The small-scale industrial units need short run as well as long term credit. Short term credit is needed for running the industry for its day to day necessities, for purchasing raw materials and other inputs like electricity and water etc. and for payment of wages and salaries and it constitutes working capital. Long term credit is needed for the creation of fixed assets like land, building, plant and machinery, etc.

Functions of Financial Management

Functions of financial management can be broadly divided into two groups.

1. *Executive functions* of financial management, and
2. *Routine functions* of financial management.

Executive Functions require skillful planning, control, and execution of financial activities. Executive functions for small industries are as follows:-

a. Estimating capital requirements: The company must estimate its capital requirements (needs) very carefully. This must be done at the promotion stage. The company must estimate its fixed capital needs and working capital need. If not, the company will become over-capitalized or under-capitalized.

1. **Determining capital structure:** Capital structure is the ratio between owned capital and borrowed capital. There must be a balance between owned capital and borrowed capital. If the company has too much owned capital, then the shareholders will get fewer dividends. Whereas, if the company has too much of borrowed capital, it has to pay a lot of interest. It also has to repay the borrowed capital after some time. So the finance managers must prepare a balanced capital structure.

   2. Estimating cash flow: Cash flow refers to the cash which comes in and the cash which goes out of the business. The cash comes in mostly from sales. The cash goes out for business expenses. So, the finance manager must estimate the future sales of the business. This is called Sales forecasting. He also has to estimate the future business expenses.

   3. Investment Decisions: The business gets cash, mainly from sales. It also gets cash from other sources. It gets long-term cash from equity shares, debentures, term loans from financial institutions, etc. It gets short-term loans from banks, fixed deposits, dealer deposits, etc. The finance manager must invest the cash properly. Long-term cash must be used for purchasing fixed assets. Short-term cash must be used as a working capital.

4. Allocation of surplus: Surplus means profits earned by the company. When the company has a surplus, it has three options, viz.,

- It can pay dividend to shareholders.
- It can save the surplus. That is, it can have retained earnings.
- It can give bonus to the employees.

5. Deciding Additional finance: Sometimes, a company needs additional finance for modernization, expansion, diversification, etc. The finance manager has to decide on following questions.

- When the additional finance will be needed?
- For how long will this finance be needed?
- From which sources to collect this finance?
- How to repay this finance?
- Additional finance can be collected from shares, debentures, loans from financial institutions, fixed deposits from public, etc.

6. Negotiating for additional finance: The finance manager has to negotiate for additional finance. That is, he has to speak to many bank managers. He has to persuade and convince them to give loans to his company. There are two types of loans, viz., short-term loans and long-term loans. It is easy to get short-term loans from banks. However, it is very difficult to get long-term loans.

7. Checking the financial performance: The finance manager has to check the financial performance of the company. This is a very important finance function. It must be done regularly. This will improve the financial performance of the company. Investors will invest their money in the company only if the financial performance is good. The finance manager must compare the financial performance of the company with the established standards. He must find ways for improving the financial performance of the company.

Routine Functions of Financial Management do not require great managerial ability. They are clerical in nature and incidental to the effective handling of the managerial finance functions. The routine functions are also called as **incidental** functions. Some important routine functions are listed below:

1. Supervision of cash receipts and payments.
2. Safeguarding of cash balances.
3. Safeguarding of securities, insurance policies and other valuable papers.
4. Taking proper care of mechanical details of financing.
5. Record keeping and reporting.
6. Credit Management.

10.5 Working Capital Management

Entrepreneurial inefficiency with regard to managing working capital is one of the darkest areas of management of small-scale enterprises. As a result, a large number of units fail to survive the initial enthusiasm. The need for working capital will depend on the input stock, production time, output inventory, credit sales, delay in receipt over normal credit period, and trading conventions. In addition, the share of raw materials I the total value of output, operating expenses such as raw materials, wages-salaries, factory overheads, provision for depreciation and advance tax payments also influence working capital. The level of working capital is affected by lack of internal resources, low productivity, and diversion of funds to other uses.

Despite the fact that credit to the small sector is brought under "priority", and the Credit Guarantee Corporation of India and Industrial Development Banks of India guarantee schemes, finance is still a major constraint for the SSI sector in India. Banks insist that the borrower maintain proper books of accounts and submit monthly, quarterly, and annual reports. Small entrepreneurs, particularly proprietary organizations, would find this inconvenient and costly. Though third party guarantee is not to be insisted upon in case of small loans, it is almost compulsory.

Apart from managerial incompetence, ignorance about standard accounting procedures finds the entrepreneurs unaware of the cash flow the positions. The severity of competition necessitates a lowering of prices and credit sales for abnormally longer periods whereas being small; the units get only limited credit while buying. As a result, a study found that the working capital requirements in the small sector are 43 percent of sales against only 27 percent for large units. It is highly desirable for every entrepreneur to undergo, at least, minimum competency training in the management of working capital.

10.5.1 Estimating Working Capital – A Simplified Approach

A simple method of estimating the need for working capital is based on the average "manufacturing cycle" presented in Figure 10.1

By manufacturing cycle we mean the total process. It begins with the possession of cash/ credit to buy inputs. The raw materials are processed into finished goods. The end product is sold in the market. A part of it is directly sold for cash and the remaining on credit, realizable after a stipulated period of time. When it is realized, the cash returns to the manufacturer. Thus the cash, which was spent by the manufacturer, comes back to him after a lapse of time. It is, therefore, called a cycle. The cycle will differ from industry to industry.

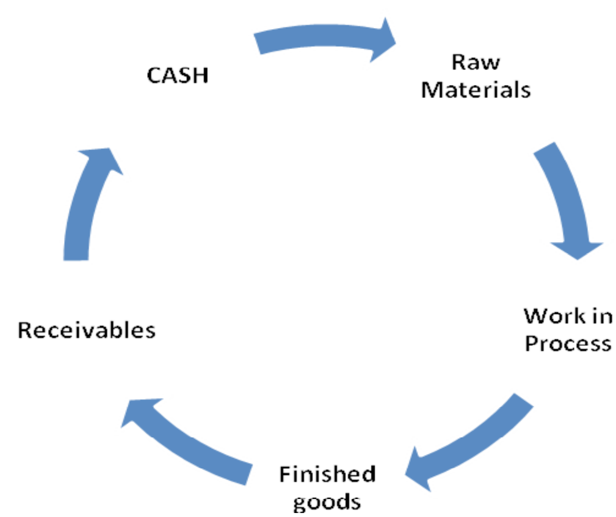

Figure 10.1 : Working capital cycle

Illustration1

Assume that production is 1, 00,000 units per annum

Total production cost	Rs. 90,000 p.a.
One manufacturing cycle	120 days (i.e., 3 cycles a year)
Working capital needed	Total cost/ manufacturing cycle
	=Rs. 90,000/3 = Rs.30, 000

The minimum working capital requirements of the firm is Rs.30, 000

Valuation of Stock in Trade

As the figure of closing stock would materially affect the trading results, it becomes necessary to see that the greatest possible care and trouble are taken to include this item at a fair and correct value. For this reason, inventories of unsold goods on hand at the close of each trading period should be prepared most carefully under the strict supervision of some responsible person. All quantities as entered on the stock sheet and the rates should be rechecked by competent and reliable persons.

The basis of valuation generally adopted is the actual cost price. If, however, any part of the stock is damaged or shop-soiled or has become obsolete or not saleable, due allowance will have to be made for such depreciation in value. Unsold stock should never be valued at the selling price, if that price exceeds the cost price. If the unsold goods are valued at selling price, the result would anticipate a profit upon them, which may or may not be realized. In other words, the profit on goods should only be brought into account when they are actually sold and delivered.

If however, the market price is less than the cost price, then a loss has evidently been incurred, since the goods can only be sold at a loss. Under such a circumstance, they should be valued at the market price.

The following principles may be laid down as sound in determining the value of the stock of unsold goods on hand.

1. Profit on goods is deemed to have been earned only when the goods are actually sold.
2. No profit should be anticipated and taken credit for until it is earned.
3. If there is any chance of loss likely to arise, such anticipated loss must be immediately provided for.

In view of above rules, it follows that, the stock of unsold goods should be always valued at cost price or market price, whichever is lower.

Cost Formulas

Determination of the value of inventories requires the use of cost formulas to be applied to purchases made at different prices/ production achieved in lots at different costs over a period. Some cost formulas are given below:

1. First-in-First-out (FIFO)
2. Last-in-First-out (LIFO)
3. Weighted Average Cost (WAC)

FIFO As per the FIFO formula, it is assumed that the items of inventory which were purchased or produced first are sold or consumed first. Consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced.

LIFO AS per the LIFO formula, it is assumed that the items of inventory which were purchased or produced last are sold or consumed first. Consequently, the items remaining in inventory at the end of the period are those purchased or produced the earliest.

WAC As per the WAC formula, the cost of each item is determined on the basis of the weighted average of the cost of similar items at the beginning of the period and the costs of similar items purchased or produced during the period.

Working capital management will be easier in case entrepreneurs are familiar with some important financial ratios.

1. **Debtor's Turnover Ratio**

   (Debtors + Bills receivable)/ (Net credit sales) × 360

   This ratio reveals how many days credit is outstanding by debtors. When credit is allowed to buyers, they are expected to pay the money within the specified time limit allotted to them. During this period, the cash is blocked for debtors. The ratio shows, on an average, the time taken for the recovery of money from buyers.

2. **Creditor's Velocity Ratio**

   (Creditors + Bills payable)/ (Net credit purchases) × 360

   As in the case of credit sales, while purchasing raw materials, a supplier allows a credit period to the buyer who made the payment within a specified time. Creditors' velocity ratio states that the rate at which payment is to be made from time to time, which helps to know the net cash flow.

3. **Stock Turnover Ratio**

   (Cost of goods sold + Average stock holding) = (Selling price gross profit)/ (Opening Stock + Closing Stock)

   This ratio specifies the rate at which the stock is turned over. It shows the marketability of a product. The rate at which stocks are sold helps to analyze the profitability position of a concern. It helps to formulate production policy.

4. **Current Ratio**

   (Current assets/ Current liabilities)

   This ratio shows the funds available with the firm in terms of current assets to meet the current liabilities. It reveals the firm's solvency short-term financial strength, and also whether it is over capitalized or exposed to over trading. Though 2:1 is considered to be the ideal current ratio, the composition of current assets is equally important.

5. **Stock-Working Capital Ratio**

   Closing stock/ (Current assets – Current liabilities)

   This ratio is worked out to know the position of working capital vis-à-vis raw materials, inventories, work-in-progress and so on. Normally, the raw material cost constitutes around 60 percent of the total cost of production. This brings forth sufficient liquidity to invest in the purchases and finished goods.

10.6 Accounting and Book Keeping

The Accounting Process

The process that leads to the measurement of financial performance and position of an enterprise passes through the following stages.

a. **Documentation** of business transactions that are capable of being expressed in terms of money, by way of what is known as a ***voucher***. A business enterprise executes a number of transactions that could relate to purchase, sale receipts and payments etc.

b. **Recording** of vouchers in a day book is called a ***journal***. A day book is the book which records transactions chronologically on a daily basis.

c. **Classifying** the transactions so recorded by their nature, for example, putting all purchase transactions at one place chronologically so as to enable to understand. This is done through a book called a ***ledger***.

d. **Summarizing** the transactions so classified to understand and appreciate the total build up and effect of various activities. This is done through a statement called the ***trial balance.***

e. **Bifurcating** the trial balance into ***profit and loss account*** and ***balance sheet*** to measure the financial performance and position of the enterprise.

Invariably, small entrepreneurs do not keep proper and regular books of account, which makes it difficult for them to prepare a financial statements. It is always advisable to keep a proper book of account in double entry system. It will help businessmen not only in preparing various statement s but also for purposes of taxation and submission to financial institutions and government when the enterprise has long-turn growth prospects.

Types of Books of Accounts

It may not be necessary for a small scale unit to maintain all the books of accounts, however following books are essential.

1. Purchase book
2. Sales book
3. Cash book
4. Journal
5. Ledger

Specimens of essential books

1. Purchase book

Only the credit purchases of goods are recorded in this book. Cash purchases and purchase of assets are not recorded in this book.

Table 10.1 Purchase Book

Date	*Name of Supplier*	*L.F.*	*Description of goods*	*Bill Nos.*	*Amount (Rs)*	*Remarks*

2. Sales book

Only the credit sale of goods is recorded in the sales book. Cash sales and sale of assets are not recorded her in this book.

Table 10.2 Sales Book

Date	*Name of Customer*	*L.F.*	*Description of goods*	*Inv. Nos.*	*Amount (Rs)*	*Remarks*

3. Cash book

The proforma of a cash book resembles the Ledger a/c and consists of debit and credit columns. All the amounts received directly or by Cheque, draft, money order is recorded on the debit side. All transactions in which cash is paid by the firm through Cheque, draft or money order are recorded on the credit side of the cash book.

The cash book or cash account is most important of all subsidiary books. Only cash transactions are recorded in this book. Cash transactions are two types: 1. Cash receipts and 2) Cash payments. Cash receipts should be shown on debit side and cash payments on the credit side. The difference between the debit total and credit total reveals the cash balance available within the firm. Under any circumstances payments should not exceed receipts as no business concern can pay more than what it receives. Sometimes balance of debit and credit will be equal. Then the cash balance of the firm is 'nil'.

Table 10.3 Cash Book

Receipts Side					*Payments Side*				
Date	*Particular*	*LF*	*Cash*	*Bank*	*Date*	*Particular*	*LF*	*Cash*	*Bank*

4. Journal

The book in which the business transactions are recorded in a chronological order, after analyzing them and classifying the benefits according to the principles of debit and credit is called 'Journal". It is also called as Daily record or Day book.

Table 10.4 Journal

Date	*Particulars*	*LF*	*Debit*	*Credit*

5. Ledger

A Ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expense or income, which have taken place during a given period of time and show their net effect. So every entry recorded in the journal must be posted into the Ledger. It is a register having a number of pages, which are serially numbered. One account is usually assigned one page in the Ledger. It is the principal book of accounts.

Table 10.5 Ledger

Debit Side				*Credit Side*			
Date	*Particular*	*Folio*	*Amount*	*Date*	*Particular*	*Folio*	*Amount*

At the end of the accounting year, all ledger accounts are balanced and a list of balances is prepared, known as the trial balance. After preparing the trial balance, final accounts showing operational results for the year are prepared. These are divided into two statements:

1. **Trading and profit and loss account**: It shows the profit and loss of the business for the year. These accounts represent a systematic enumeration of receipts on the one hand and payments or provisions on the other. The nature of balance between the two sides will reveal profit or loss.
2. **Balance sheet:** It shows the values of liabilities and assets of the enterprise as on the last date of the year for which it is drawn.

10.7 Financial Statements

Financial statements are the most important part of financial reporting. Based on the financial information, a business formulates its strategies for revenue enhancement, cost economies, efficiency and improvements, restructuring of its operations and further expansion. A complete set of financial statements normally comprises:

1. Balance Sheet
2. Income Statement
3. Cash Flow Statement

1. Balance sheet

Balance Sheet is a statement prepared on a particular date to show the financial position of the firm with all assets and liabilities of the firm. The Trading A/c and Profit & Loss Account are prepared for a period of time where as the Balance Sheet is prepared on a particular date.

The excess of assets over the third party liabilities is called 'Capital'. The balances of the Real accounts and personal accounts appearing in Trial balance are grouped as assets or liabilities depending on their nature of balance. Which are arranged in a systematic manner i.e. all the assets on the right side and all the liabilities on the left side of the balance sheet after making all the adjustments like depreciation, provision for bad debts etc.,

Characteristics of Balance Sheet

- Balance sheet is prepared on a particular date. So, the financial information is restricted to the particular date.
- It is a statement but not an account. Hence, the Dr and Cr should not be used
- It is aimed at to reveal the true financial position of the firm on a particular date.

Classification of Assets and Liabilities

Assets can be divided into three types:

- **Fixed Assets:** Fixed assets are permanent assets. They are long lasting and useful to the production, re-use and increase the earning capacity of the business. Ex: land, Buildings, plant, machinery, vehicles, furniture etc.,
- **Current Assets:** Cash and other short-term assets or circulating assets like debtors, stock, bills receivable which can easily be converted into cash are called current assets. Ex: Prepaid expenses, accrued incomes
- **Fictitious Assets:** These are type of peculiar assets whose existence is invisible but whose benefit is enjoyed. Ex. Good will, copyrights, patents.

Like wise Liabilities are classified into three types:

- **Fixed liabilities:** Fixed or long term liabilities are the loans payable after a reasonable long-term duration say 5 to 10 years. Ex. Debentures, long term loans, Mortgage loans.
- **Current liabilities:** Current liabilities are the repayment obligations payable from one year to three years. Sundry creditors, Bills payable, Bank loan etc., Liquid liabilities which are to be paid at very short notice can be included in this category. Ex. Outstanding expenses, income received in advance, bank over draft etc.,
- **Contingent liabilities:** are the liabilities, which may arise in future depending on happening of an uncertain event. Ex. Damages payable but still under dispute, bills discounted but likely to be dishonored.

2. Income Statement

Profit and loss account has to be prepared to ascertain the net profit or net loss of the firm for the accounting period. It can be arrived by deducting the ' Administrative expenses' from the Gross profit. It is a common practice to prepare the Profit and Loss account in continuation to the Trading Account. By nature Profit and Loss account is a nominal account and should not have any opening balance or closing balance. It is started either with Gross profit or Gross and the Trading and non-trading incomes are credited to this account. Similarly all the administrative, general and financial charges, writing down of assets values are to be debited to profit and loss account.

If the total of the credit column exceeds the total of debit column the difference is called' Net profit' which is to be transferred to the Capital Account or added to the existing share capita while preparing the balance sheet. If the total of the debit column exceeds the total of the credit column the difference is "net loss' which is to be deducted from the capital in the balance sheet. That is to say that the net profit will increase the capital where as the net loss will decrease the capital.

Items Not be Shown in the Profit and Loss Account

- **Income tax:** is a tax on the income of the proprietor, but not the firm. So, it should not be shown in the Profit and Loss account. But it should be deducted from the capital in the Liabilities side of the Balance sheet.
- **Domestic Expenses:** Household expenses like, taking material to home, paying club membership subscription from business are drawings. They are also to be deducted from the capital in the liabilities of the balance sheet.
- **Capital Expenses:** Expenses incurred to purchase an asset, installation expenses, wages paid for installation are some of the examples, which increase the value of the asset, and hence they should not be debited to the Profit and Loss Account.

Importance of Profit & Loss Account

a. The main purpose is to ascertain Net profit / Net Loss of a firm for a specific period.

b. It is useful to establish a relationship between the sales and total indirect expenses through percentages.

c. To analyze the trend in profit earning by preparing a net profit and operating ratios

d. To compare the actual expenses with the standards already set, which is useful to analyze the positive and the negative variances.

e. It will make it possible to allocate funds for reserves and other provisions for future contingencies.

3. Cash Flow Statement

A cash flow statement depicts the cash generated and utilized by a company. A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows during the period from operating, investing and financing activities.

Benefits of a cash flow statement

A cash flow statement, when used in conjunction with the other financial statements, provides information that benefits its users in a number of ways as given below:

- It enables users to evaluate the changes in net assets of an enterprise, its financial structure and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities.
- The information is useful in assessing the ability of an enterprise to generate cash and cash equivalents.
- It enhances the comparability of the reporting of operating performance by different enterprises
- It is useful in checking the accuracy of past assessments of future cash flows.
- It helps in examining the relationship between profitability and net cash flow.

10.8 Summary

For entrepreneurs, small business financial management is a vital aspect of growing a profitable company. Implementing sound economic principles and keeping a close watch on cash flow will help lay a solid financial foundation for the new venture. Monetary policies and procedures for effective cash management need to be part of the entrepreneur's business plan. Though it may be more exciting for the entrepreneur to dream about the actual services or products that the company will provide, a business cannot thrive, and may not survive, if the financing aspects are left to chance.

In order to arrest sickness at the incipient stage banks & financial institutions should periodically review the accounts of the small scale industr8ies borrowers to identify units which are becoming sick or are prone to sickness. The Government of India & the RBI should be requested to direct commercial banks & financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take up appropriate action. It is also suggested that Government should conduct special EDP's for training the entrepreneurs in financial aspects.

The Small Scale Industries contribute significantly to the balanced development of the country. The small scale industries generate more employment opportunities compared to large industries in terms of per unit of capital invested. After agriculture, small industries are the second largest employment providers in India. Finance is the key input for sustained growth of small scale sector and its accessibility continues to be a matter of concern. The small scale industries need both long run as well as short run credit. The financial management plays a vital role in the survival, growth and development of these industries. The government of India has implemented several schemes for improving SSI units. The SSI units must make use and take the advantages of available sources and helping hand of the government, improve themselves, try to meet the employment needs of growing unemployed force and contribute to the nation by sustained growth. Thus the financial management is the key strategy for the sustained growth of Small Scale Industries in India.

10.9 Self Assessment Test

1. Explain the accounting process. What purpose does this process serve?
2. What is the significance of the Ledger in measuring the financial position of an enterprise?
3. Name the important types of books of accounts.
4. Discuss the importance of working capital in small business.
5. Explain the cost formulas used for valuation of stock.
6. Name the important ratios used for working capital management.
7. Discuss the importance of financial management in a small business.
8. Explain the functions of financial management.
9. Define Micro and small scale enterprises.
10. Discuss role of small scale enterprises in national economy.

10.10 References

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Unit - 11 : Operations Management of MSME

Unit Structure:

11.0 Objectives
11.1 Introduction
11.2 Meaning of Operations Management
11.3 Key Decisions
11.4 Building Operational Efficiency for the MSME
11.5 Operational Planning and Control
11.6 The Production Planning and Evaluation
11.7 Summary
11.8 Key Words
11.9 Self Assessment Test
11.10 References

11.0 Objectives

After completing this unit you will be able to understand:

- The concept of operation
- The functions of operation management
- The building of resources for the organization
- The basic impact of efficient operation management on the industries

11.1 Introduction

The role of micro, small and medium enterprises (MSMEs) is important for the development of any economy. The industries are the basis of growth and progress which foster the economic and social development of the country. The MSME sector is a nursery of entrepreneurship which is based on the individual creativity and innovation. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labor to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. Although Indian MSMEs are a diverse and heterogeneous group, they face some common problems, which are briefly indicated below:

- Lack of availability of adequate and timely credit
- High cost of credit
- Collateral requirements
- Limited access to equity capital
- Problems in supply to government departments and agencies
- Procurement of raw materials at a competitive cost
- Problems of storage, designing, packaging and product display

- Lack of access to global markets
- Inadequate infrastructure facilities, including power, water, roads.
- Low technology levels and lack of access to modern technology
- Lack of skilled manpower for manufacturing, services, marketing
- Multiplicity of labor laws and complicated procedures associated with compliance of laws
- Absence of a suitable mechanism which enables the quick revival of viable

Small-scale industries have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed. Poverty and unemployment are two of the burning problems of the country. This sector solves these two problems through providing immediate large-scale employment, with lower investments.According to Dr. Man Mohan Singh, "the key to our success in employment lies in the success of manufacturing in the small scale sector". The economic development of any country primarily depends upon the establishment of industries, which require sufficient amount of capital. In a country like India, where capital is scarce and unemployment is wide spread, growth of small-scale industries is vital in order to achieve balanced economic growth. The strength of small-scale enterprises lies in their wide spread dispersal in rural, semi-urban and urban areas, fostering entrepreneurial base, shorter gestation period, and equitable distribution of income and wealth.

Having recognized the significance of SSI sector, the Govt. of India has set up various agencies and institutions at different levels-central, state and local, have been pursuing the policy of protection and promotion of this sector since independence and also offered several incentives and concessions for their promotion and development. Since the launching of five-year plans in country the SSI sector has grown at a phenomenal rate.

11.2 Meaning of Operations Management

The performance of the management activities with regards to selecting, designing, operating, controllingan dupdating production system.Itis the processes of effectively planning, coor dinatingand controlling theproduction that is the operations of that part of an enterprise, it means to say that production and operations Management is responsible for the actual transformation of raw materials into finished products.Operation management is a function of Management , related to planning, coordinating and controlling the resources required for production to produce specified product by specified methods,by optimal utilization of resources.

Operation management is defined as management function which plans,organizes, co- ordinates, directs and controls the material supply and processes the activities of an enterprise. These activities enhance the efficiency of production system to give the best combination of labor, plant and capital to build the cost advantage for the customer. The operation efficiency impacts the organization, industry and the nation by the contribution to the GDP, employment and income.

TheefficientProductionManagementwillgivebenefitstothevarioussectionsofthesociety. They are:

- **Consumer-** the consumers get the benefits from the improved industrial productivity and the increased use value inthe product. The products are available at competitive prices.
- **Investors:** Theygetincreasedsecurityfortheirinvestments,adequate market returns, and creditability and good image in the society.

- **Employee**-getsadequatewages,jobsecurity,improvedworkingconditionsandincreased
- **Personal and** jobs atisfaction and empowerment.
- **Suppliers-**the suppliers can build the materials at low cost and bring out better substitutes.
- **Community-** the community gets the benefits from economic and social stability.
- **The Nation-**will achieve prospects and security because of increased productivityand healthy industrial atmosphere.

Functions of Operations Management

- **Materials** -The selection of materials must be based on the research and development to bring the recent and latest trends in the market
- **Methods:** the optimum method focuses on the search for material to set the method of the production in the process reengineering can build the activities in a sequential way.
- **Machinesand Equipment:** the best operational practices design the equipment and material tub enhance the efficiency of the production department
- **Loading and Scheduling and Routing -**The Production Management department basically has to focus on scheduling and routing.
- **Dispatching:** The Production Management department has to prepare various documents such as Job Cards, Route sheets, Move Cards, Inspection Cards for each and every component of the product.
- I**nspection:** the inspection basically relates to the quality control and giving the best options to the consumers

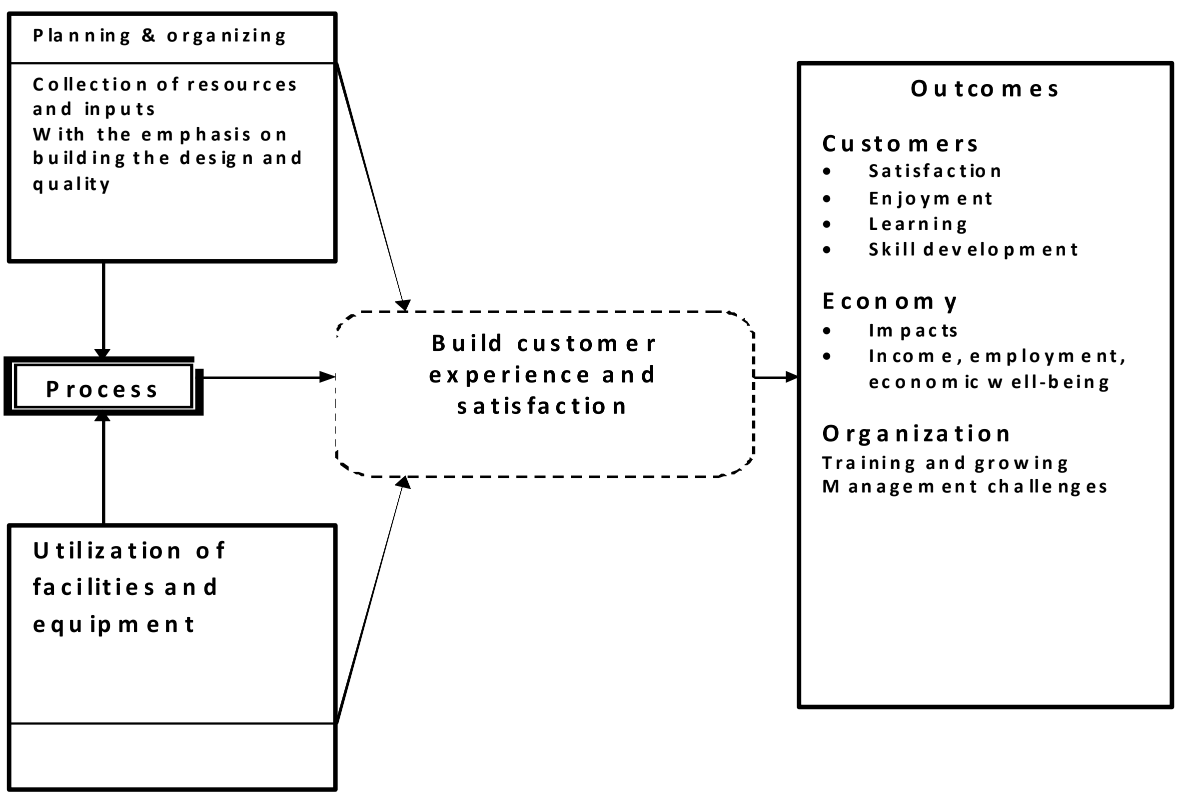

Figure - 11.1 : The Operations Management and the Organization

Objective of Efficient Operations Management:

- **Quality:** goods and services that are reliable and perform correctly. Quality allows customers to receive the performance that they expect.
- **Efficiency:** The amount of input to produce a given output.Less input required lowers cost and waste.
- **Responsiveness to Customers:** The actions taken to respond to customer needs.Firm can react quickly and correctly to customer needs.
- **Operations management is concerned** with the way an organization creates the goods and services on which it depends. The organizations have to focus on delivering quality products and services to its customers. The planning, controlling and continuously improving the quality of its operational processes have to be a core capability for the organizations to grow in a sustainable way. The effective system for integrating the quality development, quality maintenance and quality improvement efforts of the various groups in an organization is essential so as to enable production and service at the most economical levels to give the customer satisfaction.
- **The transformation of organization to** meet the improvement of all operations, functions, and processes of work is important .The quality is really nothing more than meeting customer needs. The customer care and work process has to pay attention to build the long term creations in the market

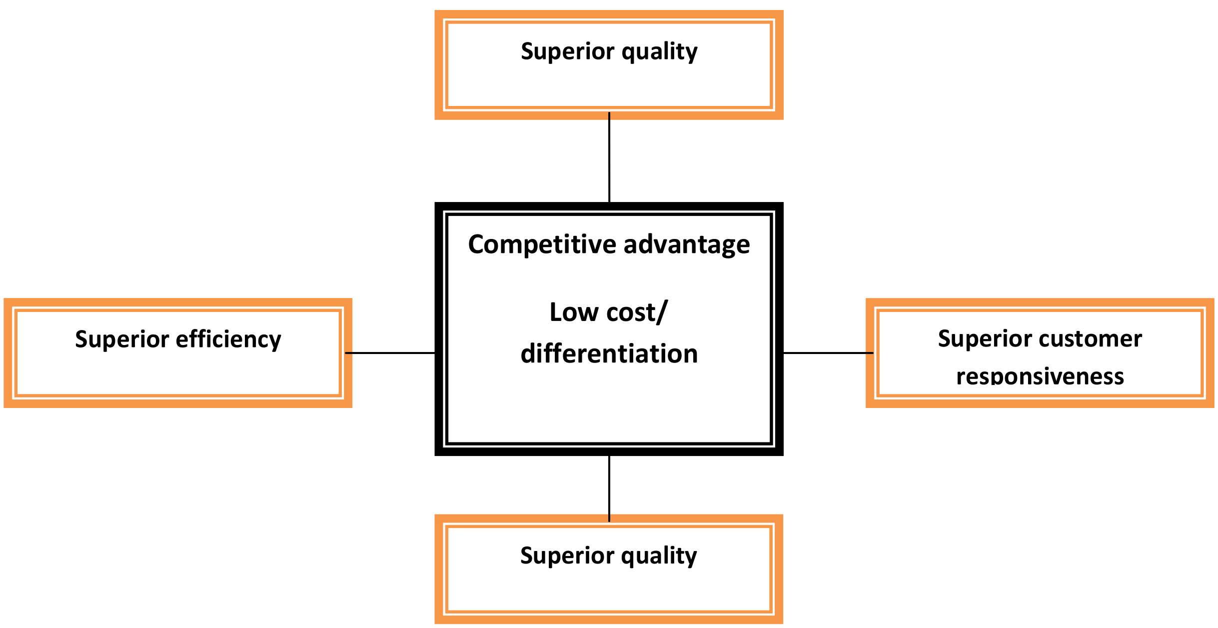

Figure 11.2 : Objective of Operations Management is to Build the Cost Advantage

11.3 Key Decisions

The various key decisions related with production/operational plan include:

(1) Selection of Product/s, its Development and design

(2) Selection of process and plant and machinery

(3) Plant Location

(4) Plant Layout

(5) Industrial Engineering

(6) Production planning and control

(7) Work Services, Maintenance and Its Management

(8) Quality Control.

