

ENTREPRENEURIAL DEVELOPMENT

(I SEMETER)

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STUDY MATERIAL

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UNIT –I

CONCEPT OF ENTREPRENEURSHIP

MEANING AND DEFINITION OF ENTREPRENEUR

An entrepreneur is ordinarily called a businessman. He is a person who combines capital and labour for the purpose of production. He organizes and manages a business unit assuming the risk for profit. He is the artist of the business world.

In the words of J.B. Say, “An entrepreneur is one who brings together the factors of production and combines them into a product”. He made a clear distinction between a capitalist and an entrepreneur. Capitalist is only a financier. Entrepreneur is the coordinator and organizer of business enterprise. Joseph A Schumpeter defines an entrepreneur as “ one who innovates, raises money, assembles inputs and sets the organization going with the ability to identify them and opportunities, which others are not able to fulfill such economic opportunities”. He further said, “An entrepreneur is an innovator playing the role of a dynamic businessman adding material growth to economic development”.

CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur is a highly achievement oriented, enthusiastic and energetic individual. He is a business leader. He has the following characteristic:

- An entrepreneur brings about change in the society. He is a catalyst of change.
- Entrepreneur is action-oriented, highly motivated individual who takes risk to achieve goals.
- Entrepreneur accepts responsibilities with enthusiasm and endurance.
- Entrepreneur is thinker and doer, planner and worker.
- Entrepreneur can foresee the future; seize market with a salesman’s persuasiveness, manipulate funds with financial talent and smell error, frauds and deficiencies with an auditor’s precisions.
- Entrepreneur undertakes venture not for his personal gain alone but for the benefit of Consumers government and the society as well.
- Entrepreneur builds new enterprises. He possesses intense level of determination and a desire to overcome hurdles and solves the problem and completes the job.
- Entrepreneur finds the resources required to exploit opportunities.
- Entrepreneur does extraordinary things as a function of vision, hard work, and passion. He challenges assumptions and breaks rules.
- Although many people come up with great business ideas, most of them never act on their ideas.

DEFINITION OF ENTREPRENEURSHIP

In the words of Stevenson and others, “Entrepreneurship is the process of creating value by bringing together a unique package of resources to exploit an opportunity.” According to A.H. Cole, “Entrepreneurship is the purposeful activities of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit oriented business unit for the production or distribution of economic goods and services”.

NATURE AND CHARACTERISTICS OF ENTREPRENEURSHIP

Features of entrepreneurship are summarized as follows:

- It is a function of innovation.
- It is a function of leadership.
- It is an organization building function.
- It is a function of high achievement.
- It involves creation and operation of an enterprise.
- It is concerned with unique combinations of resources that make existing methods or products obsolete.
- It is concerned with employing, managing, and developing the factors of production.
- It is a process of creating value for customers by exploiting untapped opportunities.
- It is a strong and positive orientation towards growth in sales, income, assets, and employment.

INNOVATION AND ENTREPRENEURSHIP

Innovation is one of the underlying dimensions of entrepreneurship. It is a key function in the entrepreneurial process. Without innovation, an entrepreneur cannot survive in the modern competitive business world.

As per the Schumpeter’s view, a person becomes an entrepreneur only when he or she is engaged in innovation .further, innovation is equal to competitive advantage. The entrepreneurs today realize the need for innovation. Innovation adds value to the product. It is only through innovation, the organizations can survive the increasing competition in the market place.

RISKS INVOLVED WITH ENTREPRENEURSHIP

Entrepreneurship involves the following types of risks.

1. **FINANCIAL RISK:** The entrepreneurship has to invest money in the enterprise on the expectation of getting in return sufficient profits along with the investment. He may get attractive income or he may get only limited income. Sometimes he may incur losses.
2. **PERSONAL RISK:** Starting a new venture uses much of the entrepreneur’s energy and time .He or she has to sacrifice the pleasures attached to family and social life.
3. **CARRIER RISK:** This risk may be caused by a number of reasons such as leaving a successful career to start a new business or the potential of failure causing damage to professional reputation.
4. **PSYCHOLOGICAL RISK:** Psychological risk is the mental agonies an entrepreneur
5. Bears while organizing and running a business venturesome entrepreneurs who have suffered

6. Financial catastrophes have been unable to bounce back.

BARRIERS TO ENTREPRENEURSHIP

Entrepreneurial development is very slow in under developed and developing countries. This is due to the presence of several factors. Gunnar Myrdal pointed out that Asian societies lack entrepreneurship not because they lack money or raw material but because of their attitudes. These barriers to entrepreneurship are classified into three as follows:

A. ENVIRONMENTAL BARRIERS

Following are the important environmental barriers to entrepreneurship:

1. **Non-Availability of Raw Material:** - Non-availability of raw materials especially during peak season is one of the obstacles inhibiting entrepreneurship.
2. **Lack of Skilled Labour:** - This is the most important resource in any organization. Unfortunately, desired manpower may not be available in an organization. This is either due to the lack of skilled labour or due to lack of committed or loyal employees in the organization.
3. **Lack of Good Machinery:** - Good machines are required for the production of goods, because of rapid technological developments, machines become obsolete very soon. Small entrepreneurs find it difficult to get large amount of cash for installing modern machinery.
4. **Lack of Infrastructure:** - Lack of infrastructure facilities is a major barrier to the growth of
5. Entrepreneurship particularly in under developed and developing economies. The infrastructural
6. facilities include land and building, adequate and cheap power, proper transportation, water and
7. Drainage facilities etc.
8. **Lack of Fund:** - There are various methods by which an entrepreneur arranges for funds, e.g.,
9. Own savings, borrowings from friends and relatives, banks and other financial institutions. Many
10. People do not enter into entrepreneurial activities because of lack of funds.
11. **Other Environmental Barriers:** - Lack of business education, Lack of motivation from Government, corruption in administration, high cost of production etc. are the other environmental barriers that inhibit the growth of entrepreneurship in underdeveloped countries.

B PERSONAL BARRIERS

Personal barrier are those barriers that are caused by emotional blocks of an individual. Some of the personal barriers may be outlined as below:

1. **Unwillingness to Invest Money:** - Even though people have money, still they do not come in entrepreneurship. They are not willing to take the risk of investing money in business.

2. **Lack of Confidence:** - Many people think that they lack what it takes to become an entrepreneur. They feel that they could not master all the skills. Thus most people are reluctant to become entrepreneurs.
3. **Lack of Motivation:** - When an individual starts a new venture, he is filled with enthusiasm and drive to achieve success. But when he faces the challenges of real business or bears loss, or his ideas don't work, he loses interest or motivation.
4. **Lack of Patience:** - The desire to achieve success in the first attempt or to become rich very soon is the prime motivating factor of modern youth. When such dreams do not come true, they lose interest. This gradually drives to fail in business.
5. **Inability to Dream:** - Entrepreneurs, who are short on vision or become satisfied with what they achieve, sometimes lose interest in further expansion/growth of business.

C SOCIAL BARRIERS

The social attitude inhibits many people even from thinking of starting a business. The important social barriers are as follows.

1. **Low Status:** - The society thinks that entrepreneurs are the people who exploit the society. Thus the attitude of the society towards entrepreneurs is not positive.
2. **Custom and Tradition of People:** - Most people want a real job. Even parents who are entrepreneurs wouldn't like their children to be entrepreneurs. Thus lack of support from society and family hinders the growth of entrepreneurs.

FACTORS AFFECTING ENTREPRENEURIAL GROWTH

There are large numbers of varied factors which contribute to the growth of entrepreneurship. These factors can be broadly classified into five.

PSYCHOLOGICAL FACTORS: - Inspiration for achievement prepares an entrepreneur to set higher goals and achieve them. The important psychological factors influencing entrepreneurial growth may be outlined as below:

- A. **Need for Achievement:** - Need for achievement means the drive to achieve a goal. People having achievement will be need so much self – confident that they do not believe in mere luck. If an individual has need for achievement, he will become a successful entrepreneur.
- B. **Personal Motives:** - These have been found to be one of the crucial factors responsible for entrepreneurship amongst individuals. Bill Gates dreamt that one day he would become the richest person. His dream became a reality later.
- C. **Recognition:** - Many people become successful entrepreneurs just for getting recognition from others.
- D. **Need of Authority:** - 'Need of authority' will inspire men to work. When they become entrepreneurs, they can exercise authority over managers, employees etc.

CULTURAL FACTORS: - Culture consists of (1) Tangible man – made objects like furniture, buildings etc., (2) Intangible concepts like Laws, morals, knowledge etc., (3) Values and behaviour acceptable within the society. The important cultural factors influencing Entrepreneurial growth are briefly explained as follows:

- a. **Culture:** - Culture is closely related with accepted values and human behaviour. For e.g. some societies have customs of polygamy and some have not.
- b. **Religious Belief:** - According to Max Weber, entrepreneurship is a function of religious belief and the impact of religion shapes the entrepreneurial culture. He emphasized that the entrepreneurial energies are exogenous supplied by means of religious belief.
- c. **Minority Groups:** - Houselights explained that the supply of entrepreneurship is governed by cultural factors, and culturally minority groups are the spark plugs of entrepreneurial and economic development. Minority groups like the Jews and Greeks in Medieval Europe, the Lebanese in West Africa, the Indians in East Africa has important roles in promoting economic development.
- B. **Spirit of Capitalism:** - It guides the entrepreneur to engage in activities that can bring more and more profits. The profit motive character coupled with the attitude towards acquisition of money urges the individual to start new venture.

SOCIAL FACTORS: - What mould a man into an entrepreneur is the sociological and environmental factors during childhood, and at the school, personal experience in adult life at the college and job environments, the mobility, occupation and support from parents. The social factors include:

- a. **Legitimacy of Entrepreneurship:** - System of norms and values within a socio – cultural setting is responsible for the emergence of entrepreneurship. The degree of approval or disapproval granted to entrepreneurial behaviour will influence its emergence and its characteristics if it does emerge.
- b. **Social Marginality:** - Individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles. Social marginality is likely to promote entrepreneurship are largely determined by two factors, namely the legitimacy of entrepreneurship and social mobility.
- c. **Family, Role Models and Association with Similar Type of Individuals:** - If an individual has a supportive family, he or she is more likely to become an entrepreneur. Similarly, if an individual has role models who have been successful in entrepreneurship, certainly, he may be motivated to start ventures. If a person is in association with entrepreneurs, this may add to his or her desire of setting up a new venture.
- d. **Caste System:** - Certain religions and caste encourage the growth of entrepreneurial talent. Some religious communities like the parsees, marwaris and sindhees seem to have an affinity for entrepreneurial activity. The caste system in Hindu society has promoted to the growth of business and professional skills.
- e. **Occupation:** - Those born in rich families with silver spoons in their mouth have not only an advantage of having financial resources for carrying out business but also learn the business skill by continuous interaction and contacts with parents, customers, employees and visitors in family shops, offices and homes.

- f. **Education and Technical Qualifications:** - **Education** is the best means of developing man's resourcefulness which encompasses different dimensions of entrepreneurship. It may be expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial talent more efficiently and effectively.
- g. **Social Status:** - Every human being aspires for a high social status and once achieves a reasonable level, his aspirations and desires for its start getting multiplied. People work hard to maintain their status as it also contributes to their entrepreneurial growth.
- h. **Social Responsibility:** - It is the obligation to the society in which the business enterprise operates. An entrepreneur generates employment for others besides helping himself.

ECONOMIC FACTORS: - Economic factors also influence the growth of entrepreneurship.

The important economic factors are:

- A. **Infrastructural Facilities:** - Entrepreneurship development requires certain basic infrastructure like power, transportation, communication, technical information etc. These provide external economies and improve the efficiency of investments by entrepreneurs. These infrastructural facilities are scarce in less developed countries.
- B. **Financial Resources:** - Finance is the life blood of business activity. Capital is required to obtain materials, machinery, equipment, etc. and to undertake innovation. Capital is regarded as lubricant to the process of production. The lack of financial resources discourages the youth and potential entrepreneurs to start new ventures. Hence, the need for fixed and working capital should be adequately met if new entrepreneurs are to come forward and grow.
- C. **Availability of Material and Know – How:** - Entrepreneurship is encouraged only if there is an adequate supply of materials and know-how. Easy availability of materials attracts more individuals towards entrepreneurship. Technical know-how is essential for innovation. With technical knowledge, men discover more and sophisticated techniques of production.
- D. **Labour Conditions:** - The quality rather than quantity of labour is another factor which influences the emergence and growth of entrepreneurship. The availability of cheap labour positively affects entrepreneurship. Labour problem can be solved not by capital intensive technologies but by increasing their mobility, by offering them facilities, incentives and concessions in every remote corner of the country.
- E. **Market:** - The size and composition of market influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market.
- F. **Support System:** - Ability, initiative and support systems include financial and commercial institutions, research, training, consultancy services, ancillary industry etc.

G. **Government Policy:** - The socio- political and economic policies of the government inhibit or foster entrepreneurial growth. Land and factory sheds at concessional rates, adequate sources of power, supply of materials and other physical facilities should be provided by the government to facilitate the setting up of new enterprises. The government has a dominant role to play in the industrial development of backward regions with a view to attain a balanced regional development.

PERSONALITY FACTORS: - The supply of entrepreneurship in a society is largely influenced by the presence of individuals with the imitativeness, foresightedness and organizing and managerial competence. The following personality factors contribute to the entrepreneurial development:

- a. **Personality:** - The entrepreneurial personality comprises of the person, his skills, styles and motives. Impressive personality and individual skill help to develop entrepreneurship. These qualities are required for entrepreneurs because they have to work with officers, managers, engineers, labourers, customers, investors, govt. officers, ministers etc.
- b. **Independence:**-Another personality factors which influences entrepreneurship is independence. An entrepreneur works out plans on his own, searches and explores resources and experiences and uses inner urge to make the enterprise a success instead of waiting for suggestions or directions from others.
- c. **Compulsion:** - Certain compelling reasons also force the people to become entrepreneurs. These include: (a) unemployment or dissatisfaction with existing job or occupation, (b) to use technical or professional knowledge and skills, (c) to put the idle funds to use.

QUALITIES OF A SUCCESSFUL ENTREPRENEUR

In order to organize and run it successfully, the entrepreneur must possess some qualities and traits. They are as following:

- a. **Willingness to Make Sacrifices and Assume Risks:** - A new venture is full of difficulties and unanticipated problems. In such an inhospitable environment entrepreneur has to be prepared to sacrifice his time, energy and resources in order to carry out the venture and make it success.
- b. **Hard Work:** - Willingness to work hard distinguishes a successful entrepreneur from an unsuccessful one. For example, Assim Premji (chairman of Wipro) works in his office fourteen hours every day. He is a successful entrepreneur. He is one of the richest persons in India.
- c. **Optimism:** - Successful entrepreneurs are not worried by the present problems that they face. They are optimistic about the future. This enhances their confidence and drives those towards success. Some of the world's greatest entrepreneurs failed before they finally succeeded.

