SASURIE COLLEGE OF ENGINEERING

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

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I YEAR – I SEMESTER

– BA4032

ENTREPRENEURSHIP DEVELOPMENT

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UNIT I ENTREPRENEURAL COMPETENCE

Entrepreneurship concept –Entrepreneurship as a Career – Entrepreneurial Personality - Characteristics of Successful Entrepreneurs – Knowledge and Skills of an Entrepreneur.

UNIT II ENTREPRENEURAL ENVIRONMENT

Business Environment - Roleof Family and Society - Entrepreneurship Development Training and Other Support Organisational Services - Central and State Government Industrial Policies and Regulations.

UNIT III BUSINESS PLAN PREPARATION

Sources of Product for Business -Prefeasibility Study - Criteria for Selection of Product - Ownership - Capital Budgeting- Project Profile Preparation - Matching Entrepreneur with the Project - Feasibility Report Preparation and Evaluation Criteria.

UNIT IV LAUNCHING OF SMALL BUSINESS

Finance and Human Resource Mobilisation - Operations Planning - Market and Channel Selection - Growth Strategies
- Product Launching – Incubation, Venture capital, Start-ups.

UNIT V MANAGEMENT OF SMALL BUSINESS

Monitoring and Evaluation ofBusiness - Business Sickness - Prevention and Rehabilitation of Business Units - Effective Management of small Business - Case Studies.

TOTAL : 45 PERIODS

CHAPTER 1
ENTREPRENEURAL COMPETENCE

Entrepreneurship

Entrepreneurship can be defined by describing what entrepreneurs do. For example: "Entrepreneurs use personal initiative, and engage in calculated risk-taking, to create new business ventures by raising resources to apply innovative new ideas that solve problems, meet challenges, or satisfy the needs of a clearly defined market."

But as the following definitions state, entrepreneurship is not restricted to business and profit:

"Entrepreneurship involves bringing about change to achieve some benefit. This benefit may be financial but it also involves the satisfaction of knowing you have changed something for the better.

"Entrepreneurship is essentially the act of creation requiring the ability to recognize an opportunity, shape a goal, and take advantage of a situation. Entrepreneurs plan, persuade, raise resources, and give birth to new ventures."

Entrepreneur

The word „Entrepreneur‟ has been taken from the French word. It means Between Takers.

Entrepreneur is another name of Risk Taker.

An entrepreneur is an individual who takes moderate risks and brings innovation.

Entrepreneur is a person who organises/ manages the risks in his/her enterprise.

“Entrepreneur is a individual who takes risks and starts something new”

Definition

According to J.B.say, “Entrepreneur is an Economic agent to unites all the means of production”

An entrepreneur is an individual who takes moderate risks and brings innovation.

An **entrepreneur** is a person who has possession of a new enterprise, venture or idea and assumes significant accountability for the inherent risks and the outcome.

An entrepreneur is "one who undertakes an enterprise, especially a contractor, acting as intermediately between capital and labour."

Some facts about entrepreneurs and entrepreneurship:

E:xamine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.

N: arrow the possible opportunities to one specific "best" opportunity.

T:hink of innovative ideas and narrow them to the "best" idea.

R:esearch the opportunity and idea thoroughly.

E:nlist the best sources of advice and assistance that they can find.

P:lan their ventures and look for possible problems that might arise.

R:ank the risks and the possible rewards.

E:valuate the risks and possible rewards and make their decision to act or not to act.

N:ever hang on to an idea, no matter how much they may love it, if research shows it won't work.

E:mploy the resources necessary for the venture to succeed.

U:nderstand that they will have to work long and hard to make their venture succeed.

R:ealize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.

Characteristics of Successful Entrepreneurs

Entrepreneurs are different from each other, but successful entrepreneurs tend to share certain characteristics. Not all of them have developed each of the following to the same degree, but they tend to have developed most of them to some degree. Here are some common characteristics of successful entrepreneurs.

Entrepreneurs tend to:

- Be passionate about achieving their goals
- Have a spirit of adventure (in fact, the word "adventure" is derived from the latin word meaning "to venture")
- Have a strong need to achieve and seek personal accomplishment
- Be self-confident and self-reliant
- Be goal-oriented
- Be innovative, creative, and versatile
- Be persistent
- Be hardworking and energetic
- Have a positive attitude
- Be willing to take initiative
- Have a strong sense of commitment

An eye for opportunity: Many entrepreneurs start by finding a need and quickly satisfying it.
Independence: Even though most entrepreneurs know how to work within the framework for the sake of profits, they enjoy being their own boss.

An appetite for hard work: Most entrepreneurs start out working long, hard hours with little pay.

Self-confidence: Entrepreneurs must demonstrate extreme self-confidence in order to cope with all the risks of operating their own business.

Discipline: Successful entrepreneurs resist the temptation to do what is unimportant or the easiest but have the ability to think through to what is the most essential.

Judgment: Successful entrepreneurs have the ability to think quickly and make a wise decision.

Ability to accept change: Change occurs frequently when you own your own business, the entrepreneur thrives on changes and their businesses grow.

Make stress work for them: On the roller coaster to business success the entrepreneur often copes by focusing on the end result and not the process of getting there.

Need to achieve: Although they keep an "eye" on profits, this is often secondary to the drive toward personal success.

Focus on profits: Successful entrepreneurs always have the profit margin in sight and know that their business success is measured by profits. Is this your profile or would you rather do your job, pick up your paycheck and leave the headaches to someone else? Most of us, quite easily, choose the later.

Entrepreneurship as a Career

The greatest challenge before the youngsters in India today is to build the country into an economic global giant. The obvious questions that come to the minds of most of them are - “Why should we in India think of being an entrepreneur? Why not work as part of a larger organisation where the opportunities and resources to scale ideas are perhaps far greater?

Entrepreneurship is important for two reasons. One, it furthers innovation to find new solutions to existing and emerging demands. Two, it offers far greater opportunities for wealth creation for self and the society than anything else. Entrepreneurship has its challenges. It is about 20 per cent luck and 80 per cent effort, clarity, courage, confidence, passion and above all smartness.

What leads a person to take up entrepreneurship as a career option? There can be a number of reasons including displacement from a job, frustration in the present job, not getting a job of his/her choice, etc. Sometimes a person realises much in advance that his/her job is in jeopardy, as the organisation is moving towards closure. At times a deserving employee getting superseded in promotion is compelled to quit the job and look for doing something on his own. Some people object to a system wherein reward is often based on seniority rather than merit.

Above facts are corroborated by the research findings of Gilad and Levine (1986). They proposed two closely-related explanations of entrepreneurial motivation, the “push” and the “pull” theory. The “push” theory argues that individuals are pushed into entrepreneurship by negative external forces, such as job dissatisfaction, difficulty in finding employment, insufficient salary, or inflexible work schedule. The “pull” theory contends that individuals are attracted into entrepreneurial activities seeking independence, self-fulfillment, wealth, and other desirable outcomes. Research (Keeble et at., 1992; Orhan and Scott, 2001) indicates that individuals become entrepreneurs primarily due to “pull” factors rather than “push” factors.

Some of the prominent pull factors that attract individuals towards entrepreneurship as a career option are: High Need for Independence: There are personalities who would like to have freedom about: with whom to work, when to work, with whom to do business at what terms etc. It is this instinct in them that pushes such personalities to start something of their own.

To satisfy the dream of having high Financial Rewards: To satisfy the need to derive high financial rewards as an outcome of efforts leads some to start a business of their own. The fundamental difference between job and own venture lies in the degree of financial rewards for the efforts put in to achieve organisational goals.

Opportunity to deal with all aspects of a business: No job can provide an opportunity to learn and deal effectively with a wide spectrum of business activities starting from idea generation, conceptualisation, design, creation, marketing to customer response and customer satisfaction.

Vision to leave a long lasting mark: Entrepreneurship creates an opportunity to make definite contribution to the society by lifting the people in and around the venture. A continuous zeal to innovate helps in touching the heads and hearts of people at large.

A strong urge from within to start a business, combined with workable innovative ideas, careful planning, and hard work can lead to a very engaging, self-satisfying, enjoyable and profitable endeavour. The greatest contributory factor to entrepreneurship is an intention i.e. a strong purpose in life coupled with determination to produce desired results.

Positive aspects of entrepreneurship.

There is no age bar to entrepreneurship. But youth is certainly more suited to take up an entrepreneurial venture because they are technologically precocious, do not fear from change and challenge, and have greater ability to see things differently.

Thus, leaving aside the pull and push factors leading to entrepreneurship, the fundamental decision to take up entrepreneurship as a career option gets guided by a three part process in which an individual weighs the desirability of self-employment with the desirability of working for others, possession of competencies and capabilities to undertake entrepreneurial venture. The fact remains that present environment provides great entrepreneurial opportunities and more and more youngsters are consciously opting for it a as career option.

- Being the boss if his own business, he enjoys unlimited powers. He can do things in his own way and he need not take orders from someone else. He can make his own decisions and act on them.

- There are numerous opportunities for his self- development.

- Working on one's own and thus getting rewards yields immense satisfaction and pleasure for more than what he can get in a job.

- Monetary rewards can be more than commensurate with his capacity and capabilities.

- He can command deference and respect of his immediate family and friends. It is a kind of intangible reward.

- Instead of depending on others, he generates employment for others.

- He can make significant contribution to the development of the country and be proud of taking part in nation building activities.

- He can be a great achiever realising his goals and proving his achievements to the world. He can be recognised for his outstanding efforts.

Negative aspects

- Though an entrepreneur is his own boss, in some respects he is not. It is so because he is constrained by various people like his financiers, labourers, suppliers, customers and so on.

- He may have to face frustration since the scope of his operations is limited by his limited resources.

- He has to work long and hard hours from morning to dusk and his venture tends to absorb all his energy and time. This may affect his social and family life.

- At times he may have to face disappointments and frustrations since everything in his venture may not always work the way he would like it to.

- He has to always work with tension since there is always the risk of failure.

Entrepreneurial Personality

Starting and growing your own business requires many skills to be successful. Take a look at the business personality types and find out what you need to succeed.

Your business personality type are the traits and characteristics of your personality that blend with the needs of the business. If you better understand your business personality, then you can give your company the best part of you. Find others to help your business in areas you aren't prepared to fulfill.

There are 9 key types of personality and understanding each will help you enjoy your business more and provide your company with what it needs to grow. This entrepreneur personality profile is based on the 9-point circle of the Enneagram.