(1) Selection of Product/s, its Development and Design:

As the organization attempts to match the changes in environment, technology and consumer requirements for entrepreneurs finalizing the product design; selection of product/s are the key strategic decisions which commits themselves for a long time to come. Selection can be through many processes. One aspect is the market research for existing products where entrepreneur very carefully evaluate the economic viability keeping in view the target market segment an entrepreneur wish to capture. Another aspect is the laboratories concerned with research for product development (like National Research & Development Corporation) who are continuously involved in developing new products and come up with improved versions, good product variations, and even newer products to serve better the same consumer needs. Such products have by far the least risk and good pay off. Entrepreneur can go for product development in detailed, as various environmental factors internal as well as external, particularly the market reaction such as test marketing, publicity, demonstrations, etc. should be, thoroughly evaluated. More the time you spend on product development, better become entrepreneur's chances of success. Final selection of product design and characteristics require considerations of effectiveness of test; quality corresponding with cost and market sustainability; product's maintainability and reliability; product servicing; ease of production; safety & security; environmental hazard etc.

(2) Selection of Process and Plant and Machinery:

An entrepreneur develops product prototypes and is generally the handmade models which are based on product ideas and are thoroughly evaluated and detailed costing is done. For which an entrepreneur make choice of raw materials and its estimates are drawn. Various manufacturing processes are studied; estimates of the requirement of work force; skills; Work norms; labour costs; is made. Entrepreneur sees the development of prototypes is a very vital before going ahead with the manufacture and launching of a new product and if required entrepreneur can have the value analysis or value engineering. After selection of product/s entrepreneur go for the selection of plant and machinery and may go in for a conventional manufacturing process, or can manage with standard machinery available in the open market or even select a high tech process, where machines may even be based on robotics. After this the product development require pilot production where checking and re-evaluation of various functional aspects such as tooling, material estimating, rate of production, cost of production, quality control techniques reliability and maintainability are done. After selection of process plant and machinery entrepreneur is ready to launch free flow production.

(3) Plant Location:

Every entrepreneur is faced with the problem of deciding the best site for location of his plant or factory. Plant location refers to the choice of region and the selection of a particular site for setting up a business or factory. But the choice is made only after considering cost and benefits of different alternative sites. It is a strategic decision that cannot be changed once taken and if at all changed it should be at considerable loss. An ideal location is one where the cost of the product is kept to minimum, with a large market share, the least risk and the maximum social gain. It is the place of maximum net advantage or which gives lowest unit cost of production and distribution. For achieving this objective, small-scale entrepreneur can make use of analysis location for this purpose.

The location of the plant can have a crucial effect on the profitability of a project, and the scope for future expansion and many factors must be considered when selecting a suitable site. Plant location is a strategic decision and has to be arrived at after careful deliberations of various considerations such as nearness to raw materials; proximity to market; adequate power and water arrangements and other infrastructural facilities; transportation facilities and their costs; availability of labour at reasonable wages; applicable government laws, taxation, incentives, subsidies for backward areas; land costs; climatic condition of location; related ecological and environmental factors and political conditions.

Entrepreneur can adopt any qualitative and quantitative, techniques to arrive at a logical decision for plant location and the simplest and most commonly adopted method is weight rating method for all consideration listed.

(4) Plant Layout:

Plant layout and design is an important component of a business's overall operations, both in terms of maximizing the effectiveness of production processes and meeting employee needs and/or desires. The physical arrangement of everything needed for the product or service, including machines, personnel, raw materials, and finished goods. The criteria for a good layout necessarily relate to people - personnel and customers, materials - raw, finished, and in process, machines, and the interactions of all these.

With a view to achieving optimum utilization of space available, the plant layout arrangement is made in an analytical and economic manner of various facilities like workmen, machines, equipment, materials, and incoming-outgoing services for materials in the plant; intermediate storage and inspection areas. The plant layout is a strategic decision since a layout once implemented cannot be changed easily. Some of the advantages of a good layout includes higher/improved productivity; economic utilization of floor space and other operating areas such as loading & unloading; better supervision and control; better working environment and employee safety; minimum material handling, and lower investment in plant and building with better maintenance facility.

Small business owners need to consider many operational factors when building or renovating a facility for maximum layout effectiveness. These criteria include ease of future expansion or change to meet changing production needs; recognition of the importance of smooth and coordinated process flow; possible to handle materials in an orderly, efficient and preferably simple manner; conducive to helping the business to meet its production/output needs; utilization of space available; ease of communication and support with vendors and customers; impact of layout on employee morale and job satisfaction by providing for light-colored walls, windows, space; layout should have promotional value by making it more attractive to visitors, investors, customers. and above all, the facility layout should enable the business to effectively operate in accordance with occupational safety and health association guidelines and other legal restrictions. Entrepreneur should also keep in mind that offices and manufacturing facilities are typically designed in much different ways and also differ dramatically if it is a service-oriented business.

(5) Industrial Engineering:

Production and operation management further require the knowledge of industrial engineering commonly called Work Study. It is the techniques of study of methods and work measurement which are employed by an entrepreneur to ensure the best possible use of human and material resources in carrying out specific activities involved in business. Work Study is related with method study and work measurement which lead to a systematic investigations of all the factors which affect the efficiency and economy of the situation being reviewed in order to effect improvements. Method study is the systematic and scientific evaluation of existing or proposed plans & performance of any work system and the evaluation of improvements through the analytical process of critical examination. Work Measurement is the application of techniques designed to establish the time for a qualified worker to carry out a specified job at a defined level of performance. Aim is the reduction of the ineffective time and the subsequent establishment of time standards for the operations based on the work content evaluated by method study. Work measurement involves use of time and motion study to eliminate unnecessary movements and reduce the time of operations. Now a day Industrial Engineering has gained importance because it tells the ways to improve productivity by reducing labour input costs; establishing work norms; wage settlements with workers and also developing incentive schemes.

(6) Production Planning and Control:

Production Planning consists mainly of the evaluation and determination of production inputs such as labour machinery and equipment, materials and utilities to achieve the desired goals.

The ultimate objective of production planning and control, like that of all other manufacturing controls, is to contribute to the profits of the enterprise. As with inventory management and control, this is accomplished by keeping the customers satisfied through the meeting of delivery schedules. Specific objectives of production planning and control are to establish routes and schedules for work that will ensure the optimum utilization of materials, workers, and machines and to provide the means for ensuring the operation of the plant in accordance with these plans. The process of Production Planning can be divided into the following three phases i.e. allocation, routing and scheduling

Allocation: Allocation is the organizing of all the resources of production which will be required to perform the task and is concerned with the provision of space, the supply of labour; availability of machines and equipment and the provision of materials and spaces. Allocating of resources is done taking all the other commitments into consideration and the priorities allotted to various products.

Routing: Routing includes planning of where and by whom work will be done, determination of both the path work will follow and the necessary sequence of operations. Routing as applied to manufacturing is the application of predetermined orderly logical and economical sequence of operations through which materials, parts and sub assemblies must pass to prepare them during each successive operation for their subsequent development into larger sub assemblies or completed products.

Scheduling: Scheduling involves many areas related with manufacturing cycle. Entrepreneur should prepare master schedules for various periods of time that forecasts accurately specific items and the quantities to be produced daily, for the maximum number of days. The purpose of scheduling is to ensure all variable inputs to be available at the right time and right quantity. Production Plan is drawn in advance, maybe three to six months or as per the requirement of business.

Production Control: Production Control is concerned with the updating and revising procedure where according to the requirements of the implementation, the labour assignments, the machine allocations, the job priorities, the rates of lines flows, the schedule routes etc, may be critically examined and changed. It is basically a monitoring and correcting mechanism which goes on throughout the production process of the already drawn production plan and schedule.

(7) Work Services, Maintenance and Its Management:

In order to achieve efficiency in production, entrepreneur needs to consider the efficiency and effectiveness of important work services such as materials, procurements and personnel training, plant maintenance, quality control, research & development, health, safety, fire fighting supervision, etc. Due to advancements in production techniques due to technological development the costs of works services have gone higher than purely production costs. But these high costs are offset against increased productivity. Some of the important functions related with works services and its maintenance includes materials management and plant maintenance. Materials management involves use of various material and inventory management techniques to reduce the costs of the organization and add to the profitability. Plant maintenance involves actions taken in a planned manner to prevent breakdowns and ensure operational efficiency in an economical manner.

(8) Quality Control:

Quality assurance is total organizational effort, is a strategic decision and is the responsibility of all functional managers' viz. purchase, production, operations, warehousing (storage) and the transportation and packaging. Quality is the performance of the product as per the commitment made by the producer to the consumer. A product is called a quality product only when it satisfies certain criteria for its functioning. A product should not only satisfy the criteria at the time of manufacturing but the same performance should be available over a reasonable length of time. Entrepreneur should use various techniques of quality control to ensure delivery of right kind of goods and services to its customers.

Quality Ethics and Quality Standards

The quality ethics are important for the organization and they relate to:

- Identification of the customers need and their feedback
- Emphasis on the quality improvement
- Exploring a range of analytical tools and techniques for problem solving and quality improvement
- Empowering the team in improving quality and customer service.

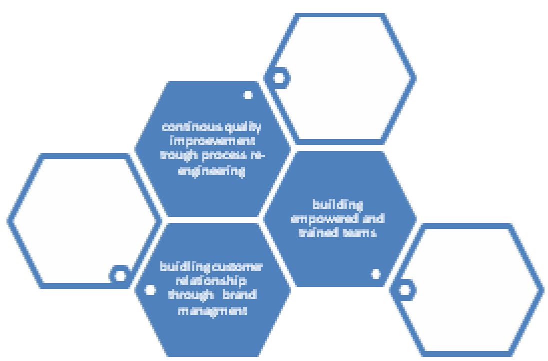

Figure 11.3 : Building Quality Ethics in the Organization

The customers are the basis for the business and they need to be satisfied. They need:

- value for money
- products/services that work
- delivery on time
- Friendly service.

The quality is important for the organization and it is essential to relate to the organizational objectives to build the profits and give the satisfaction to the consumers. The organization needs to focus on:

- problem-solving skills
- team working and team leadership skills
- improvement and control tools and techniques
- understanding wastage and costs
- process control and maintenance
- training in quality systems and standards (mandatory for ISO9000)
- training in TQM concepts and principles
- customer-care training
- communication and information skills
- cultural change programmer
- health, safety and environment training
- continuous improvement or kaizen training
- training for new skills as a result of job redesign

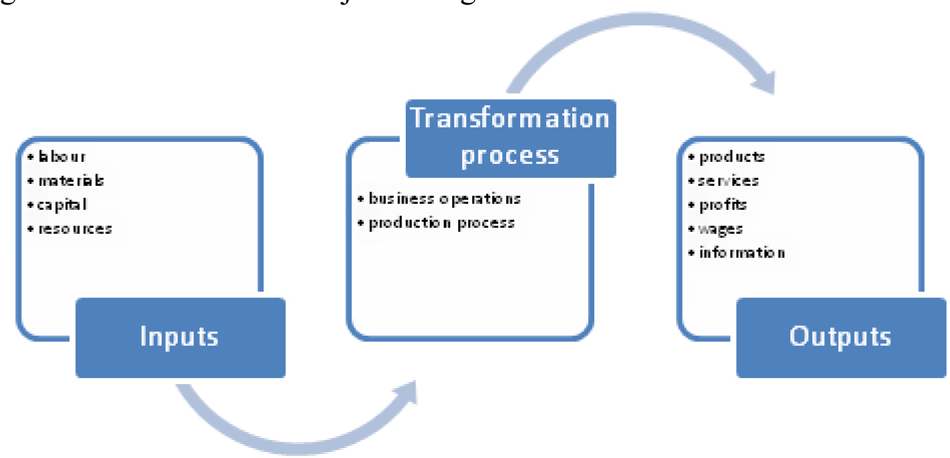

Figure 11.4 : Operational System of a Firm

Operations management is about carrying out those activities which ensure products and services to go through the production and development of the products. The focus has to be on:

- Transformation process from design, through production to delivery.
- Management functions.
- Environmental regulations
- Requiring of recycling of materials
- Reduce the total environmental impact.
- Build resources and activities for sustainable development
- Cost structure
- Dimension of creativity
- Dimensions of innovation
- Build the competitive advantage

The small firms are operating in the market with access to the local markets and the resources. The efficiency of the firm depends on the way the firms respond to the market forces and risk impacting their operations. The various types of risk related to the changing technological and environmental changes happening in the market. The industry and operations of the firm are also impacted by the changing political, legal, cultural and social system of any country

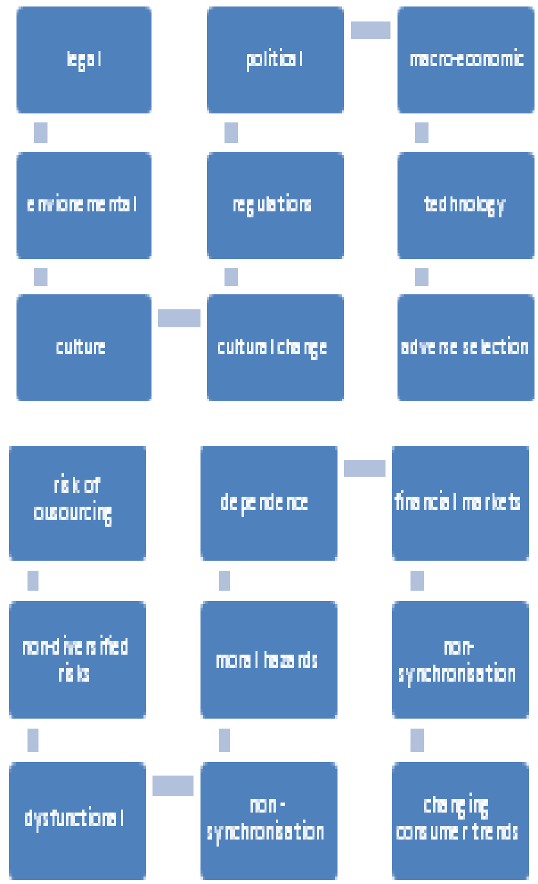

Figure 11.5 : Risk Factors Impacting the Small and Medium Sized Industries

11.4 Building Operational Efficiency for The MSME

The operational strategy for the small business firms needs to focus on designing of the products with areas of high demand and priority areas. The products with a great impact of utility in the market need have the assimilation of quality and standards to get the attractions of the customers. The products need to be customized to the local demands and taste to influence the purchase behavior of the consumer.

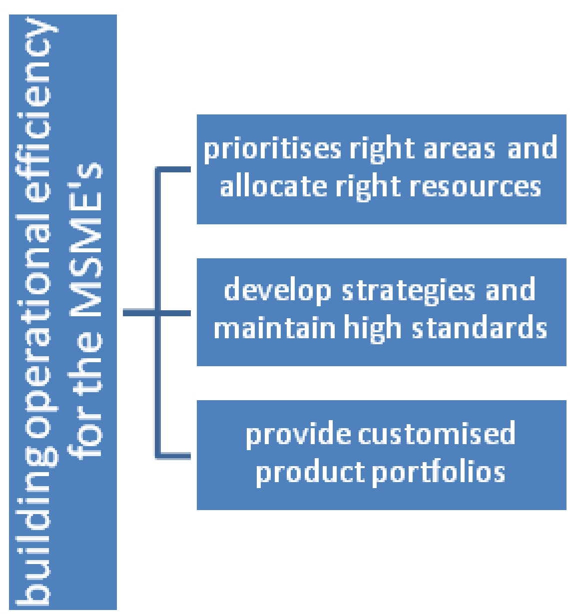

Figure 11.6 : Building the Operational Efficiency for the MSME's

(a) Building the Customer Relations: The investment on building the relations with customers as they are the basis for survival in the market. The firms need to define the value for the customer and the product design should match with the market requirements to build the relations with customer by giving the attractive price options. The customer's satisfaction can only be built by quality services given to the customers.

Figure 11.7 : Building Relations with the Customers

(b) Building the Value Analysis for the Operation Management: The value analysis focuses on the cost analysis for each function of the product. The functions are weighed in ration to the cost. The cost analysis is to work on the re-engineering processes to keep the cost optimum.

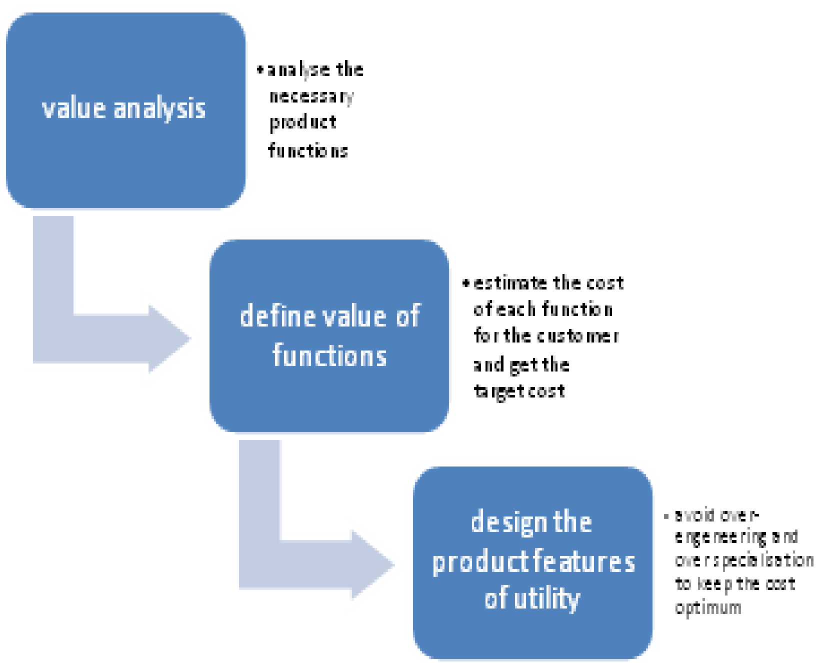

Figure 11.8 : Value Analysis for Building Operational Efficiency

(c) Building the Innovation Analysis: The changing market needs new and recent products to satisfy the customers. The innovation is necessary to build the creative and unusual combinations to attract the customers. The innovation analysis helps to build the products with better designs, functions and utility to grow the market and diversify the products to wider segments of the market. The process innovation and reenginering can also reduce the cost of production. The delivery innovation models can also build the faith and trust in the minds of the customers.

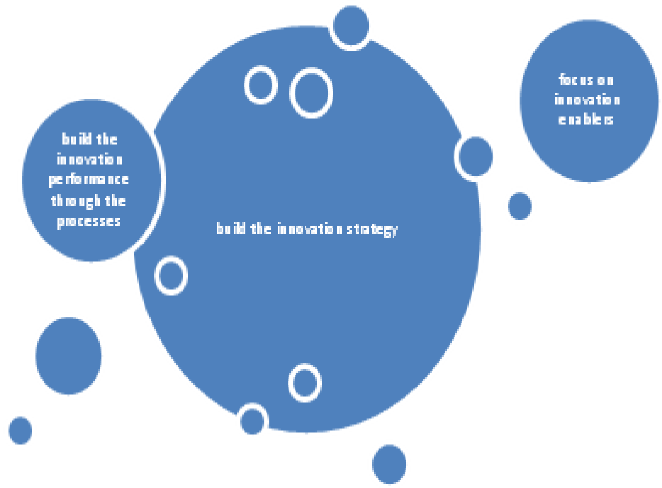

Figure 11.9 : The innovation Analysis for Ehancing the Operational Efficiency

(d) Linking of the operations: The production and marketing of products become important for the demand of customers. The business generates innovative ideas with the impact of innovation. The organization needs the efficient transformation process to give the outputs. The support functions of planning; organizing, finance and management help to link the operations to transform the inputs to give the products and services in a systematic way.

The Quality operations can be conducted by focusing on:

- **Quality -** doing things right
- **Speed -** doing things fast
- **Dependability -** doing things on time
- **Flexibility -** being able to change what you do
- **Cost -** doing things cheaply.

11.5 Operational Planning and Control

The planning of all operations is necessary to shape the budgets and control the cost of activities in the total process of production .The setting of objectives is essential to give direction to the functions. The plans can work by

- **Allocating tasks and responsibilities -** who is to be involved with the new product and service and how they are to be involved
- **Scheduling -** work patterns, process scheduling, supply and demand scheduling
- **Assessing Resource Requirements -** people and their skills, money (budgets), time, raw materials, plant and equipment, capacity
- **Monitoring and Evaluating Performance -** the control part, involving control activities, measures and control techniques

There are three key stages to capacity planning and control:

1 Forecast the demand levels.

2 Choose an appropriate capacity plan.

3 Control capacities through monitoring and review.

A systematic approach to health and safety should involve an accurate policymaking, for organizing, planning and implementing, measuring the performances of the workers. The, reviewing and auditing of the performance would enhance the efficiency. Its key ingredients are following:

- Objectives and standards
- Policies and procedures
- Instruction, information and training
- Communications systems
- Safe systems of work
- Monitoring systems
- Risk assessment
- Promotion of a health and safety culture.

The core positioning strategies for the industries can enhance the operational performance by reorienting the design and function to improve the responsiveness to customers. Without customers, organizations cease to exist and so building customer relations is important to develop the long term relations of trust and faith in the minds of the customers. The profit oriented firms need to understand the attitudes, perceptions and behavior of the customers to get the right pulse of the market. The managers need to identify who the customer is and what are their latest needs are with the changing forces of technology and media in the market. They need to design quality and operational functions of the products have to match with the needs and desires of the customers at the right price. The managers need to understand the value relationship between the quality and prices.

The innovative technology has changed the landscape of the business. The industries need to build the E-business promotion to connect with the customer. The technology can streamline the operations and more efficient processes can be built by lowering the cost of materials. The information technology can help in designing the better and faster decision making.

The E-business promotion can also help in building the new forms of organizations with the expanded supply chain to meet the higher customer expectations. This can give rise to the new ways of doing business. The forces of globalization can build the better products and ideas with standardization. The products can increase the competitiveness by innovations to suit the local demand through the favorable cost. The access to international markets can build the knowledge networks and help to design the updated version to give better response to changes in demand. The organizations need to develop the reliable sources of supply so as to increase the productivity and the GDP (Gross domestic product) growth. The market capitalization and the technological infrastructure can build the awareness and give the quality education to people to learn and grow with changing ethics of the market. The efficiency of government can enhance by reducing the barriers to entry to give the benefits of the economies of scale by increasing the capital investment. The access to supply and distribution channels can work with better equations by focusing on the learning curves. The basic techniques for planning and control impact the total supply chain of the organization because it helps in building the coordination with the suppliers and customers. The choice of right suppliers can give accurate materials at reasonable prices. The successful development and growth of any organization requires the focus on:

- Integration of all activities
- Supplier's database
- Customer relations
- Human resource management
- Strategic reporting
- Sales and marketing
- Delivery and logistics
- Purchasing and supply
- Operations
- Financial planning
- Services and after sales support

The organizations need to manage the materials and build the accurate inventory levels so as to control the cost of handling materials by minimizing the waste and losses. The purchase of material at the right time with right price is essential to get connected to the production stream. The purchase efficiency can be built by the focus on

- Procurement (purchasing supplies)
- Order processing
- Production scheduling
- Inventory control
- Transportation and warehousing
- Customer service and relationship management.

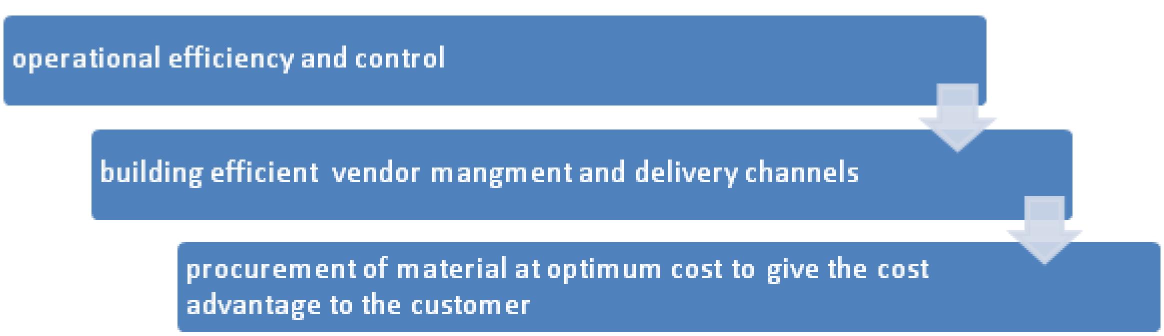

Figure 11.10 : Operational Efficiency and Inventory Control

11.6 The Production Planning and Evaluation

The production planning needs the focus to build the equipment policy and focus on plant location and facilities to stimulate the process for better product devlopment. The planning would involve the right combination of materials and methods to utilize the machines and manpower to give the production with the right quality. The evaluation can be done by the inspection and the quality control...

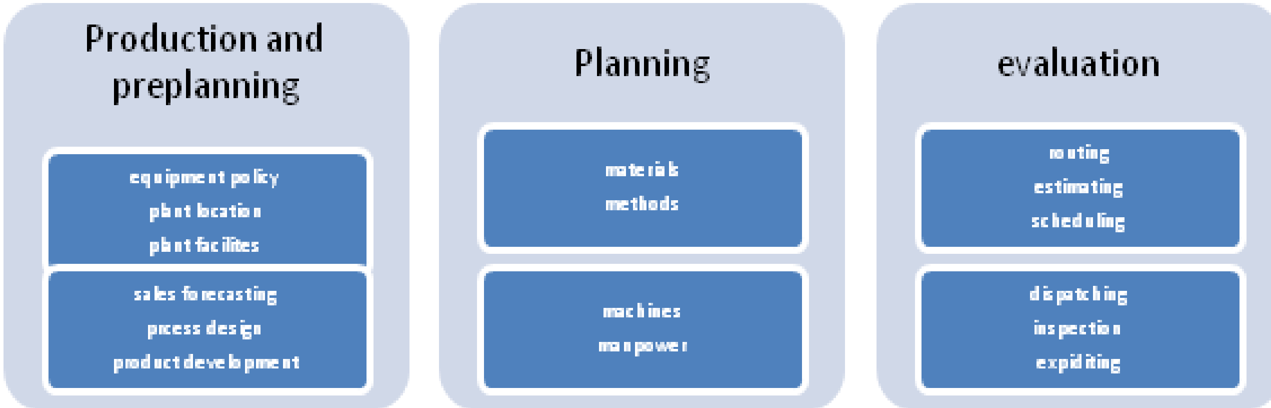

Figure 11.11 : Production Planning and Evaluation

Building the Organizational Operational Efficiency

The total operations of the organizations depend on the focus of building the output to satisfy the customer. The organizational output depends on the financial support and the suppliers to give the best and the latest options to create the innovative products. The talented human resource with the help of modern technology can transform the inputs to the outs and the new products to give the growth and development to the industry. The customer relationship management can be built by the focus on the promotional and building the communication with the customers to enhance the brand loyalty

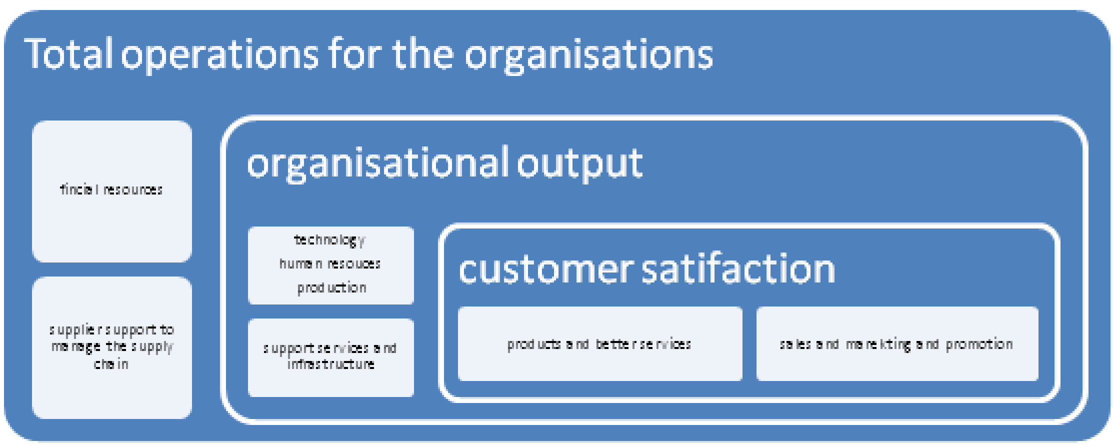

Figure 11.12 : Operational Efficiency of the Organization

11.7 Summary

During post liberalization period, as part of integration of economy with world markets some reforms were taken place. The operation management is important for the organization. The funds are and they have to be used to support the establishment of infrastructure and the equipment's and the modern technologies should be supported to promote establishment of business incubators. The training can be built by investing in the educational institutes and educational institutions of repute. The operation management builds the efficiency of the origination and the inputs are converted into the outputs with the optimum cost and minimum waste. The organizations of the MSME's should focus on building quality operations to give the value to the customers. The market ethics are important and the production process should relate to the needs of the customers. The customer must be given the value for the money invested by giving the services and products at reasonable prices. The supply chain should be managed to give the competitive and the cost advantage to the customers. The basic inputs used for the operation should be purchased from the right suppliers. The planning and control of the operations will build the better products and services.