- d. **Self Confidence:** - This is the greatest asset of a successful entrepreneur. He must have the confidence to make choices alone and bounce back when he fails.
- e. **Leadership:** - Successful entrepreneur generally has strong leadership qualities. He should be a good judge of human nature and a good leader. He must be able to select, train and develop persons who can properly manage and control the labour force. McClelland identified two main characteristics in entrepreneur- (1) Doing things in a new and better manner. (2) Decision-making under uncertainty. A successful entrepreneur must be capable and well-informed, a successful leader of men, a keen judge of things, courageous and prudent.

TYPES OF ENTREPRENEURS

Entrepreneurs may be classified in a number of ways.

A. ON THE BASIS OF TYPE OF BUSINESS.

Entrepreneurs are classified into different types. They are

- a. **Business Entrepreneur:** He is an individual who discovers an idea to start a business and then builds a business to give birth to his idea.
- b. **Trading Entrepreneur:** He is an entrepreneur who undertakes trading activity i.e.; buying and selling manufactured goods.
- c. **Industrial Entrepreneur:** He is an entrepreneur who undertakes manufacturing activities.
- d. **Corporate Entrepreneur:** He is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking.
- e. **Agricultural Entrepreneur:** They are entrepreneurs who undertake agricultural activities such as rising and marketing of crops, fertilizers and other impute of agriculture. They are called agricultural.

B. ON THE BASIS OF USE OF TECHNOLOGY: Entrepreneurs are of the following types.

- a. **Technical Entrepreneur:** They are extremely task oriented. They are of craftsman type. They develop new and improved quality goods because of their craftsmanship. They concentrate more on production than on marketing.
- b. **Non-Technical Entrepreneur:** These entrepreneurs are not concerned with the technical aspects of the product. They develop marketing techniques and distribution strategies to promote their business. Thus they concentrate more on marketing aspects.
- c. **Professional Entrepreneur:** He is an entrepreneur who starts a business unit but does not carry on the business for long period. He sells out the running business and starts another venture.

C. ON THE BASIS OF MOTIVATION:

Entrepreneurs are of the following types:

1. **Pure Entrepreneur:** They believe in their own performance while undertaking business activities. They undertake business ventures for their personal satisfaction, status and ego. They are guided by the motive of profit. For example, Dhirubhai Ambani of Reliance Group.
2. **Induced Entrepreneur:** He is induced to take up an entrepreneurial activity with a view to avail some benefits from the government. These benefits are in the form of assistance, incentives, subsidies, concessions and infrastructures.
3. **Motivated Entrepreneur:** These entrepreneurs are motivated by the desire to make use of their technical and professional expertise and skills. They are motivated by the desire for self-fulfillment.
4. **Spontaneous Entrepreneur:** They are motivated by their desire for self-employment and to achieve or prove their excellence in job performance. They are natural entrepreneurs.

D. ON THE BASIS OF STAGES OF DEVELOPMENT: They may be classified into;

- a. **First Generation Entrepreneur:** He is one who starts an industrial unit by means of his own innovative ideas and skills. He is essentially an innovator. He is also called new entrepreneur.
- b. **Modern Entrepreneur:** He is an entrepreneur who undertakes those ventures which suit the modern marketing needs.
- c. **Classical Entrepreneur:** He is one who develops a self supporting venture for the satisfaction of customers' needs. He is a stereo type or traditional entrepreneur.

E. CLASSIFICATION ON THE BASIS OF ENTREPRENEURIAL ACTIVITY: They are classified as follows:

- a. **Novice:** A novice is someone who has started his/her first entrepreneurial venture.
- b. **Serial Entrepreneur:** A serial entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. He repeatedly starts businesses and grows them to a sustainable size and then sells them off.
- c. **Portfolio Entrepreneurs:** A portfolio entrepreneur starts and runs a number of businesses at the same time. It may be a strategy of spreading risk or it may be that the entrepreneur is simultaneously excited by a variety of opportunities.

F. CLASSIFICATION BY CLARENCE DANHOF: Clarence Danhof, On the basis of American agriculture, classified entrepreneurs in the following categories:

Innovative Entrepreneurs: They are generally aggressive on experimentation and cleverly put attractive possibilities into practice. An innovative entrepreneur, introduces new goods, inaugurates new methods of production, discovers new markets and reorganizes the enterprise. Innovative entrepreneurs bring about a transformation in lifestyle and are always interested in introducing innovations.

Adoptive Or Imitative Entrepreneurs: Imitative entrepreneurs not do the changes themselves, they only imitate techniques and technology innovated by others. They copy and learn from the innovating entrepreneurs. While innovating entrepreneurs are creative, imitative entrepreneurs are adoptive.

Fabian Entrepreneurs: These entrepreneurs are traditionally bounded. They would be cautious. They neither introduce new changes nor adopt new methods innovated by others entrepreneurs. They are shy and lazy. They try to follow the footsteps of their predecessors. They follow old customs, traditions, sentiments etc. They take up new projects only when it is necessary to do so.

Drone Entrepreneurs: Drone entrepreneurs are those who refuse to adopt and use opportunities to make changes in production. They would not change the method of production already introduced. They follow the traditional method of production. They may even suffer losses but they are not ready to make changes in their existing production methods. There is another classification of entrepreneurs. According to this, entrepreneurs may be broadly classified into commercial entrepreneurs and social entrepreneurs.

Commercial Entrepreneurs: They are those entrepreneurs who start business enterprises for their personal gain. They undertake business ventures for the purpose of generating sales and profits. Most of the entrepreneurs belong to this category.

Social Entrepreneurs: They are those who identify, evaluate and exploit opportunities that create social values and not personal wealth. Social values refer to the basic long standing needs of society. They focus on the disadvantaged sections of the society. They play the role of change agents in the society.

COPRENEURS

Copreneurs are entrepreneurial couples who work together as co-owners of their business. They are creating a division of labour that is based on expertise as opposed to gender studies show that companies co-owned by spouses represent one of the fastest growing business sectors.

INTRAPRENEURS

The term Intrapreneur was coined in USA in the late seventies. Many senior executives of big companies in America left their jobs and started small business of their own. They left the organisation because they did not get any opportunity to apply their own ideas and innovative ability. These entrepreneurs become successful in their own ventures. Some of them caused a threat to the corporations they left.

ULTRAPRENEURS

Now-a-days, new products and services are conceived, create, tested, produced and marketed very quickly and with great speed. Therefore, today's entrepreneur needs to have a different mindset about establishing and operating a business. This mindset is called ULTRAPRENEURING. An entrepreneur with this mind set is known as *Ultrapreneur*. The concept of Ultrapreneuring is to identify a business opportunity, determine its viability and form accompany. It requires assembling a super competent management team, who then develop,

produce and markets the product or service in the shortest optimum time period. They create business and then sell out, merge or combine.

FUNCTIONS OF AN ENTREPRENEUR

Entrepreneur is a lead player in the drama of business. According to Kilbt, an entrepreneur has to perform four groups of functions:

EXCHANGE RELATIONSHIP:

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

POLITICAL ADMINISTRATION:

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

MANAGEMENT CONTROL:

- 1) Managing finance.
- 2) Managing production.

TECHNOLOGY:

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

ENTREPRENEURIAL COMPETENCIES

Competency is a characteristic of a person, which results in effective and/or superior performance in a job. It is a combination of knowledge, skills and appropriate motives or traits that an individual must possess to perform a given task.

It may be classified into two types:

A) PERSONAL ENTREPRENEURIAL COMPETENCIES: These are required to perform the tasks effectively and efficiently. This includes the following:

1. **Initiative:** It is an inner urge in an individual to do or initiate something.
2. **Ability to See and Act on Opportunities:** Entrepreneurs look for opportunities and take action on such opportunities.
3. **Persistence:** It means the capacity or skill to take repeated and different actions to overcome obstacles.
4. **Information Seeking:** A successful entrepreneur always keeps his eyes and ear open. He should accept new ideas which can help him in realizing his goals. He is ready to consult experts for getting their expert advice.
5. **Concern for High Quality of Work:** Entrepreneurial persons act to do things that meet or beat existing standards of excellence.

6. **Commitment to Work:** Successful entrepreneurs are prepared to make all sacrifices for completing the commitments they have made.
7. **Commitment to Efficiency:** Entrepreneurial persons have to look and find ways for or find ways to do things faster or with fewer resources or at a lower cost. They should try new methods aimed at making work easier, simpler, better and economical.
8. **Systematic Planning:** Entrepreneurial persons should be able to develop and use the logical step by step plans to reach goals.
9. **Problem solving:** Entrepreneurial persons are supposed to possess the skill of identifying new and potentially unique ideas to reach goals. They should generate new ideas or innovative solutions to solve problems.
10. **Assertiveness:** They assert own competence, reliability or other personal or company's qualities. They also assert strong confidence in own company's products or services.
11. **Persuasion:** Entrepreneurs should have the ability to successfully persuade others to perform the activities effectively and efficiently.
12. **Use of Influence Strategies:** Entrepreneurs should have the competence of using a variety of strategies to influence others. Such entrepreneurs can develop business contacts and use influential people to accomplish his/her own objectives.

B) VENTURE INITIATION AND SUCCESS COMPETENCIES:

An entrepreneur must also possess the competencies required for launching the enterprise and for its survival and growth.

UNIT – II

ENTREPRENEURIAL DEVELOPMENT AGENCIES

COMMERCIAL BANKS

It plays an important role in the growth and development of economy in general and enterprise sector in particular. Commercial Bank in India comprises the State Bank of India (SBI) and its subsidiaries, nationalized Banks, foreign banks and other scheduled commercial banks, regional rural banks and non-scheduled commercial banks. The period for which loan is granted varies from 7 to 10 years. These loans are repayable in half yearly or yearly installments. Most commercial banks have got specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. The fixed capital needs or the long and medium term needs of the small scale industrial units are presently being taken care by the banks under their integrated scheme of credit for the small entrepreneurs. The rate of interest charged normally from the small scale industrial units is between 12% and 15% against 18% from the large scale units.

BRIDGE CAPITAL/FINANCE

Bridge capital is the advance given to cover the finance requirement during the time lag between the sanctioning and disbursement of term loan by financial institutions. It is an assistance given for a short period to help borrower for overcoming the delay in disbursement of a sanctioned term loan or in getting the proceeds of a public issue. It is provided by commercial banks.

MICRO, SMALL AND MEDIUM ENTERPRISES

Small businesses are playing an important role in the industrial economy of the world. These are particularly important in the developing economies. Small business is predominant even in developed countries such as USA, Japan etc.

THE MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT ACT, 2006

Under this act, the central Government shall set up, for the purpose of the act, a Board known as the National Board for Micro, Small and Medium Enterprises.

CLASSIFICATION OF ENTERPRISES (NEW DEFINITIONS)

1. In Case of Manufacturing Enterprise:

- i. A *micro enterprise* is one in which the investment in plant and machinery does not exceed Rs.25 Lakhs.
- ii. A *small enterprise* one in which the investment in plant and machinery is more than Rs.25 Lakhs but does not exceed Rs. 5 crore.
- iii. A *medium enterprise* is one in which the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.

2. In Case of Service Enterprise:

- i. A micro enterprise is one in which the investment in plant and machinery does not exceed Rs. 10 lakhs.
- ii. A small enterprise one in which the investment in plant and machinery is more than Rs.10 lakhs but does not exceed Rs. 2 crore.
- iii. A medium enterprise is which the investment in plant and machinery is more than Rs. 2 crore but does not exceed Rs. 5 crore.

ANCILLARY UNITS

These units provide inputs to other industries. These are engaged in the manufacture of parts, components, light engineering products like cycles, sewing machines diesels engines, machine tools, electrical application. The investment in plant and machinery should not exceed Rs. 5 crore.

EXPORT ORIENTED UNIT

Export oriented units are those SSI units which export at least 30% of its annual production by the end of the 3th year of commencement of production.

OBJECTIVES OF MSMEs

The primary objectives of MSME are to play a complementary role in the socio-economic set up of a country. The other objectives are as follows:

1. To provide increased employment opportunities.
2. To provide production of large variety of goods especially consumer goods through about intensive methods.
3. To bring backward areas too in the mainstream of national development.
4. To improve the level of living of people in the country.
5. To create a climate for the development of self-employed experts, professionals and small entrepreneurs.
6. To ensure more equitable distribution of national income.
7. To ensure balanced regional development as regards industries.
8. To encourage the adoption of modern techniques in the unorganized traditional sector or the industry.

ADVANTAGE OF MSMEs

1. They are relatively more environmental friendly.
2. They are generally based on local resources.
3. They provide ample opportunities for creativity and experimentation.
4. They facilitate equitable distribution of income and wealth.
5. MSME enjoys the government support and patronage.
6. These helps in the balanced regional development.
7. It is possible to make necessary changes as and when required.
8. These help in reducing prices.
9. There is a close and direct personal contact with the customer and employees.

10. They create more employment opportunities. They are labour intensive. They offer ample scope for self employment.
11. They require only less capital. It is a boon to a country like India where capital is deficient.
12. MSME alone can satisfy individual tastes and offer personalized service to the customers.

DISADVANTAGES OF MSMEs

1. MSMEs suffer from lack of funds. They are financially weak.
2. They suffer from lack of managerial and other skills. They cannot employ highly paid officials.
3. MSMEs always face tough competition from large businesses.
4. They are not well equipped to make advantage of the latest technology and modern methods.
5. There is only a little scope for division of labour and specialization.
6. MSMEs cannot afford to spend large sums of money on research and experiments
7. They cannot survive in times of adversity.
8. They cannot secure cheap credit.

STEPS FOR STARTING SSIs/MSMEs

As soon as a person decides to become an entrepreneur and to start a MSME, he is required to take a number of steps and formalities one after the other. They are as follows:

1. **Scanning of Business Environment:** it is essential on the part of the entrepreneur to study and understand the prevailing business environment. Entrepreneur should scan the business opportunities and threats in the new environment. To study the administrative framework, procedure, rules and regulations and other formalities implemented by the government. The potential entrepreneur must assess his own deficiencies, which he can compensate through training.
2. **Selection of the Product:** The very success of one's venture will depend on the rationality of his decision in this regard. The economic viability of the product can be ascertained by considering certain demand aspects such as volume of demand in the domestic market, volume of demand in the export market, volume of potential demand, a degree of substitution of an existing product etc. The prospective entrepreneur has to identify the product based on market research or market survey.
3. **Selection of Form of Ownership:** He has to select sole proprietorship or family ownership or partnership or private limited company as the form of the ownership.
4. **Selection of Location and Site:** Location is selected after considering certain factors such as nearness to market, sources of material and labour, modern infrastructure facilities etc. The entrepreneur has to choose a suitable plot for the factory. He may purchase land directly or choose from an industrial area developed by State Development Corporations like SIDCO, or Directorate of Industries. In order to stimulate industrial growth, the government of is providing infrastructural assistance by way of

- a. Developing areas.
- b. Development Plots.
- c. Industrial estates, and
- d. Mini industrial units.

5 Designing Capital Structure: Apart from the own capital, he may secure finance from friends and relatives, term loans from banks and financial institutions.