The 9 Personality Types of Entrepreneurs

1. The Improver: If you operate your business predominately in the improver mode, you are focused on using your company as a means to improve the world. Your overarching motto is: morally correct companies will be rewarded working on a noble cause. Improvers have an unwavering ability to run their business with high integrity and ethics.

Personality Alert: Be aware of your tendency to be a perfectionist and over-critical of employees and customers.

Entrepreneur example: Anita Roddick, Founder of The Body Shop.

2. The Advisor: This business personality type will provide an extremely high level of assistance and advice to customers. The advisor's motto is: the customer is right and we must do everything to please them. Companies built by advisors become customer focused.

Personality Alert: Advisors can become totally focused on the needs of their business and customers that they may ignore their own needs and ultimately burn out.
Entrepreneur example: John W. Nordstrom, Founder Nordstrom.

3. The Superstar: Here the business is centered around the charisma and high energy of the Superstar CEO. This personality often will cause you to build your business around your own personal brand.
Personality Alert: Can be too competitive and workaholics.
Entrepreneur example: Donald Trump, CEO of Trump Hotels & Casino Resorts.

4. The Artist: This business personality is the reserved but highly creative type. Often found in businesses demanding creativity such as web design and ad agencies. As an artist type you'll tend to build your business around the unique talents and creativities you have.
Personality Alert: You may be overly sensitive to your customer's responses even if the feedback is constructive. Let go the negative self-image.

5. The Visionary: A business built by a Visionary will often be based on the future vision and thoughts of the founder. You will have a high degree of curiosity to understand the world around you and will set-up plans to avoid the landmines.
Personality Alert: Visionaries can be too focused on the dream with little focus on reality. Action must proceed vision. Entrepreneurial example: Bill Gates, Founder of MicroSoft Inc.

6. The Analyst: If you run a business as an Analyst, your company is focus on fixing problems in a systematic way. Often the basis for science, engineering or computer firms, Analyst companies excel at problem solving.
Personality Alert: Be aware of analysis paralysis. Work on trusting others.
Entrepreneurial example: Intel Founder, Gordon Moore.

7. The Fireball: A business owned and operated by a Fireball is full of life, energy and optimism. Your company is life-energizing and makes customers feel the company has a get it done attitude in a fun playful manner.
Personality Alert: You may over commit your teams and act to impulsively. Balance your impulsiveness with business planning.
Entrepreneurial example: Malcolm Forbes, Publisher, Forbes Magazine.

8. The Hero: You have an incredible will and ability to lead the world and your business through any challenge. You are the essence of entrepreneurship and can assemble great companies.
Personality Alert: Over promising and using force full tactics to get your way will not work long term. To be successful, trust your leadership skills to help others find their way.
Entrepreneurial example: Jack Welch, CEO GE.

9. The Healer: If you are a Healer, you provide nurturing and harmony to your business. You have an uncanny ability to survive and persist with an inner calm.
Personality Alert: Because of your caring, healing attitude toward your business, you may avoid outside realities and use wishful thinking. Use scenario planning to prepare for turmoil.

Characteristics of successful Entrepreneur

- Capacity to take risk

- Capacity to work hand
- Above average intelligence and wide knowledge
- Self Motivation
- Vision and foresight
- Willingness to defer consumption
- Imagination initiative and emulation
- Incentive ability and sound judgment
- Flexibility and sociability
- Desire to take personal responsibility.
- Desire to seek and use feedback
- Persistence in the face of adversity
- Innovativeness and future orientation
- Mobility and drive
- Creative Thinking.
- Strong need for achievement
- Ability to Marshall resources
- High degree of ambition
- Will to conquer & impulse to fight.
- Will to prove superior to others.

Knowledge and Skills of Entrepreneur

1. Idea generation & scanning of the best suitable idea
2. Determination of the business objective
3. Product analysis and market research
4. Determination of form of ownership

5. Completion of promotional formalities
6. Raising necessary funds
7. Procuring machine & material
8. Recruitment of men
9. Undertaking the business operations

Entrepreneur & Manager

Types of Entrepreneur

- ✓ Innovative Entrepreneur
- ✓ Imitative Entrepreneur

7 key Qualities of Entrepreneur

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

All successful entrepreneurs have the following qualities:

Inner Drive to Succeed

Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

Strong Belief in themselves

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

Search for New Ideas and Innovation

All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

Openness to Change

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

Competitive by Nature

Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

Highly Motivated and Energetic

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

Accepting of Constructive Criticism and Rejection

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

True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline The great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

WOMEN ENTREPRENEUR IN INDIA: The Indian sociological set up has been traditionally a male dominate done. Women are considered as weaker sex and always to depend on men folk in their family and outside, throughout their life. They are left with lesser commitments and kept as a dormant force for a quite long time. The Indian culture made them only subordinates and executors of the decisions made by other male members, in the basic family structure.

The traditional set up is changing in the modern era. The transformation of social fabric of the Indian society, in terms of increased educational status of women and varied aspirations for better living, necessitated a change in the life style of Indian women.

Indian families do have the privilege of being envied by the westerners, since women here are taking more responsibilities in bringing up children and maintaining a better home with love and affection. At the family level, the task of coordinating various activities in a much effective manner, without feeling the pinch of inconveniences, is being carried out by the women folk.

Thus, the Indian women have basic characters in themselves in the present sociological and cultural setup as follows.

- Indian women are considered as Sakthi, which means source of power.
- Effectively coordinating the available factors and resources.
- Efficient execution of decisions imposed on them
- Clear vision and ambition on the improvement of family and children.
- Patience and bearing the sufferings on behalf of others and
- Ability to work physically more at any age.

NEED OF THE HOUR: Women sector occupies nearly 45% of the Indian population. The literary and educational status of women improved considerably during the past few decades. More and more higher educational and research institutions are imparting knowledge and specialisation. At this juncture, effective steps are needed to provide entrepreneurial awareness, orientation and skill development programmes to women. The institutions available at present are very limited. Moreover, their functions and opportunities available with them are not popularised much.

QUALITIES REQUIRED FOR AN ENTREPRENEUR: An effective entrepreneur requires certain basic qualities, which can be listed as follows.

¬ Innovative thinking and farsightedness.
¬ Quick and effective decision making skill.
¬ Ability to mobilise and marshal resources.
¬ Strong determination and self confidence.
¬ Preparedness to take risks.
¬ Accepting changes in right time.
¬ Access and alertness to latest scientific and technological information.

Matching the basic qualities required for entrepreneurs and the basic characters of Indian women reveal that, much potential is available among the Indian women on their entrepreneurial ability. This potential is to be recognized, brought out and exposed for utilisation in productive and service sectors for the development of the nation.

Factors affecting Entrepreneurship growth:

1. Economic factors
2. Social factors
3. Cultural factors
4. Personality factors
5. Psychological and sociological factors.

Economic Factors:

1. Lack of adequate basic facilities
2. Non- availability of capital
3. Non- availability of raw materials and finished goods.
4. Greater risk involved in business
5. Non- availability of skilled labour

Social factors

4. Customs and traditions
5. Rationality of the society
6. Social system
7. Social set-up

Personality Factors

1. Suspect personality
2. Emergence of planning

CHAPTER-2

ENTREPRENEURAL ENVIRONMENT

Business Environment

The emergence and development of entrepreneurship is not a spontaneous one but a dependent phenomenon of economic, social, political, psychological factor often nomenclature as supporting condition to entrepreneurship development.

These factor may have both positive and negative in uence on the emergence of entrepreneurship. Negative influence create inhabiting milieu to the emergence of entrepreneurship. For analytical purpose this conditions factor are grouped and discussed under two categories (i.e.) Economic factor and non-economic factor

Economic Factor:

- Capital

Capital is one of the most important prerequisites to establish an enterprise. If only a capital is available, entrepreneur can bearing land, machine and raw material and together produce goods 'Capital is regarded as lubricants/fuel to the process of production' Increase in capital investment, capital output ratios tends to increase. This result in increase in pro t.

Capital --------------output ratio-------------Profit

This suggests that capital supply increases entrepreneurship also increases.

- Labour:

Quantity rather quality of labour in uence the emergence of entrepreneurship Cheap labour is often less mobile or even immobile. Adam smith consider division of labour as an important element in economic development. According to him division of labour as an important element it depends. Up on the size of the market leads to improvement in the productive capacities of labour due to an increase in the dexterity (i.e.) improvement in skills, grace and cleverness) of labour. Ii appears that labour problem clearly does not prevent entrepreneurship for emerging.

- Raw material:

The necessity of raw material hardly needs any emphasis for establishing any industrial activity. In the absence of raw material neither any enterprises nor entrepreneur can emerge. In some cases " technological innovations can compensate for raw material inadequate. The Japanese case for example, witness that " Lack of raw material clearly does not prevent entrepreneurship from emerging but in uence the directions in which entrepreneurship took place". In fact, supply of raw materials is not in uenced by themselves but became in uential depending upon the opportunity conditions. The more favourable these condition are, the more likely is the raw material to have it is in uenced on entrepreneurial emergence.

- Market:

Potential of the market constitutes the major determinant of provable rewards from entrepreneurial function. " the proof of pudding lies in eating, the proof of all production lies in conceptions (i.e.) Marketing." " Both size and composition of market in uence entrepreneurship in their own ways" Monopoly in a particular product in a Particular market becomes in uential for entrepreneurship than a competitive market. Lands hold the opinion that improvement in transportation are more bene cial to heavy industry than to light industry because of their e ect on the movement of raw materials.

Wilken claims that instances of sudden rather than 'Gradual improvement in market potential provide the clearest evidence of the in uence of entrepreneurship. Germany and Japan as the prime examples where rapid improvement in market was followed by rapid entrepreneurial appearance.

Non - Economic Factor:

Sociologist and psychologist advocate that the in uence of economic factor on entrepreneurial emer-gence largely depends upon the extends of non economic factor (i.e) social and psychological in the society.

Social Conditions:

- Legitimacy of entrepreneurship:

The proponents of non-Economic factors gives emphasis to the relevance of a system of norms and values with in socio culture setting for the emergence of entrepreneurship.

The social status of those playing entrepreneurial role has been considered one of the most important content of entrepreneur legitimacy.

To increase the legitimacy of entrepreneurship scholar have purpose the need for change in the traditional values, which are assumed to be opposite to entrepreneurship.