11.8 Key Words

- **Procurement:** get the supplies and the raw materials
- **Order Processing:** implementing the order
- **Production Scheduling:** building the time sequence for the production activities
- **Inventory Control:** managing the raw materials and the production built up
- **Transportation:** connection through the automobiles
- **Customer Service:** giving the support of facilities to the customer
- **Relationship Management:** managing the interpersonal communication
- **Materials:** raw supplies
- **Efficiency:** ratio of output to input
- **Value:** returns

11.9 Self Assessment Test

1. What is the aim of operation management?
2. Give the definition of operation management
3. What are the functions of operation management?
4. What are the quality ethics and quality standards?
5. What do the customers need?
6. Why is quality important for the organization?
7. Explain the factors impacting the purchase decisions
8. What are the problems faced by the small scale industries

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Unit - 12 : Marketing Management of MSME

Unit Structure:

12.0 Objectives
12.1 Introduction
12.2 Marketing Problems Small Scale Units
12.3 Marketing the Product
12.4 Pricing Policy
12.5 Channels of Distribution
12.6 Advertising
12.7 Communication
12.8 Innovative Marketing Management for MSME's
12.9 Summary
12.10 Self Assessment Test
12.11 References

12.0 Objectives

After completing this unit, you should be able to understand:

- The introduction of the marketing management
- The concept of MSME's influencing the economy
- The role of MSME's in any economy
- The issues and challenges of MSME's
- The promotion given by the government

12.1 Introduction

The Indian economy is growing at a fast pace with the impact of globalization and liberalization. The growth of the economic system of any society is reflected by the presence of industries and factories to supply the goods and services for the benefit of people. The standard of living of people can only increase if they get sophisticated and technical services to make life fast and connected to the global forum. Goods and services are essential to build a comfortable life by which people can reach to better heights. The small scale industries are the measures of growth and development of any economy. Small scale industries have a significant role in the growth of the Indian economy. The small scale industries need the support of good facilities and promotion to in a sustainable way. The impact of information technology and infrastructure can help the SSIs to respond to government, information technology, globalization and policy and programs of government to work in a positive way.

The Resources Needed for the Growth of MSME's

The small industries can only grow, if they have the spirit to produce excellent products and the ability to constantly improve the production system & process. The continuous improvement and innovation can build the base to promote their products in the wider markets. The industries need to develop the workforce with the abilities and competencies to harness the best ideas and services to be given to the society. The multi- skilling of employees and team work can help to get the better share of the markets. The quality and the cost have to be under control to build the base. The industries can gain the cost competiveness and the advantage in the market by managing the administrative and operating cost and passing the savings to the customers by giving them products at lower prices. This strategy helps them to stand the competition of the global era.

According to a social definition marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products and services of value freely with others.

As a managerial definition, marketing has often been described as "the art of selling products." But Peter Drucker, a leading management theorist, says that "the aim of marketing is to make selling superûuous. The aim of marketing is to know and understand the customer so well that the product or service suits him and sells itself. Ideally, marketing should result in a customer who is ready to buy."

The American Marketing Association offers this managerial definition: Marketing (management) is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.

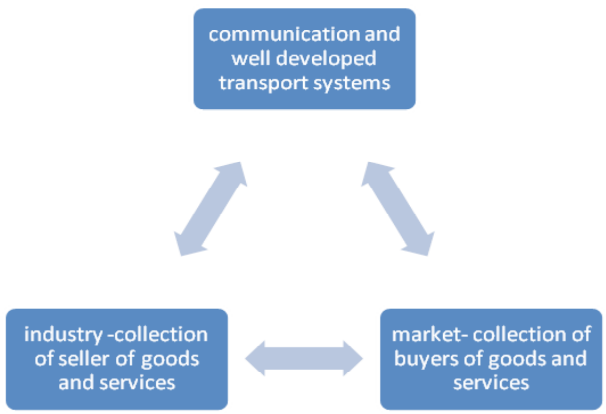

Figure 12.1 : The simple Marketing Management Process

12.2 Marketing Problems of Small Scale Units

In a small business, the marketing function come across entire company, affecting entry aspect of its operation from production to marketing.

With increasing competition small business owners face many problem related to finance, bargaining, cost, quality etc. Small business faces the following problems in the field of marketing:-

1. **Low Product Quality :** It is very difficult for small units to have quality testing equipments. Therefore small units are compelled to compete in terms of product price than quality.

2. **Problem of Brand Image :** Large scale units formulate their strategy and create brand image with the help if advertisement and media. But small scale units face a problem of brand image due to their limited propaganda.

3. **Limited Market:** Small scale units lack transport, storage and ware housing facilities. Thus generally they cater to the needs of the local and limited market.

4. **Lack of Bargaining Skill:** These are forced to sell their products at very low prices.

5. **Problem of Credit Sales:** Small units have to borrow excessive working capital than what is really needed. Therefore cost of production is increased due to interest lost.

6. **Lack of Market Research:** Due to the less capital small scale units take less interest in market research.

7. **Competition from Large Scale Units:** Small scale units face a fierce competition from their counterparts medium and large scale industries. Small units are unable to compete with large scale units as their size and scale of production are small and less cost effective.

8. **Lack of Trained Personnel**: Most of the employees are untrained and inefficient having less knowledge of marketing.

9. **Other Problems:**

   a) Poor customer satisfaction

   b) Outdated technology

   c) Slow speed of market communication

12.3 Marketing the Product

This is an era of globalization and liberalization. The manufacturers have to offer goods and services of desired quality at optimum cost. Select the right market/consumers identified at the time of planning the unit. Establish Direct marketing channels or a network of dealers as per requirement of the product based upon initial survey. Highlight strengths of the product.

Producer have create awareness among the buyers or consumers about your product's strong points in order to convince them of the utility of the product. Publicity in various available forms has to be arranged within the budgetary constraints. Sell quality, to gain consumer's confidence. Review consumer feed back. Resort to live demonstration. MSME /NSIC help in popularizing the product through domestic and international trade fairs/exhibitions.

Agencies Offering Marketing Assistance

There are Governmental and non-governmental specialised agencies which provide marketing assistance. NSIC & KVIC are the devoted govt. agencies for providing marketing assistance to MSME units.

Besides promotion of MSME products through exhibitions, NSIC directly market the MSME produce in the domestic and overseas market. NSIC also manages a single point registration scheme for manufacturers for Govt. purchase. Units registered under this scheme get the benefits of free tender documents and exemption from earnest money deposit and performance guarantee.

Agencies Helping in Exhibition of the Product and Promoting Exports

MSME & NSIC help the micro, small and medium enterprises for exhibiting products of MSME in the domestic and international exhibition.

ITPO, DGFT, FIEO & Chambers of commerce in different countries Ministry of Commerce provide assistance in promoting exports. Office of the Development Commissioner (MSME), Government of India provides financial assistance to micro, small and medium scale entrepreneurs to display their products in overseas fairs and also for sales-cum-study tours abroad.

MSME units gets special benefits such as duty drawback, advance licensing for import of capital goods and raw materials, pre- shipment and post shipment credit against firm export orders and marketing development assistance. Income tax benefit is available on exports earning.

Marketing Strategies Followed by MSME's

1. Gain an understanding of the market potential for growth
2. Market Segmentation
3. Market Needs Analysis
4. Access to finance
5. Education and training
6. Competitiveness
7. Marketing of products and services

Customer Relationship Management in MSME

Developers have started focusing on MSME market and Easy track CRM, Gold mine CRM, Lotus notes, Saas, Pivotal, Sage, Sibel, ASP, are some software used by MSMEs across the world. MSMEs like handicraft, handloom, agro-based sectors etc. are also increasingly streamlining their business processes in responses to globalization and increasing profitability concerns due to unavoidable pressure on their profit margins.

Few internal factors like the silo-culture at organizations and poor technical expertise to operate high end CRM applications stand as major hindrances, which should be taken care. Involvement of third-party CRM service providers has helped MSMEs to understand the financial as well as operational aspects transparently. Thus CRM initiatives are definite to create a win-win situation in near future for Indian MSMEs, international exporters and importers and the application providers.

The marketing plan can be built by focusing on the goals and objectives of the firms and building the analysis for the internal strength in relation to the external environment. The marketing will give birth to the right product plan required by the local areas and markets according to the socio- cultural norms of the specific target make. This product plan has to be implanted by the right reorganizing abilities to give the product at optimum cost to the customer. The final results have to be analyzed in terms of satisfaction built up for the customers. The gap in satisfaction can be covered by taking the corrective actions

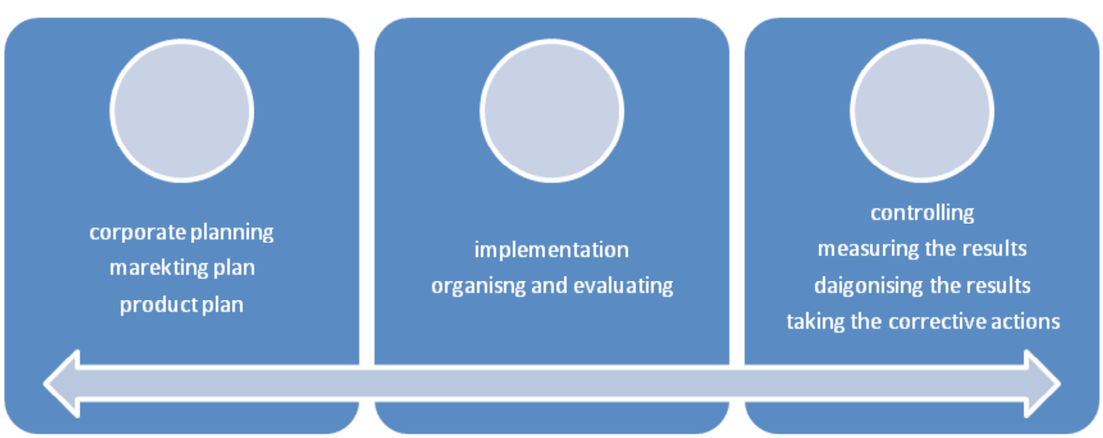

Figure 12.2 : The Market Planning and Implementation

12.3.1 Developing the Effective Marketing Mix

The marketing mix consists of the product, price, place, promotion, people and processes. The product has to be a bundle of functional attributes and emotional attributes. The quality and design is essential to attract consumers. The place relates to the wholesaler and the retailers where the consumers can be connected in a channel to build up the satisfaction. The price has to be affordable. The people have to be empowered to have quality communication with the consumers. The processes need to be reengineered to get the best options and the designs at the optimum cost.

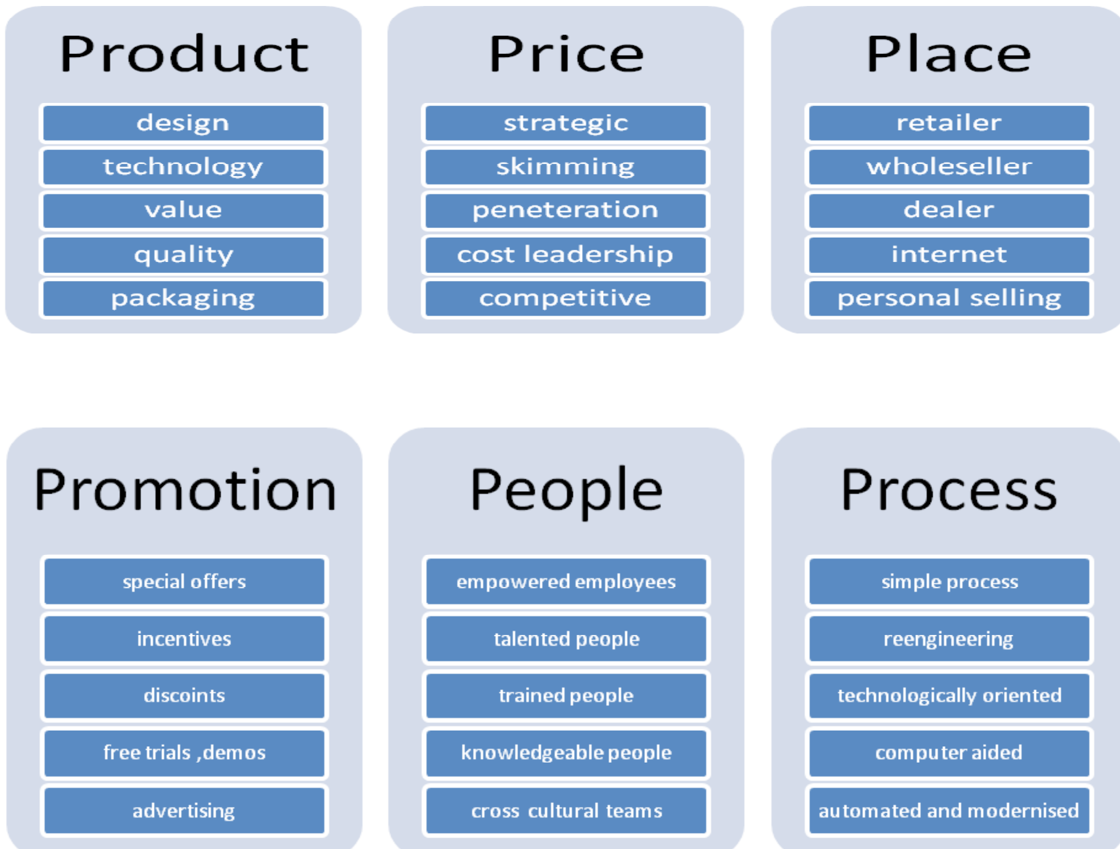

Figure 12.3 : The Parameters for Building the Effective Marketing Mix

Customization of Marketing

Product, Price, Place and Promotion constitutethe 4Ps of marketing mix.The strategic decisions taken by the marketers of MSME's should be done in such a way that the commercial fate of the brands could be built by getting connected with the customers.

Promotion: Marketers and advertisers should be able to focus on rural markets through the use of mass media vehicles such as radio, print,hoardingsandTV. The modern marketing and communication is also built by the mobiles and handsets to give the messages about the recent updates. The media mix to be used for promotion has to have high local relevance to increase the effectiveness.

Pricing: Affordability is a major issue in local markets. The price decisions should be according to the purchasing abilities of the people. The marketers can reach to the customers by giving lower unit pack sizes,packaging innovations and offering basic, functional products at reduced prices characterized the pricing customization.

Place: The accessibility can be done by giving the right products at the right places where the can go the retailers and who are at convenient locations. The accessibilityto the remote and far off locations is a hugechallenge in the Indian markets.

Product: The innovative customization can be done in a creative and aprofessionalway to develop products by keeping the needs of customers in mind.

The Marketing Management for the MSME's

The marketing is the essential extension of any firm because by the communication and the marketing mix. The firm is able to connect with the customers. The marketing managers of small firms are responsible for influencing the level, timing and composition of customer demand in the local markets. The marketing analysis would involve:

- Customer analysis
- Company analysis
- Collaborator analysis
- Competitor analysis
- Analysis of the industry context.

Customer analysis -The customer analysis is important to reach to the values and norms of the market to build a relationship of trust and faith. This happens by building proper target markets and supplying the goods and services according to the needs. The market segmentation involves the breaking down of the market into various constituent groups. The marketing managers work to develop detailed profiles of each segment, focusing on any number of variables that may differ among the segments: demographic, psycho graphic, geographic, behavioral, needs-benefit.

The company analysis- helps in understanding the company's cost structure and cost position relative to competitors. This can help the company to build the core competencies and abilities to connect to specific and local markets. The strength of the company is reflected by the strong brand association created with the customers to retain the profitable customers.

The collaborator's analysis – the firms needs to build a strong collaboration with the various suppliers, distributors and other channel partners to get the cost advantage in the market

Competitor analysis- the marketers try to build the detailed profiles of each competitor in the market to get the total understanding of the demand and supply in the market. This helps them to build the price and get into the development according to the strength of the competitors. The competitor's analysis can help the firm to build the competency and win the competitive game in a better way. The total analysis can help the firm to build the strategic profile to maximize the revenues and options in the market to attain the goals and objectives in the market.

Developing a Marketing Network for the MSME's

The marketing networking **c**onsists of promoting the products through the advertising and building the websites for communication with the customers. The promotion of business through the websites will help in the better networking.

Figure – 12.4 Marketing Network Creation for MSME's

The Value and Satisfaction for the Customers

The firms have to give the product or offerings that can deliver value and satisfaction to the target buyers. The buyer chooses between different offerings on thebasis of which is perceived to deliver the most value. The value can be defined as the ratio of what the customer gets and what he gives.

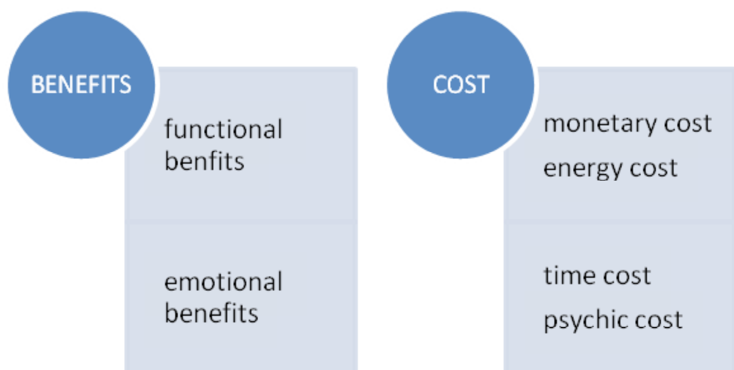

Figure 12.5 : Value Creation for the Customers

The Firm's Goals and Objectives

The firm's mission is important to build the goals and objectives by focusing on target markets. The basic objectives must be decided so as to build the well-developed plans to assimilate the marketing mix by the emphasis on product, price, place and promotion to meet the needs of the consumers. The right balance of the marketing mix can help the firms to build the connection with the customers.

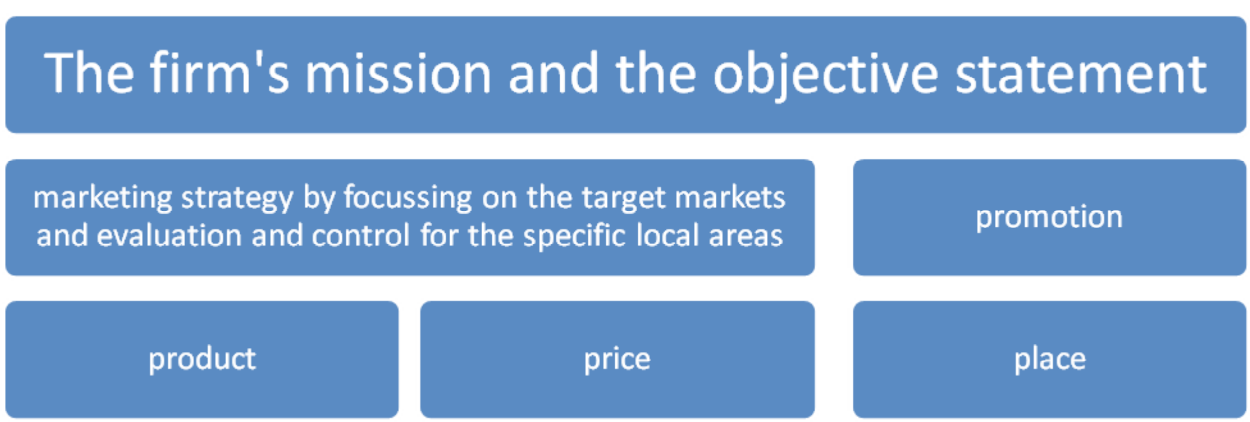

Figure 12.6 : The Development of Firm's Objectives and Goals

12.4 Pricing Policy

Pricing is the policy by which a company determines the wholesale and retail prices for its products or services. **Pricing** is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. It is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. The other three aspects of marketing mix are product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers.

Objectives of Pricing

Some of the more common pricing objectives are:

- maximize long-run profit
- maximize short-run profit
- increase sales volume (quantity)increase monetary sales
- increase market share
- obtain a target rate of return on investment (ROI)
- obtain a target rate of return on sales
- maintain price leadership
- desensitize customers to price
- discourage new entrants into the industry
- match competitors prices
- encourage the exit of marginal firms from the industry
- survival

Factors of the Pricing Policy

The following factors are to be considered while fixing the prices of the product.

1. **Profit Maximization in the Short Term**: The primary objective of the firm is to maximize its profits. Pricing policy as an instrument to achieve this objective should be formulated in such a way as to maximize the sales revenue and profit**.** Maximum profit refers to the highest possible of profit. In the short run, a firm not only should be able to recover its total costs, but also should get excess revenue over costs. This will build the morale of the firm and instil the spirit of confidence in its operations. It may follow skimming price policy, i.e., charging a very high price when the product is launched to cater to the needs of only a few sections of people. It may exploit wide opportunities in the beginning. But it may prove fatal in the long run. It may lose its customers and business in the market. Alternatively, it may adopt penetration pricing policy i.e., charging a relatively lower price in the latter stages in the long run so as to attract more customers and capture the market.

2. **Profit Optimization in the Long Run:** The traditional profit maximization hypothesis may not prove beneficial in the long run. With the sole motive of profit making a firm may resort to several kinds of unethical practices like charging exorbitant prices, follow Monopoly Trade Practices (MTP),

Restrictive Trade Practices (RTP) and Unfair Trade Practices (UTP) etc. This may lead to opposition from the people. In order to overcome these evils, a firm instead of profit maximization, aims at profit optimization.

3. **Price Stabilization**: Price stabilization over a period of time is another objective. The prices as far as possible should not fluctuate too often. Price instability creates uncertain atmosphere in business circles. Sales plan becomes difficult under such circumstances. Hence, price stability is one of the pre requisite conditions for steady and persistent growth of a firm. A stable price policy only can win the confidence of customers and may add to the good will of the concern. It builds up the reputation and image of the firm.

4. **Facing Competitive Situation**: One of the objectives of the pricing policy is to face the competitive situations in the market. In many cases, this policy has been merely influenced by the market share psychology. Wherever companies are aware of specific competitive products, they try to match the prices of their products with those of their rivals to expand the volume of their business. Most of the firms are not merely interested in meeting competition but are keen to prevent it. Hence, a firm is always busy with its counter business strategy.

5. **Maintenance of Market Share**: Market share refers to the share of a firm's sales of a particular product in the total sales of all firms in the market. The economic strength and success of a firm is measured in terms of its market share. In a competitive world, each firm makes a successful attempt to expand its market share. If it is impossible, it has to maintain its existing market share. Any decline in market share is a symptom of the poor performance of a firm. Hence, the pricing policy has to assist a firm to maintain its market share at any cost.

6. **Capturing the Market:** Another objective in recent years is to capture the market, dominate the market, command and control the market in the long run. In order to achieve this goal, sometimes the firm fixes a lower price for its product and at other times even it may sell at a loss in the short term. It may prove beneficial in the long run. Such a pricing is generally followed in price sensitive markets.

7. **Entry into New Markets:** Apart from growth, market share expansion, diversification in its activities a firm makes a special attempt to enter into new markets. Entry into new markets speaks about the successful story of the firm. Consequently, it has to bear the pioneering and subsequent risks and uncertainties. The price set by a firm has to be so attractive that the buyers in other markets have to switch on to the products of the candidate firm.

8. **Deeper Penetration of the Market**: The pricing policy has to be designed in such a manner that a firm can make inroads into the market with minimum difficulties. Deeper penetration is the first step in the direction of capturing and dominating the market in the latter stages.

9. **Achieving a Target Return**: A predetermined target return on capital investment and sales turnover is another long run pricing objective of a firm. The targets are set according to the position of individual firm. Hence, prices of the products are so calculated as to earn the target return on cost of production, sales and capital investment. Different target returns may be fixed for different products or brands or markets but such returns should be related to a single overall rate of return target.

10. **Target Profit on the Entire Product Line Irrespective of Profit level of Individual Products:** The price set by a firm should increase the sale of all the products rather than yield a profit on one product only. A rational pricing policy should always keep in view the entire product line and maximum total sales revenue from the sale of all products. A product line may be defined as a group of products which have similar physical features and perform generally similar functions.

11. **Long Run Welfare of the Firm**: A firm has multiple objectives. They are laid down on the basis of past experience and future expectations. Simultaneous achievement of all objectives is necessary

for the overall growth of a firm. Objective of the pricing policy has to be designed in such a way as to fulfill the long run interests of the firm keeping internal conditions and external environment in mind.

12. **Ability to Pay**: Pricing decisions are sometimes taken on the basis of the ability to pay of the customers, i.e., higher price can be charged to those who can afford to pay. Such a policy is generally followed by those people who supply different types of services to their customers.

13. **Ethical Pricing:** Basically, pricing policy should be based on certain ethical principles. Business without ethics is a sin. While setting the prices, some moral standards are to be followed. Although profit is one of the most important objectives, a firm cannot earn it in a moral vacuum. Instead of squeezing customer, a firm has to charge moderate prices for its products. The pricing policy has to secure reasonable amount of profits to a firm to preserve the interests of the community and promote its welfare.

12.5 Channels of Distribution

Channel of distribution are mainly concerned with the physical distribution of goods and services. It is the pipeline through which products move from producer to consumer. It consists of all the middlemen who participate in the distribution of goods and services. Every small scale entrepreneur requires a channel that can distribute his products to the right customers at right place at the right time and at the right cost.

Kinds of Channels of Distribution

Depending on the number of middlemen involved, channels of distribution may be categorized. A channel symbolizes the path for movement of title, possession and payment for goods and services. Channels of distribution may be classified as follows:

(i) Manufacturer – Customer – Channel (Direct Sale) : This is a shortest and simplest channel a product can follow to the market. A producer may sell directly through his retail stores (e.g. Bata), through mail or through door to door selling. But a small scale manufacturer rarely uses this channel as it requires investment and expertise for direct selling. Hence this channel is not popular for a wider market. This is more common in the distribution of industrial goods like heavy machinery, industrial chemicals etc.

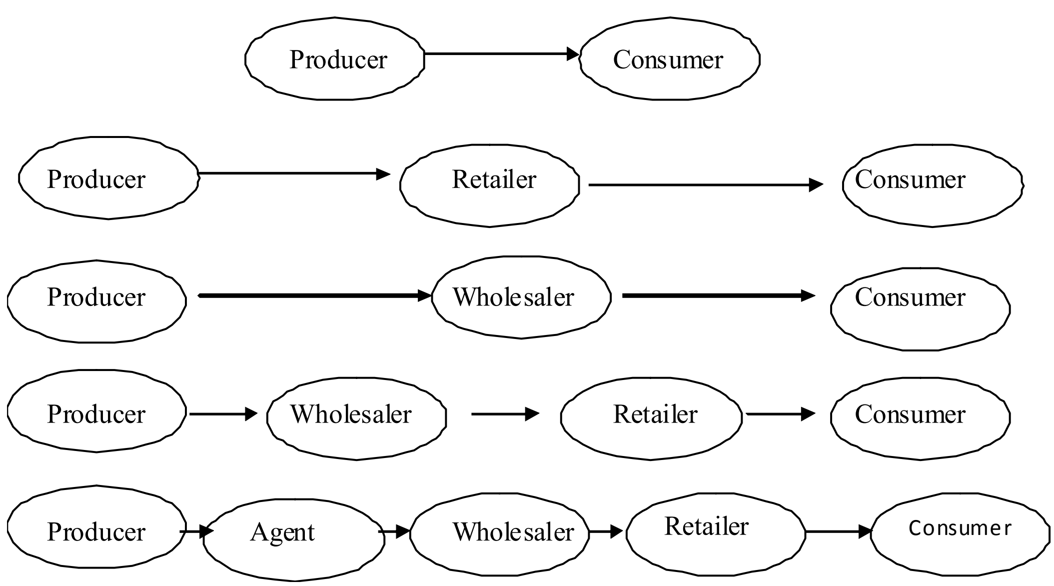

Figure 12.7 : Channels of Distribution

(ii) **Manufacturer – Retailer – Customer:** This channel option is preferable when buyers are large retailers, e.g. a department store, discount house or cooperative stores. This channel is very popular in the distribution of consumer durables like, TV sets, Washing Machines, Mobiles etc. The wholesaler can be by passed in this trade route. It is also suitable when products are perishable and speed in distribution is essential. However, the manufacturer has to perform functions of a wholesaler such as storage, insurance and transport.