6 Acquiring Manufacturing Know-How or Technology: Many institutions of government, research laboratories, research and development divisions of big industries and certain consultancy agencies provide the manufacturing know-how.

7 Preparation of Project Report: The report usually covers important items like sources of finance, availability of machinery and technical know-how, sources of raw material and labour, market potential and overall profitability.

8 Registration as a Small Scale Industry: Registration with Department of industries and Commerce is only optional. There is no statutory obligation, but small scale industries can avail various facilities, incentives and concessions offered by the state as well as central government only if they registered as SSI. The registration would be done in two stages.

Provisional Registration: It will be valid for one year with possible three extensions of six months each. It helps entrepreneur to take necessary steps to bring the units into existence. The provisional registration may enable the party to:

1. Apply to NSIC/SIDO and other institutions for procuring machines on H.P basis.
2. Apply for power connection.
3. Apply to local Bodies for permission to construct the shed to establish a unit.
4. Apply for financial assistance to SFC/Banks or other financial institutions on the basis of project report.
5. Obtain sales tax, excise registration etc whenever required.
6. Apply for a shed in an industrial estate/ development site in an industrial area/ material for construction of shed as the case may be.

9) Obtaining Statutory Licence: Any person should obtain the following licenses and certificates before starting the venture:

(A) License from Local Bodies For

- (1) Construction of the building.
- (2) Installation of plant and machinery.

(B) License from the Directorate of Factories and Boilers For:

- (1) Approval of factory building.
- (2) Registration under section 6, 7 and 85 of the Factory Act.

(C) No Objection Certificate from State Pollution Control Board.

10) Apply for Power Connection: There are 2 categories of power, the Low Tension (LT) and High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. If

connected load is between 75 HP and 130 HP, the consumer has the option to avail either LT supply or HT supply.

11) **Arrangement of Finance:** Entrepreneur needs to acquire assets of 2 kinds namely fixed assets and current assets. Long term finance is needed to acquire fixed assets like land, building, plant and machinery and for security deposits. Short term funds are required for acquiring current assets. Current assets are essential for the day to day working of the industry. Long term funds include owner's capital, subsidy from central/ state govt., personal borrowings from friends and relatives and long term loans from financial institution like KFC and KSIDC.

12) **Registration under the Sales Tax Act:** Business enterprises are subject to three important taxes- Income Tax, Excise Duty and Sale Tax. Income tax is levied on income as defined under the IT Act of 1961. It is revenue of Central Government. Excise duty is a tax levied by the central Government. It is the duty levied on the cost of goods manufactured within a country. Sales tax is levied whenever goods are purchased from within the state. When goods are purchased from outside the state, Central Sales Tax is levied. Application for registration should mention all places of business dealer including the godown in which the goods are stored. The following papers are to be submitted for registration.

- 1) Application for registration in Form 1 duly signed.
- 2) Counterfoil of challan for Rs. 100 towards registration fees.
- 3) Return of Estimated Annual Turnover in Form No. 10.

On the basis of declaration of the anticipated turn over and nature of turnover, registering authority may demand security, which is normally $\frac{1}{2}$ times of the anticipated tax due.

13) **Installation of Machinery:** Machinery should preferably be installed as per the plant layout.

14) **Recruitment of Manpower:** The number and type of workers is to be decided. After this, the required workers should be recruited.

15) **Procurement of Raw Material:** The raw materials may be procured indigenously or may have to be imported by the entrepreneur. The next step is to start production, which is taken up in two stages- Trial production and Commercial production having successfully test marketed the product, commercial marketing can be undertaken.

16) **Application for Permanent Registration:** For this, application form has to be made to the GM of DIC through IEO/ Taluk Industries Officer. The GM should inform the entrepreneur of the date and time of inspection of the unit. On being satisfied a registration certificate may be issued by the Directorate of Industries within one month of the receipt of the application. The period of the certificate whether provisional or permanent will be for a period of 2 years. Renewal certificate would be affected by the GM (DIC) within a period of 3 months from the date of expiry of certificate.

GOVT. REGULATORY FRAMEWORK FOR MSMEs

The govt. has two roles to play regulatory role and protective role. Govt. regulates as well as protects small business. It plays the regulatory role by imposing certain restriction and formalities on small business. It provides assistance and support to small business.

MEASURES TAKEN BY THE GOVERNMENT FOR THE PROMOTION OF MSMEs

Some of the measures taken by the government are as follows:

ADMINISTRATIVE FRAMEWORK:

Administrative mechanism for SSI is being looked after by the Department of Small Scale Industries, Agro and Rural Industries within the Ministry of Industry. With the Department there is Small Industries Development Organization (SIDO) headed by a department commissioner. SIDO has 27 small industries service institutes, 31 branch institutes, 37 extension centers, 18 field testing centers, four production centers and two footwear training centers. To provide different services and support to village and small entrepreneurs under a single roof, 422 Districts Industries Centers (DIC) have been set up to cover 431 districts out of the total of 436 districts of the country. National Institute of Small Industries Extension Training (NISIET) conduct research and training programmes and provides consultancy services. National Small Industries Corporation (NSIC) deals with marketing including Government purchases and supplying machinery on hire purchase.

POLICY INSTRUMENTS:

Policy instruments adopted by the government to encourage the growth of SSI comprise: (1) Financial incentives. (2) Fiscal incentives. (3) General incentives. (4) Special incentives in backward areas, and (5) Reservation of items for SSI.

(1) **Financial Incentives:** SIDBI provides direct assistance, among others for specialized marketing agencies, industrial estates, acquisition of machinery/ equipment, both indigenous and imported, seed capital scheme and National Equity Fund Scheme, bills rediscounting and direct discounting scheme. State and Local Government provides financial Subsidies like interest rate and capital subsidies, and water and electricity subsidies and subsidies for the acquisition of land.

(2) **Fiscal Incentives:** These comprise investments allowance, tax holidays, additional depreciation for new plant and machinery and state and local Governments provide exemption from electricity tariffs.

3) **General Incentives:** These include, among other things, reservation of items for exclusive purchases from SSI, price preference over medium and large units in public sector purchases and scheme for Self- Employment to Educated Unemployed Youths (SEEUY).

(4) **Special Incentives in Backward Areas:** Some of the schemes which are operational are concessional finance scheme, transport subsidy scheme, interest subsidy scheme and income tax incentives, etc.

RESERVATION OF ITEMS: As per the policy certain items have been exclusively reserved for manufacturing in the MSME sector. The objective is to protect MSMEs engaged in the manufacturing of such items from the competition of medium and large-scale units.

STATUTORY BOARDS:

Govt. has setup six exclusive boards, namely, (1) Khadi and Village Industries Board. (2) Handloom Board (3) Handicrafts Board (4) Coir Board (5) Seri Culture Board, and (6) Small Scale Industries Board.

ESTABLISHMENT OF INDUSTRIAL ESTATES:

Industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there.

SETTING UP OF NATIONAL MANUFACTURING COMPETITIVENESS COUNCIL(NMCC): The NMCC suggest a three-pole structure, “one of the effective measures for accelerating manufacturing growth in this segment lies in promoting growth poles or industrial clusters, referred to in the PURA(Provision of Urban Amenities in Rural Areas) context, in the 05-06 union budget speech. The growth poles can cover all three elements of the cluster approach-industrial clusters, artisan clusters and agro-based clusters,” The NMCC also suggests that the time is right for exploring mechanisms of how Indian MSMEs could tie up with it in developing countries for technology and trade.

PENALTIES FOR DELAYED PAYMENTS TO MSMEs:

The Govt. has enacted the interest on delayed Payments Act for the benefit of MSMEs. The Act prescribes that the customers of MSMEs should make the payments within 120 days of accepting the goods. Delays beyond this would attract interest at 11/2 times the prime lending rate of the SBI.

PRIME MINISTER’S ROZGAR YOJNA (PMRY):

It was launched on 2nd October 1993, with the objective of creating one million jobs in 5 years by giving loans for the creation of tiny and micro enterprise.

INDUSTRIAL CLUSTER DEVELOPMENT:

An industrial cluster can be defined as a sectorial and geographical concentration of enterprises, especially Micro, Small and Medium Enterprises (MSMEs), which have common opportunities and face similar threats.

ASSISTANCE FOR MSME EXPORTS:

Following are the assistance to MSME exports:

- (a) MSMEs are helped in participating in trade exhibitions. The Govt. would meet the expenses in this regard on space rent, handling and clearing charges, insurance and shipment charges etc.
- (b) MSMEs are given triple weightage for being recognized as Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses.
- (c) Capital Goods Zero Duty Scheme is extended to MSMEs without any conditions.
- (d) Marketing Development Assistance is given to MSMEs to facilitate market research, publicity etc.

OTHER SCHEMES:

Important schemes are briefly discussed as below.

- (a) Integrated Infrastructural Development Scheme: Under this scheme the Central Govt. would contribute Rs 5 crore in the ratio of 2:3 for the development of industrial infrastructure in rural

and backward areas. The objective of the scheme is to promote the location of MSMEs in rural and backward areas and facilitate linkage between agriculture and industry.

(b) Marketing Development Assistance Scheme: MDA is a new scheme launched in August 2001. This scheme provides following five types of assistance:

- a. Assistance to individuals for participating in overseas trade fairs and exhibitions.
- b. Assistance to individuals to go on overseas study tours or as a member of a trade delegation going abroad.
- c. Assistance for production of publicity material for overseas publicity.
- d. Assistance to small industry association to conduct sector- specific market studies abroad, and
- e. Assistance to SSI Associations to initiate/contest anti-dumping cases.

(c) Trade Related Entrepreneurship Assistance and Development for Women: *TREAD* is a scheme for giving trade-related assistance to women entrepreneurs in the form of Loans, grants, trade-related training and information, counseling and extension services.

(d) Preferential Govt. Purchases: It is made compulsory for various govt. departments and agencies to buy their requirements of a number of items from the constituents of the MSME sector.

INDUSTRIAL ESTATES

It is defined as a method of “Organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand and a variety of services and facilities to the occupants.” In short, industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. The first and foremost industrial estate was established at Rajkot in Gujarat in 1955.

FEATURES OF INDUSTRIAL ESTATES

The following are the important features of industrial estates:

- It is a tract of land subdivided and developed into factory plots or sheds.
- It is a planned clustering of industrial units.
- It may be developed in urban, semi-urban or rural areas.
- It may be large, medium or small.
- It may be set up by the Government, or by co-operatives or even by private agencies.
- It provides several common infrastructural facilities such as water, power, roads, training, banks, repairs and maintenance etc.

ADVANTAGE OF INDUSTRIAL ESTATES

1) **Economies of Scale:** It arises because all the industrial units enjoy common infrastructural facilities like water, roads, etc. As the size of the industrial units increases, the costs of estate development and administration per unit of each facility decrease.

2) **External Economies:** Several industrial units are clustered together in an industrial estate. This enable them to enjoy the benefits of agglomeration and external economies like improved transport facilities, availability of trained labour, repair facilities, power and water etc.

- 3) **Low Investment:** Even a small entrepreneur can acquire an industrial plot or shed on rent or hire purchase basis.
- 4) **Less Risks:** Since all units enjoy common facilities and low capital investment, risks are relatively low.
- 5) **Mutual Co-Operation:** All industrial units located in an industrial estate face common problems and seek to achieve common objectives.
- 6) **Balanced Regional Development:** It is possible to secure balanced regional development by developing industrial estates in industrially backward areas.
- 7) **Saving Of Time and Effort:** An individual entrepreneur is relieved of trouble of searching for suitable space.
- 8) **Entrepreneurial Development:** Industrial estates reduce risks and increase profitability through internal and external economies.

INCENTIVES AND SUBSIDIES

In India Entrepreneurs are offered a number of incentives because they fulfill two main objectives of economic development. Firstly, they facilitate decentralization of industries. They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production and higher standard of living.

INCENTIVES

It is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concession, subsidies and bounties. '*Subsidy*' denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry which is considered essential in the national interest. The term *Bounty* denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in home market or in a foreign market. Bounty offers benefits on a particular industry; while a subsidy is given in the interest of the nation. The object of incentives is to motivate an entrepreneur to start new ventures in the larger interest of the nation and the society.

ADVANTAGES OF INCENTIVES AND SUBSIDIES

They offer following advantages:

- They act as a motivational force which makes the potential entrepreneur to enter into business activities.
- They encourage the entrepreneur to start industries in the backward areas.
- They help the government to get a balanced regional development.
- They help to develop new enterprises which lead to economic development.

ENTREPRENEURSHIP DEVELOPMENT 35

- They make the entrepreneur to face competition successfully.
- They help to reduce the overall problems of small scale entrepreneurs.

NEED FOR INCENTIVES AND SUBSIDIES

The need for incentives and subsidies arises for the following reasons:

1) **To Remove Regional Disparities in Development:** Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.

2) **To Provide Competitive Strength, Survival and Growth:** several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference etc. will improve the competitive strength. Other concessions like concessional finance, tax relief etc., contribute their survival and growth.

3) **To Generate More Employment and Remove Unemployment:** Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

4) **To Promote Entrepreneurship:** Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures.

PROBLEMS RELATING TO SUBSIDIES

Some problems may arise in devising and implementing a subsidy system. They are as follows.

1. A subsidy may remain unutilized.
2. If the administration is inefficient or corrupt, subsidy will not produce the desired results.
3. It is very difficult to measure the impact of subsidies.
4. Subsidies may lead to inefficiency in the long run.
5. Subsidies once introduced are difficult to withdraw.
6. The administrative procedure must be effective.
7. The cost of administering a subsidy should be considered.
8. The subsidy scheme should be communicated to prospective beneficiaries.
9. The quantum of subsidy should be adequate to produce the desired results.
10. The target groups to whom the subsidy is to benefit should be clearly determined.

SMALL INDUSTRIAL DEVELOPMENT ORGANISATION (SIDO)

The SIDO was formed under the Ministry of Industry. It is a policy making, co-ordination and monitoring agency for the development of small scale industries. It maintains a close liaison with the government, financial institutions and other agencies which are involved in the promotion and development of small scale units. It provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to the small scale units. It has launched various technology support programmes for the benefit of small scale industries in the country through a number of steps. The steps include establishment of (a) process-cum-product development centers, (b) tool rooms and training centers. (c) Specialized institutes and (d) regional testing centers with its field testing stations.

FUNCTIONS OF SIDO

The main functions are co-ordination, industrial development and industrial extension service; other functions are summarized as follows:

- 1) To estimate the requirements of raw material for the small scale sector and to arrange their supply.
- 2) To collect data on consumer items which are imported and encourage the setting up of new units by giving them co-ordinate assistance?
- 3) To prepare project reports and other technical literature for prospective entrepreneurs.
- 4) To secure reservation of certain products for the SSIs.

NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

It was set up in 1995 to provide machinery to small scale units on hire purchase basis and to assist these units in obtaining orders from government departments and offices. Its head office is at Delhi. It has four regional offices at Delhi, Mumbai, Chennai and Calcutta. It has eleven branches offices also.