"McClelland had also pointed out that a complete change may not be necessary for entrepreneurial appearance". Instead, they submit a re - interpretation of the traditional values or its synthesis with the newer values to increase entrepreneurial legitimacy.

- Social mobility:

Social mobility involves degree of mobility, both social and geographical and the nature of mobility channel with in a system. "social mobility is crucial for entrepreneurial emergence is not unanimous".

Role of Family and Society

Hoselitz's need for openness of a system. McClelland's need for exibility in a role of relation implied the need for the possibility of mobility with in a system for entrepreneurship development.

In contrast, group of scholar who express the view that a lack of mobility possibilities promotes entrepreneurship. Some even speak of entrepreneurship as in to a action in a rigid social system. Third opinion is the combination of exibility and the denial of social mobility. It is also printed out that the degree and nature of social mobility alone is not likely to in uence entrepreneurship, it as determined by other non economic factors.

- Marginality:

Scholars hold a strong view that social marginalized also promotes entrepreneurship. They believe that individuals are grouped on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles.

People may be drawn from religious cultural, ethinic or migrant minority groups and their marginal social position is generally believed to have psychological e ects which make entrepreneurship particularly attractive for them.

- Security:

Entrepreneurial security is an important facilitator of entrepreneurial behaviors. Scholars are not consensus (same) on the amount of security that is needed.

We also regard security to be a signi cant factor for entrepreneurship development. This is reasonable too because if individuals are fearful of tossing their economic assets.

Psychological factors:

- Need achievement:

David McClelland's theory of need achievement states that, a constellation (gathering) of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development.

'Average level of need achievement in a society is relatively high, one could expect a relatively high amount of ED in the society'.

To encourage the impact of motivation for achievement, many training programs are organized by the SIEI - Small Industries Extension training Institute.

- Withdrawal of status respect:

Hagen believes the initial condition leading to eventual entrepreneurial behavior is the loss of status by a group. He postulates four types of events that can produce status withdrawals,

3. The group may be displaced by force,
4. It may have its valued symbols denigrated
5. It may drift from into a situation of status inconsistency.
6. It may not be accepted the expected status or migration in a new society.

The further postulates that with drawal of status of respect would give rise to four personality types:

1. Retreatist: he who continues to work in a society but remains di erent to his work and position.
2. Ritualist: he who adopts a kind of defensive behavior and acts in the way accepted and approved in his society but no hopes of improving his position.
3. Reformist: he is a person who foments a rebellion and attempts to establish a new society.
4. Innovator: he is a person who is creative individual and is likely to be an entrepreneur.

Hagen maintains that once status withdraws has occurred, the sequence of change information of personality is set in motion, he refers that 'Status with drawl takes a long period of time as much as 4 or 5 generations to result in the emergence of ED'.

- Government Actions (Factors):

Government by its actions or failure to act does in uence both the economic and non-economic factor for entrepreneurship. Any interested government in economic development can help through its clearly expressed policies, promoting entrepreneurship, creating basic facilities, utilities and services providing incentives and concessions, providing good facilitative socio economic setting to minimize the risks for entrepreneur.'to conclude, in the societies where the government was committed to their economic development, entrepreneurship automatically ourishes'.

The fact remains that the various factors are observed in the preceding pages will cause emergence of entrepreneurship are integral, interlocking, mutually dependent and mutually reinforcing.

On the whole, the various factors in uencing the emergence of entrepreneurship can now be put as per the following model developed by Abdul Aziz Mahmud.

Entrepreneurship Development Programmes (EDP)

Need for EDP:

A well known behavioral scientists David McClelland at Harvard University made an interesting investigation into why certain societies displayed greed creative power? Is whether entrepreneurs are born or made?. He found that the 'need for achievement' was the answer to the question.

'Motive people to work hard leads to achievement'. According to the scholars, Money making is incidental whereas the measurement of achievement is valid.

Experimental study (Kakinada)

He conducted a 5 year experimental study in one of the prosperous district of Andhra Pradesh in India in collaboration with small industry extension and training institute (SIET). His experiment is popularly called as 'Kakinada Experiment'.

Under the experiment, young employees/persons are selected and put through a three month training program and motivated to see fresh goals. One of the signi cant conclusion of the experiment was that the traditional believes did not seem to inhibit. An entrepreneurs and that the suitable training can provide the necessary motivation to the entrepreneurs.

The achievement motivation had a positive impact on the performance of entrepreneurs. The Kak-inada experiment could be treated as 'Precursor to the present day EDP' inputs on behavioral aspects.

1971 - First massive program of ED embarked in India.

At present, 686 All India and state level FI and public sector banks had so far conducted EDPs in hundreds giving training to the candidates in thousands.

Example:

Junior Achievement - USA

Young Enterprises - UK

Objectives of EDPs:

11. Develop and strengthen their entrepreneurial quality (i.e.,) motivation or need for the achievement.
12. Analyze environmental setup relating to small industry and small business.
13. Select product
14. Formulate project for the product.
15. Understand the process and procedure involved in setting up an small enterprise.
16. Know the sources of help and support available for starting a small scale industry.
17. Acquire the necessary managerial skills required to run a small enterprise.
18. To know the pros and cons in becoming an entrepreneur.
19. Appreciate the needed entrepreneurial disciplines.

Important objectives:

1. Let the entrepreneur himself/herself set or reset objectives for his/her business and strive for the realization.
2. Prepare him/her to accept the uncertainty involved in running a business.
3. Enable him/her to take decision.
4. Enable to communicate clearly and e ectively.
5. Develop a broad vision about the business.
6. Make him subscribe to industrial democracy
7. Develop passion for integrity and honesty
8. Make him learn compliance with law.

Course contents and curriculum of EDPs:

The course content of an EDP are selected in line with the objectives of the EDPs. The training program is usually to six weeks duration. It consists of the following six inputs:

1. General Introduction to Entrepreneurship:

Participants are exposed to a general knowledge of factors a ecting small scale industries, the role of En-trepreneurs in economic development Entrepreneurial behavior and the facilities available for establishing small scale industries.

2. Motivation Training:

Induces and increases the needs for achievement among the participants. It is the crucial input of En-trepreneurship training. It injects con dence and positive attitude and behavior among the participants towards business sometimes successful Entrepreneurs are also invited to speak about their experience in setting up and running a business.

3. Management skills:

Running a business whether large or small requires the managerial skill participants will be imported with basic and essential managerial skills in the functional areas like marketing, nance, HR and production. It helps to run business smoothly.

4. Support system and procedure:

The participants also needed to be exposed to the support available from di erent institutions and agencies for setting up and running small scale enterprises.

5. Fundamentals of project feasibility study:

Participants are provided guidelines on the e ective analysis of feasibility or viability of the particular project in view of marketing, organization, technical, nancial and social aspects knowledge is also given how to prepare the projects or feasibility report for certain products.

6. Plant Visits:

In order to familiarize the participants with real life situation in small business, plant visits are also arranged such trips help the participants know more about an Entrepreneur's behavior, personality, thoughts and aspirations.

On the whole, the ultimate objective of Entrepreneurship training program is to make the trainees prepared to start their own enterprise after the completion of the training program.

Phases of EDP's

An Entrepreneurship development program consists of the following three phases:

- ✓ Pre-training phase
- ✓ Trainingphase
- ✓ Post-training phase

1. Pre - Training Phase:

The activities and preparations required to launch the training program come together in the phase.

- ¬ Selection of Entrepreneurs
- ¬ Arrangement of infrastructure
- ¬ Tie-up of guest faculty for the training purpose.
- ¬ Arrangement for inauguration of the program
- ¬ Selection of necessary tools, techniques to select the suitable Entrepreneurs
- ¬ Formation of selction committee for selecting trainees.
- ¬ Arrangement for publicity media and campaigning for the program.
- ¬ Development of application form.
- ¬ Finalization of training syllabus.
- ¬ Pre-potential survey of opportunities available in the given environmental conditions.

2. Training Phase:

The main objectives of this phase's to bring desirable change in the behavior of the trainees. In other words, the purpose of training is to develop 'need for achievement' (i.e.,) motivation among the employees/trainees. Accordingly, a trainer should see the following changes in the behavior of the trainees.

1. Is he/she attitudinally tuned very much towards his/her proposed project ideas
2. Is the trainee motivated to plunge in to Entrepreneurial career and bear risk involved in it.
3. Is there any perceptible change in his Entrepreneurial attitude, outlook, skill, role etc.
4. How should he/she behave like an Entrepreneur?

5. What kind of Entrepreneurial traits the trainee lacks the most.
6. Whether the trinee possesses the knowledge of technology, resources and other knowledge related to Entrepreneurship?
7. Does the trainee possess the required skill in selecting the viable projects, mobilizing the required resources at right time.

Having trained the trainees, the trainees need to ask themselves as to how much and how far the trainees have moved in their Entrepreneurial pursuits.

3. Post- Training phase (Follow up):

The ultimate objective of the Entrepreneurship development program is to prepare the participants to start their enterprises. This phase involvement assessment to judge how far the objectives of the program had been achieved, thisis called Follow up.

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

1. Review the pre-training work.
2. Review the process of training program
3. Review post training approach.

Evaluation of EDP:

Evaluation of EDP is necessary to see whether the objective of EDP's is ful lled or not. In simple words, there is a need to have a look into how many participants have actually started their own enterprises after completing the training. This calls for evaluation of EDPs.

So far 16 evaluation studies have been conducted by various organizations and individual researchers. The most recent and nationwide evaluation study on EDPs is carried out by a ED institute of India Ahmed-abad.

It is observed that one out of every four actually started his/her enterprise after undergoing En-trepreneurial training.

Blocked - 10%

Given up - 29% (idea of launching)

430 trainees - cannot be contacted

However, the performance of EDPs across the states and across the ED organization have not been uniform. This non-impressive performance lies the need for looking at the problems and constraints of EDP's.

Problem faced by EDP:

1. Trainer - motivations are not found upto the mark in motivating the trainees to start their own enterprises.
2. ED organization lack in commitment and sincerity in conducting the EDPs.
3. Non-conductive environment and constraints make the trainer - motivators role ine ective.
4. The antithetic attitude of the supporting agencies like banks and nancial institutions serves as stum-bling block to the success of EDPs.
5. Selection of wrong trainees also leads to low success role of EDPs.

'Problems are not with the strategy but with its implementations'.