(iii) **Producer – Wholesaler – Consumer:** Wholesaler may by – pass retailer when there are large and institutional buyers e.g., business buyers, government, consumer cooperatives, educational institutions etc.

(iv) **Producer – Wholesaler – Retailer – Consumer:** This is a normal, regular and popular channel option used in groceries, drugs, cosmetics etc. It is quite suitable for small scale producers under the given conditions: (a) He has a narrow product line. (b) He has limited finance. (c) Wholesalers are specialized and can provide strong promotional support. (d) Products are durable and not subject to physical deterioration or fashion change.

(v) **Producer – Agent – Wholesaler – Retailer – Consumers**: In this channel the producer uses the service of an agent middleman such as a sole selling agent, for the initial dispersion of goods. The agent may distribute to wholesalers, who in turn sell to retailers. Agent middlemen generally operate at wholesale level. They are common in agricultural marketing.

Choice of Channel of Distribution:

Selection of distribution channel is a difficult decision. Channels decisions also require special attention as these involve long term commitments to other firms with whom marketer enters into a contract, chosen channel cannot be terminated overnight. While choosing a distribution channel, the producer should compare the costs, sales volume and profit expected from alternative channels of distribution. A small scale manufacturer has to consider a number of factors for selection of right channel for distribution. The following are the factors:

1. **Product:** (a) If a commodity is perishable of fragile, a producer prefers few and controlled levels of distribution. (b) For durable goods longer and diversified channel may be necessary. (c) When product is technically complex dependable installation and maintenance services are required. Therefore computers and such other products are sold directly. (d) Standardized and highly branded products like tooth paste soap, detergents etc. can better be sold through a long channel.

2. **Nature of Market:** (a) For consumer market, retailer is essential, whereas in business market we can eliminate retailer. (b) If the market size is large, we have many channels, whereas in a small market direct selling may be profitable. In case of mass market and geographically scattered customers, a longer channel becomes necessary. Customers' requirements for credit, home delivery, etc. also influence choice of channel of distribution.

3. **Middlemen :-** (a) Middlemen who can provide wanted marketing services will be given first preference (b) The selected middlemen must offer maximum co-operation particularly in promotional services (c) Legal restrictions are important. For example liquor and drugs are to be marketed through licensed shops only.

4. **Competitors:** Marketers closely watch the channels used by rivals. Sometimes marketers deliberately avoid customary channels which are dominated by rivals and adopt different channel strategy.

5. **Nature of firm:** Direct selling is possible only when the manufacturing is financially strong and possesses marketing expertise. For a single product firm, direct selling is not economical. Distribution policy of the firm also influences the choice of distribution channel.

12.6 Advertising

Advertising can be defined as communicating with target audiences through paid, non-personal messages, usually placed in a mass medium. Advertising is the easiest but absolutely, more expensive alternative for marketing communications. That is, the initial outlay for an advertising campaign may be the most expensive option for promotion. However, advertising may possibly provide the lowest 'cost per contact.' Advertising is the promotion of a company's products and services carried out primarily to drive up sales of the products and services. It is also done to build a brand identity and communicate changes in old products or introduce new product/services to the customers.

Advertising has become an essential element of small scale industries and hence SSI's allot a considerable amount of resources towards their advertising budget. There are several reasons for advertising, some of which are as follows:

- Increasing the sales of the product/service.
- Creating and maintaining a brand identity or brand image.
- Communicating a change in the existing product line.
- Introduction of a new product or service.
- Increasing the buzz-value of the brand or the company.

The Main Features of Advertising are as Under:

1. It is directed towards increasing the sales of business.
2. Advertising is a paid form of publicity
3. It is non-personal. They are directed at a mass audience and nor at the individual as is in the case of personal selling.
4. Advertisement is identifiable with their sponsor of originator which is not always the case with publicity or propaganda.

Functions of Advertising

The purpose of advertising is nothing but to sell something -a product, a service or an idea. The real objective of advertising is effective communication between producers and consumers. The following are the main functions of advertising:

1. **Preparing Ground for New Product:** New product needs introduction because potential customers have never used such product earlier and the advertisement prepares a ground for that new product.
2. **Creation of Demand:** The main objective of the advertisement is to create a favorable climate for maintaining of improving sales. Customers are to be reminded about the product and the brand. It may induce new customers to buy the product by informing them its qualities since it is possible that some of the customers may change their brands.
3. **Facing the Competition:** Another important objective of the advertisement is to face to competition. Under competitive conditions, advertisement helps to build up brand image and brand loyalty and when customers have developed brand loyalty, becomes difficult for the middlemen to change it.

4. **Creating or Enhancing Goodwill:** Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company. This, in turn, increases the market receptiveness of the company's product and helps the salesmen to win customers easily.

5. **Informing the Changes to the Customers:** Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc., they must be informed to the public by the producer through advertisement.

6. **Neutralizing Competitor's Advertising:** Advertising is unavoidable to complete with or neutralize competitor's advertising. When competitors are adopting intensive advertising as their promotional strategy, it is reasonable to follow similar practices to neutralize their effects. In such cases, it is essential for the manufacturer to create a different image of his product.

7. **Barring New Entrants:** From the advertiser's point of view, a strongly built image through long advertising helps to keep new entrants away. The advertisement builds up a certain monopoly are for the product in which new entrants find it difficult to enter.

In short, advertising aims at benefiting the producer, educating the consumer and supplementing the salesmen. Above all it is a link between the producer and the consumer.

Importance of Adverting

Advertising broadens the knowledge of the consumers. With the aid of advertising, consumers find and buy necessary products without much waste of time. This speeds up the sales of commodities, increases the efficiency of labour in distribution, and diminishes the costs of selling. The main benefits of advertising may be narrated as follows:

1. Benefits to Manufacturers:

1. It increases sales volume by creating attraction towards the product.
2. It helps easy introduction of new products into the markets by the same manufacturer.
3. It helps to create an image and reputation not only of the products but also of the producer or advertiser. In this way, it creates goodwill for the manufacturer.
4. Retail price, maintenance is also possible by advertising where price appeal is the promotional strategy.
5. It helps to establish a direct contact between manufacturers and consumers.
6. It leads to smoothen the demand of the product. It saves the product from seasonal fluctuations by discovering new and new usage of the product.
7. It creates a highly responsive market and thereby quickens the turnover that results in lower inventory.
8. Selling cost per unit is reduced because of increased sale volume. Consequently, product overheads are also reduced due to mass production and sale.
9. Advertising gives the employees a feeling of pride in their jobs and to be in the service of such a concern of repute. It, thus inspires the executives and worker to improve their efficiency.
10. Advertising is necessary to meet the competition in the market and to survive.

2. Benefits to Wholesalers and Retailers:

1. It increases the rate of the turn-over of the stock because demand is already created by advertisement.
2. It supplements the selling activities.

3. The reputation created is shared by the wholesalers and retailers alike because they need not spend anything for the advertising of already a well advertised product.
4. It ensures more economical selling because selling overheads are reduced.
5. It enables them to have product information.

3. Benefits to Consumers:

1. Advertising stresses quality and very often prices. This forms an indirect guarantee to the consumers of the quality and price. Further large scale production assumed by advertising enables the seller to seller product at a lower cost.
2. Advertising helps in eliminating the middlemen by establishing direct contacts between producers and consumers. It results in cheaper goods.
3. It helps them to know where and when the products are available. This reduces their shopping time.
4. It provides an opportunity to the customers to compare the merits and demerits of various substitute products.
5. This is perhaps the only medium through which consumers could know the varied and new uses of the product.
6. Modern advertisements are highly informative.

4. Benefits to Salesmen:

Salesmanship is incomplete without advertising. Advertising serves as the forerunner of a salesman in the distribution of goods. Sales is benefited the advertisement in following ways:

1. Introducing the product becomes quite easy and convenient because manufacturer has already advertised the goods informing the consumers about the product and its quality.
2. Advertising prepares necessary ground for a salesman to begin his work effectively. Hence sales efforts are reduced.
3. The contact established with the customer by a salesman is made permanent through effective advertising because a customer is assumed of the quality and price of the product.
4. The salesman can weigh the effectiveness of advertising when he makes direct contact with the consumers.

5. Benefits to Community or Society:

1. Advertising, in general, is educative in nature. In the words of the late President Roosevelt of the U.S.A., "Advertising brings to the greatest number of people actual knowledge concerning useful things: it is essentially a form of education and the progress of civilization depends on education."
2. Advertising leads to a large-scale production creating more employment opportunities to the public in various jobs directly or indirectly.
3. It initiates a process of creating more wants and their satisfaction higher standard of living. For example, advertising has made more popular and universal the uses of such inventions as the automobiles, radios, and various household appliances.
4. Newspapers would not have become so popular and so cheap if there had been no advertisements. The cheap production of newspapers is possible only through the publication of advertisements in them. It sustains the press.
5. It assures employment opportunities for the professional men and artist.

6. Advertising does provide a glimpse of a country's way of life. It is, in fact, a running commentary on the way of living and the behaviour of the people and is also an indicator of some of the future in this regard.

Types of advertising:

There exist various media which can be effectively used for advertising. Mentioned below are the various categories or types of advertising:

1. Print Advertising - Newspapers, Magazines, Brochures, and Fliers: Print media has always been a popular advertising option. Advertising products via newspapers or magazines is a common practice. In addition to this, the print media also offers options like promotional brochures and fliers for advertising purposes. Often, newspapers and magazines sell the advertising space according to the area occupied by the advertisement, the position of the advertisement in the publication (front page/middle page, above/below the fold), as well as the readership of the publications. For instance, an advertisement in a relatively new and less popular newspaper will cost far less than an advertisement in an established newspaper that has a high readership. The price of print ads may also depend on quality of the paper and the supplement in which they appear. For example, an advertisement in the glossy (and popular) supplement of a newspaper costs more than one in a supplement which uses mediocre quality paper.

2. Broadcast Advertising - Television, Radio and the Internet: Broadcast advertising is a very popular advertising medium that constitutes several branches like television, radio or the Internet. Television advertisements have been very popular ever since they were introduced. The cost of television advertising often depends on the duration of the advertisement, the time of broadcast (prime time/lull time), sometimes the show on which it will be broadcast, and of course, the popularity of the television channel itself. The radio might have lost its charm owing to new age media. However it remains the choice of small-scale advertisers. Radio jingles have been very a popular advertising medium and have a large impact on the audience, which is evident in the fact that many people still remember and enjoy old popular radio jingles.

3. Outdoor Advertising - Billboards, Trade-shows and Events: Outdoor advertising is also a very popular form of advertising. It makes use of several tools and techniques to attract the customers outdoors. The most common examples of outdoor advertising are billboards, kiosks, and also events and trade-shows organized by the company. Billboard advertising is very popular. However it has to be really terse and catchy in order to grab the attention of the passersby. Kiosks not only provide an easy outlet for the company's products but also make for an effective advertising tool to promote the company's products. Organizing special events or sponsoring them makes for an excellent advertising opportunity and strategy. The company can organize trade fairs, or even exhibitions for advertising their products. If not this, the company can organize several events that are closely associated with their field. For instance a company that manufactures sports utilities can sponsor a sports tournament to advertise its products.

4. Public Service Advertising - Advertising for Social Causes: Public service advertising is a technique that makes use of advertising as an effective communication medium to convey socially relevant messages about important matters and social causes like AIDS, energy conservation, political integrity, deforestation, illiteracy, and poverty and so on.

12.7 Communication Strategy

The term communication, in the context of MSMEs involves essentially two things: a) intra- entrepreneur or intra- firm communication; and b) communication of the entrepreneur or the firm with the outside world, ie, with the society and with the Government. This integrated meaning of the term need to be operationalised with the help of relevant tools and techniques, which can inspire growth and sustenance of enterprises.

Importance of Communication in Business:

The purpose of communication is to effect change, to influence action towards the welfare of the enterprise. Communication is essential because, it integrates the managerial function. Every aspect of manager's job may it be planning, organizing, staffing, directing and controlling involves communication.

Business persons share their business information with employees, suppliers, customers, distributers, Government, banks, insurance companies, etc. This sharing of information regarding business activities and their results is known as business communication. Business communication plays a very important role in the success of any business enterprise. The importance of communication in business is discussed below.

1. Provide Information: Business communication helps in providing information to the customers regarding the products and services of the business organization.

2. Quick Decision Making: Effective communication facilitates quick-decision making. In today's world of competition, quick-decisions are necessary. Proper Communication saves times, reduces wastage and cost and induces prompt action.

3. Effectively Managing Business Affairs: Proper communication helps businesspersons in managing the affairs of the business more efficiently. If the right type of information is made available at the right time through proper communication then the management can utilize it in the best possible manner.

4. Handling Grievances: In any organization where communication is proper, employees are motivated to work more because their complaints, suggestions and grievances are taken care of properly.

5. Improved Offerings of Business: In every field, technology is continuously changing. Proper communication places a business person in a better position to improve his products, relationship with employers, customers and others.

6. Achieving Objectives and Implementing Policies: Management of an organization is effective only when its communication machinery is effective. The very existence of management depends upon an effective machinery of communication. Effective communication machinery is important because it communicates, and helps in implementing, the policies and objectives of the organization on the one hand, and also helps in understanding the nature and behaviour of the people at work.

7. Sharing of Views between Management and Subordinates: Management communication is a two-way process. It means that the management must allow both the parties i.e., the management and the subordinates to convey their feelings, ideas, opinions, facts, grievances etc. to the other party. Communication is said to be a continuous process of exchange of views and ideas, but it should be both ways - downward and upward.

The communication machinery or process should not only provide the manager with a privilege of communicating orders and directions to the workers to get the work done towards the achievement of organizational objectives. This two-way traffic is advantageous to both the management and the workers. Managers, very often, like that the subordinates must listen to them and follow their orders and directions whatsoever. On the other hand, managers are not prepared to listen to their subordinates regarding what they think about them and of their suggestions, ideas or directions. They are not bothered about their subordinates' likes and dislikes and how they can contribute to the organizational objectives. Management, in this way, cannot be effective. Without giving subordinates an opportunity to be heard, their feelings will remain suppressed and they may breakdown at any time.

8. Correct Interpretation of Messages: A message can be interpreted by the recipient according to the image of the communicator in the mind of the recipient. If the image is bad, the version of the message may be distorted and interpreted differently. The bad image can be erased through proper communication from the other side, which is possible only when there is two-way communication in the organization.

9. Morale of Organizational Members: Thus, creation of organizational systems allowing two-way traffic will improve the morale of the workers on the one hand because they think that they have a say in the management, and will improve the working of the organization on the other hand, because management-worker relations develop in a cordial atmosphere. Thus, two-way communication is necessary for effective management.The Brand influences the market and puts the impact on the:

- Customers
- Sales
- Marketing
- Customer Service
- Delivery People and Distributors
- Workers
- Receptionist
- Product Performance
- Competitors

The product has to be differentiated to sell the product in the market to build branding, quality, innovation, style and image. The creativity and better ideas in the market help the organizations to work by reducing rivalry, substitutes & buyer power. The objective is to build the segmentation and serve a small segment with the unique features and specialization. The right mix of marketing and sales support elements include the:

- Shared advertising
- Public relations
- Networking
- Train.
- Promotion

The marketing management has to build the persuasive communication designed to inform consumers about the product or service and influence them to purchase these goods or services. This could be through with

- Direct selling

- mail, internet
- sales representatives
- Promotions
- Advertising
- Public relations
- Marketing communications
- Networking
- Marketing communications
- Web Sites
- Blogs
- Newsletters
- Brochures
- Catalogs
- Press Releases

Figure 12.8 Communication with the Customers

12.7.1 Impact of Information & Communication Technologies

The basic impacts of ICT's are

- It is considered the motor of globalization
- Enables an unprecedented exchange of information
- Leads to a new era of communication
- Decrease transaction cost
- Open new communication channels
- Alter the way business is done
- Alter market balances
- Cuts cost through the Email / Fax / Letter
- Quality & Quantity of Information increases through the www. phenomenon
- Enables the SME's to participate in global value chains & international joint development

Global Competition Brings Many Opportunities Of

- Wider Market Access
- Technological innovations
- Skill up gradation
- Wider exposure to the opportunities

12.7.2 The Strategy to Develop the Successful Business Model

The strategy to build the successful business model must be able to imbibe the identity and personality of the brand to give higher value to the customer. The structure of the strategy needs to activate the brand experience and build successful business model for the development of profitable markets. The ultimate profitability depends on returns to the firm on the money invested. The brand architecture can include emotional benefits, functional benefits, physical benefits, product attributes, occasion appropriateness anda variety of other intangibles

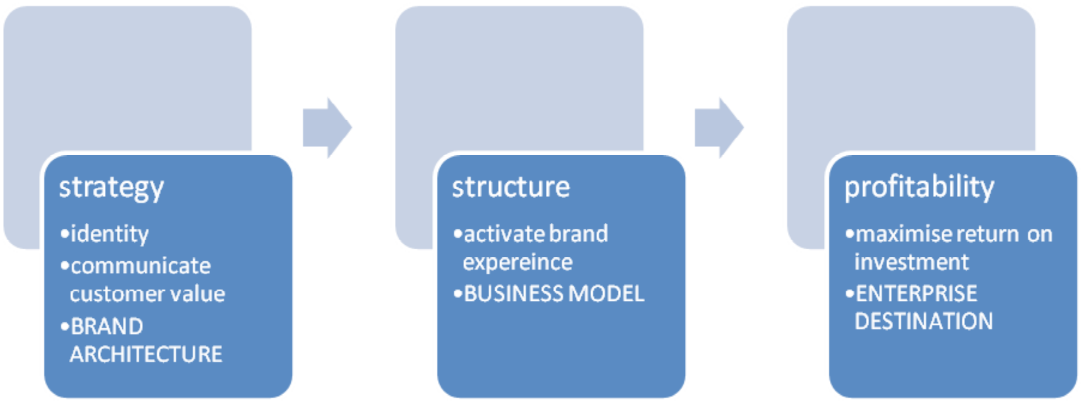

Figure 12.10 : The Successful Business Model for the Firms

MSME's are the backbone of any economy. They are the pulse of the business system. The health of any society is reflected by the quality of services provided by the industries in a particular economy. The impact of technology has given the birth to the innovative marketing practices for the development of better services which are fair, transparent and ethical for theenhanced customer satisfaction. The businesses are operating in a global economy and the activities of the business are moving at a nanosecond pace. The markets are impacted by the cut -throat competition where there are many players. The services providers have to provide personalized and customized services with the quality practices. The new economy is based on the digital revolution. The management of information can be infinitely differentiated, customized, and personalized. It can be dispatched to a great number of people who are on a network and it can reach them with great speed. The quality of information is important to give the detailed insight of the firm's products and services. The innovative marketing strategy relies upon marketing research to define market segments, their size and their needs.

12.8 Innovative Marketing Management for MSME's

The local areas are the pool of customers who can be loyal, if the small firms provide valuable services which are intangible and their design and production require the combination of many variables of human technical expertise. The human emotional involvement with the trust and loyalty are the basis for the growth of the market .The customer satisfaction can be increased by providing the innovative service related to the;

1. **Increase the Effectiveness of Marketing Management:** The changing nature and effectiveness of marketing and advertising can increase if the sourcing of the raw materials is done from the right suppliers at low cost to pass the cost advantage to the customers. The speed of technological change is impacting the delivery of higher levels of services given to the customers and this can enhance the connectivity and satisfaction. The transparency of product and price information is essential to reflect the management skills and capabilities to influence the customer satisfaction.

2. **Innovative Solutions for Enhancing the Customer Knowledge:** The firms need to invest in building the solutions for enhancing the customer knowledge by building effective marketing decisions. The firms need to recognize more profitable customers and make them loyal and happy. The special and customized services can enhance the trusted relationship. They should experiment with more targeted forms of advertising such as e-mail, newsletter and direct mail pieces. The customer participation and loyalty can be created by the participation in the community services.

3. **Building the Creative Public Relations:** The strategic use of public relations can help the MSME's to tell the broader and more detailed story of the business to the customers. The creation of promotional events can help the firms to portray the personality of their businesses to the customers.

4. **Building the Distribution Channel:** The small firms should join a buying group to access larger variety of latest raw material products toget the knowledge of latest trends of the market. They should establish the relations with the share groups and invest in attending more trade shows. They should work to establish an "anchor" brand that will signal and add credibility.

5. **Using Websites for Building Communication:** The use of websites is essential in today's modern era as the customers are connected to the world through the computers and the internet. The information through the websites can be helpful to give the updates of the products and promotions to attract the customers. This will build the image, value proposition and differentiation.

6. **Institutionalize the Training Programs in the Firms:** The firms should institute formal training programs for creating innovative services and products. The management and the owners have to communicate more effectively with employees. The management should consider new ways to conduct team building exercises and motivational programs.

7. **The Transparency of Price and Product Information:** The consumers have more knowledge and power due to the ease of getting information instantly from the Internet. The competition is not global but it is at the click of mouse. This creates the pressure for the firms to give the competitive prices to the customers.

8. **Developing a Modernize Transport Infrastructure:** The development of roads and railways is essential to build the transportation and exchange of goods and services. The infrastructure development is necessary to promote the connectivity between the suppliers, manufactures and customers.

12.9 Summary

The marketing management of the MSME's relates to the development of distribution channels to reach to the customers. The customer is the basis of the business, so the organizations need to design the marketing strategy to give the value to the customers. The basic advantage relates to the development of marketing mix related to the product, price, place and promotion to give the competitive edge to the products. The value of the products can be enhanced by emphasizing the product quality and product design. The challenges of the market are immense where the real value can be crystallized by focusing on the promotion and the building the brand for the products. The presence of the products in the market can be built by communicating to the customers through the media and the public forums. The government should develop the accurate policy framework to build the favorable climate to promote the development of MSME's so as to build the economic fabric of the country.

12.10 Self Assessment Test

1. Give the classification of the small scale industries in India
2. Wart is the various agencies supporting the MSME's in India
3. What is the need for the growth of MSME'S?
4. Give the definition of man-eating management
5. Explain the concept of organization
6. Define the term suppliers
7. What are the basic advantages of MSME'S?
8. Advantages of the MSME's
9. Explain the impacts of Information & Communication Technologies on MSME's
10. What are the various roadblocks for SME's development?
11. What are the various opportunities offered by the global markets?
12 What are the basic impacts of MSME's on the economy
13 What are the impacts of information technology on the MSME's
14. Whir are the resources needed to develop the MSME's in India
15. What are the challenges faced by the MSME's in India
16. Why it is necessary to develop the infrastructure for the promotion of SSI in India

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Unit - 13 : Organisational Management of MSME

Unit Structure:

13.0 Objectives
13.1 Introduction
13.2 HR Issues in MSME
13.3 Training for Employers and Employees
13.4 Leading and Motivating in MSME
13.5 Clusters in India
13.6 Summary
13.7 Key Words
13.8 Self Assessment Test
13.9 References

13.0 Objectives

After completing the unit, you should be able to :

- Discuss the overall organization management of MSME's
- Understand the organization structure of MSME
- Come across the HR issues in MSME
- Understand the communication and customer relationship management in MSME.
- Know the training mechanism is MSME.

13.1 Introduction

A micro enterprise is an enterprise where investment in plant and machinery's original cost excluding land and building and the items specified by the Ministry of Small Scale Industries does not exceed Rs. 25 lakh A small enterprise is an enterprise where the investment in plant and machinery's original cost excluding land and building and the items specified by the Ministry of Small Scale Industries is more than Rs.25 lakh but does not exceed Rs.5 crores. A medium enterprise is an enterprise where the investment in plant and machinery's (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries is more than Rs.5 crores but does not exceed Rs.10 crores.

The definition of MSMEs under the services sector is as follows:

1) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakh.

2) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crores.

3) A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crores but does not exceed Rs.5 crores.

The Indian Micro and Small Enterprises (MSMEs) sector plays a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 40% of the total export of the country. Further, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. This sector employs an estimated 42 million persons producing 8000 quality products spread over 12.8 million enterprises and the labour intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors.

Despite its commendable contribution to the Nation's economy, SME Sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which is a handicap in becoming more competitive in the National and International Markets. SMEs faces a number of problems - absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, identification of new markets, constraints on modernization & expansions, non availability of highly skilled labour at affordable cost, follow up with various government agencies to resolve problems etc.

Organizational structure properly determines the hierarchy within an organization. In other words, who reports to whom? Also referred as the organizational chart. Types of organizational structure for MSME comprise:

1. Functional Structure

The functional structure groups workers together based ahead the functions of specific jobs within the organization. A typical functional structure may include:

- Vice President
- Sales Department
- Customer Service Department
- Engineering Department
- Accounting Department
- Administration Department

2. Divisional Structure

The divisional structure is wrecked down into three areas: product, market, and geographic.

(1) Product Structure: Product structure groups workers together based upon specific goods produced by the company. An example of this would be a company that produces three different products, "product a", "product b", and "product c". This company would have a separate division for each product.

(2) Market Structure: Market structure groups workers together based upon specific markets in which the corporation sells.

(3) Geographic Structure: Geographic structure groups employees together based upon specific geographic location.

3. Matrix Structure

Matrix structure groups workers by both purpose and product. This structure can combine the best of both separate structures. An example would be a corporation that produces two products, "product a" and "product b". Using the matrix structure, this corporation would organize functions within the company as follows: "product a" sales department, "product a" customer service department, "product a" accounting, "product b" sales department, "product b" customer service department, "product b" accounting department.

13.2 HR Issues in MSME

MSME Sector has the second largest share of employment after agriculture. As per fourth all India Census of MSME, the Sector is providing employment to 6 Crores persons through 2.6 Crores enterprises. The Sector mainly provides livelihood to the weaker section of the society with women and members of minority communities and marginalized sections of the society constituting more than half of those employed in this sector. Large numbers of Khadi Industries, Village & Coir industries, Handlooms and Handicraft industries, Sericulture, Wool industry, Power loom industry, Food processing industry and Rural industry segments helps to check migration of labour from rural to urban areas by gainfully employing people in villages.

Key issues related to Human Resources in MSME are:-

1) Availability of Manpower and their Skill Development

MSME employs Unskilled, Semi Skilled and Skilled Manpower Availability of skilled manpower has been a regular problem in MSMEs mainly because the competent manpower either is not available or if it is available it is reluctant to join MSMEs. MSMEs, therefore have to train the

Unskilled or Semiskilled manpower as per their requirements. The lower grade people coming out of the schools/professional institutions only joins MSMEs. The MSME sector therefore is facing the shortage of competent or employable manpower.

2) Labour Flexibility

- MSME organizations have to maintain a balance between employee surplus and employee shortage for such purpose following issues are need to be considered. Legalise the agencies to supply Labour on Contract for whatever period the industry needs. May be, the industry will be required to pay little extra money to hire such labour but industry will be able to afford this and the workers interest will also be adequately protected
- The workers may be trained in Multi skills so that they are able to adjust as per the demand of the industry and will have better chance to be engaged permanently through the agency or within the organisation. Govt. may provide incentives for multi skill trainings to the agencies/industry.

3) Productive and Co-operative Partnership Between Workers and the Management

In MSME sector due to the nearness of the owner and the workers, the bonding is more strong and workers & Management live like a family. The concept of Quality circles will further ensure meaningful participation of the workers in the enterprise management. Govt however is required to provide experts help to MSME to institutionalize the Quality Circles.

13.3 Training for Employers and Employees

Basic Training is Required for Setting up an Enterprise

Basic training differs from product to product but will necessary involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions. One can acquire entrepreneurial skills by under going Entrepreneurial Development Programme and Management Development programme.

These are short-term courses of 2 week's to 4 week's duration. Short term technical training courses are conducted by SISIs and other technical institutions, which vary from 3 to 6 months of duration depending on nature of training. In addition, short-term training programmes for managers & supervisors are also conducted by MSME's to upgrade their knowledge and skills.

Agencies Providing Such Training

There are a number of Government organisations as well as NGOs who conduct EDPs and MDPs. These EDPs and MDPs and are conducted by MSME's, NIESBUD, NSIC, IIE, NISIET, Entrepreneurship Development Institutes and other state government developmental agencies providing training for MSME.

SISIs, Management Development Institute's, NPC, NSIC etc. offer Management Development Programmes for acquiring knowledge about the different aspects of the management required for an operation of industry. Short-term courses of two to four weeks are available on Production Management, Marketing Management, Financial Management, Export Management, Export Procedure & Documentation, Packaging for Exports, Cost Reduction, Material Management etc.

Type of Training Available for Different Categories of Entrepreneurs

Need based training courses are available for different categories of entrepreneurs. For example, Central Footwear Training Institute's provide training for footwear. Tool Room and Tool Design Institutes provide training in Engineering Industry. Likewise other technical training is provided by various institutions of centre and state govt.

Criteria for Imparting Training

An entrepreneur desirous of setting up of enterprises or his representative is preferred for attending these training programmes which are offered on a nominal fee. However, there is no fee charged for imparting training for the entrepreneurs of NE region. Moreover, preference is accorded to weaker sections such as SC/ST, Women, Ex-servicemen. and Physically handicapped persons.

Training for Installation and Commissioning of Equipment

Normally the suppliers of machinery & equipment provide on the spot training as well as facilities on the spot for installation and commissioning of equipment. However, SISIs also assist the entrepreneurs for installation and commissioning of machinery equipment at their premises.

Training for Skill Upgradation

Skill development/upgradation courses are offered by SISIs, NSIC, PPDCs etc. in different disciplines to skilled workers engaged in the micro, small and medium enterprises with a view to equip them with better and improved technologies of production.

Consultancy for Development or Setting up of Project

SISIs, DICs and State industrial development corporations can provide consultancy for development or setting up of project. Suitable technologies are also offered by CSIR Laboratories, PPDC's, NRDCs, R&D institutions also offer consultancy at nominal charges. The consultancy provided by these institutions includes identification of suitable product, market, technologies, Raw Materials, production method, regulatory requirement etc. In fact any problem can be addressed by these institutions for setting up or running of the enterprise. SISIs, DIC, CSIR Laboratories, PPDC's, NRDC, R&D institutions etc. provide information on plant and machinery, raw materials and other equipments.