FUNCTIONS OF NATIONAL SMALL INDUSTRIES CORPORATION

Its functions are as follows:

- 1) To develop small scale units as ancillary units to large scale industries
- 2) To impart training to industrial workers.
- 3) To market the product of SSIs at home and abroad.
- 4) To help the small scale industries in procurement of scarce and imported raw material.
- 5) To obtain orders for SSI units from government department and offices.
- 6) To provide machinery to SSI units on hire purchase basis.
- 7) To construct Industrial Estate and establish and run proto-type production-cum-training centers.

NATIONAL ALLIANCE OF YOUNG ENTREPRENEURS (NAYE)

It is a national level apex organization of young entrepreneurs. It assists in promoting new enterprises through first generation entrepreneurs. NAYE sponsored an Entrepreneur Development Scheme with Bank of India in August 1972 on pilot basis. The scheme is known as BINEDS. It is operative in the states of Punjab, Rajasthan, Himachal Pradesh and Union Territories of Chandigarh and Delhi. NAYE has entered into similar arrangement with Dena Bank, Central Bank of India and Union Bank of India .NAYE strives hard for up liftmen of young entrepreneurs especially women. It holds workshops, conferences, training programmes etc. to create awareness in entrepreneurs.

TECHNICAL CONSULTANCY ORGANISATION (TCOs)

It was established in different parts of the country to provide consultancy services to small and medium enterprise at reasonable costs. The TCO was established in Kerala (KITCO) in June 1972.Functions and activities of TCOs include:

- i. Industrial potential surveys.
- ii. Preparation of profits and feasibility studies.
- iii. Evaluation of project.
- iv. Conduct of EDPs.
- v. Assisting in the modernization, technical up gradation and rehabilitation programmes etc.

- vi. Undertaking market research and surveys for specific products.
- vii. Offering merchant banking services.

SMALL INDUSTRIES SERVICE INSTITUTES (SISIs)

Small Industries Service Institutes have been established in each state in 1956 as agencies of SIDO. The objective is to develop small scale industries. The functions performed may be summarized as follows:

- 1) It promotes entrepreneurship and development of SSIs in rural and other underdeveloped areas.
- 2) It supplies market information in selected cases and undertakes market distribution surveys for industrial enterprises.
- 3) It conducts various programmes for workers in other organizations as well as in small industry uncertain trades.
- 4) It assesses the capacities of small units for imported/controlled materials.
- 5) It provides technical guidance on the efficient use of wastages and scraps.
- 6) It prepares designs and drawing for production equipment and accessories.
- 7) It ensures that small industry development in India is being done in right lines.
- 8) It provides workshop common facilities to industrialists at reasonable charges.
- 9) It conducts detailed plant studies to locate production and other problems. It initiates and coordinates modernization of selected industries.
- 10) The institute assists in rehabilitation of sick units.
- 11) It helps to develop ancillary industries. It registers SSI units with NSIC to supply their products to government.
- 12) The institute conducts modernization studies for technology up gradation.
- 13) It undertakes quality control, energy conservation and pollution control, specialized training programmes on export marketing.
- 14) The institutes also conduct surveys and studies for identification of industries having scope of promotion and development.
- 15) It advises the Govt. of India and state government on policy matters relating to small industry development.

KHADI AND VILLAGE INDUSTRIES COMMISSION

KVIC makes finance available to the implementing agencies in the form of capital expenditure loans. It also extends assistance for setting up of retail sales outlets and also for strengthening of the capital base of the registered institutions and cooperatives. It also assists individual artisans besides formulating liberal pattern of assistance for identified hill, border and weaker sections. The loans for Khadi are interest free, while those for village industries have an interest at the rate of 4% per annum.

FUNCTIONS OF KVIC

- (1) To train the artisans.
- (2) To assist village industries in procuring raw materials.
- (3) To assist and support through marketing of finished products of village industries.

- (4) To provide equipment and machinery to producers on concessional terms.
- (5) To undertake R and D programmes for improved implements for silk reeling, more efficient extraction of oil in power grains, manufacture of panel boards from banana stems and improved 'charka' and looms.

The main thrust of KVIC is to alleviate rural poverty and to make the village artisan more productive through improved technology and market support.

SCIENCE AND TECHNOLOGY ENTREPRENEUR PARKS (STEP)

STEP is an area where applied research on high tech projects is conducted with the Collaboration of multinational companies, universities, technological and research institutes. In 1972 a conventional 'Techno Park' was set up by the Birla Institute of Scientific Research.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

SIDBI was set up on April 2, 1990 as a wholly owned subsidiary of IDBI. It is operating through its Head Office at Lucknow and a network of 5 Regional Offices and 25 Branch Offices in all the states. It is an apex institution for promotion, financing and development of industries in small scale sector and co-ordination of functions of other institutions engaged in similar activities.

FUNCTIONS OF SIDBI

- a. Taking steps for technological up gradation and modernization of existing units.
 - b. Providing services like factoring, leasing etc. to industrial concerns in the small scale sector.
 - c. Extending financial support to National Small Industries Corporation for providing leasing hire purchase and marketing support to SSI units.
 - d. Expanding the channels for marketing the products of SSI sector in domestic and international markets.
 - e. Promoting employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.
 - f. Refinancing of loans and advances extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them.
- It also offers bills discounting and rediscounting facilities. It also has a few schemes of direct assistance.

THE NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

It is an apex body established in 1983 by the ministry of Industries, Government of India, for coordinating, training and overseeing the activities of various institutions/agencies engaged in entrepreneurship development, particularly in the area of small industry and small business. The Institute which is registered as a society under Government of India Societies Act started functioning from 6th July, 1983. The policy, direction and guidance to the institute is provided by its governing council whose chairman is the minister of SSI. It has an executive committee.

OBJECTIVES OF NIESBUD

The objectives of the institute include the following:

1. To evolve standardized materials and processes for selection, training, support and sustenance of entrepreneurs, potential and existing.
2. To share internationally, its experience and expertise in entrepreneurship development.
3. To train the trainers, promoters and consultants in various areas of entrepreneurship development.
4. To provide national/international forums for the interaction and exchange of experiences helpful for policy formulation and modification at various levels.
5. To provide vital information and support to trainers, promoters and entrepreneurs by organizing research and documentation relevant to entrepreneurship development.

FUNCTIONS OF NIESBUD

- i. Evolving effective training strategies and methodology.
- ii. Standardizing model syllabi for training various target groups.
- iii. Formulating scientific selection procedures.
- iv. Developing training aids, manuals and tools.
- v. Facilitating and supporting central/state/other agencies in organizing entrepreneurship development programmes.
- vi. Conducting training programmes for promoters, trainers and entrepreneurs.

RESPONSIBILITIES

- i. It undertakes construction of industrial sheds and development of infrastructure.
- ii. It implements sick unit's rehabilitation programmes jointly with IRBI.
- iii. It provides technical consultancy services.
- iv. It allots sheds/industrial plots in industrial estates.
- v. It assists in selecting and procuring machinery.
- vi. It supplies scarce and imported raw material for the benefit of SSI through sales depots in all districts.
- vii. The corporation provides marketing assistance to SSI units.

The above responsibilities of the corporation are handled by the following 12 divisions: (1) Research and development Division. (2) Industrial Estate and Infrastructure Divisions. (3) Production Division. (4) Raw Material Division. (5) Machinery Division. (6) Finance Division. (7) Technical Consultancy Division. (8) Entrepreneur Development Division. (9) Imports and Exports Division. (10) Marketing Division. (11) Sick Unit Rehabilitation Division. (12) Information and Publicity Division.

STATE INDUSTRIAL DEVELOPMENT CORPORATION (SIDCO)

It was registered as a Limited Company on 21st July 1961 with the objective of organizing, stimulating and assisting industrial development IN Tamilnadu

FUNCTIONS

It functions not only as a financing body but also as a promotional institution to help intending industrial entrepreneurs.

Financial Assistance: (1) Direct participation in equity or preference capital or debentures. (2) Underwriting of equity or preference capital or debentures. (3) Granting of medium and long term loans. (4) Furnishing of guarantees.

Promotional Assistance: (1) It helps in project identification. (2) It helps to submit applications for letters of intent/industrial licenses and obtaining the same. (3) Arranging technical collaboration.(4) Negotiating with financial institutions for securing their assistance.(5) It helps the units to obtain land, arranging utilities like power, water etc.(6) Participating in project management.(7) Entering into joint promotional arrangement with private parties in order to carry through the above range of activities on joint basis.

Other Functions: (1) Management of sick units. (2) Assistance to state sector projects. (3) Assisting or advising government on industrial matters (4) Development of mineral sources.

The corporation has also added **new dimensions** to the sphere of its activities so as to cover:

- (a) IDBI Re-finance schemes.
- (b) Seed Capital Assistance.
- (c) TN's new package of Assistance.
- (d) Entrepreneurial Assistance.

TAMILNADU INDUSTRIAL INVESTMENT CORPORATION (TIIC)

It provides financial assistance for starting of new industrial units, expansion, diversification or Modernization of existing units...

FUNCTIONS

- 1) To grant long term loans to new and existing SSI units. Maximum amount of loan is Rs 60 lakhs subject to the condition that the project cost does not exceed Rs.3 crore.
- 2) Underwriting of shares and debentures floated in the open market.
- 3) Guaranteeing deferred payments to machinery suppliers for indigenous machinery purchased by borrowers in State
- 4) Guaranteeing the loans raised by the industrial concerns in public market or from scheduled banks or state Co-operative Banks.

It has introduced the following schemes:

☐☐ **Techno crafts Assistance:** SFC has introduced this scheme to provide liberalized financial assistance to entrepreneurs. Any person with a degree or diploma in Engineering, Technology is eligible for assistance

☐☐ **Assistance to SC/ST Entrepreneurs:** The Corporation gives 90% of the cost of fixed assets for loans not exceeding Rs.50,000 per person and Rs.11lakh if there is more than one.

☐☐ **Single Window Scheme:** The single window scheme is for grant of term loan and working capital to new micro and small units whose project cost does not exceed Rs.20lakhs and total working capital requirement is within Rs.10 lakhs. The repayment period is between 5 and 10 years.

☐☐ **Special Capital Assistance:** It has created a special capital fund with the object of providing equity type of assistance for soft terms for entrepreneurs who have necessary skill and experience but lack of financial sources to set up SSI units. It has introduced special schemes for

professionals, ex-servicemen, women entrepreneurs etc. KFC has introduced another scheme called quality certificate scheme. The object of this scheme is to help the SSI units in securing the certificate of International Standards Organization (ISO).

FUNCTIONS OF STATE INDUSTRIAL DEVELOPMENT CORPORATION

The functions of it are as follows:

- 1) To act as single point contact for clearance required from different agencies or departments.
- 2) To procure land on behalf of medium and large scale industries outside the industrial estates or industrial development areas by purchase, lease or exchange from any person.
- 3) To upgrade the facilities to the existing industrial estates or industrial areas transferred to the corporation.
- 4) To allot the developed plots or shed to entrepreneurs on terms and conditions as may be determined by the corporation.
- 5) To co-ordinate with other government departments or agencies to ensure provision of good quality infrastructure facilities, within the shortest possible time.
- 6) To establish, maintain, develop and manage industrial estates at places selected by the Government.
- 7) To promote and assist in the rapid and orderly establishment, growth and development of industries in the state.
- 8) To develop industrial areas selected by the Government for the purpose for which it was selected and make them available for the undertakings to establish themselves.
- 9) Such other functions as are necessary in furtherance of the objects of the corporation.

UNIT-III

BUSINESS IDEA GENERATION TECHNIQUES

PROJECT MANAGEMENT

A Project simply means an investment opportunity exploited for profit. It is an idea or plans which is intended to be carried out or a finite task to be completed. In the words of Gillinger “Project is a whole complex of activities involved in using resources to gain benefits”. The World Bank defines a project as ‘an approval for a capital investment develops facilities to provide goods and services’.

CHARACTERISTICS OF A PROJECT

A project is undertaken to achieve the purpose of the following

1. A project involves investment of money and money’s worth.
2. The objective of a project is to earn profit.
3. It is concerned with production of goods and services.
4. Every project has risk and uncertainty associated with it.
5. It has a fixed set of objectives.
6. It is subjected to a lot of change.
7. It has a definite beginning and an end.
8. It has a life cycle reflected by growth, maturity and decay.
9. It is combination of various elements such as technology, equipment, materials, machinery and people.
10. A project requires team work.

CLASSIFICATION OF PROJECTS

The different classifications are explained below:

1) QUANTIFIABLE AND NON-QUANTIFIABLE PROJECTS:

Quantifiable projects are those in which quantitative assessment of benefits can be made. Projects for industrial development, power generation, mineral development etc. fall under this category. Non quantifiable projects are those in which the benefits cannot be measured quantitatively. Projects involving health, education and defense fall under this category.

2) SECTORAL PROJECTS:

According to planning commission of India, a project may fall in the following sectors:

- a) Agriculture and allied sector.
- b) Irrigation and power sector.
- c) Miscellaneous sector.
- d) Transport and communication sector.

e) Industry and mining sector.

This classification is useful for resources allocation at macro levels.

3) TECHNO-ECONOMIC PROJECTS:

Projects may be classified into the following three groups:

A) Factor Intensity Oriented Classification: Project may be classified as Capital intensive or Labour intensive. If large investment is made in plant and machinery the project will be called Capital intensive. If large investment is made in human resources, the projects will be termed as Labour-intensive.

B) Causation Oriented Classification: It is classified as demand based or raw material based projects. If a project is started by an entrepreneur due to non-availability of certain goods or services and consequent demand for such goods or services the project is said to be based on demand. If project is started by an entrepreneur simply because of the availability of certain raw materials, skills or other impute, the project is said to be based on raw material.

C) Magnitude Oriented Classification: The size of investment forms the basis of classification. May be classified as Large-scale, Medium-scale and Small-scale.

4) FINANCIAL INSTITUTIONS CLASSIFICATION:

The projects are classified according to their age and experience and the purpose for which the project is being taken up. They are as follows:

A) Profit Oriented Projects:

- 1) New projects.
- 2) Expansion projects.
- 3) Modernization projects.
- 4) Diversification projects.

B) Service Oriented Projects:

- 1) Welfare projects.
- 2) Service projects.
- 3) Research and development projects.

5) ACCORDING TO THE URGENCY OF THE EXECUTION:

It is classified into three. They are as follows:

A) Normal Projects: In this type of project adequate time is allowed for implementation. This type of project will require minimum capital cost.

B) Crash Projects: Additional capital costs are incurred to save time. It is normally achieved in procurement and construction where time is brought from vendors and contractors by paying extra money to them.

C) Disaster Projects: Vendors who can supply within a very short time are selected irrespective of the cost. Naturally capital cost will go up very high but projects time will get much reduced.