One way of evaluating the EDPsis to assess their e ectiveness in developing 'Need for Achievement' among the Entrepreneurs. This is also called 'the qualitative evaluation' of EDP. The behavioral scientists used the following criteria to assess the e ectiveness of EDPs in motivating the Entrepreneurs.

1. Activity level of the respondents
2. New enterprise established
3. Total investments mode
4. Investments in xed asset made
5. Number of peoples employed
6. Number of jobs created
7. Increase in pro t
8. Increase in sales

9. Quality of product/services improved
10. Quicker repayment of loans.

The Entrepreneurial behavior is measured on the following four dimensions.

1. Planning orientation
2. Achievement orientation
3. Expansion orientation
4. Management orientation

Institutional support to small entrepreneurs

SIDO (Small Industries Development Organisation)

SIDO is a subordinate o ce of the department of SSI and ARI. It is an apex body and monitoring the policies for formulating, coordinating and monitoring the policies and programmes for promotion and development of small scale industries. The main functions of SIDO are classi ed into (1) Coordination - To evolve national policies, to coordinate between various govts. Coordinate the programmes for the development of industrial estates. (2) Industrial development - To reserve items for production by small scale industries, render required support for the development of ancillary units (3) Extension - To improve technical process, production, selecting appropriate machinery, preparing factory layout and design.

NSIC (National Small Industries Corporation Ltd)

NSIC an enterprise under the union ministry of industries, was set up in 1955 to promote, aid and foster the growth of small scale industries in the country, to provide machinery on ire-purchase scheme to SSI, to provide equipment leasing facility, to help in export marketing of the provided products of SSI, to participate in bulk purchase programme of the Government, to impart training in various industrial trades, to undertake the construction of industrial estates.

SSIB (Small Scale Industries Board)

The government of India constituted a SSIB in 1954 to advice on development of small scale industries in the country. SSIB is also known as central small industries board. SSIB is created to facilitate coordination and inter institutional linkages. It is an apex advisory body to render service, advice to the government to all issues pertaining in the development of SSI. 'Industrial minister is the Chairman'.

SSIDC (State Small Industries Development Corporations)

SSIDC were set up in various states under the companies act 1956, as state government undertaking to cater to the primary developmental need of the tine, village industries in the state union territories under this jurisdiction.

Important functions are (i) to procure and distribute scarce raw materials (ii) to supply machinery on hirepurcase system (iii) to provide assistance for marketing of the products of SSI. (iv) to construct industrial estates/ sheds, providing allied infrastructure facilities and their maintenance.

SISIs (Small Industries Service Institutes)

The SISIs are set up to provide consultancy and training to small entrepreneurs both existing and prospective. The main functions are,

To serve as interface between central and state government To render technical support services

To supply promotional programmes To conduct EDP programmes

DICs (The District Industries Centres)

DICs was started on May 8, 1978 with a view to provide integrated administrative framework at the distinct level for promotion of small scale industries in rural areas.

Functions : The DICs role is mainly promotional and development (i) To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skills, infras-tructure demand for product etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs. (ii) To prepare an action to e ectively implement the schemes identi ed. (iii) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment sources of supply and procedure for procuring imported machinery.

TCO (Technical Consultancy Organisation)

A network of technical consultancy organizations was established by the All India

Financial Institutions in the seventies and eighties in collaboration with the state level nancial and development institutions and commercial banks to cater to the consultancy needs of small business and new entrepreneurs.

Financial Institutions:

- Commercial banks
- IDBI
- IFCI
- ICICI
- LIC
- UTI
- SFCs
- SIDBI
- EXIM BANK

Support Institutions

- NSIC
- SIDO
- SSIB
- SSIDC
- SISIs
- DICS
- INDUSTRIAL ESTATES

Government Policies for Small Scale Enterprises

Small scale enterprises have been given an important place in the framework of Indian planning for both ideological and economic reasons.

Development of small scale enterprises has imbued with a multiplicity of objectives.

Important among these are

The generation of immediate employment opportunity with relatively low investment The

promotion of more equitable distribution of national income

Effective mobilization of untapped capital and human skills

Dispersal of manufacturing activities all over the country, leading to growth of villages, small towns and far- ung economically lagging regions

So, the government of India has started various programmes for the development of small scale sector in India.

The governments objectives and intentions towards industry including SSI were announced through industrial policy resolutions (IPR).

Government Policy for Small Scale Enterprise

Nation is said to be far well to do if it has a much industry as it has industrial policy.

IPR 1948

The IPR 1948 for the rst time, accepted the importance of small scale industries in the overall industrial development in the country.

It was well realized that small scale industries are utilized most of the local resources and create employment opportunities.

Moreover, they have to face problems of raw materials, capital, skilled labour, marketing etc. since a long period of time.

Therefore, emphasis was laid in the IPR 1948 that these problems of small scale enterprises should be solved by the central government with cooperation of the state governments.

In nutshell, the main thrust of IPR 1948 as far as possible small scale enterprises were concerned was 'Protection'.

IPR 1956

The IPR 1948 set in the nature and pattern of industrial developments taken place in the country.

For example, planning has proceeded on an organized manner and the rst ve year plan 1951 - 1956 has been completed.

Industries development and Regulation Act (IDR Act), 1951 was also introduced to regulate and control industries in the country.

The Parliament had also accepted 'the socialist pattern of society' as the basic aim of social and economic policy during this period.

It was this background that the declaration of a new industrial policy resolution seemed essential. This came in the form of IPR 1956.

The IPR 1956 provided that along with continuing policy support to the small sector, it also aimed at to ensure that decentralized sector acquires su cient vitality to self-supporting and its development is integrated with that of large scale industry.

To mention, some 128 items were reserved for exclusive production in the small sector.

Besides the SSIB constituted a working group in 1959 to examine and formulate a development plan for small scale industries during the third ve year plan 1961 - 1966.

In the third ve year plan period, speci c development like 'Rural Industrial Projects' and 'Industrial Estates Projects' were started to strengthen the small sector.

Thus to the earlier emphasis of protection was added to development. The IPR 1956 for small scale industries aimed at 'Protection + Development'. The IPR 1956 initiated the modern SSI in India.

IPR 1977

The IPR 1977 classi ed small sector into three categories

- Cottage and household industries which provides self employment on a large scale.
- Tiny sector incorporating investment in industrial unit in plant machinery upto Rs.1 lakh and situated in towns with a population of less than 50,000 according to 1971 census.
- Small Scale Industries comprising of industrial unit with an investment of upto Rs.10 lakhs and in case of ancillary units with an investment of upto Rs.15 lakhs.

From the small scale sector was thus, to be 'protected, developed and promoted'.

IPR 1980

The government of India adopted a new industrial policy resolution (IPR) on July 23, 1980.

The main objectives of IPR 1980 was de ned as facilitating an increase of industrial production through optimum utilization of installed capacity and expansion of industries.

- Introduction of the concept of nucleus plants to replace the earlier scheme of the district industry centre (DIC), in each industrially background district to promote the maximum small scale industries there.
- Promotion of village and rural industries to generate economic viability in the villages well compatible with the environment.

Thus the IPR 1980 re-emphasized the spirit of 1956. The small scale sector still remained that the best sector to generating wage and self-employment based opportunities in the country.

IPR 1990

The IPR 1990 was announced during June 1990.As to the small sector the resolution continued to give increasing importance to small scale enterprises to serve the objective of employment generation.

The important elements included in the resolution to boost the development of small scale sector were as follows.

- The investment ceiling in plant and machinery for small scale industries was (xed in 1985) raised from Rs.35 lakshs to Rs.60 lakshs and correspondingly for ancillary units from Rs.45 lakhs to Rs.75 lakhs.
- Investment ceiling for tiny units has been increased from Rs.2 lakhs to Rs.5 lakhs provided the unit is located in the area having a population of 50,000 as per 1981 causes.
- As many as 836 items was reserved for exclusive manufacture in small scale sector.
- A new scheme of initial investment subsidy exclusively for small scale sector in rural and backward areas capable of generating more employment at lower cost of capital had been mooted and implemented.
- A new scheme of initial investment, with a vireo to improve the competitiveness of the products manu-factured in the small scale sector, programmes of technology up graduation will be implemented under the umbrella of an apex Technology development centre in small industries development organization (SIDO).
- Greater emphasis on training of women and youth under EDP (entrepreneurship development pro-gramme) and to establish a special call in SIDO for the purpose.

New Small Enterprise Policy 1991

The government of India, for the rst time, tabulated the new small enterprise policy titled 'Policy measures for promoting and strengthening small, tiny and village enterprises' in the parliament on August 6, 1991.

The main thrust of New small enterprise policy is to impact more vitality and growth impetus to the sector which enable it to contribute its mite fully to the economy , particularly in terms of growth of output, employment and exports.

Salient features of the new small enterprise policy

The investment limit has been increased in plant and machinery of tiny enterprises from Rs.2 lakh to Rs.5 lakh based on their location.

Inclusion of industry related service and business enterprises, based on their location as SSI. To limit the nancial liability of the new entrepreneurs to the capital investment. A new partnership act has been introduced.

Introduction of a scheme of integrated infrastructural development including technological backup services for small scale industries.

An factoring services have to be introduced to solve the problems of delayed payment to smallsector.

Market promotion of small scale industries products through cooperative/ public sector institu-tions, order specialized professional and the consortium approach.

In the small industries development organization (SIDO) an export development centre (EDC) has to be set up.

To widen the scope of National Enquiry Fund (NEF) to enlarge the single window scheme and also to associate commercial banks with provision of composite loans.

Important points on the New small enterprise policy are;

The new policy is founded on a proper understanding of the fundamental problems of small sector and the measure proposed it are well directed to mitigate the various handicaps that faces their sector.

The new policy provides for continuous support to the tiny sector like easier access to institutional nance, preference in government purchase and relaxation of certain labour laws. Since tiny sector is the nursery of the traditional skill, the proposed package of incentives for tiny sector will help its grow with more vitality.

One important feature is the introduction of new legal form of organization of business, namely restricted (or) limited partnership. As per this form the liability of atleast one partner is unlimited and the liability of other partner is limited to their invested capitals.

This can be considered as a welcome provision. It will attract equity capital from friends and relatives who were earlier reluctant to advance their funds due to the limited liability of the partners.