Tackling Pollution Control Needs of the Project

In case product is covered under the list of the polluting industries as defined by the state government, it will be necessary to get specific clearance from the state Pollution Control Board/Committees. Pollution control equipments/measures will have to be installed by the enterprise as per need. Such polluting enterprises can only be set up in the designated industrial areas or locations and may have to link up with the common affluent treatment facility, if available in the area.

National Entrepreneurship Development Institutes

- National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA
- National Institute of Micro, Small and Medium Enterprises (NIMSME), Hyderabad
  (Formerly National Institute of Small Industry Extension Training (NISIET))
- Indian Institute of Entrepreneurship (IIE), Guwahati
- National Small Industries Corporation
- MSME Development Institutes
- Tool Rooms
- Central Footwear Training Centres, Agra & Chennai
- Fragrance and Flavour Development Centre, Kannauj
- Process-cum-Product Development Centre, Agra
- Electronics Service & Training Centre, Ram Nagar
- Institute for Design of Electrical Measuring Instruments, Mumbai

13.4 Leading and Motivating in MSME

In any business, leadership is important, but the form which it takes depends interestingly on a firm's stage of growth. For small and medium-sized enterprises (MSMEs) this involves playing an active role in the management of the company and to establish a vision in order for the employees to know where they are heading. 'Large companies, have managers that are much less involved in the day-to-day managing of the company; theirs is much more a leadership role, establishing the goals that the company wishes to reach, and determining the strategy to be followed in order to achieve them.'

And SMEs occupy a middle position between the two extremes, where leaders need to manage the company actively and set directions for the firm. This is certainly not an easy task and, indeed, it is a relatively well-known phenomenon that not all start-up entrepreneurs have the inclination and skills necessary to manage their creation once it grows beyond the start-up stage. Many of these entrepreneurs have difficulty accepting that they cannot possibly always be involved in 100 per cent of the company's activities, and neither do they greatly relish the fact that as the company grows, people issues occupy more and more of their time.

For this reason, the transition between start-up and SME is a difficult hurdle that not all entrepreneurs successfully negotiate. Realizing this, some entrepreneurs hire a 'professional CEO' to take charge of their company, while they start up another company - a phenomenon which is now known as 'the serial entrepreneur'. Others, if they have venture capital funding, may find themselves removed from the top spot in what is usually a painful process. Some, lacking the leadership skills that become more and more necessary as a company grows, find that their company stagnates at the same level for years. A few manage to make the transition successfully.

13.4.1 Behavioural Pattern of Effective Leader:

Effective leaders exhibit certain behaviors discussed as below.

- For their employees, entrepreneur should **create a set of values and beliefs** on which they founded their companies and its vision is based on such values, and ensure that employees follow the same.
- Entrepreneurs not only define but constantly **reinforce the vision** of the firm and concentrate on communicating the firm's vision to every employee.
- Entrepreneur need to **respect and support** their employees not only to get respect but to get their employees to be dedicated to work and make the employees as most valuable resource.
- Entrepreneur should **become role model** through setting the example for their employees by transmitting set of values and principles and demonstrate the importance of integrity for leader's effectiveness.
- Entrepreneur should **create a climate of trust** in the organization by demonstrating integrity; open communication and following a consistent pattern of behavior so that company can tackle the problem when encountered with a crisis.
- Entrepreneur should **convince employees to follow a path** so that **employees** efforts directed towards achieving challenging goals and keep employees driving toward those goals.
- Entrepreneur should **provide the resources** employees need to achieve their goals by not only providing the physical resources but also the necessary intangible resources such as training, coaching, and mentoring.
- Entrepreneur should **ensure effective communicate** with their employees and encourage employees for their feedback by becoming effective listener and promoting open communication.
- Entrepreneur should **value the diversity of their workers** by channelizing workers' varied skills, abilities, backgrounds, and interests in the right direction of adapting innovation and maintaining a competitive edge.
- Entrepreneur should **give recognition to their workers' successes** by celebrating and rewarding winners' performance and do everything that encourages employees towards top performance.
- Entrepreneur should **encourage creativity** among their workers by expressing his/her willingness to accept failure as a natural part of innovation and creativity and considering it as a key to future success.
- Entrepreneur should **maintain a sense of humor** to make the work interesting and exciting for everyone in the organization.

- Entrepreneur should **create motivating work climate** by providing the training and the freedom to their employees to achieve the predetermined goals and maximum performance.
- Entrepreneur should **adapt change agent** when change is needed by making sure that with the change company should be willing to change their policies, procedures, and processes within their businesses so that company moves in the right direction.
- Entrepreneur should **keep their eyes on the prospect** of business by remaining proactive and never expressing their satisfaction with present achievements and by focusing on building and maintaining sufficient momentum to carry their companies to the next benchmarks.

Entrepreneur must clearly **envisage the future** of the business in the light of uncertainties and the challenges by sharing repeatedly and forcefully vision for the firm with employees. To be effective, a small business leader must perform few vital tasks such as hire the right employees and constantly improve their skills; build an organizational culture and structure that allow both workers and the company to reach their potential; motivate workers to higher levels of performance and develop a management succession plan for a smooth transition of leadership to the next generation of leadership. Leading an organization, whatever its size, is one of the biggest challenges any manager faces. Yet, for an entrepreneur, leadership success is one of the key determinants of the company's success (Thomas W. Zimmerer (2008).

13.4.2 Leadership Styles:

Entrepreneurs need to adapt a suitable style of leadership. Leadership styles are the patterns of behavior which a leader adopts in influencing the behavior of his followers or subordinates in the organizational context. These patterns emerge in the leader as he begins to respond in the same fashion under similar conditions or he develops habits of actions that become somewhat predictable to those who work with leader. Various researchers have proposed different leadership styles. These styles are either based on behavioral approach or situational approach. Based on behavioural approach various theories of leadership are available in literature which provides idea about models such as Power generation; Leadership as a continuum; Employee-production orientation; Likert's management system; Managerial grid etc. Based on situational approach various theories of leadership are available in literature such as Fiedler's contingency model; Hursey and Blanchard's situational model; Path-goal model etc.

Leadership styles are also broadly classified based on Motivation, Authority and supervision view points. On the basis of motivation leadership style can be positive or negative style. In positive style a leader motivates his followers to work hard by offering them rewards, for example, higher bonus. In negative styles, a leader forces his followers to work hard and punishes them for lower productivity. On the basis of Authority, leadership styles are divided into three types namely autocratic, democratic and laissez-faire or free-rein.

Autocratic leadership style is one in which leader dominates and drives his subordinates through coercion, command and the instilling of fear in his followers. The autocratic leaders tends to make decisions without involving subordinates, spells out work methods, provides workers with very limited knowledge of goals, and sometimes give negative feedback. An autocratic leader alone determines policies, plans and makes decisions. He demands strict obedience. Such leaders love power and love to use it for promoting their own ends. They never like to delegate their power for they fear that they may lose their authority. The merits of autocratic leadership is that, it can increase efficiency, save time, and get quick results under emergency conditions, chain of command and division of work are very clear. The demerits are people are treated machine-like cogs without human dignity, one way communication without feedback and the leader receives little or no input from his sub-ordinates for his decision-making which is dangerous in the current dynamic environment.

Democratic leadership style is the style of leadership also known as participative leadership, in which the entire group is involved in goal setting and achieving it. Democratic leader consults the subordinates on proposed actions and encourages participation from them. Democratic leaders let the group determine work methods, make overall goals known, and use feedback to help subordinates. A democratic leader follows the majority opinion as expressed by his group. Subordinates have considerable freedom of action. The leader shows greater concern for his people's interest, is friendly and helpful to them. He is always ready to defend their subordinates individually and collectively. This type of leadership encourages people to develop and grow, receives information and ideas from his subordinates to make decisions, and boosts the morale of employees. The demerits of this type of leadership are that some leaders may use this style as a way of avoiding responsibility and can take enormous amount of time for making decisions. **Laissez-faire or free-rein style** is the style in which the leaders exercise absolutely no control. Laissez faire leaders use their power very rarely. They give the group complete freedom and depend largely upon subordinates to set their own goals and the means of achieving them. He only provides information, materials and facilities to his subordinates. They see their role as one of aiding the operations of followers by furnishing them with information and acting primarily as a contact with the group's external environment. This type of leadership is employee centered avoid giving feedback to their subordinate. This type of leadership can be disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

13.4.3 Motivation:

A manager gets work done through others. Getting the work done depends mainly on whether a person has been motivated to do it. This can be done by creating in him a sense of responsibility and feeling of special interest in his work. Motivation is the degree of effort an employee exerts to accomplish a task; it shows up as excitement about work. Motivating workers to higher levels of performance is one of the most difficult and challenging tasks facing a small business entrepreneur or business manager. Motivating an employee is to create a need and a desire on the part of employee to better his performance. Motivation concern itself with will to work. It is a behavioural concept by which a manager tries to understand why people behave as they do. Motivation is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals. Performance of an employee depends on two factors, ability to work and willingness to work. Mathematically, Performance = Ability x willingness, and motivation is concerned with enhancing the willingness to work which improves the performance. Non-motivated workers create friction because entrepreneurs are themselves almost always highly motivated achievers.

Aspects of Motivation:

Motivation is an indispensible function of management. A person cannot work like a machine as he has dignity, self-respect, values, sentiments and aspiration apart from economic status. The efficiency of enterprise not only related with sophisticated machines but also upon satisfaction and desire of a person to involve him in work. Motivation encompasses complex aspects of human behavior. Motivation concept has its roots in motives within a person which induce him to behave in a particular manner.

The important aspects or features related with motivation are empowerment, job design, rewards, compensation and feedback.

Empowerment is the process of giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives. Empowerment of employees requires different style of management and builds the business as the people who work bring with them an amazing array of talents, skills, knowledge and abilities. Empowered workers become more successful on the job and at the same time entrepreneur becomes successful. For business empowerment brings benefits includes significant productivity gains, quality improvements, more satisfied customers, improved morale, and increased employee motivation to work.

Empowerment works best when an entrepreneur - is confident enough to give the entire authority and responsibility entrepreneur handle; plays the role of coach and facilitator; recognizes that empowered employees will make mistakes; hires people who can blossom in an empowered environment; trained workers continuously to upgrade their skills; trusts workers to do their jobs; listen workers when they have ideas, solutions, and suggestions; shares information with workers and recognizes workers' contribution.

Job design involves strategies to offer intrinsic rewards and motivation to workers. In an attempt to do the job simplification, manager break the work down into simple and standardized form, which organize the work in a extremely narrow, impersonal, monotonous and boring form that creates little challenges for motivation for workers; provide little opportunity for excitement, enthusiasm or pride in their work, and it leads to indifferent and unmotivated employees. To overcome such boring cycle entrepreneur/managers go for job enlargement, job rotation, job enrichment, flextime, and job sharing strategies. Job enlargement (horizontal job loading) is the type of job design that adds more tasks to a job to broaden its scope with an idea to make job more varied and to allow employees to perform a more complete unit of work. Job rotation involves cross-training of employees so they can move from one job in the company to others, giving them a greater number and variety of tasks to perform. Cross-trained workers are more valuable because they give a company the flexibility to shift workers from low demand jobs to those where they are most needed. Job enrichment (vertical job loading) involves building motivators into a job by increasing the planning, decision-making, organizing, and controlling the functions workers perform. Flextime is an arrangement under which employees work a normal number of hours but have flexibility about when they start and stop work. Job sharing is the work arrangement in which two or more people share a single full-time job.

Rewards and compensation involves what an employee gets from the job itself are intrinsic rewards and the extrinsic rewards offered by entrepreneur/manager to motivate workers. Rewards and compensation must be based on offering incentives that are really important to people. The diversity of today's workforce requires entrepreneurs to be highly flexible and innovative in the compensation and benefits they provide. To attract and retain quality workers, the creative entrepreneurs offer employees a set of benefits designed to appeal to employees' needs and preferences. Beside, wages, salaries and attractive benefits used as a motivator, creative entrepreneurs have started offering intangible incentives such as praise, recognition, feedback, job security, promotions etc.

Feedback to employees is also used as motivator. Business owners must motivate employees for better performance in their job they provide feedback on progress towards targets and cab be a powerful motivator. For each critical element of the organization's performance areas such as quality of product or service, financial performance, status in market, productivity etc., and an entrepreneur should measure specific measures that connect daily operational responsibilities with the company's overall strategic direction. These measures become the benchmarks for measuring employees' performance and company progress (Thomas W. Zimmerer (2008).

13.4.4 What Motivates to Become an Entrepreneur?

When an individual face question of choosing a career he have options available such as to work for someone else, be self-employed in a profession or be an entrepreneur. An entrepreneur is one who initiates and establishes an economic activity and when he takes decision to start he strive for its success. Entrepreneurship is one of the fastest growing disciplines in colleges all over the world and also of increasing interest as career field for graduates. Entrepreneurship is the dream of millions of individuals around the world. There are number of reasons as well as changes occurring in the country which encourage entrepreneurship are given below.

- Growing unemployment in the country.
- Massive industrial sickness.
- Retirement at an early age through Voluntary Retirement Scheme.
- Growing realization is not just the province of a few superstars/business owners.
- Realization that owing one's own business still represents one of the pathways left for the middle and lower classes to build wealth.
- Important aspect is that anyone can become entrepreneur.
- There is no law against starting one's own venture.
- The type of venture to be created is subject to the entrepreneur's vision.
- Entrepreneurship has at least three benefits for society. It fosters (i) Economic Growth (ii) Increases productivity (iii) Creates new technologies, products and services.
- The psychological, social and economic factors also have an influence in becoming an entrepreneur.
- Apart from earning a livelihood and making profit, the entrepreneur is motivated by his/her social standing, gaining social recognition, and to provide something to society.
- The motivational factor varies from place to place, time to time, entrepreneur to entrepreneur.
- The traits and motivation are moulded by the socio, economic, political and psychological environment and varies from country to country.
- Owing a business, investing one's personal capital, making final decisions, all have the thrill of risk and challenge.

13.5 Clusters in India

A cluster is a sector targeted geographical concentration of micro and/ or small & medium enterprises (MSMEs/MSMEs), service providers and institutions faced with common opportunities and threats. In other words, a cluster of MSMEs is a concentration of economic enterprises, producing a typical product/ service or a complementary range of products/services within a geographical area. The location of such enterprises can span over a few villages, a town or a city and its surrounding areas. Thus a cluster of MSMEs, hereafter referred to as "cluster", is identified by the 'product/service' that the micro and small enterprises produce and the 'place' where the enterprises are located. Foundation for MSME Clusters assists institutions in undertaking cluster based local area development, effectively and inclusively in developing and transition economies.

Features of Cluster:

- Give rise to collective benefits, for example through the spontaneous inflow of suppliers of raw materials, components and machinery or the availability of workers with sector specific skills.
- Favour the creation of providers of specialized technical, administrative and financial services.
- Create a conducive environment for the development of inter-firm co-operation as well as of co-operation among public and private institutions to promote local production, innovation and collective learning.

Some Facts about cluster

- Around 636 SME (industrial) and 6000 artisan/micro enterprises clusters are estimated to exist in India.
- The micro and SME clusters in India are estimated to have a significantly high share in employment generation.

13.6 Summary

A micro enterprise is an enterprise where investment in plant and machinery's original cost excluding land and building and the items specified by the Ministry of Small Scale Industries does not exceed Rs. 25 lakh . A small enterprise is an enterprise where the investment in plant and machinery's original cost excluding land and building and the items specified by the Ministry of Small Scale Industries is more than Rs.25 lakh but does not exceed Rs.5 crores. A medium enterprise is an enterprise where the investment in plant and machinery's (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries is more than Rs.5 crores but does not exceed Rs.10 crores the sector accounts for about 39% of the manufacturing output and around 40% of the total export of the country. This sector employs an estimated 42 million persons producing 8000 quality products spread over 12.8 million enterprises and the labour intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises. Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. Types of organizational structure for MSME comprise of Functional structure, Divisional structure, Matrix structure. Financial assistance for MSME is available from institutions such as Nationalised Banks, Small Industries Development Bank of India, Regional Rural Banks, National Small Industries Corporation, State Financial Corporations etc. depending upon the project requirement and promoters background. Basic training differs from product to product but will necessary involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions. One can acquire entrepreneurial skills by under going Entrepreneurial Development Programme and Management Development programme. The manufacturers have to offer goods and services of desired quality at optimum cost. Select the right market/consumers identified at the time of planning the unit. Establish Direct marketing channels or a network of dealers as per requirement of the product based upon initial survey. Highlight strengths of the product.

State	District	Location	Product
Andhra Pradesh	Anantpur	Chitradurg	Jeans Garments
Andhra Pradesh	Chittoor	Nagari	Powerloom
Andhra Pradesh	Chittoor	Ventimalta,Srikalahasti, Chundur	Brass Utensils
Andhra Pradesh	East Godavari	East Godavari	Rice Mills
Andhra Pradesh	East Godavari	Rajahmundry	Graphite Crucibles
Andhra Pradesh	East Godavari	East Godavari	Coir & Coir Products
Andhra Pradesh	East Godavari	Rajahmundry	Aluminium Utensils
Andhra Pradesh	East Godavari & West Godavari	East Godavari(EG) & West Godavari	Refractory Products
Andhra Pradesh	Guntur	Guntur	Powerloom
Andhra Pradesh	Guntur	Guntur	Lime Calcination
Andhra Pradesh	Guntur	Macherla	Wooden Furniture
Andhra Pradesh	Hyderabad	Hyderabad	Ceilling Fan
Andhra Pradesh	Hyderabad	Hyderabad	Electronic Goods
Andhra Pradesh	Hyderabad	Hyderabad	Pharmaceuticals- Bulk Drugs
Andhra Pradesh	Hyderabad	Musheerabad	Leather Tanning
Andhra Pradesh	Hyderabad	Hyderabad	Hand Pumpsets
Andhra Pradesh	Hyderabad	Hyderabad	Foundry
Andhra Pradesh	Karimnagar	Sirsilla	Powerloom
Andhra Pradesh	Krishna	Machilipatnam	Gold Plating & Imitation Jewellery
Andhra Pradesh	Krishna	Vijayawada	Rice Mills
Andhra Pradesh	Krishna	Charminar,Vijayawada	Steel Furniture
Andhra Pradesh	Kurnool	Adoni	Oil Mills
Andhra Pradesh	Kurnool	Kurnool	Artificial Diamonds
Andhra Pradesh	Kurnool, Cuddapah	Kurnool(Banaganapalle, Bethamcheria,Kolimigundla)C	Polished Slabs
Andhra Pradesh	Prakasam	Markapuram	Stone Slate
Andhra Pradesh	Ranga Reddy	Balanagar, Jeedimetla & Kukatpally	Machine Tools
Andhra Pradesh	Srikakulam	Palasa	Cashew Processing
Andhra Pradesh	Visakhapatnam,East Godavari	Visakhapatnam, Kakinada	Marine Foods
Andhra Pradesh	Warangal	Warangal	Powerloom
Andhra Pradesh	Warangal	Warangal	Brassware
Andhra Pradesh	West Godavari	West Godavari	Rice Mills
Bihar	Begusarai	Barauni	Engineering & Fabrication
Bihar	Muzzafarpur	Muzzafarpur	Food Products
Bihar	Patna	Patna	Brass and German Silver Utensils
Chhattisgarh	Durg, Rajnandgaon, Raipur	Durg, Rajnandgaon, Raipur	Steel Re-rolling
Chhattisgarh	Durg, Raipur	Durg, Raipur	Castings & Metal Fabrication
Delhi	North West Delhi	Wazirpur, Badli	Stainless Steel Utensils & Cutlery
Delhi	South & West Delhi	Okhla, Mayapuri	Chemicals
Delhi	West & South	Naraina & Okhla	Electrical Engineering Equipment
Delhi	West & South	Naraina & Okhla	Electronic Goods
Delhi	North Delhi	Lawrence Road	Food Products
Delhi	South Delhi	Okhla, Wazirpur Flatted Factories Complex	Leather Products
Delhi	South, West Delhi	Okhla,Mayapuri, Anand Parbat	Mechanical Engineering Equipment
Delhi	West,South, East Delhi	Naraina,Okhla, Patparganj	Packaging Material
Delhi	West & South	Naraina & Okhla	Paper Products
Delhi	West & South	Naraina Udyog Nagar & Okhla	Plastic Products
Delhi	West, South, North West	Naraina,Okhla,Shivaji Marg,Najafgarh Road	Rubber Products
Delhi	North East Delhi	Shahadara & Vishwasnagar	Wire Drawing
Delhi	West & North West	Mayapuri & Wazirpur	Metal Fabrication
Delhi	West & North East	Kirtinagar & Tilak Nagar	Furniture

13.7 Key Words

- **MSME:** Micro, Small and Medium Enterprise
- **Enterprise:** The practice of starting new organizations, particularly new business
- **Market Potential:** The estimated maximum total sales revenue of all suppliers of a product in a market during a certain period.
- **Turnover:** Turnover is a broad measure of a company's sales
- **WTO:** World Trade Organisation
- **ISO:** International Organisation for Standardisation
- **SIDBI:** Small industries Development Bank
- **LLP:** Limited Liability Partnership
- **CRM:** Customer Relationship Management
- **Cluster**: Targeted sector of MSME's

13.8 Self Assessment Test

1 Explain the concept of MSME.
2 How would you classify an enterprise as micro, small and medium?
3 What is the Role of Government in the growth of MSME's?
.4 What issues must be considered while managing the HR of MSME?
5 Name some governmental and non governmental agencies imparting training for MSME?
6 What promotional Strategies are used by MSME to promote their product in domestic and global market?

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Unit -14 : Legal Framework & Government Policies

Unit Structure:

14.0 Objectives
14.1 Introduction
14.2 Industrial Policy Resolutions in India
14.3 The Micro, Small & Medium Enterprise Development Act, 2006
14.4 Financial Institutions for Small Enterprises
14.5 Measures for Promotion and Development of SSIs
14.6 Fiscal Incentives to SSIs
14.7 Quality Upgradation/Environment Management Scheme
14.8 Scheme for Providing Self-Employment to the Educated Unemployed Youth
14.9 Summary
14.10 Key Words
14.11 Self Assessment Test
14.12 References

14.0 Objectives

After studying this unit you should be able to:

- Discuss the role small business units play in the economic development of a country.
- Understand the various schemes and incentives offered for small scale sector by the government.
- Understand the institutional arrangement for SSIs in India.
- Understand the legal framework & government policies regarding the establishment & development of small scale enterprises in India.

14.1 Introduction

After attaining independence in 1947 India adopted mixed economic planning as a method to achieve economic development. The government had to synchronize the twin considerations of rapid industrialization and the parameters of a welfare state. All segments of industry – large, medium and small were assigned a mutually complimentary role with a view to facilitate an integrated and harmonious growth of industrial sector as a whole. Along with the Large Scale sector the thrust was on the Small Scale sector because of its decentralized, its small size, use of mainly indigenous technology, employment intensity and its suitability for rural areas with limited techno-economic structure.Industrial policies over the years have focused to promote SSIs through various incentives related to financial, fiscal and infrastructure measures; along with a heavy industrial base. Government's attitude and intention towards industries in general and SSIs in particular are reflected in Industrial policy.

14.2 Industrial Policy Resolutions in India

In the economic development of India, a strategic position has been given to the development of village and small industries (VSI) which constitute an important segment of the overall economy. Next to agriculture, the VSI sector provides the greatest employment opportunities, a considerable portion of which is in rural and semi-rural areas. It contributes about fifty percent of the value added in manufacturing.

India's overall policy on all industrial development is contained in the Industrial Policy Resolution of 1956, as amended from time to time. New priorities have been developed as and when required including some designed to reduce the basic handicaps of small-scale industries. The latest of these is the Industrial Policy of July 1980 which aims to harmonize growth in the small-scale sector with that in the large and medium sectors and to remove the dichotomies between the two sectors.

The government stressed the role of SSIs for balanced industrial growth. It was stated that SSIs are particularly suited for the utilization of local resources and creation of employment opportunities. The primary responsibility for developing small industries by creating infrastructure has been provided to state governments. Central government frames the broad policies and coordinates the efforts of State Governments for the development of SSIs.

Right since independence, the Government of India has recognised the strategic importance of small scale and cottage industries in the Indian economy. The Government has followed a policy of promoting and assisting the growth of such industries.

The Industrial Policy Resolution, 1948 observed that 'cottage and small scale industries have a very important role in the national economy offering as they do, scope for individual, village or cooperative enterprises and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for attainment of local self-sufficiency in respect of certain types of essential consumer goods. The healthy expansion of cottage and small scale industries depends upon a number of factors like the provision of raw materials, cheap labour, technical advice, organised marketing of their products and, where necessary, safeguards against intensive competition of large scale manufacturers as well as on the education of workers in the use of best available technique'

The First Five-Year Plan suggested 'Common Production Programmes for the growth of small scale sector. The International Planning Team (Ford Foundation Team) and the Karve Committee made several recommendations for the development of small scale industries. The Second Five-year Plan suggested the formation of industrial co-operatives in this direction. The Government of India set up the Small industries Board and the Development Commissioner for small scale industries.

Industrial Policy Resolution, 1956 stressed the role of small scale and cottage industries in the following words: "They provide immediate large scale employment, they offer a method for more equitable distribution of the national income and they facilitate an effective Mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small Centers of industrial production all over the country. The Policy Resolution further stated, "The State has been following a policy of supporting cottage, village and small scale sector, by differential taxation, or by direct subsidy. While such measures will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralized sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernized, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organization of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage, village and small scale industry.”

The industrial Policy Resolution, 1977 laid a great emphasis on the development of small scale industries. The main thrust of the new industrial policy was on wider dispersal of cottage and small industries in rural areas and small towns. District industries centers were to be established in all the districts so as to serve as the focal point of development for small scale and cottage industries. The Khadi and Village industries Commission was to be revamped to enlarge the area of its operations. Special marketing services like product standardization, marketing surveys and quality control were to be provided.

Industrial Policy Resolution, 1980. The latest industrial policy statement was placed before Parliament on 23rd July, 1980. The main features of the new industrial policy are as follows:

(i) In order to boost the development of small scale industries and to ensure their rapid growth, the limit of investment was raised in case of (a) tiny units from Rs. 1 lakhs to Rs. 2 lakhs: (b0 small scale units from Rs. 10 lakhs to Rs. 20 lakhs; and (c) ancillaries from Rs. 15 lakhs to Rs. 25 lakhs. The upward revision of the investment limit became necessary due to rise in prices and the need for modernization of small scale units.

(ii) The existing arrangements are to be strengthened and necessary changes are to be made to ensure a steady flow of credit to the growing units in the small scale sector at the right time and on appropriate terms.

(iii) Nucleus plants will be set up in industrially backward district to generate as many ancillary and small and cottage units as possible.

A nucleus plant would concentrate on assembling the products of ancillary units and on making adequate marketing arrangements. The nuclei would ensure a widely spread pattern o investment and could work for upgrading the technology of small units.

(iv) A buffer stock of capital inputs will be created for the benefit of small scale sector.

(v) Marketing support and reservation of items for small scale industries is to be continued. Production of 834 items was reserved for the small scale sector.

During 1986-87, the IDBI started assisting the State Small industries Development Corporations (SSIDCs) to strengthen their activities in marketing, supply of essential raw materials and machinery on hire-purchase basis and for establishment of industrial estates, suggest measures for improving the performance of the credit delivery system the RBI set up a Standing Advisory Committee in 1986. The committee has suggested studies of small industries and improvement in information system so as to prevent growing sickness in the small scale sector. About 1,28,687 small scale units were found sick and bank credit of Rs. 1184.22 crores was outstanding against them on March 31,1986.

Measures have also been taken for technology upgradation in the small scale sector and for identifying areas which could be amenable to ancillarisation. A new scheme of excise concessions has been instituted. Under this scheme, a specified small scale unit is completely exempted from payment of excise duty. In order to improve the quality of products,. Several new items have been brought under compulsory ISI certification. The Planning Commission has suggested setting up of a National Commission of Village and Small industries to examine the progress of this sector and to suggest measures for improvement. The Central Government has decided to set up Small industries Bank (SIB) with a capital investment of Rs. 300 crores. As an umbrella organization, the Sib will enable small entrepreneurs to get total clearance and assistance without approaching financial institutions except in case of foreign tie-ups".

The industrial policy measures announced in 1991 laid special thrust of this resolution was to simplify regulations and procedures by delicensing, deregulating, and decontrolling. Its salient features are:

- SSIs were exempted from licensing for all articles of manufacture.
- The investment limit for tiny enterprises was raised to Rs. 5 lakhs irrespective of location.
- Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs.
- Factoring services were to launch to solve the problem of delayed payments to SSIs.
- Priority was accorded to small and tiny units in allocation of indigenous and raw materials.
- Market promotion of products was emphasized through co-operatives, public institutions and other marketing agencies and corporations.
- An export development centre would be set up in SIDO to serve the small scale units through its network of field officers to further augment export activities of the sector.
- A technology development Cell (TDC) will be set up in SIDO, which could provide technology inputs to improve quality and competitiveness of products of small scale sector.
- The Single Window Loan scheme has also been enlarged to cover projects with working capital margin upto Rs 20 lakhs.

In conformity with the socio-economic objectives of the national development plans, the development banks have introduced a number of promotional innovative schemes to be operated either separately or jointly. Some of the important schemes are soft loans, seed capital assistance, risk capital assistance, concessional schemes etc. In addition, IFCI is operating different subsidy schemes for new and small entrepreneurs. Recently, it has introduces eight consultancy schemes and four interest subsidy schemes for the benefit of entrepreneurs.