PROJECT LIFE CYCLE

The project is initiated to achieve a mission and is said to be completed when the mission is achieved. The project lives between these two cut off periods and this intermediate time is called Project Life Cycle. Project life cycle consists of the following three stages:

- 1) **Pre-Investment Phase:** It is concerned with formulation of objectives, demand forecasting, and evaluation of impute characteristics, selection of strategy, projections of financial profile, cost benefit analysis and finally pre-investment appraisal. Some expenditure has to be incurred in the form of conducting surveys, feasibility studies etc.
- 2) **Construction Phase:** This stage consumes maximum expenditure. Construction phase consists of developing the infrastructure for the project. The capital requirement includes cost on land, buildings, civil works, machinery equipment, ancillaries etc.
- 3) **Normalization Phase:** The primary objective of this stage is to produce the goods and services for which the project was established. The expenditure has to be incurred on raw materials, fuel, utilities, and administration and operation maintenance. Etc.

According to Cleland and King a project passes through the following phases:

- 1) Conception phase.
- 2) Definition phase.
- 3) Production.
- 4) Observation.
- 5) Divestment.
- 6) Post-Mortem.

The following figure model of the project life cycle that is suitable for any type of project.

PROJECT MANAGEMENT

Project management is the process of planning, organizing, monitoring and controlling of all aspects of a project and motivating all involved to achieve project objectives of safety and completion within a defined time, cost and performance. Harson has defined project management as, "the achievement of a project's objectives through people, and involves organizing, planning and control of the resources assigned to the project together with the development of constructive human relations with all those involved, both in company and with the other companies involved".[

PHASES OF PROJECT MANAGEMENT

It consists of the following stages:

1. **Project Identification:** It refers to identification of business/investment opportunities. It involves scanning of the environment to find out investment opportunities.
2. **Project Formulation:** It is the translation of the idea into concrete project with scrutiny of its important preliminary aspects.
3. **Project Appraisal:** It involves searching, scrutiny, analysis and evaluation of market, technical, financial and economic variables. It examines the viability of the project.
4. **Project Selection:** It is the process of choosing a project rationally in the light of objectives and inherent constraints on the basis of appraisal.
5. **Project Implementation:** It is the stage of birth of an enterprise. At the end of this stage, the idea becomes a reality.

6. Project Follow Up and Evaluation: It is the process of assessing the performance of the project after it started functioning. Project evaluation simply means assessing the progress of the project.

OBJECTIVES OF PROJECT MANAGEMENT

The ultimate objective of project management is to attain the objectives for which the project has been undertaken. The other objectives of project management are as follows:

- 1) To achieve maximum productivity at minimum cost.
- 2) To maximize income and return.
- 3) To minimize risk and uncertainty.
- 4) To eliminate waste and improve efficiency.
- 5) To make the most efficient and effective use of resources- manpower, money, materials, technology etc.

ROLES AND RESPONSIBILITIES OF PROJECT MANAGER

The following are the roles and responsibilities of a project manager:

- 1) Managing personnel.
- 2) Satisfy government, customer, promoters and public.
- 3) Coordinating and integrating activities across multiple functional lines.
- 4) Defining and maintaining the integrity of the project.
- 5) Setting targets and development of systems and procedures for accomplishment of project objectives.
- 6) Developing project execution plan.
- 7) Coping with risk associated with project management.
- 8) Managing human interrelationships.
- 9) Maintaining the balance between technical and managerial project functions.

NEED OF PROJECT MANAGEMENT

The need for project management arises due to the following reasons:

- 1) **Complexity of Project:** Project involves time, effort, money etc. If there is any fault in planning or implementation of projects, the resources put in the projects would be a waste.
- 2) **Achievement of Objectives:** Unless projects are managed well, the objective for which the projects are undertaken cannot be achieved.
- 3) **Environmental Changes:** A project should be well equipped to meet the environmental challenges .The success of the project depends upon how the project is able to cope with the changing environment.
- 4) **Competition:** To face out the competition provision of a good or a service is not sufficient. It must provide a package which meets an entire need rather than just part of that need.
- 5) **Constraints:** The constraints relate to time, materials, demand, labour etc. The success of a project depends on how well it is possible to manage the so called constraints.
- 6) **Risk and Uncertainty:** At every stage of project life cycle there are challenges and problems. As the project moves new challenges and problems may arise. The risks and uncertainties cannot be eliminated but can be minimized through proper management of project.

7) **Time Overrun and Cost Overrun:** If a project takes more time than the scheduled time, it is known as time overrun. If a project incurs more costs than budgeted, it is called cost overrun.

8) **Project Control and Evaluation:** It is done either at the end of the project or few years after the completion of the project. This enables to learn lessons from the projects.

GENERATION OF PROJECT IDEAS

It is the process of collection, compilation and analysis of economic data for the purpose of finding out possible opportunities for investment and with the development of the characteristics of such opportunities. Emergence of project ideas from different sources is called generation of project ideas. The idea should be sound and workable, so that it may be exploited. The entrepreneur has to be imaginative and foresighted to discover a business/Project idea.

SCREENING OF PROJECT IDEAS

The need for screening of the ideas arises because all the ideas generated may not be promising. Only the most promising or most profitable ideas are to be selected for further study. The process of evaluating the project ideas with a view to select the best and promising idea after eliminating the unprofitable ideas is called screening of project ideas. The following factors need to be considered:

- 1) **Cost of the Project:** A study of the cost structure under material cost, labour cost, factory overheads etc., will give a good idea regarding different types of costs.
- 2) **Profitability:** The project yielding higher return must be selected.
- 3) **Marketing Facilities:** Existing and potential demand in domestic and export market, nature of competitions, sales and distribution system, consumption trends etc., should be assessed and evaluated before taking the final decision.
- 4) **Availability of Inputs:** The resources and inputs required for the project must be reasonably assured. The availability of skilled workers is to be ensured before launching an enterprise.
- 5) **Consistency with Government Regulations and Priorities.**
- 6) **Compatibility with the Entrepreneur:** The idea must suit the interest, personality and resources of the entrepreneur. It should not be beyond his capacity.

PROJECT FORMULATION

It is the process of examining technical, economic, financial and commercial aspects of a project. It is the process and steps through which an opportunity becomes a project in which the entrepreneur is willing to invest his time, money and other resources. This study is undertaken to find out whether the proposed project would be feasible or not.

NEED FOR PROJECT FORMULATION

The following are the major problems:

- 1) **Knowledge About Government Regulations:** The entrepreneur must have a thorough knowledge about Government regulations, policies, licensing procedures etc.,
- 2) **Absence of External Economies:** A project has to depend upon other industries for the supply of raw material, power, spares etc,
- 3) **Non-Availability of Technically Qualified Personnel.**
- 4) **Resource Mobilization.**

5) **Selection of Appropriate Technology:** Modern technologies developed in the advanced countries may not be suitable for adopting in the developing countries.

ELEMENTS OF PROJECT FORMULATION

It involves a number of elements, they are summarized as below:

Feasibility Analysis: It involves an examination of the project idea in the light of internal and external constraints. Internal constraints arise because of limitations of the project sponsoring body and external constraints arise due to the characteristic of the environment. If on feasibility analysis, the project is found feasible, the same is put to further analysis.

Techno-Economic Analysis: It is mainly concerned with the identification of the project demand potential and selection of the optimal technology suitable for achieving the project objectives. This study includes:

a) **Estimation of Demand or Market Potential:** The entrepreneur has to estimate the expected share of the sale in the market, intensity of competition, mobility of products to other places etc., the data collected from various sources are first compiled, tested and tabulated in a form suitable for interpretation.

b) **Selection of Technology:** It refers to that combination of controlled variables which will ensure the achievement of the project objectives with minimum expenditure of resources.

Project Design and Network Analysis: A project comprises certain sequential activities which are interrelated. These activities can be shown in the form of a diagram, which is called network diagram. Project design is concerned with the development of a detailed work plan of the project and its time estimates. When a network is designed, its analysis is carried out to identify the optimal course of action so as to complete the project with the minimum of time and cost, subject to the available resources. Important network analysis techniques are PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method).

Input Analysis: Input analysis is primarily concerned with the identification, qualification and evaluation of project inputs. The objective of input analysis is to identify nature of resources needed to estimate the quality of the required resources and to ensure that there is continuous and adequate supply of inputs. Input analysis is the basis for financial analysis and cost benefit analysis.

Financial Analysis: It involves estimates about the project costs and revenues and the funds required for the project. It seeks to find out whether the project will generate income to realize the ultimate objective for which it is undertaken.

Social Cost Benefit Analysis: Under cost benefit analysis the investment projects are evaluated from the point of view of the society as a whole. The cost benefit analysis aims at analyzing the real contribution of an investment project towards welfare of the country.

Pre-Investment Appraisal: The proposal gets the final and formal shape. The purpose of pre-investment appraisal is to enable the concerned authorities to take an investment decision about the project i.e. to accept or reject.

TECHNICAL ANALYSIS

Technical analysis of a project is essential to ensure that necessary physical facilities required for production will be available and the best possible alternative is selected to procure them. The object of technical analysis is to assess the technical soundness of the project. This is considered essential for the long term success of the project.

Technical analysis includes the study of the following:

1) **MATERIAL INPUTS:** It is essential to assess the availability of materials, inputs and utilities. Utilities include power, water, steam, fuel, communication facilities, transport facilities etc. The feasibility study of material should include the following variables:

- (a) The availability of quality and quantity of raw material.
- (b) Price elasticity of raw material.
- (c) Perishable time of raw material.
- (d) The factors on which the availability of raw material is depended.

2) **MANUFACTURING PROCESS/TECHNOLOGY:** Technologies simply refers to the tools, devices and knowledge that help in the transformation of inputs into outputs. It is the application of knowledge, encompassing the related concepts of science, innovation, invention and discovery. It is the application of scientific knowledge to practical commercial purpose.

Sources of Technology

The technical know-how can be procured from the following sources:

- 1) Foreign Collaboration.
- 2) Consultancy Organizations.
- 3) Machinery Suppliers.
- 4) Promoter's knowledge and experience.
- 5) Recruitment of suitable technical personnel.
- 6) CSIR Laboratories and National Research and Development Corporation (NRDC).

An entrepreneur may use either indigenous technology or imported technology. When he is not satisfied with indigenous technology, he can make use of imported technology. This process of availing global technology is called technology transfer.

3) **PLANT CAPACITY:** It refers to the volume or number of units that can be manufactured during a given period. Plant capacity is also called production capacity.

Considerations for Plant Capacity

The following factors should be taken into consideration:

- 1) Technological requirement.
- 2) Input constraints.
- 3) Investment cost.
- 4) Market consideration.
- 5) Resources of the firm.
- 6) Government policy.

4) PLANT LOCATION: It refers to a fairly broad area where the enterprise is to be established like city, industrial zone or coastal area. The success of a project depends on the location, to a certain extent. They are discussed as follows.

- 1) Proximity to raw material.
- 2) Nearness to market.
- 3) Availability of infrastructure facilities.
- 4) Transport and communication facilities.
- 5) Effluent disposal.
- 6) Labour.
- 7) Government policies.
- 8) Climatic condition.
- 9) Environmental considerations.
- 10) Other factors.

5) SIZE OF THE PLANT: The efficiency and profitability of a project are very much influenced by its size. Size of the plant depends on the manufacturing process, availability of raw materials, capital investment needed and the size of the market. Size of the plant depends on:

- 1) Availability of raw materials and power.
- 2) Technology/process to be adopted.
- 3) Size of the market.
- 4) Size of the plant and machinery.
- 5) The location of the project.
- 6) The product mix.
- 7) Capital investment required.

6) PRODUCT MIX: Product mix or range is decided according to market requirement. It refers to the set of all the products offered by a firm for sale. The range of products to be marketed depends on the following:

- a) Nature of business.
- b) Nature of product.
- c) Competition.
- d) Tastes of consumers.
- e) Size of target market.
- f) Plant capacity.

7) FACTORY DESIGN: It refers to the plan for a particular type of building, arrangement of machinery and equipment and provision of service facilities, lighting, heating etc. in the building. Factory design comprises layout of building and layout of factory.

Importance of Factory Design

Important benefits of a good factory design are summarized as follows:

- 1) Storage and movement of material.
- 2) Service facilities.
- 3) Supervision.

- 4) Employee morale.
- 5) Productivity.

8) MACHINERIES AND EQUIPMENTS: The requirement of machinery and equipment is dependent on production technology and plant capacity. It is also influenced by the type of project. To determine the kind of machinery and equipments required for manufacturing industry the following procedure may be followed.

- 1) Estimate the likely levels of production over time.
- 2) Define the various machinery and other operations.
- 3) Calculate the machinery hours required for each type of operation.
- 4) Select machineries and equipments required for each function.

9) PLANT LAYOUT: Proper plant layout can reduce manufacturing cost by saving money and time. It refers to the arrangement of the machines, equipments and other physical facilities within the factory premises .It is a floor plan for determining and arranging the desired machinery and equipment in the best place to permit the quickest flow of material at the lowest cost with least amount of material handling in processing the product from the receipt of raw materials to shipment of the finished product. There are five types of plant layout, they are as follows:

- 1) **Product Layout**
- 2) **Process Layout**
- 3) **Combined Layout**
- 4) **Stationary Layout**
- 5) **Cellular Layout**

NETWORK ANALYSIS

Network is a combination of activities and events of a project. Network analysis is a system which plans projects by analyzing the project activities. Network analysis is one of the most popular techniques used for planning, scheduling, monitoring and co-coordinating large and complex projects comprising a number of activities. It is concerned with evaluation of time and resources profile of project activities.

OBJECTIVES OF NETWORK ANALYSIS

1. It is a powerful tool for planning, scheduling and controlling of projects.
2. It helps to minimize total cost.
3. It shows in simple way the interrelationship of various activities constituting a project.
4. It helps delegation of the power and authority.
5. It facilitates management by exception.
6. It avoids production delays.
7. It leads to optimal use of resources.
8. It helps to minimize time for a given cost.
9. It helps the entrepreneur to complete the project in time.

STEPS IN NETWORK ANALYSIS

1. Preparation of network.
2. Estimation of time to perform each activity.

3. Computation of critical path schedule.
4. Interpretation of results.

NETWORK TECHNIQUES

A number of network techniques have been developed. Few of them are given below:

CRITICAL PATH METHOD (CPM)

It was developed in 1956, by Morgan R Walker of Dupont Company and James E Kelly of Remington Rand. After preparing the network diagram and indicating the time for each activity, we can identify the various possible paths.

APPLICATION OF CPM

CPM can be used in the following areas:

- 1) Construction of building or highway.
- 2) Construction of dams or canals.
- 3) Communication networks.
- 4) Production planning.
- 5) Maintenance and overhaul of aero planes or oil refinery.

STEPS IN CPM

- 1) Arrange all activities in a logical sequence.
- 2) Construct arrow diagram and number all the events.
- 3) Mark activity times on arrows.
- 4) Calculate earliest and latest starting/finishing times and mark these times on arrow diagram.
- 5) Identify critical path.

ADVANTAGES OF CPM

- 1) It makes better and detailed planning possible.
- 2) It helps in ascertaining the time schedule.
- 3) Control by management becomes easy.
- 4) It identifies most critical elements and thus more attention can be paid on these activities.
- 5) It facilitates optimum utilization of resources.

LIMITATIONS OF CPM

- 1) It is based on the assumption of precise known time for each of these activities.
- 2) It ignores statistical analysis in determining the time estimates.
- 3) It facilitates solution for the problem.