The important plan proposal (1992-1999)

The main function of the eighth ve year plan has been employment generation as the motive for economic growth to ful ll these objectives, small and village industries have been assigned for an extremely important role.

The important plan proposal in the year 1992-1997 are;

- The plan has reiterated that timely and adequate availability of credit is of more importance than concessional credit. So with the establishment of SIDBI, sanction of composite loans under 'Single Window Concept' concessional loan to state corporations for infrastructure development and provision of factory services have been introduced. It proposes to establish appropriate tool rooms and training institution to upgrade technology.
- The growth centre approach has been established to measure industrial disputes and is under imple-mentation. In the year 1992-1997, to growth centres are developed and completed.
- An integrated centre approach has been established in the eighth plan.

New policy initiative in 1997-2000 for the small scale sector

- Announcement of a new credit insurance scheme in the year (1999-2000), particularly exported oriented & tiny units.
- The working capital limit for SSI unit is determined by the bank on the basis of 20 percent of their annual turnover.
- Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of another manufacturer in rural area.

- A national programme for rural industrialization has been announced, with a mission to setup 100 rural clusters per year, to give a boost to rural industrialization.
- Cotton yarn has been introduced in the general exercise exemption scheme for SSIs.
- The investment limit for small scale and ancillary undertakings has been reduced from Rs.3 Crores to Rs.1 Crore.
- Small job workers, engaged in printing of glazed titles, have been exempted from excise duty.

Entrepreneurial Initiatives in India- "Government and Non Government Support"

- Delhi Technical University announced the setting up of water technology and management centre with the support of UNESCO.
- The Entrepreneurship Development Cell (EDC) of University School of management Studies, Guru Gobind Singh Indraprastha University (GGSIPU) has launched a one month business skill development programme in association with the Ministry of Micro, Small and Medium Enterprises. Representatives from KVIC, NABARD will share their knowledge.
- NASSCOM has signed a Memorandum of Understanding (MoU) with University Grants Commission (UGC), for
    - Faculty Development Programme (FDP)
    - Re-skilling the faculty in IT
    - Framework for co-operation to catalyze industry-academia interface

The Role of Government in Supporting Entrepreneurship

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner.

SMEs have strategic importance for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs. With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for success. There are no doubts that governments should create different types of support institutions:

i) To provide information on regulations, standards, taxation, customs duties, marketing issues;

ii) To advise on business planning, marketing and accountancy, quality control and assurance;

iii) To create incubator units providing the space and infrastructure for business beginners and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation; and

iv) To help in looking for partners. In order to stimulate entrepreneurship and improve the business environment for small enterprises.

Policies And Schemes For Promotion Of MSME Implemented By State Governments

All the State Governments provide technical and other support services to small units through their Directorates of Industries, and District Industries Centres. Although the details of the scheme vary from state to state, the following are the common areas of support.

1. Development and management of industrial estates
2. Suspension/deferment of Sales Tax
3. Power subsidies
4. Capital investment subsidies for new units set up in a particular district
5. Seed Capital/Margin Money Assistance Scheme
6. Priority in allotment of power connection, water connection.
7. Consultancy and technical support

Government of India runs a scheme for giving National Awards to micro, small and medium scale entrepreneurs providing quality products in 11 selected industry groups of consumer interest. The winners are given trophy, certificate and a cash price of Rs. 25000/- each.

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes like policies and promotional schemes, providing incentives for quality upgradation, concession on excise duty and provides technical supportive services. Thus Government play supportive role in developing entrepreneurs.

STATE GOVERNMENTS INCENTIVES FOR INVESTORS

Many state governments are offering incentives to attract investment in their states. Many state governments in India offer attractive incentive packages which include incentives such as:

- Land at subsidized prices or Industrial sheds to set up small scale industrial units.
- Tax concessions for a number of years. These may include exemption from sales tax etc for a set period of time.
- Electric power supply at a reduced tariff.
- Loans and subsidies at very attractive rates of interest.

INCENTIVES FOR SETTING UP BUSINESS IN BACKWARD AREAS

The Government of India as well as several State Governments provides several benefits and incentives to promote industrialization of backward areas. Both the central and state governments share the cost of some of the incentives provided. The purposes of such incentives are to develop backward areas and increase employment for local inhabitants of such areas.

The bulk of new industries prefer areas with an established infrastructure and this is why incentives are offered to entice new ventures to start up in areas that need development. Incentives offered depend on the specific area chosen.

Some of the incentives offered are:

- Transportation subsidies to promote industries in areas that are not easily accessible, like remote hilly areas. A subsidy of 50% to 90% on transportation costs is available under this scheme.
- A Subsidy at the rate of 15% of the investment amount in plant and machinery is given under the capital investment subsidy scheme.
- A subsidy for interest relief is also provided at a rate of 3% for new industrial units in some areas.

While in the past setting up an industry in India was not an easy task because of bureaucratic requirements that needed to be fulfilled. However both the central and state governments have now made efforts to improve some things.

Industrial Unit Startup Information for NRIs

For Non Resident Indians returning to India to start up industrial units. They will find that there is plenty of talent available in India. Hiring the right kind of person can make things quite easy to go through the maze of Indian regulations.

While the government no doubt is trying to bring out reforms to make things easier for foreign investors, the attitude of some officials is difficult to change.

Those who encounter problems should use the several channels available now to report clerks use delaying tactics for personal gain.

Returning NRI's who can tolerate the initial adjustment setbacks in establishing themselves when they return to India will ultimately find the rewards well worth the effort. India offers investors tremendous opportunities and is presently one of the most sought locations for industrial investment.

Loans available for starting Industrial venture in India

There are two main financial institutions available for loans for entrepreneurs on the (federal/ all India level).

1. Industrial Development Bank of India(IDBI)

2. Industrial Finance Corporation of India (IFCI)

The Industrial Development Bank of India is the head institution in the area of long term industrial finance. It was established under the IDBI Act 1964 as a wholly owned subsidiary of RBI and started functioning on July 01, 1964. Under Public Financial Institutions Laws (Amendment) Act 1976, it was delinked from RBI. IDBI is engaged in direct financing of the industrial activities

The objectives of the Industrial development bank of India are to create a principal institution for long term finance, to coordinate the institutions working in this field for planned development of industrial sector, to provide technical and administrative support to the industries and to conduct research and development activities for the benefit of industrial sector.

On the State level finance is available loans can be availed from

- State Financial Corporation (SFC)

2. State Industrial Development Corporation (SIDC).

Criteria for Business loans:

√ Technical assessment of project

√ Experience of the entrepreneurs

√ Financial & commercial practicality of the project

√ Conformity to environmental laws

√ Economic viability of the project

How to apply for business loans in India – Loan application procedure

- The first step is to submit a detailed project report (business plan)to the financial institution to IDBI, IFCI or any other financial institution from where the loan sanction is sought. In case a license is a requirement for the project, the license should be provided with the project report.

- The financial institution after scrutinizing the project report. If the financial institution requires additional information or clarifications, they usually ask for this in a few days of receipt of project report.

- Representative from the financial institution will arrange to inspect the site etc to make certain the suitability of the project. At this stage discussions on various aspects of the project are discussed and final project costs are calculated.

- The financial institution gives its approval if they find the project feasible.

Loans provided for business ventures can be for equipment and fixed assets as well as working capital.

While there is no hard and fast rule that is revealed by financial institutions. I would say that if a project is viable and the entrepreneur has approximately 25% of his own funds. Then 75% can be financed. In addition to this loans can be availed for working capital also.

In case you can provide proof of your expertise in the project there is always the possibility that your loans may be sanctioned with a lesser amount of cash investment on your part. Projects costing up to Rupees 5 crores can normally be financed on the state level.

Financial institutions follow guidelines such as debt-equity ratio, entrepreneur‟s contribution to the project etc when deciding on loans. It is not uncommon for applicants to inflate their contributions in an attempt to invest the least amount of their own funds.

Small Enterprises in International Business

Introduction

India today operates the largest and oldest programme for the development of small scale enterprises in any developing country. The small enterprises have made an impressive and phenomenal growth in units, production and employment, exports over the years. The small sector has now emerged as a dynamic and vibrant sector of the Indian economy in the recent years.

Export Performance and Trends of Small Enterprises

Exports from small enterprises have been on increase registering an annual growth of about 171 percent during 1978 -1994. One way to view the impressive growth of exports from small enterprises is their increasing share year after year to the total exports from the country. The percentage of share of small enterprise exports to the total from 1971-1972 onwards is presented in Table,

'P - Provisional'

Year	Total Exports	Exports from SSI	Percentage 3 to 2
1971-72	1608	155	9.6
1976-77	5142	766	14.9
1981-82	7890	2071	26.5
1986-87	12567	3644	29.0
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	24149(P)	34.5

Increasing Exports from Small Enterprises

It is interesting to that the total exports of the country increased by 43 times, while 'the exports from small enterprises increased by about 155 times', information given in the table is from direct exports only small enterprises also makes indirect exports through merchant exporters, trading houses and large enterprises.

'Indirect exports is 10% of total exported' (estimated)

It is expected to increase in future when the ongoing economic reforms in the country start giving results.

India's share in world exports is very low, at about 0.5 percent. India is now the member of World Trade Organization-WTO. It has to improve its share in world's exports to be a global player. Given the large industrial sector's attention focused more on internal market than the international market, on the one hand and decreasing exports of primary products and traditional items on the other hand, we need to concentrate on small enterprises to increase our exports as its hold potential for it.

In view of the wide range of items produced by small enterprises, only of few items i.e sports goods, readymade garments, leather products, processed food, plastic goods, engineering goods, elastic and electronical goods, basic chemical and pharmaceuticals and cosmetics. These items, thus, hold good promise for increasing exports in future also. Exports of traditional products like cashew and lac is not less encouraging.

However, the export performance of smalls sector exhibits some disturbing features also (1) About 83% of total exports from small sector accounted for by four items alone denotes the lack of diversi cation in export items of small sector. Even the items having good potential for exports like leather products, account for 3 to 4 percent of global exports. (2) Hence, in order to boost the SSI exports, the new potential markets need to the explored and tapped.

Major Constraints

The major constraints encountered by the small scale units in exporting their products are as follows

Credit Policy

The small scale units have very weak base of their own funds on the one hand and have no access to other sources of funds like capital market, on the other. Hence, they have to depend upon the state nancial corporations (SFCs) and the commercial banks to meet their long term and short capital requirements. The actual availability of credit from the nancial statements, institutions was very low at 8.1 percent of output. In case of tiny units, it was merely 2.7% of their output.