In order to enable the government to place more focused attention on the problems of the SSI sector, a new ministry of small scale industries and Agro and Rural industries has been created on 14th October, 1999, under the independent charge of a minister of state. To give a direction and perspective to the development strategy, the minister-in charge of small scale industries and Agro & rural industries announced an "Agenda for the Millenium" which places special emphasis on evolution of a new policy framework, improved supply of credit, better infrastructural facilities and impetus for modernization and technology upgradation in small scale industries.

Knowing of the crucial role of small enterprises, and the problems being faced by them, the Planning commission, in 1999, constituted a study group under the chairmanship of Dr. SP Gupta, member, Planning Commission, on Development of small enterprises. The study group has submitted its report on 13th July, 2000.

14.3 The Micro, Small & Medium Enterprise Development Act, 2006

MSMED Act was established to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto. The Act is operational from October 2, 2006. The MSMED Act is superior as compared to the provisions for SSI under the IDRA in many ways. The scope of the promotion and protection measures under the IDRA was restricted only to SSI. However, during last 60 years of independence, the norms for the promotions and development have changed and the requirement to motivate the higher and different various of SSI is felt. The MSMED Act not only addresses these issues but it also takes care of Micro, Small and Medium Scale enterprises ("MSM enterprises"). Another major highlight of the MSMED Act is that the MSM enterprises in the service sector are also covered under the Act. Separate investment limit for plant and machinery has been prescribed for MSM enterprises in the service sector. The MSMED Act was framed with the following objects :

- To facilitate the promotion and development of micro, small and medium scale enterprises (MSM enterprises);
- To enhance the competitiveness of MSM enterprises;
- To concentrate on the related matters of MSM enterprises;
- To extend the scope of benefits from SSI undertaking and ancillary industries to MSM enterprises.

MSMED Act, 2006 and Its Impact

Clause	Salient Features	Impact
1. Establishment of National Small and Medium Enterprises Board – Women Maximum No. of members 47	1. Specific representation for 2. Mandatory Quarterly Meeting	Statutory Status, compact board and quarterly meetings with address problems of SMEs immediately to take corrective action
2. Concept of Enterprises	Clear-cut demarcation of manufacturing / production and rendering services	Facilitates SMEs to enter into service enterprises aggressively
3. Definition of Enterprises	Specific ceiling limit for manufacturing / production and service enterprise definition for Medium enterprises	Existing small units can graduate into Medium units and avail facilities under the act.
4. Filing of memoranda optional for Micro and Small enterprises in manufacturing and service sector Medium enterprises in Service Sector but mandatory for Medium enterprises in manufacturing sector	Replacement of registration with memorandum	Facilitates SMEs to avail the benefits of the act immediately after setting up of the unit.

5. Procurement Policies	Notification of preference policies by central or State Governments for goods and services provided by Micro & Small enterprises	Facilitates opportunity for supply of goods / services without any hassles.
6. Delayed Payment Penalty & dispute resolution	Period of payment by the procuring organizations – 45 days Penal interest 200% of PLR	SMEs can plan their cash flow / financial requirement
7. Dispute Resolution	Establishment of MSE facilitation Council; 90 days framework for disput resolution	Easy financial planning and no waste of human resources for chasing / follow up.
8. Delayed Payment – allowable deduction under IT Act 1961	Deduction disallowed u/s 23 of MSMED Act. [Clause 17a of tax audit]	This will encourage procurement agencies to ensure timely payment to SMEs.
9. Closure of Business	Statutory notification of scheme for closure	Facilitates expendition of liquidation
10. Notification of guidelines or instructions for promotion of SMEs – wrt. Funda appropriation and release	Statutory	Mandatory on all facilitating development of SMEs ensuring fast growth
11. Facilitating Credit	Statutory	Mandatory on all providing credit. Guidelines for credit for 20% year on year growth

Classification of MSME:

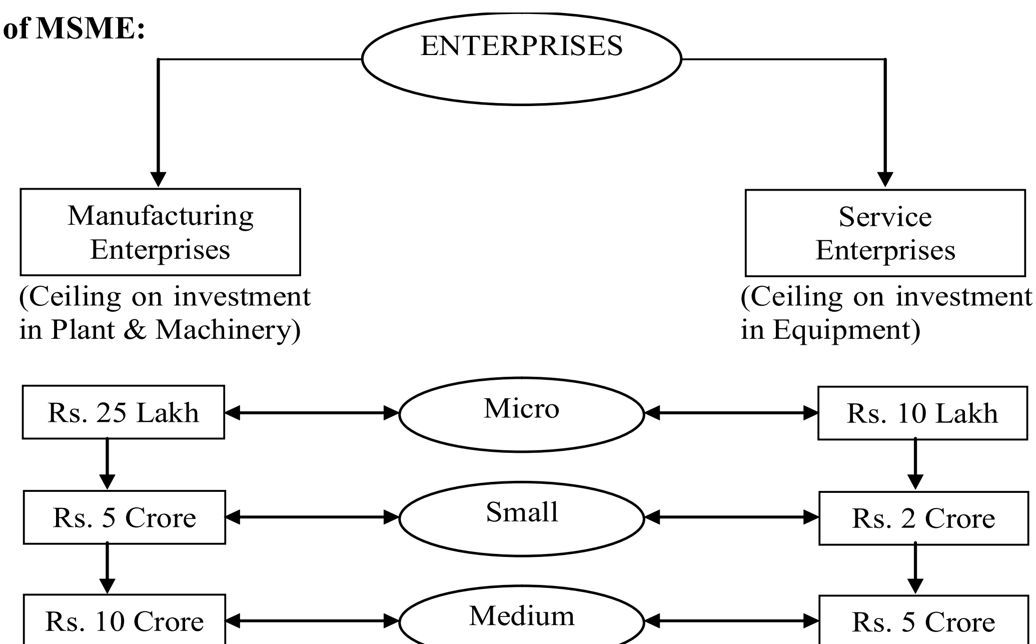

Figure 14.1 : Classification of MSME

Benefits to MSMEs under the Act

Sr. No.	Benefits Available Under the Act	Whether available to Micro enterprises	Whether available to Small enterprises	Whether available to Medium enterprises
1.	Protection against delayed payment by buyers of goods / services (Chapter V of the act) and right to interest for delayed payments and time-bound settlement of payment-related disputes through conciliation and arbitration	Yes (See Note 1 below)	Yes (See Note 1 below)	No
2.	Central Governments' measures for promotion and development [Sec 9 of the act]	Yes	Yes	Yes
3.	RBI's progressive credit policies for ensuring timely and smooth flow of credit [Sec 10 of the act]	Yes	Yes	Yes (see Note 4 below)
4.	Reservation of items for manufacture and production u/s 29B of the 1951 Act	Yes (see Note 2 below)	Yes (see Note 2 below)	No
5.	Preference policies (preference to micro enterprises in respect of goods and services procedure by Government Departments / aided institutions / PSEs) notified by Central / State government [Sec 11 of the Act].	Yes	Yes	No
6.	Simplified exit scheme (winding up the business) u/s 25 of the Act.	Yes (see Note 3 below)	Yes (see Note 3 below)	Yes (see Note 3 below)

Note 1: This benefit shall be available only if the micro/small enterprise has filed memorandum u/s 8 of the act.

Note 2 : This benefit is available only to enterprises engaged in manufacturing or production of goods in any scheduled industry. There is no provision under any law which permits the government to reserve any services for exclusively being rendered only by micro and small enterprises.

Note 3 : This scheme shall not apply to companies.

Note 4 : As per RBI's master circular, dated 2-7-2007 lending by banks to medium enterprises is not considered as "priority sector credit".

As per Ministry of small scale industries notification dated 5th October, 2006, the investment in Plant & Machinery to in respective limits is the original price, irrespective of whether the plant & machinery are new or second hand. In respect of imported machinery, the following is to be included in calculating the value :

- Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
- Shipping charges;
- Customs clearance charges and
- Sales tax or value added tax

Further, as per the said notification, the following are excluded while calculating the investment in plant & machinery :

- Equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;
- Installation expenditure for plant & machinery;
- Research & development equipment and pollution control equipment;
- Power generation set and extra transformer installed by the enterprise as per the regulations of the state electricity board;
- Bank charges and service charges paid to the national small industries corporation of the state small industries corporation;
- Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant & machinery or for safety measures;
- Gas producer plants;
- Fire fighting equipment;
- Transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise;
- Charges paid for technical know-how for erection of plant & machinery and
- Such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process.

Further, investment in land, building, vehicles, furniture & fixtures, office equipments etc. shall not be considered in determining the threshold limits of plant & machinery or equipment as the case may be.

Registration

As per Sec 8(1) of the act, registration of micro or small enterprise (both manufacturing and rendering of services) or a medium enterprise engaged in providing or rendering of services in option. However, a medium enterprise engaged in manufacturing or production of goods pertaining to any industry specified in the First schedule to the IDR act, 1951 is required to file the memorandum with the General manager, District Industries Centre or any District level officer of equivalent rank in the Directorate or the Department dealing with Micro, small and medium enterprises of the state government or union territory administration.

The Memorandum should be filed in the form 'Entrepreneurs Memorandum' notified by the central government. It is in two parts i.e. Part-I and Part-II and is to be filed with the respective District Industries Centre. Any person who intends to establish Micro, Small & Medium enterprise engaged either in manufacturing of products or providing or rendering of services shall file Part-I. Once Enterprise starts the production or starts providing or rendering services then they shall file Part-II of the Entrepreneur Memorandum. Validity of Entrepreneur's Memorandum (Part-I) is two years. No Renewal shall be granted.

Existing enterprise shall file Part-II of Entrepreneurs Memorandum. The units which are presently registered under SSI or Medium Category are required to file Entrepreneurs Memorandum in case of following changes:

(a) Change of Status from Small Scale to Micro Scale due to revisions in definitions in Investment Limits.

(b) Change of Status from Medium Scale to Small Scale due to revisions in definitions in Investment Limits even if the unit has previously filed an I.E.M.

(c) Any change in other contents like Name of the Unit. Address / Location, Addition / Deletion / Change of Activity, Nature of operations, Nature of Constitution (Proprietary / HUF / Partnership / co-operative / Private Ltd. Co. / Public Ltd. Co. / Self Help Group / Others) etc.

In case of change in investment in Plant & Machinery or in equipments, the enterprises, which have already filed Entrepreneurs Memorandum, shall inform the District Industries Centre about the same in writing within three month of the change in investments. Failure to do so is contravention of law and is punishable as specified in section 27 of MSMED Act.

The code numbers mentioned in the Entrepreneurs Memorandum viz. NIC Code ASICC Code, Codes for Thesil / Taluka / District and State will be filled by the officials of District Industries Centre.

In case of change of products & that of services or addition in product or services, the enterprises which have already filed Entrepreneurs Memorandum should inform the District Industries Centre about the same in writing within three months of the change. Failure to do so is contravention of law and is punishable as specified in section 27 of MSMED Act.

Advantages / Benefits of Registering a Micro or Small Enterprise With the State Government :

A part from getting other benefits, if a micro or small enterprise has filled a memorandum with DIC of its area, then it stands to gain as to timely payment in respect of supply of goods or rendering of services to any buyer. With the enactment of MSMED Act, 2006 the interest on delayed payments to small scale and ancillary industrial undertaking act 1993 is repealed w.e.f. 2.10.2006.

As per this Act, if the buyer has purchased goods or availed services from micro or small enterprise, which has filed a memorandum with the authority, then the buyer shall make the payment on or before the date agreed upon between him and the supplier in writing. If no agreement is there in writing, then within a period of 15 days from the day the goods are delivered or services are rendered. The Act further stipulates that even if the buyer and supplier is agreed in writing, such period shall not exceed 45 days from the day of delivery of goods or rendering of services.

In brief, any credit term from a micro or small enterprise stipulating payment terms beyond 45 days, shall be in violation of the MSMED Act, 2006.

14.4 Financial Institutions for Small Enterprises

Central and State Governments have introduced several schemes to ensure adequate and timely availability of credit to SSIs through various institutions.

1. The main features of the financial services offered by institutions are as follow:
2. Financial assistance for the equipment and marketing activities under one roof with speed and efficiency.

3. Prompt clearance of the proposals with minimum processing time and without cumbersome paper work
4. Assistance in preparing the proposals and completion of document formalities.
5. Market oriented interest rates and service charges with liberal terms of margin, level of assistance and repayment schedules.
6. Arrangement with commercial banks for sanction of loan proposals received from small enterprises.

In this section we discuss some of the important financial institutions rendering promotional assistance and credit facilities to small scale industrial units/enterprises. It must be remembered here that it is the **Reserve Bank of India** which lays down the policies of lending supervision and follow up of advances to small scale industrial units which is recognized as priority sector.

The **Lending Institutions** are:

1) **Industrial Development Bank of India (IDBI) – Small Industries Development Bank of India (SIDBI) – various Schemes of the IDBI/SIDBI**:
   i) Refinance Schemes for industrial loans,
   ii) Special schemes for assistance to artisans and village and cottage industries, scheduled tribes/ scheduled caste entrepreneurs, physically handicapped entrepreneurs, small scale industrial units,
   iii) Refinance scheme for rehabilitation of small enterprises,
   iv) Refinance scheme for modernisation of small industries,
   v) Seed capital scheme,
   vi) Bills rediscounting scheme,
   vii) Assistance through National Small Industries Corporation,
   viii) Scheme to assist women entrepreneurs, etc.
2) Industrial Finance Corporation of India (IFCI),
3) Industrial Credit and Investment Corporation of India (ICICI),
4) Industrial Reconstruction Bank of India (IRBI),
5) Export Import Bank of India (EXIM Bank),
6) National Bank for Agriculture and Rural Development (NABARD),
7) National Cooperative Development Corporation (NCDC),
8) Tourism Finance Corporation of India (TFCI).

Other Financial Institutions are:

i) Commercial Banks,
ii) State Finance Corporation (SFCs),
iii) Export Credit Guarantee Corporation (ECGC),
iv) Deposit Insurance and Credit Guarantee Corporation (DICGC), and

v) Regional Rural and Cooperative Banks.

Besides these certain other organisations like the **National Small Industries Corporation** and **State Small Industries Corporations** also offer loans.

14.5 Measures for Promotion and Development of SSIs

- **Reservation Policy**

Reservation of items for exclusive manufacture in SSI sector has been one of the important policy measures for promoting and protecting this sector against competition from medium/large/ multinational companies The policy received statutory backing in 1984 under Industries (Development & Regulation) Act, 1951. However with the opening up of Indian trade in 1991, most of reserved items were importable with the removal of quantitative restrictions. This paved the way to phase out reservation in due course, and every year some items were dropped from the reserved list. Out of 836 items reserved in 1989, 39 items were dereserved in four phases viz., 15 items in 1997, 9 items on 1999, 1 item on 2001 and 14 items on 2001. Subsequently, 51 items were dereserved in 2002, 75 items in 2003 and 85 items in 2004, 108 in March 2005, and 180 in May 2006. Now 298 items stand reserved for this sector.

It is believed that dereservations will enable medium/large/ multinational companies to move out of capital intensive manufacturing to enter labour-intensive production. This shift over will certainly create new employment opportunities at rapid rate.

- **Government's Purchase Preference Policy for SSI Products**

Realizing that small scale units face the problem of marketing their products at remunerative prices, Government stores purchase programme was initiated to assist small-scale industries in obtaining a fair share of the total purchases made by the Government and its departments. Bulk and departmental buyers such as the Railways, Defence and Communication ministries and companies are invited to participate in buyer-seller meets to enrich SSI unit's knowledge regarding terms and conditions, quality standards, etc required by the buyer. Under the Stores Purchase Policy of the Government 409 items of stores were reserved for exclusive purchase from KVIC/Women's Development Corporations/Small Scale units in 1989.

This list was reviewed. In February 2004, the Committee (set up to consider the question of inclusion of additional items) revised list and 358 items were approved, after deleting items having common nomenclature and addition of some new ones. This list also includes 8 handicraft items reserved for purchase from the Handicraft Sector.

- **Government's Price Preference Policy for Marketing SSI Products**

Assistance under Government Stores Purchase Programme in the form of reservation of products for exclusive purchase from small scale sector and price preference is one of the major instruments for providing marketing support to the small scale industries. These facilities include the following:

- Price preference up to 15% in case of selected items.
- No registration fee.
- A consortium to channelize and identify markets for the products of SSIs both in India and abroad.

Apart from this, the Single Point Registration Scheme of National Small Industries Corporation (NSIC) the following benefits are given to SSI units, which get them registered with the NSIC:

- Availability of tender sets free of cost.
- Exemption from payment of Earnest Money Deposit.
- Exemption from payment of Security Deposit up to the monetary limit for which the unit is registered.
- Price preference up to 15% over the lowest quotation of the large scale units (on merits)
- The units registered with NSIC under this scheme are given a registration certificate indicating items, for which registered and monetary limit up to which registered. The Policy of the Price Preference of 15% is a critical benefit available to the SSI sector. The benefit is available to compensate them on account of non-availability of economies of scale, poor resource base, poor access to raw-material etc. as compared to the large scale sector.

- **Technical Assistance**

Technology is the key to enhance an organization's competitive advantage in today's dynamic information age. SSIs need to develop and implement a technology strategy in addition to financial, marketing and operational strategies, and adopt the one that helps integrate their operations with their environment, customers and suppliers.

National small Industries Corporation Ltd (NSIC) offers SSI units the following support and services through its Technical Services Centre, Extension Centers, Software Technology Parks and Technology Transfer Centre:

a) Technology audits and benchmarking.

b) Technology needs assessment.

a) Technology sourcing.

b) Application of new techniques.

c) Technology acquisition.

d) Material testing facilities through accredited laboratories.

e) Product design including Computer Aided Designs.

f) Common facility support in machining.

g) Energy and environment services at selected centers.

h) Classroom and practical training for skill upgradation

Software Technology Parks (STPs) facilitate small industries in setting up 100% export oriented units for software export. They also act as major point to activate software exports directly through NSIC. These STPs extend support in terms of the requisite infrastructure to the SSI units to start business operations with a minimum lead-time.

Following facilities are available at NSIC Software Technology Park:

- **Built-up Space:** This enables the software industries to commence their operations with minimum gestation period.
- **Instant Power Connection:** Instant power connections and Generator facility is also available on site, which will allow software units to work without any interruptions.

- **High Speed Data Link:** High-speed data communication facility through satellite connection is available. The member units can avail 64 kbps to 2Mbps dedicated leased channels.
- **Business Centre:** A business centre comprising of Conference Hall, Photocopier,
- **Fax, Training** aids, etc. is available inside the STP complex for the member units.
- **Telephones:** Each member units will be provided with one telephone line for business promotion on occupation.

- **Raw Material Assistance**

NSIC aims to help SSI units by financing purchase of raw material (both indigenous and imported), thus allowing them to focus on manufacturing quality products. State Directorate of Industries distributes scarce raw materials to small units. State Small Industries Development Corporations have set up depots for distribution of raw materials to SSIs. The Central Government has introduced a buffer stock scheme to ensure availability of scarce raw materials to this sector.

- **New Initiatives**

The following new initiatives have been taken by the government:

a) **Advisory and Mentoring Services:** Inadequate management skills are often the cause of non-performance of small enterprises. NSIC's advisory and mentoring services are aimed at effectively addressing this impediment to growth. It offers Mentor-pupil relationship services in which the Mentor, a person with wide experience is running his own business, will volunteer his services to individual or a group of units - the pupil. An advisor, a senior professional, generally retired and a specialist in a specific area will assist in the process. Mentors and advisor will provide the necessary professional and moral support in the early lifecycle of an enterprise or to existing units facing critical operational problems.

b) **Technology Business Incubators:** Innovative entrepreneurial ideas have to be fostered and developed in a supportive environment before they become attractive for Venture Capital Institutions. Incubation centre enable technical entrepreneurs to conduct their Research and Development programmes in a professional, friendly and supportive environment, without making any further investment. Technology Business incubators are an important tool for entrepreneurial development. Recognizing this need, NSIC has setup the following Technology Business Incubators.

- Information Technology.
- Product Design.
- Energy and Environment.
- Bio-Technology.
- Electronics and Communications

c) **Suppliers Rating Accreditation Services:** Accreditation, a necessity for buyer comfort, speaks of the enterprise's ability to supply reliably and effectively a product, in accordance with the customer's changing needs. NSIC provide accreditation to SSI units by developing an effective accreditation system process through collaboration with Indian and International Accreditation agencies. Accreditation is provided at two levels - for all Government purchases and for private national and international buyers.

14.6 Fiscal Incentives to SSIs

Fiscal incentives are provided through tax concessions granted in the form of exemptions of direct or indirect taxes leviable on production or profits, besides special tax concessions. These incentives have been provided to promote the SSIs and discussed in sub-sections below.

Tax Holidays

With effect from financial year 2005-06, deduction in respect of profits and gains for small scale industrial undertakings is available under Section 80IB.

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

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

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

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

The following allowances can also be claimed by SSIs.

1. **Depreciation Allowance:** Under section 32 of the Income Tax Act, a small scale industry is eligible to get a deduction on depreciation on account of plant and machinery, land and buildings at the prescribed rates. In the case of small scale industries the deduction from the actual cost of plant and machinery is allowed upto Rs 20 lakhs. Any machinery or plant costing less than Rs. 750 is allowed to be written off completely in the first year of its utilization.

2. **Development Rebate:** In respect of new plant and machinery other than office appliances or road transport vehicles of a small scale unit, which is wholly used for the purpose of production, a sum, by way of development rebate, as specified below, is allowed under section 33, in addition to normal depreciation.

    - In case of Plant & machinery, 35% of the actual cost if it were installed before 1st April, 1970 and 25% of such cost if it were installed after 31st march, 1970.
    - Where the plant & machinery was installed after 31st march 1967, being an asset representing expenditure of a capital nature on scientific research related to the business carried on by a unit, development rebate is given at the specified rates.

Excise Concessions

Government of India has provided a major relief by granting full exemption from the payment of central excise duty on a specified output and thereafter slab-wise concessions. The following concessions are available to them in this regard:

- SS units producing goods up to Rs. 100 lakhs are exempted from payment of excise duties.
- SSI units having turnover less than Rs.60 lakhs per annum need not have a separate storeroom for storing the finished products.
- SSIs are also not required to maintain any statutory records such as daily stock account of production and clearances, raw material account, personal ledger account etc. Their own records are adequate for excise purposes.
- There is no distinction between registered and unregistered units for SSI concessions. Further, the eligibility for excise concessions for SSIs has been based on annual turnover rather than SSI registration. Duty liability is to be discharged by 15th of the following month.
- The SSI exemption is available for home consumption, as well as in respect of goods exported to Nepal & Bhutan.
- Normally, excise officers are not expected to visit SSI units paying less than Rs.11 lakhs duty annually.
- With effect from 1-4-1994, Gate-Pass System was replaced by manufacturer invoice to cover clearances of goods as the duty-paying document.

Presently there are two streams of concession to SSIs. These are as follows:

a) SSI Scheme (Without CENVAT): This scheme is effective from 1st April 2000. The Table 20.1 shows the rate of duty applicable to such manufactures whose turnover does not exceed Rs. 3 crores in the previous financial year in respect of clearances of excisable goods for home consumption (including exports to Nepal or Bhutan) from one or more factories of the same manufacturer or from factory by one or more manufacturers:

Table 14.1 : Rate of Duty in Respect of Clearances of Excisable Goods

S.NO.	VALUE OF CLEARENCE (Rs.)	RATE OF DUTY
1	Up to Rs. 100 Lakhs	Nil
2	100 –300 Lakhs	Normal Rate of Duty

It may be noted that beyond clearances of Rs.100 lakhs, the manufacturer is liable to pay normal rate of duty. The manufacturer may opt for not availing exemption and instead pay the normal rate of duty on the clearances. But once the option is exercised, it shall continue till the remaining part of the financial year.

Value for purpose of calculating the limit of 100 and 300 lakhs is the 'Assessable value' i.e., wholesale price at factory gate, exclusive of taxes, where price is the sole criteria.

b) SSI Scheme (with CENVAT): This scheme is effective from 1st April 2003. It provides the concessional rate of duty in respect of clearances of specified goods for home consumption (including exports to Nepal or Bhutan), and also states that all clearances of the specified goods which are used for captive consumption in production of the specified goods shall be subjected to 'nil' rate of duty. The Table 20.2 shows the Rate of Duty.

Table 14.2 : Rate of Duty in Respect of Clearances of Specified Goods

S.NO.	VALUE OF CLEARENCE (Rs.)	RATE OF DUTY
1	Up to Rs. 100 Lakhs	60% of normal rate
2	100 –300 Lakhs	Normal Rate of Duty

A manufacturer can opt for this option any time determining his eligibility for concession and the concessional rate of duty.

The exemption shall apply only subject to the following conditions:

- A manufacturer who intends to avail the exemption shall exercise his option in writing to the jurisdiction Deputy Commissioner or Assistant
- The clearances of specified goods already made during the financial year, prior to the exercise of such option, shall be taken into account for computing the aggregate value of clearances. Value of all clearances of all factories should be clubbed.
- The aggregate value of clearances of all excisable goods should not exceed Rs.300 lakhs in the preceding year.

The exemption contained shall not apply to the specified goods bearing a brand name/ trade name (whether registered or not) of another person, except in some specified cases.

14.7 Quality Upgradation/Environment Management Scheme

In order to enhance the competitive strength of the small scale sector, the Government introduced an incentive scheme for their technological upgradation/quality improvement and environment management. The scheme provides incentive to those small scale/ ancillary undertaking who have acquired ISO 9000/ISO 14001/ HACCP certifications. The scheme for ISO 9000 reimbursement in operation since March, 1994 has now been enlarged so as to include reimbursement of expenses for acquiring ISO 14001 certification

The Salient features of the Scheme:

- The Scheme envisages reimbursement of charges of acquiring ISO-9000/ISO-14001/HACCP certifications to the extent of 75% of the expenditure subject to a maximum of Rs. 75,000/- in each case. The Scheme is valid upto 31st March'2012.
- The Permanent Registered Small Scale/ancillary/Tiny/Small Scale Service Business Enterprises (SSSBE) units are eligible to avail the Incentive Scheme.
- The Scheme is applicable to those SSI/ancillary/Tiny/SSSBE units who have already acquired ISO-9000/ISO-14001/HACCP certification.
- It is an all India Scheme administered by Development Commissioner (MSME), Ministry of SSI, Govt. of India. With effect from 30.8.2006 procedure of the Screening Committee to decide the reimbursement has been discontinued and the Screening Committee has been dismantled to reduce delay in the sanctioning of reimbursement to the applicants.
- The Scheme shall provide one time reimbursement only against a Entrepreneurship Memorandum Number. The amount of incentive/subsidy/grant already availed for acquiring ISO 9000 or ISO

14001/HACCP Certification under any Central Govt. (including DC(MSME) Incentive Scheme)/ State Govt. /Financial Institution shall be adjusted against the entitlement of reimbursement.

- It means the total entitlement of reimbursement of acquiring one or more than on certifications shall be up to the maximum limit of Rs. 75,000/- only. In case a unit has received reimbursement/subsidy/ grant from Central Govt./State Govt./Financial Institution against any one of the certifications for an amount less than maximum limit of Rs. 75,000/-, the unit shall be eligible to receive the balance amount only.

(a) Only one time reimbursement is allowed against a E.M. Number for acquiring ISO-9000/ISO-14001/ HACCP certification; irrespective of the fact whether the concerned SSI has one or more than one Unit(s) within the same premises/location or outside .

(b) In case an ISO-9000/ISO-14001/HACCP certificate is obtained jointly by SSI units (even having a separate Permanent E.M. Number) under the corporate/group of Industries category, the total reimbursement shall be limited to 75% of the total expenditure incurred by the concerned units or Rs. 75,000/- whichever is less; and each SSI unit shall get the amount on pro-rata basis.

14.8 Scheme for Providing Self-Employment to the Educated Unemployed Youth

In the successive five year plans special consideration has been given to the unemployed particularly among the educated youth. While the results obtained have not been as per the expectation, the very idea has created awareness, among the Planners, Administrators and Development Agencies to devise and chalk out special programmes of assistance to provide employment to the educated unemployed youth to become self-employed by starting their own industrial enterprises, services and business establishments through a package of monetary assistance. Under this scheme of providing self-employment to unemployed, youth who have successfully completed their matriculation and are in age group of 18 to 35 can take advantage of getting themselves registered with their district Industry Centers which number more than 400 all over the country. Under this scheme, beneficiaries are entitled to a composite loan not exceeding Rs.35, 000/- for an industrial venture, Rs.25, 000/- for a service venture and Rs.15, 000/- for a small business venture. The monetary aspect of the scheme is implemented through the lead bank in each district. The banks are not expected to insist on any collateral security for loan upto Rs.35,000/-. The loans sanctioned under this scheme are charged interest @ 10% per annum (PA) in specified backward areas and 12% P.A. in other areas. Repayment of the loan is made in installments, the first installment falling due between 6 months and 10 months after the date of disbursement of the loan. The period of installment is spread over 3 to 7 years depending on the nature of venture and expected profitability. The recovery of the loan is the responsibility of the bank concerned. Local managers of the banks are allowed sufficient flexibility in dealing with the defaulting borrowers particularly by re-scheduling the recovery period in case of bonafide defaulters. The District Industry Centres have been asked to monitor the implementation of the scheme at district level. Besides educational qualifications and the beneficiaries mentioned above, the youth belonging to a family with an annual income of Rs.10,000/- and below are eligible to avail of the scheme.

14.9 Summary

Small Scale Industry sector has emerged as India's engine of growth in the New Millennium. The SSI sector accounts for nearly 40 per cent of value added in the manufacturing sector and 34 per cent of total exports from the country. Through 95 per cent of industrial units in the country, the sector provides employment to about 20 million persons.

The Government has recognized its importance for the economy and its intention towards promotion of SSIs is reflected in various Industrial policy Resolutions right from the year 1948. The primary objective of the Small Scale Industrial Policy during the nineties was to impart more vitality and growth-impetus to the sector to enable it to contribute it's mite fully to the economy, particularly in terms of growth of output, employment and exports.