PROGRAMME EVALUATION REVIEW TECHNIQUE (PERT)

It was developed by a Navy sponsored Research Team composed of D.G. Malcolm, J.R. Roseboom, C.E. Clark and W. Fazar in 1958. PERT is a network technique of scheduling and controlling the project where activity times cannot be precisely estimated. Its primary purpose is to facilitate the planning and controlling of a project in order to achieve lower costs, reduce project time and more effective co-ordination and utilization of human and physical resources. PERT deals with the problems of uncertain activity times. Generally 3 time estimates are used.

They are:

1) **Optimistic Time (to):** It is the shortest possible time in which an activity can be completed. The probability of happening this is 1 in 100.

2) **Pessimistic Time (tp):** It is the maximum possible time in which an activity can be completed-e, if everything goes wrong. The happening this also might be 1 in 100.

3) **Most Likely Time (tm):** This lies in between 'to' and 'tp'. It is the estimated time in the normal conditions that an activity would require.

The expected time of each activity would be calculated by the following formula:

$$te = to + 4tm + tp / 6$$

STEPS IN PERT

- 1) Activities are arranged in a logical sequence.
- 2) Network diagram is drawn and events are numbered.
- 3) Using 3 times estimates, the expected time for each activity is calculated.
- 4) Slack is calculated and critical path is identified.
- 5) The total project duration is worked out.
- 6) Standard deviation and variance for each activity are found. Variance

APPLICATION OF PERT

Following are the major areas where PERT can be used:

- In managing accounts and budgeting of the organization.
- In administration such as planning manpower profile or paper work of the organization.
- In maintenance and major repairs of ships, rockets, steel furnaces, scheduling aircrafts etc.
- In installing and recognizing new systems such as plant, machinery, computers etc.
- Research and development projects.
- Defense projects.

ADVANTAGES OF PERT

- ✓ Reduces cost and time.
- ✓ Easily shown in chart form.
- ✓ Permits effective control.
- ✓ It provides updated information about the project.
- ✓ Provides improved estimates of the expected time to complete an activity by using multiple time estimates.
- ✓ It facilitates the right action, at right point and right time in the organization.

LIMITATIONS OF PERT

- Developing a clear and logical network is difficult.
- In some projects not all activities can be so clearly identified.
- It is not useful in certain kinds of projects like projects which are subject to change.
- It emphasizes only on time and not cost.
- There may be errors in time estimation.

ENTREPRENEURSHIP DEVELOPMENT

FINANCIAL ANALYSIS

It is defined as the process of obtaining relevant information about a project in order to ascertain its financial viability. The preliminary steps involved in the financial analysis include:

- 1) Estimation of total capital outlay involves in the project.
- 2) Estimation of operating costs.
- 3) Estimation of operating revenue.

Its purpose is to find out whether the project is attractive enough to secure funds needed for its various activities and whether the project will be able to generate enough income to achieve the objective for which it is undertaken.

ESTIMATION OF CAPITAL OUTLAY

Capital outlay of a project refers to the sum of the expenditure till the date of starting commercial production. It includes all advance expenditure. Cost of fixed assets, duties and taxes. Consultancy charges interest charges, intangible expenses, registration fees and provision for contingencies. The capital cost outlay is required not only for assessing fund requirement but also for ascertaining the economic viability of the project. Capital cost outlay is shown in the statement of capital cost estimation.

ESTIMATION OF OPERATING COSTS

Operating costs are those which have to be incurred after the project commences production. Operating costs vary with quantity of output. Operating costs cover material cost, labour cost, overhead costs and incidental expenses. A Proforma of operating costs shows the operating cost estimates.

ESTIMATION OF OPERATIONAL REVENUE

Operating cost is incurred to generate operating revenue or sales. It is necessary to assess the demand potential and the anticipated sale price of the goods. Sales and production are closely related and they can be estimated together through an estimate of production and sales. It shows details of installed capacity, value of sales etc.

ESTIMATION OF WORKING RESULTS

For assessing the profitability of a project, the estimates of operating costs and revenues are matched, using a proforma profit and loss statement. It will show details on expected sales, net sales, cost of production, gross margin, general and administrative expenses, taxes, dividend etc.

ESTIMATION OF FINANCIAL POSITION

In order to ascertain the financial position of a firm, at a given point of time, a proforma balance sheet is prepared with the help of projected assets and liabilities. It helps in preparation of projected funds flow and cash flow statements and to compute various ratios on profitability, liquidity and solvency of the project.

TECHNIQUE OF FINANCIAL ANALYSIS

Having prepared the projected financial statements, the process of financial analysis is carried out through funds flow analysis, break-even analysis, cash flow analysis and ratio analysis.

FUND FLOW ANALYSIS

Fund flow statement is prepared to show in assets, liabilities and net worth between two balance sheet dates. It is prepared to ascertain how much funds have been generated and how these funds were put to use. This will assist minimizing cost of finance and avoiding idle fund situation. The term 'fund' here means working capital. Flow of funds means the change in working capital.

CASH FLOW ANALYSIS

Cash is a critical asset. It acts as a fuel on which a project runs and it has to be kept ready all the time. Cash flow statement is prepared to ensure that the business unit will have necessary cash with it and it will not face liquidity problems. It shows the movements of cash into and out of the firm and its net effect on the cash balance with the firm. A cash flow statement is very useful to:

- 1) Determine the amount of cash needed to start the enterprise.
- 2) Plan for timing of loan funds.
- 3) Ensure that if projected cash flows are met, cash will be available to meet payments as they become due.

RATIO ANALYSIS

It is used to have an in depth examination of the strength and potential pitfalls of the organization. Ratio analysis helps to compare current performance with the past and also in measuring effectiveness and efficiency of the organization in the light of norms of performances. They help the management in the discharge of its key functions such as forecasting, planning, coordinating, controlling and communicating. Ratio analysis technique now a day's one of the most comprehensive and widely used methods in almost all the organizations.

ANALYSIS OF OPERATIONAL STRATEGY

The operational strategy can be evaluated by employing the following techniques:

BREAK-EVEN ANALYSIS

The break-even analysis is the most widely used technique of cost volume profit analysis used in its narrow sense. It is the point at which losses cease and profits begin. Break-even point is an equilibrium point or value between costs, prices and profits. Indeed it is a balancing point a point of no profit no loss. It is also called zero point costs. In a broad sense, it refers to a system of analysis that can be used to determine the probable profit at any level of activity.

ADVANTAGES OF BREAK EVEN ANALYSIS

Break even analysis presents the picture of profit at different levels of production. From the management point of view the following are the important uses;

- 1) It helps to take investment decision.
- 2) It serves as a useful tool for cost control.
- 3) It assists in the formulation of price policies.
- 4) It can be used to study the comparative plant efficiencies of the industry.
- 5) It is useful for determining costs and revenue at different levels of activity.
- 6) It helps to determine the selling price which gives desired profits.
- 7) It is useful in forecasting sales and profits.

LIMITATIONS OF BREAK-EVEN ANALYSIS

- 1) It assumes that the future projections can be made on the basis of past record but this is not correct.
- 2) It has limited application in the long range planning.
- 3) Break-even analysis completely ignores the capital employed in project.
- 4) It assumes that fixed costs remain fixed for any level of production. But actually it will remain fixed only up to a certain level of activity.
- 5) Break-even analysis is a short run analysis of cost volume relationship. It will change according to variation in costs of material, labour and the introduction of new methods or product or new equipment.
- 6) The profits are a function of not only output but also other factors such as technological changes, improvements in the art of management etc. These have been ignored in breakeven analysis.
- 7) It assumes that variable costs vary in direct proportion to volume of production. But the variable cost need not necessarily vary in direct proportion of output.

SENSITIVITY ANALYSIS

The technique of sensitivity analysis helps in studying the impact of crucial variables like raw material, sales volume, sales price, degree of capacity utilization etc. over the economic viability of an enterprise. Under this approach the value of different key variables is changed in a systematic manner. In other words, change is effected in one variable and the other variables are assumed constant and the results are analyzed to find out sensitivity of various variables with respect to their impact on profit margin.

RISK ANALYSIS

The risk analysis helps in identifying the sources of risks such as rise in prices of raw material, taxes and duties, product price etc. which have great bearing in determining the future returns for the project. Accordingly risk analysis offers an opportunity to the investor to redesign his proposed project.

PROJECT FINANCING

Finance is one of the foundations of economic activity of mankind. It is needed for starting the business and also to keep it going. It is rightly described as the life blood of any industrial or commercial undertaking.

CLASSIFICATION OF CAPITAL

On the basis of the purpose for which finance is required, finance or capital may be classified into fixed or block capital and working or circulating capital.

FIXED CAPITAL

It refers to the amount required for acquiring fixed assets like land, building, machinery etc.

FACTORS GOVERNING FIXED CAPITAL REQUIREMENTS

The amount of fixed capital requirement of a project depends on the following factors:

- Nature of project
- Size of the project
- Diversity of production line
- Method of production
- Method of acquiring fixed assets

WORKING CAPITAL

It consists of funds invested in current assets. There are two concepts of working capital. One is gross concept and the other is net concept. Gross concept working capital refers to the amount of funds invested in current assets. Working capital is equal to total current assets. Net concept working capital refers to the excess of current assets over current liabilities. Working capital is equal to current assets minus current liabilities.

TYPES OF WORKING CAPITAL

It is broadly classified into two- permanent working capital and variable working capital.

1) Permanent Or Fixed Working Capital :- It is the minimum amount of working capital required to ensure effective utilization of fixed assets and support the normal operation of the business. It is again divided into two.

(A) Initial Working Capital- It is the capital with which the project is commenced.

(B) Regular Working Capital: - It is the minimum amount of the liquid capital to keep up the circulating capital from cash to inventories, to receivables and back again to cash.

2) Variable Working Capital: - This is the additional capital needed to meet seasonal and special needs. It is again divided into two.

(A) Seasonal Working Capital: - It refers to the additional working capital required during busy seasons.

(B) Special Working Capital: - It may be required to carry on a special sales campaign or financing slow moving stock or financing a period of strike or lockout etc.

SOURCES OR MEANS OF FINANCE

There are basically two sources available for financing project- internal sources and external sources. If the size of the project is large, the fund requirement will have to be financed from external sources. The technique of raising capital from multiple sources is known as layered financing. The following shows the various sources of project finance.

A) SOURCES OF LONG TERM FUND (FINANCE FIXED CAPITAL REQUIREMENT):-

- 1) Issue of shares.
- 2) Issue of debentures.
- 3) Term loans from specialized financial institutions like IFCI, IBRD etc.
- 4) Venture capital.

B) SOURCES OF MEDIUM TERM FUNDS (FINANCE FIXED WORKING CAPITAL REQUIREMENT):-

- 1) Public deposits.
- 2) Deferred credits.
- 3) Lease finance.
- 4) Subsidy and other incentives/assistance from the government.
- 5) Hire purchase.

C) SOURCES OF SHORT TERM FUNDS (FINANCE WORKING CAPITAL REQUIREMENT):-

- 1) Trade credit.
- 2) Commercial banks.
- 3) Accounts receivable.

The important means of finance are discussed as follows:

1) SHARE CAPITAL: - Shares may be issued by a company after its incorporation or by an existing company. There are two types of share capital.

A) Equity Share Capital: - It represents the contribution made by the equity shareholders. The advantage of raising equity capital is that the company need not mortgage any of its assets to secure it from the market.

B) Preference Share Capital: - They enjoy a preferential right in respect of dividend and also repayment of capital in case of winding up in priority to equity shareholders. Financing through preference shares is much cheaper than the equity shares. -

2) DEBENTURE CAPITAL: - It refers to borrowings. Debenture holders being creditors have neither voting powers nor control in policy making. They get a fixed rate of interest even if the company incurs losses.

3) TERM LOANS: - It is granted on the basis of a formal agreement between the borrower and the lending institution. Long term capital provided directly by a lender in the form of a negotiated contract according to all details of the agreement is called term loan.

4) VENTURE CAPITAL: - It refers to giving capital to enterprise that has risk and adventure. It is a financial investment in a highly risky project with the objective of earning a high rate of return.

5) PUBLIC DEPOSITS: - A company can raise deposits to meet its capital needs directly from the public at an interest rate generally above the bank rate.

6) DEFERRED CREDITS: - Under this arrangement payments to suppliers of plant and equipments are made in agreed instalments over a specified period of time at some agreed rate of interest on the outstanding balance.

7) INCENTIVE SOURCES: - The government and its agencies may provide financial support a incentives to certain types of promoters or for setting up industrial units in certain locations.

8) LEASE FINANCING: - it can be explained as a contract between the owner of the asset and the user of the asset whereby the owner of the asset gives it to the user for a consideration. The

owner of the asset is called the lessor and the user of the asset is called the lessee. The consideration which is required to be paid by the lessee for using the asset is called lease rental.

9) INSTITUTIONAL FINANCE: - There are several financial institutions for giving financial assistance to entrepreneurs. Some of them are IDBI, IFCI, SIDBI, NABARD etc.

FEASIBILITY STUDY REPORT

It analyses availability of raw material, skills and expertise, capital, market etc. It should be noted that any project must be technically feasible, financially sound, economically viable and socially acceptable. The feasibility report contains only important information obtained from technical analysis, financial analysis, economic analysis; social cost benefit analysis etc. It forms the basis for investment appraisal and decision making.

PROJECT APPRAISAL AND EVALUATION

The project has to be appraised in relation to the feasibility of the technical, economic, financial, commercial, managerial, social and other aspects of the project. It is defined as critical and careful second look at the project by a person not associated with the project preparation. The objective of a project appraisal is to decide whether to accept or reject an investment proposal.

ELEMENTS OF PROJECT APPRAISAL

There are mainly seven aspects of project appraisal. They are:

- 1) **Technical Feasibility:** - It includes detailed estimates of the goods and services needed for the project- land, machineries and equipments, raw material, trained labour etc. Location of the project should be given special attention in relevance to technical feasibility. Another important feature of technical feasibility relates the type of technology to be adopted for the project.
- 2) **Economic Viability:** - It is a study on capital cost, working capital, operating cost and revenue, marketing, profitability etc. It also includes an appraisal of anticipated demand and capacity utilization.
- 3) **Commercial Viability:** - The appraisal of commercial aspects of a project involves a study of the proposed arrangements for the purchase of raw materials and sale of finished products etc. The main objective is to see that the proposed arrangements will ensure that the best value is obtained for money spent.
- 4) **Financial Feasibility:** - It seeks to ascertain whether the project is financially viable regarding the cost of project, cost of production and profitability, cash flow estimate and Performance balance sheet. It will study whether the project will satisfy the return expectations of those who provide the capital.
- 5) **Managerial Competence:** - Proper evaluation of managerial ability and talent is an essential part of appraisal of a project. While evaluating the management, background of the entrepreneur and promoters, their character and integrity, past record of promotion etc are studied.
- 6) **Social Consideration:** - The social objective of a project are also considered keeping in view of the interests of the public. The projects which offers large employment potential, which are located in backward areas or projects which will stimulate small industries or growth of ancillary industries are given special consideration.