Infrastructure

Lack of infrastructure facilities like power supply, transportation and communication aduersely a ect the quality and quantity of production, its cost and delivery. These, in turn, tell upon the export performance of small scale units. The launching of new scheme of 'Integrated Infrastructure Development' in rural and backward areas is a right step in right direction.

Technology

Technology is the crux of quality and competitiveness. However, the adoption of technology in small scale industries hampered due to lack of infrastructural facilities, on the one hand and the present investment ceiling of the small scale industry on the other. Nevertheless the government has setup several tool rooms, production-cum-process development centres, regional testing centres and workshops, schemes of industrial parks and 18,09,000 to break the prevailing inertia and promote exports from small scale units.

The recent telecommunication revolution has o ered hi-tech application for market research which is most cost e ective substitute for exploratory personal visits abroad. As a matter of fact, conventional method of market explorations through trail and error and private contracts has been replaced by the electronic network exchanging business queries between the trading parties.

Export Potential of Small Scale Units

Given the constraints and weakness of small sector, one cannot conclude the small scale sector has no strong point which help it emerge as a global player. The small units are inherently exible to react to market signals and changing tastes. This makes the small enterprise more innovative and open to new ideas. Opportunities exist for small scale sector to emerge a strong global player especially in the exports of the following products.

Food processing industries

India has been the second largest producer of a very wide variety of fruits and vegetables in the world. But it processes less than 1% of production. At the end of 1992, the number of processing units registered under fruit products order was 4,057 of which 87% belonged to small scale and cottage industries sector.

The major reason for country's low share in the international market have been over-dependence on a few recognized international markets, lack of quality control, poor packaging, high cost of production, inadequacy of infrastructure like transport and power and non-availability of required inputs at right time and prise. Considering the growing international demand for processed foods, the items which hold good potential for exports from India are sea-foods, spices, cashews, nuts, fruits and vegetables, fruits pulp, juices, jams, pickles, canned fruits and vegetable dehydrated vegetables and gaur gums.

Leather Goods

India has the largest cattle population and thus has a substantial raw material base for leather based industries, At present, the country's share in the world leather market is about 4 percent and the target is to raise it by 10 percent by 2000's because this sector holds potential for exports. The sector is plagued by weaknesses like low volume of production units, poor quality, lack of standardization poor delivery and absence of technological upgradation. These weaknesses need to be attended to expeditiously and adequately tap the export potential of leather goods in the country.

Electronic Goods

The electronic industry has registered a phenomenal compound growth rate of 35% during the last decade 1981-1990. The share of small sector in 1993-1994 was 40% of output and 30% of exports of electrical industry 80% of exports of electrical goods are from 'Export Processing Zone' alone. The electronic industry holds tremendous potential for exports in electronics, software and contract manufacturing. This potential needs to be tapped.

India has the third largest technical manpower in the world. Recently, the technically quali ed people have started assuming the role of exports. Some of them have made an impressive head-way in export within a short period what is needed, is to provide them support in terms of developed industrial shed/ plants and credit facility.

Plastic Goods

At present, out of 18500 units manufacturing various industrial and consumer plastics, around 18000 units are in small sector. The items of plastic exports include carry bags, garbage bags, shopping bags, woven sacks, plastic moulded household items like insulated thermoware, pens, spectacles frames, PVC hoses, PVC leather cloths etc. In 1992-1993, the small sector accounted for 45% of these exports. There still exists enough scope to diversify the products and penetrate new markets. There main problems in this industry is facing is shortage of plastic raw materials, (i.e) polymer. But, this has, in turn helped the development of recycling of plastic waste industry and eco-friendly measure.

Small Scale Enterprise Shares

The government of India has accorded high priority to the development of small scale industries in the country. Under the protective and promotional policies of the government, the small scale enterprises in the country's exports had made their presence felt nationally and internationally.

Realising the good export potential of small sector, the board of Trade & Ministry of Commerce have identi ed 8 sectors and 15 items respectively for boosting exports from the small scale sector. The bug bear of the sector has been the inadequacies of the capital, technology and marketing. If the export potential of small scale enterprises is to be tapped to the full extend, then the issues like simpli cation of procedures, easier access to the bank and institutional credit, improvement in infrastructure and marketing issues need to be attend to expeditiously and adequately we wish our small enterprises a " Vibrant Player in the International Business"

CHAPTER-3

BUSINESS PLAN PREPARATION

Sources of Product for Business

As much as your plan represents your dream and is very important to you, it may not be as high on the agendas of the people who read it. When you sit down to write your plan, think of who will be reading it and put yourself into their shoes as much as possible. In most cases, the people who will read your plan are going to be potential investors, bankers, and/or potential partners. Your readers have likely seen dozens, and perhaps even hundreds, of plans. These people do not often have a great deal of time, so prepare your plan accordingly.

In general you should:

- Write the plan yourself. Get help if you need it, but do not let your accountant, bookkeeper, or other professional write your plan for you. You may let them help you with the financial plan, for example, but you need to know your plan inside and out-and the best way to ensure that is to write it yourself.

- Back up every claim you make with supporting evidence. Include surveys and detailed market research as an addendum or appendix to your plan.

- Write clearly and to the point, keeping your prose to a minimum.

- Avoid hyperbole: don't overstate your case. Similarly, avoid unnecessary adjectives such as "fantastic," "amazing," "astounding," "irresistible," and so on. Let the reader form his or her own opinion.
- Ensure that your writing is error-free and edited for proper form and syntax.

- Choose a simple, common font such as Times New Roman, and stick with it throughout the document.

- Use professionally produced drawings, photographs, and graphs. Unless you are a professional, your own attempts at art will look amateurish. The same is true for videos, if you're using them, or a computer-based demo.

- Bind the pages simply. Cerlox or its equivalent is likely sufficient.

- Make sure you include your contact information right on the cover. This is one of the most common mistakes entrepreneurs make.

Section of the plan

The first two sections should appear at the beginning of your plan. It is not as critical that the others follow in the order given, but this sequence will likely work well.

<u>Executive Summary</u>

This is by far the most important part of your plan. It should be no more than two pages in length, or less. State the idea, the opportunity, how much money you need, where you hope to get it, how it will be spent, and how you will pay it back. Readers who are interested may then go on to read the rest of your plan. Be warned, if your executive summary is more than three pages long, it will likely not be read.

<u>Your Planned Venture</u>

Describe your idea as clearly as possible, with diagrams, photographs or any other medium necessary to communicate it to the reader. Back up the idea with a description of the target market, tell why the opportunity exists, and why your idea will capture that market.

<u>Market Research</u>

Explain how you determined the product or service was appropriate to the market. Include explanations of the "four P's" (price, product, promotion, placement).

<u>Background and History</u>

Tell who you are, what experience and skills you bring to this venture, and whether or not you've run your own businesses in the past. Describe and explain their successes or failures. Include your own, short, biography here.

<u>Management Team</u>

Provide the names, and short bios, of the people you will use to fill the key positions in the business.

<u>Start-up Plan</u>

Tell when and where you plan to start the business and why you chose this time frame and location.

Operational Plan

Describe, in detail, how your business will operate. Include diagrams of production or service areas if appropriate.

Marketing Plan

Describe, in detail, how you will attract customers or clients and how you will deliver your product or service to them.

Financial Plan

Provide a detailed financial plan, including a cash-flow projection, that accounts for the money you will need (borrow) and the repayment plan and return on investment to investors.

Appendix

Include your own and your team's detailed biographies here as well as additional market research and any other information that is too detailed to be included in the body of the plan.

Most entrepreneurs have to come up with their own start-up money – either from their own savings or from relatives who know and trust them. But there are other sources of capital out there that you might tap into.

Nothing is easy or straightforward about raising start-up capital for your venture. Here are some typical potential sources of start-up money.

Pre-feasibility Studies

Pre-feasibility studies are well researched yet generic due diligence reports that facilitate potential entrepreneurs in project identification for investment

The main objective of the pre-feasibility studies prepared by SMEDA is to provide information about investment opportunities to the small & medium enterprises (SME‟s). A typical pre-feasibility study provides:

1. Comprehensive information for investment opportunity in a business.
2. Specific information regarding different business areas like, marketing, technical, industrial

information etc. for the existing entrepreneurs to improve their exiting setup.

3. Project investment information and financial projections to support viability of the business.

Project:

It is defined as a typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission.

Idea Generation

Project selection process starts with the generation of a product idea. The project ideas can be discovered from various internal and external sources. They may be

1. Knowledge of potential customer needs
2. Watching emerging trends in demand for certain products
3. Scope for producing substitute product
4. Going through certain professional magazines catering to specific interest like electronics, computers etc.,
5. Success stories of known entrepreneurs or friends or relatives.
6. A new product introduced by the competitor.

Criteria for Selection Process

It starts from where project identification ends. After having some project ideas, these are analysed in the light of existing economic conditions, the government policy and so on. A tool generally used for this purpose is, what is called the managerial jargon, SWOT analysis. On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise.

SWOT Analysis

Introduction

It has always been important for a business to know and understand how it fits in and interacts with the surrounding environment on both an internal (office/factory/shop environment) and external view (how your business operates with the outside world).

Researching your environment will benefit you and/or your management team by putting you in a position to develop a strategy for both the long and short term.

Analyzing the Business

The most influential way of doing this is to perform a SWOT analysis of the company. It is a common phrase used to abbreviate Strengths, Weaknesses, Opportunities and Threats.

Each term is a heading for a separate analysis of the business but they can be related as seen below:

Strengths provide an insight to your business opportunities & weaknesses in your business can cause immediate threats

A guideline of how to carry out the analysis is explained in the next section, but it is important to know that the SWOT analysis is only based upon information that is known by the assessors (you), and is seen as perhaps the more basic approach of analyzing a business‟ position: but SWOT is still a powerful tool when looking for immediate benefits.

Performing SWOT

Recognizing the Strengths and Weaknesses before tackling the Opportunities and Threats is the best way to approach the analysis: the more Strengths and Opportunities the better they can both be seen as the bigger influences for the success of your company. You need to be aware that the most important rule is not to leave anything out no matter how small the issue may be.

There is no fixed way of doing a SWOT analysis, but it should be done in a way that you feel most comfortable with, and more importantly that you understand it. The objective is to be in a position where you can determine a strategy for the future to improve your company‟s overall performance (or maintain it if you are happy with your final analysis).