The sector has been substantially delicensed. Further efforts would be made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations did not militate against the interests of the small and village enterprises. Government is aware of the challenges faced by SSIs and has been trying to improve their competitiveness through various measures.

In view of their inability to provide adequate collateral security, small enterprises in the past have found it difficult to meet their financing needs. From the third Five Year Plan onwards, however, with the Government recognizing and promoting the small sector as an important contributor to the national economy, things have changed for the better. Today in addition to the Small Industries Development Bank of India we have a number of institutions including commercial banks to meet the financing needs of small enterprises. This Unit discussed the financial institutions and government policies and measures for SSIs.

14.10 Key Words

- **Debt-Equity Ratio-** is a ratio of long-term debt to shareholders equity.
- **Factoring-** means sale of accounts receivables to a bank or financial company.
- **Financial Syndication-** implies an arrangement in which two or more credit lending institutions come together to provide financial assistance to a unit/protect, thereby sharing the risk, if any.
- **Industrial Estate-** is an attempt to provide, on a rental basis good accommodation with water, electricity and roads to group of entrepreneurs who would otherwise find it difficult to secure at reasonable price.
- **Non Performing Assets-** are non-recoverable outstanding loans or credit given by banks.
- **Research and Development-** Costs refers to costs of developing new products or processes.
- **Taxable income** is the amount of income subjected to income tax, computed according to the rules of the Internal Revenue Services. Taxable income will not necessarily be same as financial accounting income.
- **Trademark** is a symbol, design or logo that is used in conjunction with a particular product or company. A trademark is an example of an intangible asset.

14.11 Self Assessment Test

1. Discuss the role of SIDBI in granting loans.
2. What is the role of National Small Industries Corporation?
3. In the era of globalisation, which steps are taken by the institution to upgrade the technology of SSIs to make them competitive?
4. Name the various institutions at national and state level available to assist small scale industries

5. Why the development of small scale industry is important for the economy?

6. Explain the role of Ministry of Small Scale Industries for the development of this sector.

7. What is the difference in the functions of SIDO and NSIC for small scale industry?

8. Explain the need of fiscal incentives for the development of SS sector.

9. Describe the technological support system available for SSIs.

10. How excise duty concessions help in development and promotion of SSIs?

11. Explain in brief the objectives of "STP's"?

12. How government fulfills the financial requirements of SSIs?

13. Discuss the "Tax Credit Scheme" of State Governments for SSIs?

14. What is "reservation policy" for SSIs?

14.12 References

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Unit – 15 : Family Business Management

Unit Structure:

15.0 Objectives
15.1 Introduction
15.2 Evolution of Family Business
15.3 What is Family Business?
15.4 Current Scenario of Family Business Management
15.5 Scope and Significance of Family Business
15.6 Family Business System Governance
15.7 Succession in Family Business
15.8 Pitfalls of Family Business
15.9 Improving Family Business Performance
15.10 Summary
15.11 Self Assessment Test
15.12 References

15.0 Objectives

After completing this unit, you would be able to:

- Understand the role and importance of a family business
- Understand various definitions, and types of family businesses
- Identify the model of family business, family business system governance, and history of family business, responsibilities and rights of shareholders in family business.
- Discuss the succession in family business and the key issues in sibling rivalry in family business
- Identify the causes for pitfalls in family business
- Identify the requirements needed to improve the capability of a family business.

15.1 Introduction

> "Family Business has to be efficiently managed in a liberalised environment and efficient managers are more likely to be outside the family rather than within. You have no choice but to bring them in to run the family businesses." - ***Rahul Bajaj,*** *Bajaj Autos.*

When you put up your own money and operate your own business, you prize your independence. It's MY business, you can tell yourself, in good times and in bad. In a family company, however, it's OUR business. When family members work together, emotions may interfere with business decisions. Conflicts may arise as relatives see the business from different perspectives. Those who are silent partners, stockholders and directors are likely to judge capital expenditures, growth and other critical matters primarily by dollar signs. Those engaged in daily operations are more likely to be concerned about production and sales figures and personnel matters. Obviously, there is potential for conflict.

In some family companies, daily operations are hampered by conflict; in others, the challenge is a high turnover rate among nonfamily employees. Growth also may be a dilemma if some relatives are reluctant to plow profits back into the business. Conflict in the business also can be aggravated by family members who have little talent for money or business — the offspring of company founders who lack business acumen or in-laws who must be employed without regard to their ability or the company's needs.

The manager of a family-owned business faces the same challenges as the owner-manager of any small company. However, the job of family manager may be complicated by relatives who must be reconciled to working together in a business. Family business management stands for "A family business is a company owned, controlled, and operated by members of one or several families. Many companies that are now publicly held were founded as family businesses. Many family businesses have non-family members as employees, but, particularly in smaller companies, the top positions may be allocated to family members"

15.2 Evolution of Family Business

In India, family businesses account for about 70% of the total sales and net profits of the biggest 250 private sector companies. The role of business in the society has witnessed a dramatic change in the recent times.

Yesterday, it was the business as family. Today, it is the family as business. And tomorrow, it will be the business of the family to ensure that there is a future for both the business and the family. While radical strategic, operational, and financial transformation is a given for any corporation that hopes to survive the trauma of competing in the post-liberalization market-place, India's business houses have yet another agenda for change: rewriting the role of the family.

Stages of Family Business Development:

The typical family business goes through four stages in its development:

1. Entrepreneurial
2. Functionally-Specialized
3. Process-Driven
4. Market-Driven

Entrepreneurship is not just a way to increase the level of innovation and productivity of organizations, although it will do that. The concept of Entrepreneur and Entrepreneurship incorporates basis qualities of leadership, innovation, enterprise, hard work, vision and maximization of profits.

It is the family that must initiate and implement the changes that are involved. An added motive for change comes from the realization that the family and the business are essentially two separate institutional systems with distinctive rules governing their respective behaviors - whose boundaries have overlapped within the business house.

Thus, the exclusive dynamics of family culture and relationships have been imposed on the internal logic of managing a business enterprise, with results that haven't helped the perpetuation of either of the two entities. So, it is now essential for the family to appreciate this distinction and with draw to prevent the conflicts between the rules, messages, and expectations for behavior in each system that are weakening business. That's why a series of vital choices over its future role confronts the country's business family as it seeks to make family business survive.

15.3 What is Family Business?

In a family business, two or more members within the management team are drawn from the owning family. Family businesses can have owners who are not family members. Family businesses may also be managed by individuals who are not members of the family. However, family members are often involved in the operations of their family business in some capacity and, in smaller companies, usually one or more family members are the senior officers and managers.

Definition of Family Business

There are various definitions of a family business. In fact, there are as many definitions as there are authors writing on family businesses. However, in general, a family owned business is one

1. In which two or more extended family members influence the business through the exercise of kinship ties, management roles and ownership rights and/ or

2. Which the owner intends to pass to a family heir.

Family business writers have contributed scores of definitions in the family business literature emphasizing different aspects of a family business, particularly the form and level of family involvement, or ownership control, the anticipation or occurrence of an intergenerational transfer of ownership or management control. There are various definitions of family run business and these can be grouped into two:

1. **Structural definitions:** These definitions focus on the firm's ownership or management arrangements.

   "Ownership control by the members of a single family." *Barry (1975)*

   "Ownership control by a single family or individual." *Barnes and Hershon (1976)*

   "A small or closely held business". *Becker and Tillman (1978)*

2. **Process definitions:** these definitions stress on how the family is involved in the business – its influence on company policy, its desire to perpetuate family control of the business and so on.

   "Closely identified with at least two generations of a family; link has had a mutual influence on company policy and the interests and objectives of the family." *Donnelley (1964)*

   "Two or more family members influence the direction of the business through the exercise of management roles, kinship ties, or ownership rights". *Tagiuri and Davis (1982)*

To summarize, we believe that the essence of a family business consists of a vision developed by a dominant coalition controlled by one or a few families and the intention of that dominant condition to continue shaping and pursuing the vision in such a way that it is potentially sustainable across generations of the family. We use intention instead of ability because a financially failing family business does not cease to be a family business. To capture this following definition is proposed:

> "The family business is a business governed and /or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."

Thus, we arrive at a working definition of a family business. A family business is a unique synthesis of the following:

- Ownership control (15 percent or higher) by two or more members of a family or a partnership of families
- Strategic influence by family members on the management of the firm, whether by being active in management, by continuing to shape the culture, or by serving as advisors or board members
- Concern for family relationship
- The dream (or possibility) of continuity across generations

Characteristics of Family Business Firms

The following characteristics define the essence of the distinctiveness of family firms:

- The presence of the family
- The owner's dream of keeping the business in the family (the objective of business continuity from generation to generation)
- The overlap of family, management, and ownership, with its zero –sum (win-lose) propensities, which render family businesses particularly vulnerable during succession
- The unique sources of competitive advantage derived from the interaction of family, management, and ownership, especially when family unity is high

Types of Family Business Firms

1. **A family owned business** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family.
2. **A family owned and managed business** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control.
3. **A family owned and led company** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the Board of directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture and strategies.

15.4 Current Scenario of Family Business Management

International Scenario

The family firms still dominate business life around the globe, and they are especially important in the emerging markets of Asia and Latin America. Germany, Japan and the US were quick to adopt the corporate form of organization as they industrialized in the late 19th and early 20th centuries, and today their economies are hosts to giant, professionally managed corporations like Siemens, Toyota, Ford, and Motorola.

"Before the multinational corporation, there was family business. Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business."
- William O'Hara

Majority (65 - 80 %) of all businesses worldwide are owned or controlled by families, including 40 percent of the Fortune 500 corporations. In the United States, family businesses employ more than half of the workforce and generate more than half of the gross domestic product (GDP). Indeed, family-controlled businesses are the dominant form of business throughout much of the world.

Germany, Japan and the US were quick to adopt the corporate form of organization as they industrialized in the late 19th and early 20th centuries, and today their economies are hosts to giant, professionally managed corporations like Siemens, Toyota, Ford, and Motorola. On the other hand, the private sectors of France, Italy, and capitalist Chinese societies like Hong Kong, Taiwan are dominated by smaller, family-owned and managed businesses.

Family business management is one of the oldest forms of management. The family owned businesses in the world were basically hailed from Japan (Kongo Gumi family in Construction business in the year 578 & Ho Shi family in Hotel business) , followed by family owned businesses in Austria , France and Italy (All connected with food items - restaurant, wine, foundry) .

Some of the top conglomerates which belongs to the Family Business Management category are:

Name	Industry	Founded	Revenue	Employees
Wal-Mart Stores	Retail chain	1962	$244.5 billion	1.4 million
Ford Motor	Auto manufacturer	1903	$163.4 billion	350,321
Samsung	Conglomerate	1938	$98.7 billion	175,000
LG Group	Conglomerate	-	$81 billion	130,000
Carrefour Group	Retailing	-	$72.035 billion	396,662

In the top "Global 250" family business houses, U.S. companies account for the lion's share i.e. 130 out of the 250, far ahead of runner-up France with 17 and Germany with 16. But only seven U.S. companies made the top 25. Korea, where power is concentrated among family-run industrial groups, placed only three companies on the "Global 250"—but all three ranked in the top 11, and two of those placed among the top four. Clearly, family economic power remains much more concentrated in some countries than in others.

Indian Scenario

Family Business contributes 60-70 percent of GDP of most developed & developing countries. India is no exception. Given the importance of family-run businesses in the Indian economy, such news is, to say the least, worrying. Sixty-six of Business India's Super 100 companies are family-run. According to Business Today, family-run businesses account for 25% of India ink's sales, 32% of profits after tax (pat), almost 18% of assets and over 37% of reserves. In the other side, just 13 percent of the Family business survives till 3rd generation & only 4 percent go beyond third generation.

Indian firms, by and large, continue to be family-run. And that, too, by the Bania families of the traditional trading castes. It is predominantly the Aggarwals and Guptas in the North, the Chettiars in the South, the Parsees, Gujarati Jains and Banias, Muslim Khojas and Memons in the West, and Marwaris in the East, and, in fact, across the country. Of these, the Marwaris have been the most successful. Fifteen out of the twenty largest industrial houses in 1997 derived from the Vaishya or Bania trading castes. Eight of them were Marwaris. Of the 128 merchant Marwari sub-castes in Rajasthan, only five became big and prominent in national commerce. These were the Maheshwaris, Oswals, Aggarwals, Porwals and Khandelwals. The big old business houses in India include Tatas, Birlas, Bajaj, Reliance, Mahindras and Wadias. J.R.D. Tata was group chairman in 1939, Ratan Tata, his nephew, heads it today. G.D.Birla's great-grandson, Kumar Mangalam, presides over India's sixth biggest business group. Anand Mahindra and Rahul Bajaj are expanding on the base inherited from their grandfathers.

15.5 Scope and Significance of Family Business

In most countries family business is the dominant form of business ownership and management. Historically, companies and other forms of ownership developed following individual and family run farms and businesses, particularly to meet the needs of generating larger amounts of capital and dealing with legal issues such as protection against lawsuits and bankruptcy. It was the Industrial Revolution that replaced family based craft industry with larger manufacturing enterprises. More recently, the rise of a giant service sector generated numerous new opportunities for family ventures.

Although big, public companies tend to attract the most attention, especially in terms of share offerings, stock values and speculation, family businesses will undoubtedly endure as the backbone of enterprise. The desire for autonomy to be one's own boss and for family independence appears to be a basic and unchanging human trait. This motivator accounts for many career switching entrepreneurs, who start up tourism and hospitality businesses. And it's all just to escape what they do not like about their existing work, and to steer their own economic future. But in lesser developed economies there might be little choice either runs a business of own or move out. Tourism in developing countries offers numerous opportunities for self employment and small, family businesses that otherwise would not exist.

Family businesses are especially dominant in rural and peripheral areas because of traditional land owning patterns and the impracticalities of operating larger corporations in marginal economies. Hence, farm based tourism and hospitality consists almost entirely of family businesses. Increasingly, individual and family investors are drawn to rural and peripheral areas or small towns for lifestyle reasons and tourism or hospitality provides the economic means to realize these goals.

Family businesses from every trade imaginable have been around for centuries – from shoemakers to confectioners to farmers. Family owned businesses play a crucial role in the economy of most countries. Much of the retail trade, the small-scale industry, and the service sector are run by family businesses. Worldwide, family managed businesses employ half the world's workforce and generate well over half the world's GDP. In India, family-owned businesses have played and will continue to play a central role in the growth and development of the country. Indian family businesses have been and will continue to be key drivers of the economy, and what changes these businesses need to undertake to continue to succeed.

With time, the contribution of family businesses has gone beyond simply paying taxes and employing people. During the last 100 years or so, Indian family businesses have made significant contributions in three areas.

The Freedom Movement: Family businesses were as integral parat of the Indian freedom movement. In the early years, firms were created specifically to pursue ideals such as import substitution and economic freedom from the colonists. The Godrej enterprise, for instance, was started by Ardeshir Godrej in 1897 with a vision to promote India's economic freedom.

Spirit of Entrepreneurship: Family businesses have done an excellent job of keeping the spirit of enterprise alive especially through the 40 years of quasi-socialism. The spirit survived onerous taxation and repeated government attempts to undo supposed 'concentration' of economic power.

Philanthropy: Lastly Indian family businesses have played a significant role in giving back to the community. And it is not just the large groups that have been active numerous foundations engaged in charitable work are supported by scores of small and medium family enterprises.

Also, family businesses in India have several inherent advantages that provide them with unique strengths:

Trust Lowers Transaction Costs: It is well documented fact that 'trust' lowers transaction costs, corruption, and bureaucracy. Trust can be a source of significant competitive advantage to a family business. In India, family businesses have often revolved around large joint families.

Small, Nimble and Quick to React: Family businesses, both small and large, tend to be quick to react to threats as well as opportunities. There are fewer decision making gates and constituencies to deal with. Very often the survival of the family depends on the survival of the business.

Information as a source of advantage: Many family businesses are private enterprises. This is an advantage since a private company can see the strengths and weaknesses of its public competitor and act accordingly while the converse is not true.

15.6 Family Business System Governance

The "3-Circle" Model of Family Business

The "3-Circle" Model developed by Tagiuri and Davis at Harvard (J. Davis 1982; and j. Davis, 1982,1989) incorporates family, business and ownership systems into the definition of the family business system. Each of these systems interacts with the others and influences their membership, goal and dynamics. Each system in the 3-circle model has a developmental framework and is given below:

The business system: Start up, expansion/ formalization and maturity.

The family system: Young business family, entering the family business, working together, passing the baton.

The ownership system: Controlling owner, sibling partnership, cousin consortium.

In a family business, the business, family and ownership all need governance. Effective governance in the family business generates a sense of direction, values to live by or work by and well understood and accepted policies that tell organization members how they should behave or what they should do in certain circumstances. Good governance contributes three fundamental ingredients for a healthy family business system functioning:

- Clarity on roles, rights and responsibilities for all members of the three systems.
- Discipline to help members of the family, business employees, and owners act responsibly.
- Regulating appropriate family and owner inclusion in business discussions.

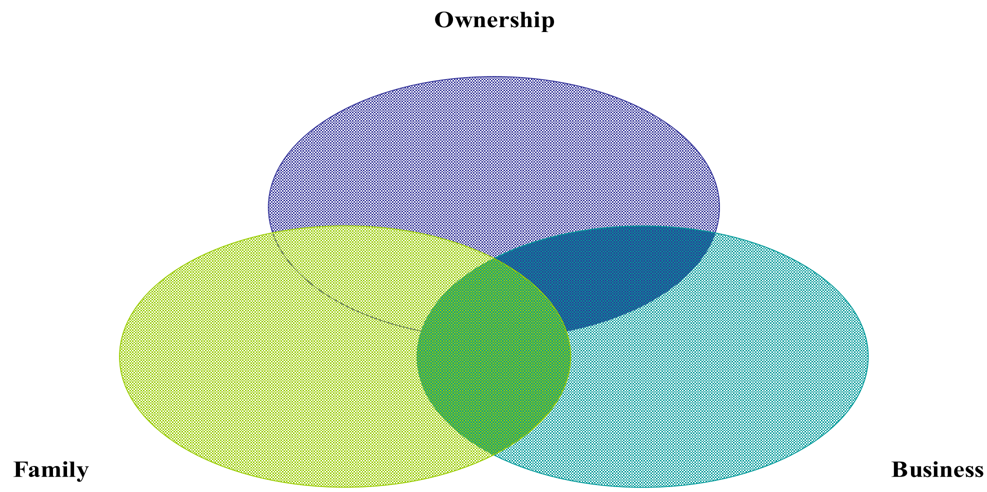

Figure 15.1 : Model of Family Business

Most family business systems can be governed by a structure. Senior management is the organizing mechanism and voice of the employees. Each circle has a governance structure and a plan.

- A family council would govern the family and prepare a family plan.
- A management team would lead the business and prepare a management development plan for succession and a business plan.
- A board of directors would govern the owners or shareholders and would be responsible for the strategic plan, continuity plan, contingency plan and the succession plan.

Governance of the Family Business

There are three components to family governance:

- Periodic (typically annual) assemblies of the family; all families in business can benefit from this activity.
- Family council meetings for those families that benefit from a representative group of their members doing planning, creating policies, and strengthening business-family communication and bond.
- A family constitution—the family's policies and guiding vision and values that regulate members' relationship with the business. This written document can be short or long, detailed or simple, but every family in business benefits from this kind of statement.

The rare family in business may have a more elaborate family governance structure, with a separate meeting for family-owner-managers or a separate council for family shareholders or periodic meetings between shareholders, the board, and management. I prefer the simplest structure that does the job and the three components above are all most families in business need.

Properly composed and managed, a family assembly and family council help:

- Develop clarity on roles, rights, and responsibilities for family members.
- Encourage family members, family employees, and family owners to act responsibly toward the business and the family.
- Regulate appropriate family and owner inclusion in business discussions.

The family assembly typically meets annually, lasts one to two days, and includes all adult family members (yes, including in-laws). Families need to decide at what age children should attend these meetings. One family says that children should attend when they are able to feed themselves; most families start bringing the younger generation into meetings at around age 16. For the young children, families should still consider organizing some group activities where the children can begin to learn about the business and develop relationships with their siblings and cousins. Family assembly activities include learning about the business through presentations by family and non-family managers, discussing (not deciding) the direction of the company, being educated about what the company does or about important skills like reading financial statements. It is also a good forum to get updated on changes in the family such as important events and accomplishments, and on changes in ownership. For example, have any shares changed hands since the last meeting? Are there new tax laws shareholders need to be aware of?

If your family has fifteen or fewer adults, you may be able to have in-depth discussions and create plans and policies in the family assembly meeting. When the family grows beyond this size certainly, families generally benefit from having a family council. The family council can perform all of the following duties:

- Plan family assembly meetings, which otherwise the CEO usually has to arrange.
- Discusses current business, ownership, and family issues and direction and keep the family informed about these.
- Help the family reach decisions and speak with one voice about its goals.
- Keep the board of directors informed about family views about the company and maintain a dialogue with the board about key business policies and plans.
- Develop plans and policies, in conjunction with the board, that regulate family activity with the business.
- Guard against family interference with the business while seeing that the family's key goals are satisfied.
- Develop loyal, informed, contributing family shareholders.
- Scout the family for business talent.
- Create educational events or otherwise encourage the education of family members about the business.
- Plan family social gatherings and rituals and help to create healthy, harmonious family relationships.

Any family council that accomplishes these tasks strengthens a family's relationship with its business and its discipline and is a valuable resource for management and the board.

The family council can be composed in several ways, the typical way being one member elected per family branch. One should try to compose the family council so that it "looks" like the family, having adequate representation of all generations, genders, in-laws, actives and passive owners, hometown and geographically distant relatives. The family council typically meets a few times each year for one or two days each time. Most families reimburse family council members for their expenses but do not offer any compensation for their service. Other families feel at least a modest compensation is warranted and earned.

Families in business need to nurture members' feelings of trust and pride concerning the family and business as well as build a sense of teamwork to keep a family committed and disciplined in its relationship to the business. It is wise, therefore, in the family council and family assembly to emphasize consensus decisions around family goals and policies, openness to various viewpoints, as well as significant transparency in company operations, decision making, and ownership holdings. If the family is reluctant to engage in the discussions it needs to have in the family councilor assembly—out of concern about potential family conflict, not understanding what these groups should do or just being shy in these meetings—hire a facilitator to help organize the meetings. Good structures that do not address the right topics are a costly waste of time.

The board and family council should coordinate their work and not overstep each other's domains. Coordination may take the simple form of having the council and board update each other periodically on their important objectives, having an annual joint planning session, or having a board member sit on the council or vice versa. Again, I opt for the least complicated solution to achieve adequate communication and coordination between these two groups.

The family constitution articulates a family's vision for itself and the business, its core values and the policies and guidelines that maintain family discipline. Among the policies a family council might create include:

- Employment standards for the next generation.
- Career development policies for family employees.
- Family compensation.
- Succession process, including retirement ages.
- Ownership, including buy-sell agreements.
- Dividends.

15.7 Succession in Family Business

Succession is not about who sits in the corner office. It's about the survival of the business as an economic entity. That means the incoming leader must first attain a body of critical knowledge, and that takes time. The process of succession should begin long before the current leader's retirement party is scheduled – a complete transfer of control can take up to ten years.

Succession planning should involve the whole family, whose goal should be enabling the business to grow and prosper for the family's benefit. The current leaders, who may have started the business, must learn to let go of control – a difficult task for many.

Transfer of control is a process, not an event. It requires leaders to think like professional managers rather than entrepreneurs. They must practice their best management skills to ensure a successful process. They should operate from a written plan that includes a timetable for key events and measurable benchmarks. They also need to identify the person who will be held accountable for achieving the desired outcomes.

It's vitally important to ensure that successors have a solid base of experience away from the family business. They need to be accountable for their performance and know how to handle responsibility and watch the money. Failure to fully understand the financial aspects is a common cause of failure in family businesses.

Finally, the successor who is focused on living well often forgets about minding the store. It is critical to stay focused on feeding the goose that lays the golden eggs, or you could end up dining on burnt offerings.

Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. Taken narrowly, "replacement planning" for key roles is the heart of succession planning. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001). In contrast, replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. For the most part position-driven replacement planning (often referred to as the "truck scenario") is a forecast, which research indicates does not have substantial impact on outcomes.

Companies that are well known for their succession planning and executive talent development practices include: GE, Honeywell, IBM, Marriott, Microsoft, Pepsi and Procter & Gamble.

Some clear objectives that are critical to establishing effective succession planning and may be embedded in the succession process are mentioned below:

- Identify those with the potential to assume greater responsibility in the organization
- Provide critical development experiences to those that can move into key roles
- Engage the leadership in supporting the development of high-potential leaders
- Build a data base that can be used to make better staffing decisions for key jobs
- Improve employee commitment and retention
- Meet the career development expectations of existing employees
- Counter the increasing difficulty and costs of recruiting employees externally

Succession – Three ways to ease transition

1. **Hire the Most Competent Advisors You Can Find and Afford.** Succession planning is a complicated process and requires different kinds of expertise. Not every profession service advisor has the special training and experience necessary.

2. **Business Valuation is a Critical Element of Succession Planning.** A valuation for sale to the next generation of family has different formulas than a valuation for sale to someone outside the family. Yet a different formula would be used for estate tax planning purposes. Depending upon the purpose of the valuation, costs can vary significantly.

3. **Funding is Often a Hidden or Non-recognized Cost of Succession Planning.** It is important to understand that the business may need to grow significantly in order to pay the transition costs which include taxes, insurance, professional advisors, setting up trusts and purchasing business stock.

A good rule of thumb is that the business needs to grow by at least 20 percent more than the normal growth pattern to offset the costs of succession without disrupting the profitability and cash flow of the business. Some of the business, family and board conditions that favor succession transitions in family firms are discussed below:

Business Conditions

1. The transition occurred when the organization was relatively "healthy."
2. The founder moved gradually away from active involvement in the firm's operations.
3. There was a well-developing training and socialization program for the successor.
4. There was an interdependent relationship between the founders and their successors.

Family Conditions

1. The family shared common views concerning equity.

2. The family had planned for emergencies and other contingencies.
3. The family had developed mechanisms to resolve conflict.
4. The family shared super ordinate goals.
5. High trust existed among family members.

Board Conditions

1. Power relationships were clear—little ambiguity.
2. The board had the necessary expertise to manage problems of both the firm and family.

In addition, a study by Stempler (1988) of fifteen family-owned businesses indicates that respect, understanding, and complementary behavior between the next-generation family member and the organizational leader is critical to an effective succession. Handler's (1989) qualitative research in thirty-two family firms confirms that mutual respect and understanding between the founder and next-generation family members running the firm is an important component of good succession outcomes.

15.8 Pitfalls of Family Business

Future Challenges

The "big" issues are yet to come, such as what will happen after Mom and Dad are dead, who will actually end up with control, and what if the company can't afford the cash for distributions to the non-active owners. What if someone wants to cash out of the corporation, or serious conflict erupts between siblings over cousins entering or leaving the business? Many families seem to confuse ownership of the business with membership in the family or assume Mom and Dad's legacy is to spread the ownership around, and some feel that all must share in the financial rewards for years to come.

The Disadvantages of the Family Business

1. **The Risks of Ownership.** The general consensus of family members is that the family business will continue to make a profit thus providing cash for them plus other benefits as it has always done in the past for Mom and Dad. However, as business management changes, policies change, in-laws are involved, and seldom are there funds available for non-active owners. Other factors can also manufacture situations that create risk for the business such as:
   - Non-active shareholders become angry and demand to see the financial statements in an effort to receive their "fair" share of the income.
   - Family unity and commitment to the business weakens.
   - Conflict increases between active and non-active siblings and other relatives.
   - The market for the business's services and products dries up, or the competition forces the family firm out of business.
   - Poor and undisciplined management forces company into bankruptcy. All shareholders are responsible for their percentage of the debt.
2. **Where Will Control Rest?** Even naïve parents realize the need for those closest to the action being the only people or person in absolute control. Thus, we often see attorneys summoned for the purpose of recapitalizing the business into preferred voting stock and non-voting common stock, or a voting trust

put in place for the key shareholder, or simply the clear majority of the stock will rest with the active siblings. Of course, this leaves the minority shareholders with minimal power and control. Minority shareholders normally are given protection of their ownership by having a say in: sale or merger of the company, the issuance of stock to others, borrowing money in excess of a set amount, a major capital expenditure. Legally, minority shareholders can charge active owners of taking more compensation than they are worth and using corporate dollars for personal benefits, thus calling for new management or for sale of the corporation. Also minority shareholders get to vote for members of the company board each year.

3. **The Subtle Messages of a Buy/Sell Agreement.** We encourage families to put an agreement in place that will make it relatively easy for a shareholder to exit ownership of the business. However, some families believe multiple shareholders will be in place forever. In our experience, this is not the case in 99 percent of families. Buy/sell agreements protect the company and its stock, for example, against a shareholder getting divorced and giving an ex-spouse an ownership stake, where the stock must go in case of death, what must happen to the stock in the event of a shareholder declaring personal bankruptcy, and if the stock can be pledged as security for other business investments. Sometimes, a shareholder just wishes to have control of his or her own investments and opts out of the family business. Are they disappointing their deceased parents? Are the active siblings sending a message to the non-active that they do not trust them or their intentions?

   Back to the family with seven children of which four were not active in the business. As time passed, the S corporation only distributed enough cash to the shareholders to cover their individual income taxes due on this investment and nothing else. Three of the four wanted to cash out and control the destiny of their investments and make a reasonable return. However, disadvantage number four springs from this dilemma.

4. **Inability for Shareholders to Cash out of the Family Business.** Most private companies we know lack the financial ability to fund the redemption of stock from one major shareholder let alone three at one time. Funds are typically not available, and most owners will refuse to go to the bank for a loan as it might put the company in a poor financial position. Thus, the minority shareholder wanting to cash out either cannot do it or must follow certain company policy, which normally discusses the conditions and timing of a stock redemption.