7) **Ecological Analysis:** - It is necessary to ensure whether the project causes pollution, whether it disturbs the equilibrium of ecology and whether it fits into the environment.

8) **Project Risk Analysis:-**Project face a host of risk such as project completion risk, resource risk, price risk, technology risk, political risk, interest rate risk etc. An analysis of such risks is helpful in the appraisal of a project.

METHODS OF PROFITABILITY APPRAISAL

The most important and popular of these can be classified into two broad categories as follows:

NON-DISCOUNTING TECHNIQUES OR TRADITIONAL METHODS: - It does not take into consideration the time value of money. Important traditional methods may be discussed as follows:

A) **URGENCY METHOD:** - Urgency or degree of necessity plays an important role and project that cannot be postponed is undertaken first.

Merits

- It is a very simple technique.
- It is useful in case of short term projects requiring lesser investment.

Demerits

- Selection is not made on the basis of economical consideration but just on the basis of situation.
- It is not based on scientific analysis.

B) **PAY BACK METHOD:** It is cash based technique. It is a period over which the investment would be paid back. It is a breakeven point of the project, where the accumulated returns equal investment. It is also called 'pay-out' or 'pay-off' period or 'recoupment' or 'replacement period'.

DECISION RULE (or SELECTION CRITERION):-

According to pay back criterion, the shorter the payback period, the better the project.

ADVANTAGES OF PAY BACK METHOD

- ✓ It is simple to understand and easy to apply.
- ✓ It is very important for cash forecasting, budgeting and cash flow analysis.
- ✓ It minimizes the possibility of losses through obsolescence.
- ✓ It takes into account liquidity.
- ✓ It is easier for projects yielding returns in initial years.

DISADVANTAGES OF PAY BACK METHOD

- ✓ It ignores the time value of money.
- ✓ It completely ignores cash inflows after the payback period.
- ✓ This method does not measure profitability of projects. It insists only on recovery of the cost of the project.
- ✓ It does not measure the rate of return.
- ✓ It may become misleading because it is based on a single factor.

C) POST PAYS BACK METHOD: -

The post pay back method has been evolved to overcome the limitations of pay back method. Under this method, the entire cash inflows generated from a project during its working life are taken into account. It is calculated as under:

$$\text{Post Pay Back Profitability} = \text{Total Cash Inflows in Life} - \text{Initial Cost} \\ \text{Or Annual Cash Inflows} \times (\text{Total Life} - \text{Pay Back Period})$$

The second alternate formula is useful only when annual cash inflows are equal

D) AVERAGE RATE OF RETURN METHOD (ARR):-

It represents the ratio of the average annual profits to the average investment in the project. It is based on accounting profits and not cash flows. This is also known as *Accounting Rate of Return Method* or *Return on Investment Method* or *Unadjusted Rate of Return Method*. ARR is found out by dividing average income by the average investment.

DECISION RULE (or SELECTION CRITERION)

The higher the ARR, the better the project, If the projects are mutually exclusive, the project with highest rate of return is selected. If the calculated ARR is equal to or more than the company's star get rate of return, the project will be accepted. If the calculated ARR is less than the company's star get rate of return, the project will be totally rejected.

ADVANTAGE OF ARR

- It is simple to understand and easy to apply.
- It takes into consideration earnings over the entire life of the project.
- It considers profitability of the investment.
- Projects of different character can be compared.
- Rate of return may be readily calculated with the help of accounting data.

DISADVANTAGES OF ARR

- This method does not give any importance to the time value of money.
- It does not differentiate between the size of the investment required for each project
- It is based upon accounting profits, instead of cash flow.
- It considers only the rate of return and not the life of the project.
- It ignores the fact that profit can be reinvested.

D) NET PRESENT VALUE METHOD (NPV):- NPV method involves discounting future cash flows to present values. The cash outflow (i.e., initial investment whose present value is the same) is deducted from the sum of the present values of future cash inflows (returns or benefits). The balance amount is NPV which may be either positive or negative. If the NPV is positive, it means that the actual rate of return is more than the discount rate and it contributes to the wealth of the share holders. A negative NPV indicates that the project is not even covering the cost of capital. It means that the actual rate of return is less than the discount rate.

Computation Procedure of NPV

Determination of Minimum Rate of Return: - To discount cash flows a minimum rate of interest should be selected. This generally the firm's cost of capital (i.e., the minimum rate of return an investor expects from the firm to earn on the proposed investment).

Computation of PV of cash inflows and outflows: - The present value of cash flows for different years may be calculated with the help of the following formula:

$$PV = () + () + () \dots \dots \dots ()$$

Where,

C1, C2, Cn = Cash inflows for n years

r = Discount factor or interest rate

n = Number of years

In practice, the 'Present Value Table' is used to calculate PV.

$$PV = \text{Cash Inflow} \times \text{Discount Factor of the Concerned Period}$$

Computation of NPV: -The difference between total present value of cash inflows and total present value of cash outflows should be found out. The resulting amount is the Net Present Value (NPV).

DECISION RULE (or SELECTION CRITERION): - In the case of mutually exclusive or alternative projects, (where only one project is to be selected) accept a project that has the highest positive NPV. In the case of individual investment, accept a project if it's NPV is positive. If the

NPV is negative, reject it.

ADVANTAGES OF NPV

- It takes into account the time value of money.
- It focuses attention on the objective of maximization of the wealth of the project.
- It considers the cash flow stream over the entire life of the project.
- It is highly useful in case of mutually exclusive projects.
- This method is most suitable when cash inflows are not uniform.
- This method is generally preferred by economists

DISADVANTAGES OF NPV

- It involves complicated calculations.
- It is difficult to select the discount rate.
- This method is not suitable in case of projects involving different amounts of investment.
- The relative desirability of project will change with a change in the discount rate.
- Not suitable in case of two projects having different useful lives.

E) BENEFIT COST RATIO (PROFITABILITY INDEX METHOD): -

Two projects having different investment outlay cannot be compared by Net Present Value method because it indicates the NPV in absolute terms. In such a situation Benefit Cost Ratio should be applied. It is the ratio of benefits (cash inflows) to (cash outflows). It is the ratio present cash inflows to present value of cash outflows. Thus it measures present value of returns. This method is also known as *Profitability Index or Present Value Index Method*.

DECISION RULE (or SELECTION CRITERION)

“Accept the project if it's PI (Profitability Index) is more than one and reject the project if its PI is less than one. In the case of mutually exclusive projects, the project with higher PI is to be selected. Higher the Profitability Index better is the project.

ADVANTAGES OF BENEFIT COST RATIO / PROFITABILITY INDEX

1. It is very scientific and logical
2. It is based upon the real profitability of projects.
3. It is very useful to compare the projects having different investments.
4. It reflects time value of money.
5. It considers all cash flows during the life of the project.

DISADVANTAGES OF BENEFIT COST RATIO / PROFITABILITY INDEX

1. It is comparatively difficult to understand and follow
2. This method is not in accordance with accounting principals
3. It cannot be used for comparing those projects having unequal lives.
4. It is difficult to estimate effective life of a project.

F) INTERNAL RATE OF RETURN (IRR):-

IRR was first introduced by Joel Dean. In IRR, we try discounting at different discount rates until we reach the rate at which the present value of cash inflows to present value of cash outflows (investment). Thus, internal rate of return is the rate at which total present value of future cash flows is equal to initial investment. In other words, it is the rate at which NPV is zero. This rate is called the internal rate because it exclusively depends on the initial outlay and cash proceeds associated with the project and not by any other rate outside the investment.

DECISION RULE (or SELECTION CRITERION): -

The calculated IRR is compared with the desired minimum rate of return. If the IRR is greater than the desired minimum rate of return, the project is accepted and if it is less than the desired minimum rate of return, then the project is rejected.

ADVANTAGES OF IRR

- a. This method considers all the cash flows over the entire life of the project.
- b. Cost of capital need not be calculated.
- c. IRR gives a true picture of the profitability of the project even in the absence of cost of capital.
- d. Projects having different degrees of risk can easily be compared.
- e. It takes into account the time value of money.

DISADVANTAGES

- a. It is difficult to understand and use in practice because it involves tedious and complicated calculation.
- b. Sometimes it may yield negative rate or multiple rates which is rather confusing.
- c. It is applicable mainly in large projects.
- d. It yields results inconsistent with the NPV method if projects differ in their expected life span, investment timing of cash flows.

PROJECT EVALUATION

It is the final stage of project management. The process of measuring the progress made and assessment of the results of a project is known as project evaluation.

Meaning of Project Evaluation

It is derived from the Latin word 'Valuere'. It means determination of value of an activity or a thing. It is the process of appraising the progress and performance in relation to the project's initial or revised plan. It also appraises the project against the project goals and objectives. It measures how far the objectives have been achieved so far.

IMPORTANCE OF PROJECT EVALUATION

Project Evaluation helps the organization improve its projects management skills on future projects. It helps to know whether the project is moving according to plan or not. It brings into light the project's strengths and weaknesses. It gives the management a good idea of how the project is progressing. Thus project evaluation measures the success of a project.

PROJECT REPORT

A project report may be defined as a document with respect to any investment proposal based on certain information and factual data for the purpose of appraising the project. It states as to what business is intended to be undertaken by the entrepreneur and whether it would be physically possible, financially viable, commercially profitable and socially desirable to do such a business. Project report is an essential document for procuring assistance from financial institutions and for fulfilling other formalities for implementation of the project. The project report (Detailed Feasibility Report) is based on a preliminary report or pre-investment report. Thus the project report is a post investment decision report.

OBJECTIVES OF THE PROJECT REPORT

The basic aim of a project report is to assess the financial viability of a project as well as the soundness of its production, marketing and other related aspects. It serves the following main objectives.

- 1) It facilitates business planning and planning the future course of action.
- 2) It enables an entrepreneur to compare different investment proposals and select the most suitable project.
- 3) It provides a SWOT analysis, wherein the strengths, weaknesses, opportunities and threats involved in the projects as shown.
- 4) The project report enables the entrepreneur to ensure that he is proceeding in the right direction.
- 5) In case of public sector projects this report would also enable the concerned authorities to take an objective decision on the project.
- 6) It facilitates project appraisal.
- 7) It helps the financial institutions to make appraisal as regards financial, economic and technical feasibility.

IMPORTANCE OF PROJECT REPORT

Project report is a written plan of the project to be undertaken for the attainment of objective. It enables an entrepreneur to know the inputs required and confirms that he is proceeding in the right direction. It spells out the reasons of allocating resources of the firm for the production of goods and services during a specific period. An important aspect of the project report lies in determining the profitability of the project with minimum risks in the execution of the project. The important uses of P.R. are summarized as follows:

It helps the entrepreneur in establishing techno-economic viability of the project.

It helps in getting term loan from banks and financial institutions.

It helps in approaching bank for getting working capital loan.

It helps in securing supply of scarce raw materials also.

It gives a general idea of resource requirements and means of procuring them.

It shows the feasibility of the project and possibility of achieving profits.

CONTENTS OF PROJECT REPORT

It contains relevant information in detailed and systematic manner as below:

- 1) **Introduction:** General information regarding the company and production description.
- 2) **Background of The Promoter:** - Name, address, age, family background, educational qualification, work experience, investment potential etc.
- 3) **PRODUCT:** - Details of products to be produced, details of application of the product, proposed product mix, product standard etc.
- 4) **MARKET AND MARKETING:-** Market potential analysis, major buyers, area to be covered, trade practices, sales promotion devices, trade practice and trade channels adopted by the competitors, demand analysis, proposed market research etc.
- 5) **LOCATION:-** Locational advantages, criteria for selecting the location, exact location of the project, other choices.
- 6) **PRODUCTION PROCESS:** - Details of technology, process flow chart, manufacturing process, production programme etc.
- 7) **RAW MATERIAL:** - List of raw material required in terms of quality and quantity, sources of requirement, cost of raw material etc.
- 8) **UTILITIES:** -Water, power, steam-sources and costs, effluent disposal etc.
- 9) **TRANSPORT AND COMMUNICATION:** - Method, possibility of getting and costs of transport.
- 10) **MANPOWER REQUIREMENT:** -Requirement of skilled, semi skilled personnel, technical and non-technical personnel, cost of procurement, capacity, and suppliers cost, alternatives available, cost of miscellaneous assets.
- 11) **LAND AND BUILDING:** - Land area, construction area, cost of construction, detailed plan, plant lay out along with cost.

12) PLANT AND MACHINERY: - Details of machinery and equipment required.

13) COST OF PROJECT AND SOURCES OF FINANCE: - Working capital required, preliminary and pre-operative expenses, contingencies and arrangements for the meeting the cost of project.

14) FINANCIAL VIABILITY OF THE PROJECT: -Cost of production and profitability for the first years, break even analysis, and analysis of cash flow and fund flow statements.

PROBLEMS FACED IN THE PREPARATION OF PROJECT REPORT

An entrepreneur may face the following problems in the preparation of a project report:

- 1) Strict condition of promoter's contribution may dampen the enthusiasm of entrepreneurs.
- 2) All lending institutions demand a lot of documents before credit is granted.
- 3) Problems regarding working capital assessment due to unrealistic assumptions.
- 4) Time overrun will lead to cost overrun.
- 5) Lending institutions expect strict specifications with regard to size of the land, buildings, sources of machinery, their costs etc.
- 6) A number of clearances have to be obtained from the government departments. This causes strain and wastage among entrepreneurs.

UNIT – IV

ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDP)

Introduction

Entrepreneurship Development Programme is primarily meant for developing those first generation entrepreneurs who on their own cannot become successful entrepreneurs. It covers three major variables- location, target group and enterprise. Any of these can become the focus or starting point for initiating and implementing an EDP. Thus it is to develop entrepreneurial abilities among the people.

The basic features of Entrepreneurship Development Programme have gone through several modifications overtime as:

- (a) Identification and careful selection of entrepreneurs for training;
- (b) Developing the entrepreneurial capabilities of the trainee;
- (c) Equipping the trainee with the basic managerial understanding and strategies;
- (d) Ensuring a viable industrial project for each potential entrepreneur
- (e) Helping him to secure the necessary financial, infrastructural and related assistance; and
- (f) Training cost is highly subsidized and only token fee is charged. A deposit is, however, taken to ensure commitment of participants.

Entrepreneurship Development Programme

The course contents of an EDP should be formulated as per the objectives of the EDPs.

It should consist of the following:

1. General Approach to Entrepreneurship:

The participants should be given exposure about the conceptual framework of entrepreneurship role, expectation, Entrepreneurial environment etc. Innovative behaviour related issues should be focused to enlighten the entrepreneurs about their future challenges and prospects.

These risks are as follows:

- (i) Technical risks – the risk of not knowing enough about the technical processes, materials etc.
- (ii) Economic Risks – the risk of market fluctuations and changes in relation to raw materials etc.
- (iii) Social Risks – the risk inherent in the development of new relationship.
- (iv) Environmental Risks – risk which result from environmental changes in the manager's work as an outcome of the new activity.