Strengths

The Strengths can be considered as anything that is favourable towards the business for example:

1. Currently in a good financial position (few debts, etc)
2. Skilled workforce (little training required)
3. Company name recognized on a National/Regional/Local level
4. Latest machinery installed
5. Own premises (no additional costs for renting)

6. Excellent transport links (ease of access to/from the Company)

7. Little/non-threatening competition

Weaknesses

Recognizing the Weaknesses will require you being honest and realistic. Don‟t leave anything out as this is an important part as to realize what needs to be done to minimize this list in the future. Here are a few examples:

1. Currently in a poor financial position (large debts, etc)

2. Un-Skilled workforce (training required)

3. Company name not recognized on a National/Regional/Local level

4. Machinery not up to date (Inefficient)

5. Rented premises (Adding to costs)

6. Poor location for business needs (Lack of transport links etc)

7. Stock problems (currently holding too much/too little)

8. Too much waste

Opportunities

Keeping in mind what you have listed as your Company Strengths, SWOT Analysis can now influence the Opportunities for the business. These can be seen as targets to achieve and exploit in the future for example:

1. Good financial position creating a good reputation for future bank loans and borrowings

2. Skilled workforce means that they can be moved and trained into other areas of the business

3. Competitor going bankrupt (Takeover opportunity?)

4. Broadband technology has been installed in the area (useful for Internet users)

5. Increased spending power in the Local/National economy

6. Moving a product into a new market sector

Threats

The final part of the analysis will also be seen as the most feared- the Threats. It has to be done and therefore taking into account what you have listed as your weaknesses, the threats will now all seem too clear. Examples

1. Large and increasing competition

2. Rising cost of Wages (Basic wage, etc)
3. Possible relocation costs due to poor location currently held

4. Local authority refusing plans for future building expansion

5. Increasing interest rates (increases borrowing repayments, etc)
6. End of season approaching (if you depend on hot weather, etc)

7. Existing product becoming unfashionable or unpopular

Using the Analysis

Once the SWOT analysis is complete, it will then be time to put it all together and look closely to form a strategy. This will involve how you can exploit the Opportunities and how to eliminate or deal with the Threats. This may well depend on your company‟s original objectives and goals but the whole process will certainly give an overall look at the current position of your business.

You might argue that you can make a list in your head about the areas that make up your analysis and that no benefit can be derived from a SWOT exercise. Try a quick list with the four areas and identify where one area impacts on another. If you find one instance that is a current issue, you would then have cause to complete the full analysis.

Summary

As previously stated, SWOT analysis is used primarily to evaluate the current position of your business to determine a Management strategy for the future. It should also help you to look at how you may do this by looking closely at your Weaknesses and Threats that you have identified. Great care needs to be taken when planning a strategy not to disturb the balance of your Strengths as you could find that your Strengths suddenly become a Weakness if you don‟t use them.

The way that SWOT has been introduced to you is the simplest way that it can be found. It can be used further to analyze your business (depending on its size) on a Local, National and Global level. This is done by splitting up the Strengths, Weaknesses, Opportunities and Threats of your business into the appropriate category (e.g. High Unemployment in the area- Local Threat because of less spending).

It cannot be stressed enough that the analysis is carried out fairly and thoroughly. This will then put you in a position to forecast and prepare for the future accurately to give realistic objectives and tasks.

Project Appraisal

It means the assessment of a project. Project appraisal is made both proposed and executed projects.

Methods of Project Appraisal

1. Economic Analysis. (requirement of raw material, level of capacity, utilization, anticipated sales, anticipated expenses and the probable profits)

2. Financial Analysis. (working capital, fixed capital, fixed asset and current asset)

3. Market Analysis.

    i) Opinion Polling Method

        a) Complete Enumeration Survey

        b) Sample Survey

        c) Sales Experience Method

        d) Vicarious Method

    ii) Life Cycle Segmentation Analysis

        a) Introduction

        b) Growth

        c) Maturity

        d) Saturation

        e) Decline

4. Technical Feasibility

i) Availability of land and site

ii) Availability of other inputs like water, power, communication facility.

iii) Copying-with anti-pollution law

5. Managerial Competence

Ownership Structure

- Proprietorship
- Partnership firm
- Company
- Co-operative society

Selection of an appropriate form of ownership structure

- Nature of business- if business require pooling of capital and skill are generally run as partnership
- Areas of operation- local operation require proprietorship. National and international businesses require company ownership structure.
- Degree of control – direct control over business operation is required suitable ownership may be proprietorship.
- Capital requirement- if capital requirement is more so it is better to choose partnership firm.
- Duration of business – if business have a definite period of time it suitable for proprietorship or partnership.
- Government regulation- if the owner not like much more government involvement so he can choose partnership or proprietorship.

Capital

Entrepreneurship capital is defined as "a region's endowment with factors conducive to the creation of new businesses" and it exerts a positive impact on the region's economic output. The production function model is developed to test this positive impact and the model is estimated for various regions in Germany. Data were acquired from a startup panel developed by the Centre for European Economic Research in Mannheim, Germany, and is based on data provided biannually from the largest German credit rating agency, Creditreform.

Evidence suggests that various measures of entrepreneurship capital contribute to output. Regions with a higher level of entrepreneurship capital show higher levels of output and productivity, while those lacking entrepreneurship capital have a tendency to generate lower levels of output and productivity. The impact of entrepreneurship capital is stronger than that of knowledge capital.Evidence indicates that entrepreneurial capital plays a very important role in the production function model presented.

Budgeting Project Profile Preparation

Here are seven tips and practices for creating a budget that supports your project:

1. The hardest project budget you'll ever write is the first one. After that, you have both a model for budgeting similar projects, and the experience for writing detailed budgets going forward. For your first budget, get help from an experienced team member or mentor. If you're a collaborative group, get input from everyone's work estimates. The point is, you don't have to do this alone.
2. Learn from other projects. Find a past project that was similar in type or scope to the current one, and use it a model. Some teams turn to their project management tool to mine data and information on how much time and money went into certain projectsand identify where resources were added or subtracted.
3. Know your core costs. Start by entering coststhe absolute must-haves to get the project up and running. They include team members, equipment, software, travel, etc. Next, compare those core costs to the total budget. If your costs fit under the total cost figure, you fit under the cap. If not, you need to have that first conversation with your boss or stakeholders about how to scale the project to be completed within the budgetor about expanding the budget.
4. Prepare to change budget estimates. Most initial estimates are just that estimates. With the common occurrences of scope creep, unexpected surprises and the nature of doing business, at some point in the project the budget can easily change. This fact just underscores the need to manage the project budget continually. Vigilant project manager compares actuals-to-date against the initial budget and then against anticipated costs toward completion at regular intervals. And then it's time to tweak the work plan to bring expenses in line with the total budget.
5. Monitor resources. You want your team members working on the right tasks to their full potential. Salaries are a big component of the budget, so review resource usage weekly to make sure that everyone is working the highest priorities and putting the proper amount of hours per week into their tasks. A project management tool with strong resource leveling features can help manage this.
6. Be transparent. Keep your team informed of the evolving budget forecast. Communicate what's expected of them to stay within budget. People might start watching how they designate hours and other costs to your project. And they'll understand any requests to change directions if they come up.
7. Manage scope. Scope creep busts budgets. To avoid unplanned work that leads to cost overruns, create change orders for work that goes beyond initial project requirements, with accurate projections of additional cost. Seek additional funding for the project to cover change orders.

Matching Entrepreneur with the Project

Steps for 'Starting up a Business'

Introduction

An entrepreneur possessing the keen attitude for setting up a small scale unit and firmulate a business plan and take a number of steps to give shape to his business today idea. He is to prepare project report and obtain various approvals and sanctions. The various steps to be taken by entrepreneurs to start a small business unit.

Step 1 : Selection of the Product

An entrepreneur may select a product according to his own capacity and motivation. As an innovative entrepreneur he may design a new product or like an imitative one he may copy an established existing product in tefirms of additional uses, comfort or saving in cost.

The economic viability of product should cover the following demand aspects,

- Volume of existing demand in the domestic market
- Volume of aggregate existing demand
- Volume of potential demand
- The degree of import substitution
- Degree of substitution of an existing product
- The volume of demand by big unit for ancillary product

The information can be obtained from various technical publication, state development agencies etc.

Step 2 : Selection of firm of ownership

The most commonly chosen firms of ownership for SSI are

- Sole proprietorship
- Family ownership
- Partnership
- Private limited company

The first two firms are mostly preferred for having unified control over the unit. The next two firms highly facilitate the pooling of nancial resources, managerial and technical skills and business experience.

However to an appropriate extent especially where the family ties and resources are strong, partnerships are in no way distinguishable from family concern.

Step 3 : Selection of Site

An entrepreneur has ve options for the selection of site,

1. From state development corporation like SIDCO, SIPCOT, MMDA, TNHB
2. From the industrial estate constructed by the state industrial development agency (SIDA)
3. Choose from plot/sheds developed by private developers
4. Buy private land and develop the same for industrial use
5. The last option is to select a site/shed available in free trade zone

While selecting, following factors to be considered,

- Situated in one's native place
- Site which enjoys all the incentives provided by the Government
- The place near the market
- The site which o ers a suitable labour supply and raw material
- The site with modern infrastructural facilities

Step 4 : Designing Capital Structures

The initial capital of a new venture comes from the following sources,

- Own capital
- Long tem loan
- Tefirm loan from banks and nancial institutions

In recent years, the institutional landing has increased rapidly, but it has not yet become the dominant source of funds for small industry. Bank play an important role in providing working capital nance.

However, an analysis of capital structure of small scale units reveals that the support from the nancial institution is not adequate and that they should gear up their administrative machinery and produce better performance in order to ful ll the objectives and targets adequately.

Step 5 : Acquisitions of Manufacturing know-how?

Many institution like government research laboratories, research and development divisions of industries and also individual consultants provide the manufacturing know - how. In the case of ancillary units, it is provided by the main unit itself, both domestic as well as foreign.

Sometimes, it is provided by the plant and machinery suppliers, both domestic as well as foreign. The scale of operation is linked closely with technology, nancial and market demand

Step 6 : Preparation of Project Report

It is necessary to prepare a project report according to the firmat of the loan application of the concerned team building institution. An entrepreneur may get these reports done by a consultant or technical consultancy organization.