   We often wonder why parents insist upon bequeathing the future risk of the business and the work and commitment of the active children to the inactive ones. Why would the active child want to build the company bigger and more profitable, and then see a certain percentage of the rewards go to non-active owner siblings or cousins?

Pitfalls of Family Business

When only 30% of family businesses survive to the second generation and 10% to the third, it begs the question: Why do family businesses die so quickly? Since 92% of businesses are family-owned, they employ a vast majority of the country's workers. The success of family-owned business affects everyone.

There are several unique challenges in running a family business. The most obvious is you can't get away from coworkers at the end of the day because they are eternally tied to your personal life. The inverse of that is equally true. What falls out between you and your sibling at Thanksgiving dinner will ultimately impact your working relationship. It is this very merger of personal and business relationship which led corporations years ago to discourage romantic relationships and nepotism in the staff.

How Many Pieces of the Pie?

Roles and positions in family firms are not always tailored to the particular skill set. Often it is a noncompetitive recruitment initiative that designs the job around the candidate rather than vice versa. On the other hand, the collective passion of the family team can be a driving force if unproductive competitions, communications, and complacencies do not undermine the business.

Founder Charisma

A family business is a unique culture. Often it is tied to the charisma and vision of the founder. He or she creates the bonds of staff to management and the culture that often makes many of the staff feel like part of the family. Unfortunately, more often the not, it is difficult for the founder to let go until well into his 70s or 80s. By then, the entrepreneurial passion of the successor who is usually 50-60 might have significantly waned.

Succession Issues

As everyone watches the next generation grow up, the anticipation and concerns about succession abound. Unlike most public firms that typically replace CEOs five times more than family firms, the founders hold onto the culture and the knowledge, creating a knowing-doing gap with the next generation unless careful attention to progressive succession is cultivated.

Lack of Structure

Family businesses often start as a side job or a hobby that turns into something bigger. Rising to greatness from humble beginnings is one of our favorite American stories; however, it does have its drawbacks.

If you start your family business as a simple hobby, you're not really worrying about your business plan or who will sit on your board of directors, are you? You're just looking to make a few extra bucks. If you manage to succeed and grow, and keep succeeding and growing, you can find yourself operating as a small to mid-level business without normal business structures in place. Lack of structure creates lack of organization, lost profits, miscommunication, overlapping job responsibilities and a myriad of other problems that combine to make it difficult to keep succeeding and growing.

Even if your family business is just a hobby, do yourself a favor and take it seriously. Business plans don't have to be complex documents, and writing even a simple one will give you a foundation for structure in the future, as you need it. If you are in the place of operating a full-fledged business without structure, stop right now and get some structure in place.

Wrong Person in the Job

Cousin Jimmy needs a job. Your business needs a salesman. Voila! Cousin Jimmy is employed, and you have a salesman on the floor. The only problem is that Cousin Jimmy is the cousin everybody avoids at family reunions because he talks incessantly and somehow never sees the barbecue sauce stain on his shirt. Congratulations...now he's representing your business.

Most cases of wrong-person-in-the-job aren't that horrific (though there are some), but keeping a family member employed, or employed in the wrong position, despite performance...that happens much too often. And it can ruin a good business.

Even though nobody actually believes that phrase, "It's not personal, it's business," you need to act like you believe it. Firing isn't always the solution, of course, though I am in favor of cutting straight to the bottom line. Family members who are performing poorly may just need to be in a different position.

And when it comes time to pass on the reins to the next generation, don't just assume they're ready or able to take on the leadership of the business.

Failure to Plan for Transitions

Second-generation family business owner Ted Hofer says that his father took the need to qualify Ted for his position as CEO very seriously. "My father had a five-year succession plan to prepare me and the company for the transition," says Ted. "I learned every aspect of the company over five years, even spending a summer treating lawns for one of Spring-Green's company-owned locations."

Unclear and/or Unfair Expectations

Of course you'll get to work two hours early for no extra pay! Of course you'll go without a paycheck this week! Of course no one will mind if you show up a little late! Of course it's okay if you borrow the company car for the weekend! Of course the business will pick up your vacation expenses!

It's all in the family, right?

There are blurred lines with family and business. When a family is personally invested in a business, they often are willing to give more than your average employee. But assuming that all family members will happily sacrifice for the business is a bad idea. So is assuming that because you're a family member you can use business assets anytime you'd like. "It's also good to set boundaries," says Amanda Haddaway, who works at family-owned Folcomer Equipment Company with her dad and stepmom. The lines may be blurred, but make sure the lines are there.

Allowing Family Ties to Undermine Business Roles

Family structure is important. But if you have power struggles because older brother Tom doesn't want younger brother James to be his manager, you've got a case of family ties interfering with business. When family structure keeps the right people in the wrong jobs, or has everybody distracted over personal relationships when they should be focused on productivity, you've got a problem.

15.9 Improving Family Business Performance

Some family owned businesses (FOBs) have a long-term history of consistent profitability. Others, however, have a similarly long-term history of weak performance. The obvious question is why. There are a small number of salient factors, which are critical.

The Concept of "Core Business Values"

The management of every family business requires that decisions be made about a myriad of issues. The totality of these decisions becomes, in effect, the family's core business values. Of particular importance are the core values regarding the training of family members entering the business; business objectives; finances; and the accountability of family members? Depending on the circumstances, the family may adopt these values consciously or unconsciously, or for that matter, willingly or unwillingly. Regardless, the functionality of the FOB's core business values is crucial to its performance, both short and long term.

Critical Core Business Values Impacting Family Business Performance

Given that every family business has its own dynamics, it would be impossible to identify a list of definitive core business values. Nonetheless, four dysfunctional core values tend to be particularly common to under-performing companies. Specifically, these involve the training of the successor generation, the family's outlook on the future, accountability and finances.

Training

The need for sound training of successor generation(s) is often overlooked on a regular basis in FOBs. In part, this is because of a common belief that tertiary education and a little bit of exposure to the business should be enough to prepare an in-coming family member adequately.

In particular, the benefit of substantial exposure to every critical aspect of the business is not recognized. Additionally, there is generally no formal effort to continue with outside training, be it through additional course work, workshops, industry based programs, etc. Particularly in today's fast moving and competitive environment, the need for consistent training experiences is vital.

Future Outlook

Poorly performing businesses have tended to have little real concern about the future, and have failed to recognize the necessity of preparing for the environmental changes that are inevitable.

FOBs need to acknowledge that the future will be different, and so the family must consistently make efforts to plan for and manage change pro-actively. The failure to do so has led to the demise of many FOBs that had been very successful at one time.

Accountability

The simple act of establishing performance criteria and periodically evaluating performance relative to those criteria is a relatively simple task. At the same time, it is one of the most difficult tasks the FOB faces. Even more difficult is the issue of dealing with poor performers. In today's highly challenging environment, however, it is virtually impossible to compete effectively over an extended period of time without it.

Finances

Many FOBs adopt core values around finances that are unsustainable owing to an insufficient understanding of the need for and benefit of retaining cash within the business. As a result, these FOBs tend to be chronically cash poor, and subsequently under-perform. Further, these companies are highly vulnerable to business downturns and other types of setbacks.

Other Critical Core Values

Many other core values can also often have a critical impact on performance of family businesses. In particular, these values tend to involve decision-making processes, internal communications, methods of conflict resolution, methods of compensation and the formality of the FOB's operating procedures.

15.10 Summary

Family enterprises, irrespective of scale of operation, legal form, industrial activity, and level of socio-political and market development have been the backbone of corporate life, across nations, remaining a cornerstone of socio economic development. Historically, family firms are, for the most part, enduring institutions. Their importance parallels socio-cultural advances, technological advances, and the so called new market order associated with globalization.

Family firms are said to be the originating form of any business activity (Wakefield, 1995), dominating the economic landscape of most major economies in the world. Two thirds of all enterprises worldwide are said to be family-owned and/or managed (Gersick et al., 1997). In Germany, between 60% and 90% of all firms can be considered as family firms. The life span of family firms is however often relatively short, as only a limited number survives the transition to the second generation, and hardly one-third even into the third.

15.11 Self Assessment Test

1. What is the main problem to the failure of many family businesses?
2. What will you suggest for a successful transfer of a family business?
3. What family business owners should do in order to make the business function well?
4. Summarize what a family business manager should do in planning his / her succession management.
5. Explain the 3 circle model of a family business.
6. Identify the requirements needed to save a family business.
7. Define family business and explain various types of family business.
8. Discuss various disadvantages and pitfalls of Indian family business with examples.
9. Discuss the importance of succession planning in a family business.
10. Identify the points to be taken into consideration while developing a succession plan in a family business.

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Unit - 16 : Strategies for Small Business

Unit Structure:

16.0 Objectives
16.1 Introduction
16.2 Process of Strategic Management
16.3 Small Business Life Cycle
16.4 The Strategic Orientation for the MSME
16.5 Growth Strategies for Small Business
16.6 Summary
16.7 Self Assessment Test
16.8 References

16.0 Objectives

After studying the unit, you will be able to understand:

- Meaning of Strategy
- Process of Strategic Management
- Life cycle of Small Business
- Various growth strategies for small business
- Importance of strategies for growth of small business units

16.1 Introduction

Strategies, in simple sense, is referred to as a well planned course of action which is formulated to achieve certain specific objectives. The term 'strategy' is derived from the Greek word 'Strategos' which means generalship.It has been defined by many experts in many ways. Alfred Chandler refers strategy as involving three aspects, viz, determining long term goals and objectives, adoption of courses of action and allocating resources necessary for adopting the course of action. Kenneth Andrews terms strategy as the pattern of objectives, goals, purpose and the William F Glueck defines strategy as a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved. Thus, it is observed that strategy is an important ingredient of management control. Strategic decision making is one of the most prominent task of senior management (Kazmi, 2002).Strategies are formulated at different levels, viz, the corporate level, business level and functional level. Strategy formulation are important for the survival and growth of business firms. Managers have to plan beforehand in order to avoid the evil consequences of business fluctuations. This is more so in the case of small business units, which are already affected by factors like lack of capital, raw materials, sophisticated technology , market awareness and the like.

16.2 Process of Strategic Management

The process of strategic management involves four steps:

A. Establishing Strategic Intent: This stage sets the platform for strategic management for any organization. Here, the mission, vision, objectives are defined which reflects the purpose for what the organization stands. Mission binds the organization to the society, whereas the vision element states what the organization wishes to achieve in the long run. While the objectives of the organization sets the standards for measuring organizational performance.

B. Strategy Formulation: At this stage, the organization conducts various activities including performing organizational and environmental appraisal to detect opportunities and threats operating in the environment alongwith the organizational strengths and weaknesses, formulating corporate and business level strategies and preparing the strategic plan.

C. Strategy Implementation: Here, strategies are activated and implemented. Structures are designed and strategies are operationalised.

D. Performing Strategic Evaluation and Control: Finally, strategies are evaluated to determine its successfulness and to exercise control over the strategic management process. In case of necessity, strategies can be reformulated.

16.3 Small Business Life Cycle

Business enterprises are a result of the business environment. The environment is ever changing in nature, and enterprises, in order to survive, should be sufficiently strong enough to cope with these challenges, which necessitates that it should grow to make the concern going. This is more so in case of small business. Small Business, although simple in nature and operation, requires human resources with greater skills and talents as compared to those in large scale enterprises because of the reason that the overall success of a small business depends on the competence of the promoter. New ventures, specifically, passes through various transitional stages, which poses challenges to the promoters. Represented in the form of an organizational life cycle, these transitional stages in small business necessitates promoters/ entrepreneurs to be alert and adaptive to changes that occur rapidly in the business environment. Entrepreneurial behavior plays a crucial role in decision making process at these various stages.The organizational life cycle consist of the following stages:

1) Start-up Stage: At this stage, the growth of an organization is characterized by inconsistency. Production and sales takes place in a limited scale.Competetion does not arise at this stage.

2) Growth Stage: Here, the business enterprise is gradually able to set up a position in the market. Production and sales level increases alongwith increasing competition.

3) Expansion Stage: During this stage, the business is characterized by rapid growth which assists entrepreneurs in evaluating market potential and opportunities for introducing new product lines. Innovation and developmental activities help in broadening product and service lines.

4) Consolidation/ Maturity Stage: As the intensity of competition rises, entrepreneurial concerns may have to face major decrease in their portion of market share. This is one of the most crucial stage. If necessary steps are not taken, it may result in organizational failure. Often referred to as 'industry shakeout period,' the majority of the weaker companies fail, sold out or are merged with others. Some of them consolidate with others to survive in the market. Moreover, the organization make efforts to shift authority downwards for improving efficiency. Staff reduction, reduction of product lines, withdrawal from high risk markets etc are some strategies implemented at this stage.

5) Revival Stage: At this stage, the organization once again tries to grow with new energies and ideas. The organization , in an attempt to scale new heights, makes strategies for achieving rapid growth. For this purpose, the enterprise reposition its product lines through effective segmentation of the market in terms of geographical area, targeted consumers, product et.This again provides a platform for product diversification. This necessitates innovations, which if repeated consistently, the company can achieve a pattern of upward growth. Strategies adopted at this stage mainly involves delegating authority to operational managers, making investment in research and developmental activities and restructuring organizations.

6) Decline stage: If sufficient safeguards are not taken at this stage, the growth of enterprises starts declining. Excessive diversification or creation of bureaucratic organizations maybe the reason for the rapid decline. The enterprise finds it difficult to survive because of reasons like gradual replacement of the products of an enterprise, changing preferences of consumer behaviour or due to some new innovations that may take place.

16.4 The Strategic Orientation to Build the Efficient Operation System for the MSME

The strategic orientation for the firm needs to focus on the resource utilization by maintaining the sustainability of the system. The right combination with waste minimization is important to enhance the performance. This requires the designing of the enablers to catalyze the development to gain the competitive edge in the markets. The enablers could be efficient and talented teams to harness the potential of market. The better designing of the improvement systems also enables cost reduction to enhance the profitability. Therefore the operational excellence can be achieved by:

- Strategy
- Performance to improve the cost structures
- Enablers- resource development to give the better products to the society

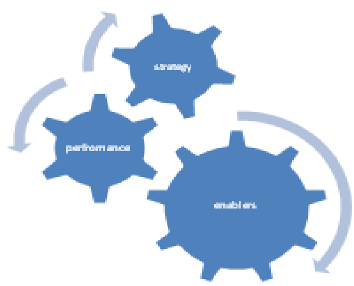

Figure 16.1 : The efficiency Building Through the Strategy in a Firm

The Designing of the Successful Business Models

The successful business models of the small firms can be built by the investment in designing the products in such a way that they meet the market demand. The better cost of the product can be built by the harnessing the raw materials at an optimum cost. The suppliers are important and the firms need to build efficient value chains so as to crystalize the better options of cost and profits for the firms. The cost and revenue management is important to build the successful business model where the products have the competitive edge of giving the utility and satisfaction to the customer at the minimum cost.

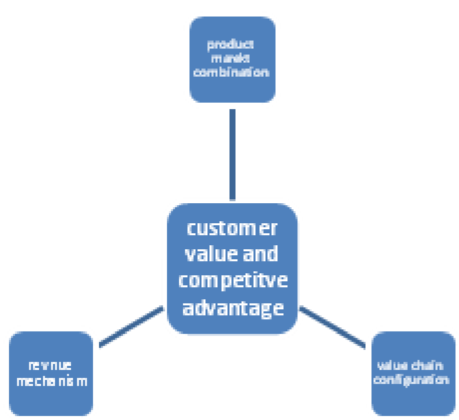

Figure 16.2 : The Components of a Successful Business Model

The Impact of Environment on the Successful Business Models

The business model works in a system which is exposed to the external forces of change in form of technological, socio-cultural and technological forces. The legal political environment also influences the business system because of the changing values. The firms in the industry need to work with suppliers in a coordinated way to get the benefits of the latest materials and substitutes coming into the market. The relations and rivalry in the industry also impacts the product cost. The successful business entrepreneurs need to build good relations in the market to give the competitive products to the consumers.

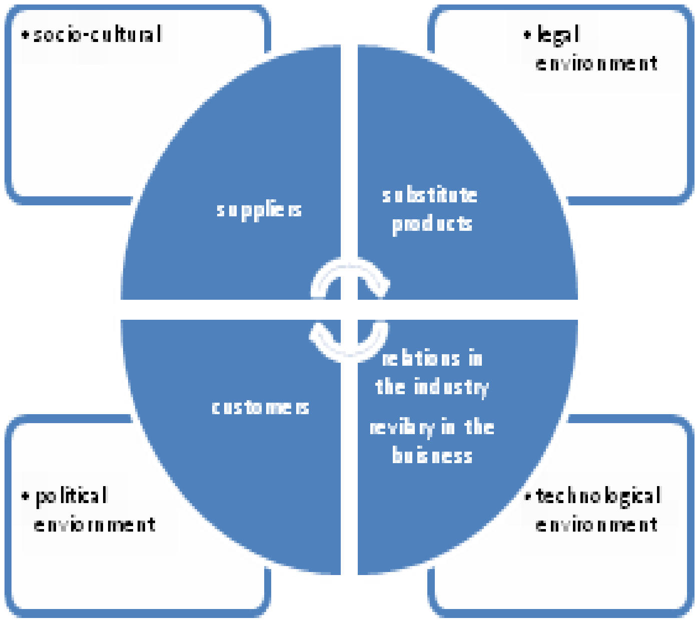

Figure 16.3 : The Environmental Impact on the Business System

The cost Reductions for the Operations of the Business System

The cost of production of any business firm depends on the cost of raw material procurement procedure, the impact of technology and the target market. The cost is also influenced by the make or buy decisions of the small firms and the specifications of the product required by the customers.

Figure 16.4 : The Factors Impacting the Cost of Production for MSME's

The cost reduction process needs to cover the operations related to all the areas of the business and it relates to the complete values chains. The comprehensive cost reduction strategy should emphasis on the technical benchmarking and the total value chain. The performance cost analysis should also focus on the innovation cost analysis by the process optimization built on the activity analysis and the supplier analysis.

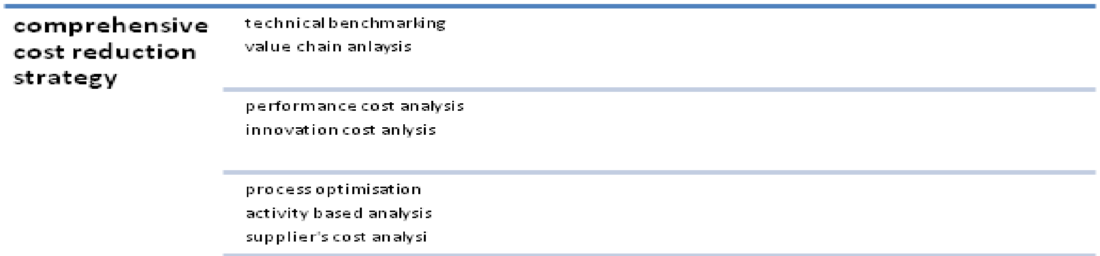

Figure 16.5 : The Comprehensive Cost Reduction Strategy

The cost of the production of small business firms is impacted by the following factors:

- sourcing functions
- unit prices levers
- Pro-activeness
- Develop professional buyers
- Structured approach for purchasing
- Price
- Negotiation
- Volume
- Concentration
- Relationship
- Redefinition and user
- Involvement

The small firms need to learn how to manage remote parts of their mega-networks while leveraging maximum synergies by doing the data- management. They need to find ways to obtain reliable purchasing information at a lower cost and with less effort. The basic ability is to get the skilled purchasing employees for getting the best options of the market is essential. The purchase cost of the materials is influenced by the modes of transportation and the availability of the resources at reasonable prices .The market forces influence the prices of commodities and the supplies. The cost of the materials is influenced by attention to the following areas.

- Focus on process optimization/change management
- Focus on demand management
- Focus on price reduction
- Focus on value chain configuration
- Focus on specifications/ concept changes

The purchase decisions of the firm should focus on optimization of cost by paying attention to:

- Quantity leverage
- Volume bundling
- Bonus agreements
- Corporate supplier negotiation
- Multi-year contracts

- Lifecycle contracts
- Purchasing cooperation
- Demand management
- Order management (batch size)
- Transportation option
- Working capital

The technical improvement in the purchase process can build the better communication systems with the suppliers to build the specifications which can be created with the technical emphasis on value analysis. The innovation analysis and the creativity can put the impact on the product improvement and development. The change process engineering can build the optimum cost for the production of products and services. The suppliers are important and small business firms need to build better relations with the suppliers so to come into the joint improvement program. The supplier manufacturing analysis can helping in reducing the costing of warehousing and inventory management. The early involvement and collaboration with the suppliers can establish the system supplier to develop the advanced and modernized products.

The improving of operating cost performance can be by preparing the suppliers with the better options of materials and then generating the cost reduction ideas. The change management process can improve the design and development of the products.

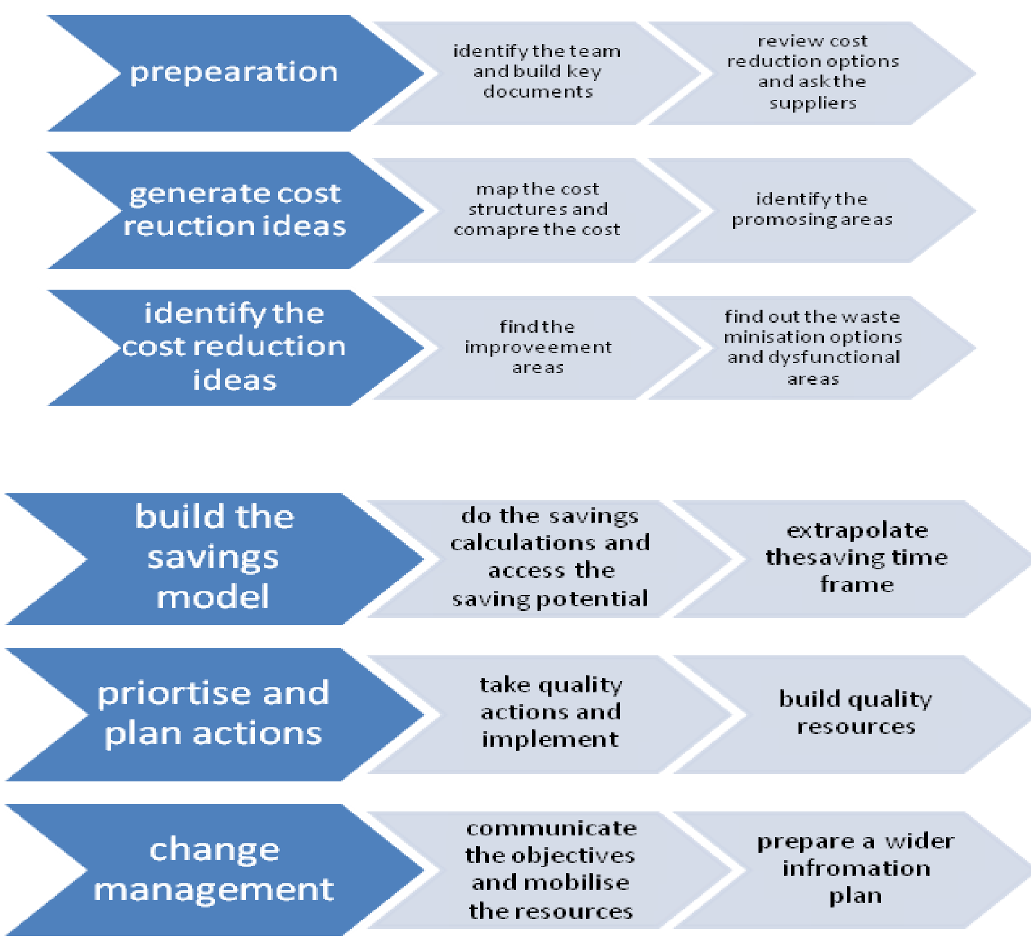

Figure- 16.6 : The Improving of Operating Cost of the Product Performance

The supply chain can empower the manufactures by the focus on:

- Manage the supply base
- Develop suppliers
- Integrate suppliers
- Build the supplier assessment system
- Basic tools Supplier Communication
- Formal performance
- Gap analysis
- Personnel and capital
- Supplier link
- Technology integration
- Integrating service
- Providers/system
- Suppliers/processes
- Integration structures and
- Product development

16.5 Growth Strategies for Small Business

Thus, we can observe that an organization passes through different stages and it has to face critical problems at every stage. For this reason, various strategies have to be formulated. Strategies like product modification, change in distribution channels, new market identification etc are implemented at the start-up stage to . Decision making skills are required at the expansion stage to continue expansion activities. Entrepreneurs should enlarge their enterprise and delegate authority to facilitate functional co-ordination.

Growth strategies are essential for retaining organizational competence. The basic growth strategies are mainly classified under two types:

1. Internal Growth Strategies

These strategies assist organizations to grow without taking the assistance of others.The main forms of strategies are expansion and diversification. Expansion refers to the enlargement or increase in size of business in the same product line. Expansion can be achieved by the enterprise through penetration into a new market or increasing the sales of a product in an existing market.For this purpose, enterprises implement different schemes like providing discounts, exchange offers etc. Moreover, market expansion can be done through developing or modifying the existing product for meeting consumer requirements. Expansion strategies, however , have certain disadvantages . Since expansion is concerned with the same line of business, therefore the business enterprise cannot take the advantage of new business opportunities.

On the other hand, a firm may grow through adopting diversification strategies. Diversification provides opportunities to the business to utilize new product lines. It is defined as the process of adding more products/ markets/services to the existing one. Some of the distinctive advantages of diversification are:

- it assist enterprises in making optimum utilization of resources and adds to its competitive strength.
- It minimizes risks and uncertainties.
- It assists business to prepare business enterprises to face business fluctuations.
- It ensures smooth operations of business and enhances its survival strength.

Diversification strategies, however, varies from organization to organization. Mainly, four types of diversification strategies are adopted, viz, horizontal, vertical, concentric and conglomerate diversification. In horizontal diversification strategy, the same product type or market is added to the existing one. Vertifical diversification refers to the strategy of adding complementary products / services to the existing product or service line. Under concentric diversification, an organization enters into such a business which is related to its existing one in terms of technology or marketing or a combination of both. Again, conglomerate diversification which is just the opposite to concentric diversification, refers to a growth strategy where the enterprise enters into such a business which is not related to the existing business either in terms of technology or market or both.

2. External Growth Strategies

Under this strategy, enterprises try to grow by joining hands with enterprises outside. Some of the popular external growth strategies include:

a) Joint Venture: This is one of the external growth strategies through which an enterprise can plan to expand business.It indicates a temporary partnership between two or more firms to do business for accomplishing a specific purpose.Joint venture can be for producing a product, it may be for marketing the products of the multinational etc (Sarkar, Sharma and Gupta, 2004).Partners entering into a joint venture are known as co-ventures who undertake operations of the joint venture and share profits/losses in an agreed ratio, and in case of absence of any agreement, shares profits/ losses equally. Joint ventures offers the advantages of risk diversification and possibilities of utilizing advanced technology and know-how. Moreover, benefits of economies of scale are enjoyed by the partner firms. However, complex legal restrictions are a major detriment towards survival of joint ventures. It is also necessary that there should be proper understanding among co-ventures to avoid conflicts

b) Merger: Another form of external growth strategy is merger, where two or more existing enterprises are combined into one.It maybe in the form of one or more companies being merged into an existing company or a new company maybe formed to merge two or more existing companies. Mergers offer the following advantages:

- Economies of scale are facilitated through utilization of the combined resources of the merged enterprises.
- Mergers results in obtaining synergy, which refers to the combined values of the firms merged in comparison to the sum of the values of individual units. The merged firms will enjoy synergy benefits like strong Research and Development benefits, managerial capabilities and the like.
- It eliminates competition.
- It facilitates diversification.
- It brings about a good public image.

Mergers can be mainly of three types, viz, horizontal, vertical and conglomerate.

c) Sub– Contracting: Sub contracting , also known as ancillarisation, refers to a mutually beneficial commercial relationship between the two companies. When a particular firm cannot meet demand for its products, it enters into a contract with another firm to carry out operations to meet demand. A sub contracting is defined as a relationship which exists when a company (called the contractor) places an order with another company (sub contractee) for the production of parts, components, sub assemblies or assemblies to be incorporated into a product sold by the contractor. This strategy offers advantages like production without investment in plant and machinery and the like.

Thus, we can observe that small business can adopt different strategies for its growth and survival. A strategic plan is a blueprint which guides an organization to develop and maintain a good image in the globalised scenario. The importance of effective strategic planning lies in the fact that it assists the enterprise to identify the opportunities and threats existing under different market conditions. This is more essential in the case of small business because these enterprises are vulnerable to the slightest change in the market, which may involve change in consumer's tastes and preferences, existence of substitute firms and fluctuations in the overall market trend. Strategic planning assists in improving business decisions and relationship with customers. Moreover, it helps in optimum utilization of available resources, thereby increasing the expected return on investment.

16.6 Summary

The small scale sector is highly vulnerable to changes in the business environment. The slightest change can make it difficult for the small business to survive. Therefore, it is essential for the management to chalk out different strategies for ensuring its growth and development. Strategies for small business can be mainly categorized into two types, viz, internal and external growth strategies. Internal growth strategies include expansion and diversification and external strategies include joint ventures, mergers and sub contracting. Formulation of strategies involves steps like business evaluation, defining the vision, mission and objectives of the organization and strategy implementation. If implemented successfully, it will result in enhancing the effectives of small business operations in the long run alongwith ensuring its growth and survival.

16.7 Self Assessment Test

1 What do you mean by a strategy?

2 Why do you thing is strategy formulation important for small business ?

3 What are the different stages of an organizational life cycle ?

4 What are the various growth strategies adopted by small business ?

5 What are the important elements of a strategy ?

16.8 References

- Kazmi,A. 2002 *'Business Policy Strategic Management'* Tata Mc Graw Hill Publishing Company Limited, New Delhi.
- Sarkar,S.S, Sharma, R.K. and Gupta,S.K. 2004. '*Business Organisation and Entrepreneurship Development*' Kalyani Publishers, New Delhi.