2. Motivational Training:

Motivational training inputs are meant for developing the motivation of potential entrepreneurs and their enterprise building skills. Besides, motivational inputs also include psychological games, tests, goal setting exercises, role play etc. The motivational inputs will be aimed at increasing the participants, understanding of the entrepreneurial personality and entrepreneurial behaviour and bring about through self-study, changes in self-concept, value, skills thereby leading to positive entrepreneurial behaviour.

3. Developing Management Skills:

Prospective entrepreneurs should be given exposure in different types of management problems. It would sharpen their management skills. The management problems take different forms and the management patterns are peculiar to the situation.

4. Training for Project Management:

Project inputs are required to help the potential entrepreneurs to develop their project ideas into bankable projects. They should be given acquaintance with the industrial opportunities in the area and also necessary guidance on product selection. Necessary knowledge about project feasibility, viability and implementation should also be given to the potential entrepreneurs.

Under project preparation, technical feasibility includes selection of technology, availability of raw materials, selection of location and site, availability of plant and machinery, infrastructure facilities, roads, transport, power, manpower/personnel requirement.

Similarly, market analysis, level of competition, capital cost, working capital requirement, estimated cost of production, projected sales volume, profitability estimates, expected rate of return, projected cash flows and break even analysis are different aspects that have to be incorporated in assessing the commercial viability of the project.

5. Structural Arrangement:

Training inputs also aim at familiarizing the participants about the proposed structural arrangement for the business or industrial unit. They should be given adequate familiarization about government policy regarding development of industries, especially with regard to small scale industries, registration and licensing procedures, forms of organisation like proprietary, partnership, private company and Joint Stock Company, institutional setup etc.

6. Support System:

In most of the cases, participants are generally first generation entrepreneurs and they do not know about the government and institutional support system. Support system may also be used as motivational inputs to encourage the participants about their future prospects. They should be familiarized with the incentives/concessions available, tax-incentives, tax holiday, backward/zero industries districts concessions, soft loan scheme, special schemes for technicians etc.

7. Factory Visits/In-Plant Training:

Practical exposure is also necessary. Depending upon their products the potential entrepreneurs may feel the need to gain more knowledge about the production process etc. by visiting some of the similar units in production. For this purpose, factory visits may have to be arranged.

Similarly, entrepreneurs who select relatively sophisticated products will be expected to have a good idea of the product and the process facilities should be arranged for in-plant training or prototype development on exceptional basis.

NEED OF EDP

It is very much essential for the first generation entrepreneurs because proper training and guidance will help them to get success. It is promoted to help alleviate the unemployment problem, to overcome the problem of stagnation and to increase the competitiveness and growth of business and industries.

The thrust of entrepreneurship development programme is to motivate people to accept entrepreneurship as a career. Training and successful entrepreneurs becomes ideal for other.

Following are the various needs for EDPs:

(i) Eliminates Poverty and Unemployment:

One of the important problems of any developing country is unemployment. The problem of poverty is severe and of longstanding duration in India, and is at its most acute in rural areas. In recent years central and state governments have started a number of schemes aimed at reducing rural poverty but they cannot solve the problem completely because of their shortcomings and inadequacies.

India needs to return to the syndrome of high growth rate quickly and sustain it for at least eight years to eradicate poverty, illiteracy, unemployment and backwardness. Entrepreneurship development programmes help people towards self-employment and provide entrepreneurship as a career.

Government of India has introduced various programmes to eliminate the poverty and solve the unemployment problem through National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc.

(ii) Balanced Regional Development and Growth:

One of the objectives of setting up of public enterprises is to promote balanced regional development. It can be possible through the expansion of the employment opportunities in backward regions.

The pace of economic development of different States and Regions in the country has not been uniform over the years owing to historic reasons and a number of other factors. Industrialization plays an important role in correcting the regional imbalances and accelerating the industrial growth.

In order to remove regional inequalities and encourage balanced industrial growth of different states/regions, subsidies to industries set up in backward districts. Successful EDPs help in faster industrialisation and reduce the concentration of economic power. It is because the small scale industries can be set up in remote areas with little financial resources which help in achieving balanced regional development.

(iii) Prevents Industrial Slums:

The Indian economy, which has over the last six decades passed through various phases of growth, is now all set to enter an altogether different orbit marked by a high rate of expansion, combined with 'inclusive growth.' Slums are an outcome of imbalanced urban growth resulting from over-concentration of economic activities. As per the census 2001, 42.6 million of India's population lives in slums.

This constitutes about 15% of the total urban population of the country. The urban cities are highly congested and leading to industrial slums. Decentralisation of industries is very much requiring for locating the industries. EDPs help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infrastructural facilities to set up their own enterprises in all the regions.

(iv) Harnessing Locally Available Resources:

Human beings have inhabited the earth; they have used the earth's resources and have continuously transformed it. Each landscape is the upshot not only of natural processes but of the actions throughout history of human beings whose responsibility is to organize, protect and manage the environment they share.

People use many of the earth's natural resources. All of the products we use have a natural resource base. Minerals, forest products, water, and soil are just a few of the natural resources humans use to produce energy and make things people use.

Since abundant resources are available locally, proper use of these resources will help to carve out a healthy base for sound economic and rapid industrialisation. The EDPs can help in harnessing these resources by training and educating the entrepreneurs.

(v) Defuses Social Tension:

Self-employment and entrepreneurship become increasingly important in our modern economies. Many people have an ambition to "run their own business", and these days more people than ever are starting up their own businesses. With redundancies on the increase in the recession, many people will take the chance of "working for themselves" and will relish the opportunity of being their own boss and not being answerable to anybody else.

It is, of course, admirable, but they could be digging a hole for themselves. Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted towards self-employment careers to help the country in defusing social tension and unrest among youth is possible by EDPs.

(vi) Capital Formation:

It is one of the most critical activities in getting a business started. Business creation has moved a lot from the days of Marco Polo and Schumpeter. The biggest hurdle the entrepreneurs face is in raising the initial capital needed for the new venture.

Getting equity from family and friends has many advantages over other types of financing. Entrepreneurship development programmes helps an individual to raise capital to start a business or to grow an existing business.

(vii) Improvement in per Capita Income:

Entrepreneurs play a vital role in achieving a higher rate of economic growth. Entrepreneurs are able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements. When the price of the commodities decreases, consumer gets the power to buy more goods for their satisfaction. All this are possible through entrepreneurship development programmes.

(Viii) Facilitating Overall Development:

Entrepreneurship development programmes are great and successful in India. If everything goes in proper channel with proper judgment, it will flourish to fill up the sky. Entrepreneurship development programmes inspires innovations, creative ideas and provide new solution to the problems.

UNIT—V

WOMEN ENTREPRENEURS

THE CONCEPT OF WOMEN ENTREPRENEURSHIP

According to the general concept, women entrepreneur may be defined as a women or a group of women who initiate, organize and operate a business enterprise. The Government of India has defined a women entrepreneurship as “an enterprise owned and controlled by a women having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women”.

PROBLEMS OF WOMEN ENTREPRENEURS

The basic problem of a woman entrepreneur is that she is a woman. Women entrepreneurs face two sets of problems specific to women entrepreneurs. These are summarized as follows.

- 1) **Shortage of Finance:** Women and small entrepreneurs always suffer from inadequate fixed and working capital. Owing to lack of confidence in women’s ability, male members in the family do not like to risk their capital in ventures run by women. Banks have also taken negative attitude while lending to women entrepreneurs.
- 2) **Shortage of Raw Material:** Women entrepreneurs find it difficult to procure material and other necessary inputs. The prices of many raw materials are quite high.
- 3) **Inadequate Marketing Facilities:** Most of the women entrepreneurs depend on intermediaries for marketing their products. It is very difficult for the women entrepreneurs to explore the market and to make their product popular. For women, market is a ‘chakravyuh’.
- 4) **Keen Competition:** Women entrepreneurs face tough competition from male entrepreneurs and also from organized industries. They cannot afford to spend large sums of advertisement.
- 5) **High Cost of Production:** High prices of material, low productivity. Under utilisation of capacity etc., account for high cost of production. The government assistance and subsidies would not be sufficient for the survival.
- 6) **Family Responsibilities:** Management of family may be more complicated than the management of the business. Hence she cannot put her full involvement in the business. Occupational backgrounds of the family and education level of husband has a direct impact on the development of women entrepreneurship.
- 7) **Low Mobility:** One of the biggest handicaps for women entrepreneur is her inability to travel from one place to another for business purposes. A single women asking for room is looked upon with suspicion. Sometimes licensing authorities, labour officials and sales tax officials may harass them.
- 8) **Lack of Education:** About 60% of women are still illiterate in India. There exists a belief that investing in woman’s education is a liability, not an asset. Lack of knowledge and experience creates further problems in the setting up and operation of business.

9) Low Capacity to Bear Risks: Women lead a protected life dominated by the family members. She is not economically independent. She may not have confidence to bear the risk alone. If she cannot bear risks, she can never be an entrepreneur.

10) Social Attitudes: Women do not get equal treatment in a male dominated society. Wherever she goes, she faces discrimination. The male ego stands in the way of success of women entrepreneurs. Thus, the rigid social attitudes prevent a woman from becoming a successful entrepreneur.

11) Low Need for Achievement: Generally, a woman will not have strong need for achievement. Every woman suffers from the painful feeling that she is forced to depend on others in her life. Her pre-conceived notions about her role in life inhibit achievement and independence.

12) Lack of Training: A women entrepreneur from middle class starts her first entrepreneurial venture in her late thirties or early forties due to her commitments towards children. Her biggest problem is the lack of sufficient business training.

13) Lack of Information: Women entrepreneurs sometimes are not aware of technological developments and other information on subsidies and concessions available to them. They may not know how to get loans, industrial estates, raw materials etc.

REMEDIES TO SOLVE THE PROBLEMS OF WOMEN ENTREPRENEURS

The following measures may be taken to solve the problems faced by women entrepreneurs in India:

- 1) In banks and public financial institutions, special cells may be opened for providing easy finance to women entrepreneurs. Finance may be provided at concessional rates of interest.
- 2) Women entrepreneurs' should be encouraged and assisted to set up co-operatives with a view to eliminate middlemen.
- 3) Scarce and imported raw materials may be made available to women entrepreneurs on priority basis.
- 4) Steps may be taken to make family members aware of the potential of girls and their due role in society.
- 5) Honest and sincere attempts should be undertaken by the government and social organizations to increase literacy among females.
- 6) In rural areas self employment opportunities should be developed for helping women.
- 7) Marketing facilities for the purpose of buying and selling of both raw and finished goods should be provided in easy reach.
- 8) Facilities for training and development must be made available to women entrepreneurs. Family members do not like women to go to distant place for training. Therefore mobile training centers should be arranged. Additional facilities like stipend, good hygienic chreches, transport facilities etc., should be offered to attract more women to training centers.

MEASURES TAKEN FOR THE DEVELOPMENT OF WOMEN ENTREPRENEURSHIP IN INDIA

Women empowerment should be one of the primary goals of a society. Women should be given equality, right of decision-making and entitlements in terms of dignity. They should attain economic independence. The most important step to achieve women empowerment is to create awareness among women themselves. Development of women can be achieved through health, education and economic independence. Realizing the importance of women entrepreneurs, Govt. of India has taken a number of measures to assist them. Some of the important measures are outlined as follows:

1) TRYSEM: Training of Rural Youth For Self Employment was launched on 15th August 1979 which is still continuing. The objective of TRYSEM is to provide technical skills to rural youth between 18 and 35 years of age from families below the poverty line to enable them to take up self employment in agriculture and allied activities, industries, services and business activities. This is a sub scheme of IRDP. Training given through ITIs, Polytechnics, Krishi Vigyan Kendra, Nehru Yuva Kendras etc., has helped many rural women set up their own micro enterprises with IRDP assistance.

2) BANKS: Banks particularly commercial banks have formulated several schemes to benefit women entrepreneurs. These includes Rural Entrepreneurship Development Programmes and other Training programmes, promotion of rural non-farm enterprise, women ventures etc.

3) NABARD: NABARD as an apex institution guides and assists commercial banks in paying special attention to women beneficiaries while financing. It has also been providing refinance to commercial banks so as to help the latter institutions to supplement their resources which could be deployed for the purpose of financing women beneficiaries.

4) INDUSTRIAL POLICY: The new Industrial policy of Government has specially highlighted the need for conducting special entrepreneurship programme for women.

5) INSTITUTIONS AND VOLUNTARY ASSOCIATION: Several voluntary agencies like **FICCI Ladies Organization (FLO), National Alliance of Young Entrepreneurs (NAYE)** and others assist women entrepreneurs.

NAYE has been a leading institution engaged in the promotion and development of entrepreneurship among women. It convened a conference of women entrepreneurs in November 1975. It assists the women entrepreneurs in:

- (a) Getting better access to capital, infrastructure and markets.
- (b) Identifying investment opportunities.
- (c) Developing managerial and productive capabilities.
- (d) Attending to problems by taking up individual cases with appropriate authorities.
- (e) Sponsoring participation in trade fairs, exhibitions, special conference etc.

6) NATIONAL POLICY FOR THE EMPOWERMENT OF WOMEN, 2001:

As to the commitments made by India during the Fourth World Conference on women held in Beijing during September, 1995, the Department of women and children has drafted a national policy for the empowerment of women. This is meant to enhance the status of women in all walks of life at par with men.

ASSISTANCE TO WOMEN ENTREPRENEURS

Entrepreneurship does not differentiate the sex. A number of facilities and assistance are offered to the entrepreneurs. However, certain additional incentives or facilities offered to women entrepreneurs are discussed as follows.

SMALL INDUSTRIAL DEVELOPMENT ORGANISATION (SIDO):

SIDO through a network of SISIs conduct the EDPs exclusively for women entrepreneurs. The aim is to develop entrepreneurial traits and qualities among women and enable them to identify entrepreneurial opportunities etc.

NATIONAL SMALL INDUSTRIES CORPORATION (NSIC):

The H.P. scheme of NSIC provides preferential treatment to women entrepreneurs. It also conducts Entrepreneurs and Enterprise Building programmes for women.

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI):

The schemes of IDBI for women entrepreneurs are summarized as follows:

PROMOTER'S CONTRIBUTION:

The IDBI set up the *Mahila Udyan Nidhi (MUN)* and *Mahila Vikas Nidhi (MVN)* schemes to help women entrepreneurs. IDBI conduct programmes of training and extension services through designated approved agencies and association with other development agencies like EDII, TCOs, KVIC etc

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI):

SIDBI has special schemes for financial assistance to women entrepreneurs. It provides training and extension services. It gives financial assistance at concessional terms in setting up tiny and small units.

COMMERCIAL BANKS:

The "*Sthree Shakthi Package Scheme*" of SBI provides a package of assistance to women entrepreneurs. The consultancy wings of SBI give guidance on project identification and project viability. The program of assistance such as repair and servicing, photo copying, dry cleaning, retail trade business enterprises, poultry farming, tailoring etc., The Bank Of India has introduced a scheme known as 'Priyadarshini

Yojana' to help women entrepreneurs.,