The project report being compiled by the entrepreneur should accomplish the purpose of providing a 'Bird's eye view' of the entire spectrum of activity.

The project report may contain the following feasibility

- Technical feasibility
- Economic viability
- Financial implication
- Managerial competency

Feasibility Report Preparation and Evaluative Criteria

1. General Information

The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given (i.e) the priority of the industry, increase in production, role of the public sector, allocation of investment funds, choice of technique etc. This should contain information about the enterprise submitting the feasibility report.

2. Preliminary Analysis of Alternatives

This should contain present data on the gap between demand and supply for the outputs which are to be produced, date on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared.

All opinions are technically feasible should be considered at this preliminary stage. An account of the foreign exchange requirement should be taken. The profitability of di erent opinions should also be looked into an account of the foreign exchange requirement should be taken.

3. Project Description

The feasibility report should provide a brief description of the technology chosen for the project. Information relevant for determining the optimality of the location chosen should also be included.

To assist on the assessment of the environmental e ects of the project very feasibility report must present the information on specificpoint (i.e) population, water, land air, e ects raising out of the project pollution, other environmental disruption etc.

Report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirement of water, power, personnel, organizational structure envisaged, transport cost and factors a ecting it.

4. Marketing Plan

It should contain the following items/ data on the marketing plan. Demand and prospective supply in each of the area to be served.

The method and the data used for making estimates of domestic supply and selection of the market area should be presented.

Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

5. Capital Requirement and Cost

The estimates should be reasonably complete and properly estimated information on all items of costs should be carefully collected and presented.

6. Operating Requirements and Cost

Operating cost are essentially those cost which are included after the commencement of commercial production.

Information about all items of operating cost should be collected. Operating cost relate to cost of raw materials and intermediaries, fuels, utilities, labour, repair and maintenance, selling and other expenses.

7. Financial Analysis

The purpose of this analysis is to present measures to assess the nancial viability of the project. A performance balance sheet for the project data should be presented.

Depreciation should be allowed on the basis specifiedby the Bureau of public enterprises. Foreign exchange requirements should be cleared by the department of economic a airs.

The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation etc.

The sensitivity analysis should also be presented. The report must analyse the sensitivity of the rate on the level and pattern of product prise.

8. Economic Analysis

Social profitability analysis need some adjustments in the data relating to the cost and return to the enterprises. One important type of adjustment involves a correction in input and cost to react the true value of foreign exchange, labour and capital.

The enterprise should try to access the impact of its operation on foreign trade. Indirect cost and benefits should be included. If they cannot be quantified they should be analyzed.

CHAPTER-4

LAUNCHING OF SMALL BUSINESS

Financial Planning

Working Capital Management

- Working capital management is concerned with making sure we have exactly the right amount of money and lines of credit available to the business at all times
- Working Capital is the money used to make goods and attract sales
- The less Working Capital used to attract sales, the higher is likely to be the return on investment
- Working Capital = Current Assets − Current Liabilities

Working Capital Management

- Cash Management
- Receivables Management
- Inventory Management

Cash Management

- Identify the cash balance which allows for the business to meet day to day expenses reduces cash holding costs

Receivables Management

- Money which is owed to a company by a customer for products and services provided on credit
- Identify the appropriate credit policy

- **Inventory Management**
  - Identify the level of inventory which allows for uninterrupted production
  - Reduces the investment in raw materials, minimizes reordering costs and hence increases cash flow

Inventory Management

A company's merchandise, raw materials, and finished and unfinished products which have not yet been sold. These are considered liquid assets, since they can be converted into cash quite easily.

Policies, procedures, and techniques employed in maintaining the optimum number or amount of each inventory item. The objective of inventory management is to provide uninterrupted production, sales, and/or customer-service levels at the minimum cost.

Techniques: -

- ABC
- JIT
- FSN
- VED
- BILLS OF MATERIAL
- BIN CARDS
- EOQ-ECONOMIC RE-ORDER QUANTITY
- INVENTORY/TURNOVER

Inventory Management

Importance:-

– TRANSCATIONS MOTIVE:

It emphasizes the need to maintain inventories to facilitate smooth production and sales operations

– PRECAUTIONARY MOTIVE: -

It necessitates holding of inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors

– SPECULATIVE MOTIVE: -

It influences the decision to increase or reduce inventory levels to take the advantage of price level fluctuations

Conflicting needs : -

– To maintain a large size of inventories of raw materials and WIP for efficient and smooth production and of finished goods for uninterrupted sales operations

– To maintain a minimum investment in inventories to maximize profitability

Objective: -

– determine and maintain optimum level of inventory investment

– to maintain sufficient inventory for the smooth production and sales operations

– to avoid excessive and inadequate levels of inventories

– Making adequate inventories available for production & sales when required.

Benefits of holding inventories:

Avoiding losses of sales ◊ avoid non-supply of goods at times demands by understands.

Reducing ordering costs ◊cost associated with individual order such as typing approving mailiyet can be reduced.

Achieving efficient production run ◊Supply of sufficient inventories protects against shortage of raw materials that may interrupt production operation.

Cost of holding inventories:-

Ordering cost ◊ cost which are associated with placing of orders to purchase raw materials & components. Salary, rent. “More the order the more will be ordering costs vice verse”.

Carrying costs ◊ cost involved in holding or carrying inventories like insurance. Charger for covering risk, thefts. It includes opportunity cost.

Money blocked in inventories been invested. It would earn a certain return. Loss of such return may be considered opportunity cost.

Models of inventory mgt:-

Several models & methods have been developed in recent past for determing the optimum level of inventories.

Classified into two types:-

Deterministic models:-

There is no uncertainty associated with demand supply of inventory.

Probabilistic models:-

It always some degree of uncertainty associated with demand pattern & lead times of inventories.

Unusually deterministic models associated:

- Economic ordering quantity.(EOQ)
- ABC analysis.
- Inventory return over ratio.

EOQ:

Important decision to be taken by a firm in inventory mgt is how much to buy at a time. This is called EOQ.

EOQ give solution to other problem like: How frequently to buy? When to buy? What should be the reserve stock?

Assumptions:-

EOQ is based on certain assumption.

- The firm knows how much items of particular inventories will be used or demanded.
- Use of inventories/sales made by the firm remains constant, or unchanged.

The moment inventories reach the zero level, the order of inventory is placed without delay. These assumptions are also called limitations of EOQ.

Determination of EOQ:-

Ordering cost:

Cost concerned with the placing of an order to acquire inventories. Yes it way from time to time depending upon the no of items orders places & no of items ordered in each order.

Carrying cost:

Cost related to carrying or keeping inventories in a firm.

Ex: interest on investment, obsolescence, losses, insurance, premium.

Volume of inventory & carrying cost.

EOQ can be determined by an approach.

The order-formula approach:-

There are number of mathematical formula to calculate EOQ. The most frequently used formula is

$$Q = \sqrt{2U \times P / S}$$

Q = EOQ.

U = Quantity purchased in a year/month.

P = Cost of placing an order. (ordering cost)

S = Annual/ monthly cost of storage of one unit known (carrying cost)

Trial & Error Approach:-

Carrying & ordering cost should be studied “order formula approach”.

Graphic Approach:

EOQ can found by drawing a graph.

ABC Analysis:-

A – Items with highest value.

B – Items with relatively low value.

C – Items with least valuable.

A – items maintain bare minimum necessary level of inventories.

B – items will be kept under reasonable control.

C – items would be under simple control.

FSN – Fast moving, Slow moving, Non-moving.

Fast moving ◊ in order of have smooth production.High demand – adequate inventory of these items maintained

Slow moving items:-Slowly moving indicated by a low turnover ratio needed to maintain at minimum level.

Dormant/obsolete items ◊ have no demand these should be disposed of a early as possible to curb further losses caused by them.

Inventory turnover Ratio:

$$= \frac{\text{Cost of goods consumed or sold during year}}{\text{Average inventory during the year}} \times 100$$

Human Resource Mobilization

Meaning of Manpower Planning:

Small scale enterprises also need to draw plans to take various decisions and perform multi various activities. In simple words, plans are basic to any sort of enterprise - whether large, medium or small. This includes the plans or provisions for manpower also. Unfortunately, the man power planning is neglected area in the Indian context especially in small scale industry. Under manpower planning, the management needs to ask itself two basic questions of:

1.What kinds of people do we need?

Before we ask this question, we must first understand the types of jobs to be filled. For example, do these jobs require someone with training in typing or shorthand or can they be done by an individual without any specialized training but who can learn our billing system quickly and who enjoys assignment requiring attention to small details?

To answer such questions in a systematic manner, enterprises often do develop job descriptions. In simple words, job descriptions are written explanations of the duties of a job together with a list of the minimum qualification necessary to hold the job. The use of these guides makes the selection process to a great extent, more effective.

2. How many people do we need?

In fact, the previous question deals with the quality of personnel. This question deals with the quantity of personnel the enterprise needs. We must answer several questions to determine the number of people required for various positions throughout the enterprise.

1. Is the demand for certain skills and occupations growing, constant or shrinking?
2. How much work can the average person do in a specified period of time?
3. What is the level of absenteeism?
4. What is the level of turnover?

Manpower planning can be defined as ”the process by which an entrepreneur ensures that he has the right number of people and right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable”.

Job Requirements:

The job requirements must be identified before an enterprise select employees for itself.

1. Conducting Job Analysis:

This is an investigation into various aspects of a task in terms of skill, qualification, duties and responsibilities.

It covers job title, the department to which it relates line of supervision, relationship with other jobs, types of material and equipment used, mental and manual dexterity, working condition etc.

2. Job Description:

Simply stated, job description deals with what, why, when and how tasks are to performed. In other words, it is a written statement of work conditions, time involvement and job responsibilities.

3. Job Specification:
Job specification is a description of the salient features of the person to be recruited in the specific job. It is standard against which the salient features of the employee are matched how far he matches with the job specifications. In other words, it describes the personal qualities of the employees like their knowledge, skills, experience, qualities of leadership and decision making abilities etc.

Recruitment:
Recruitment in small scale industries is more difficult because they cannot compete with their large counterparts in salary, fringe benefits and apparent stability. These limitations impose severe problems for small enterprises for attracting qualified and committed work force. The entrepreneur should also strive hard to create a public image of his enterprise as a worthy place to work and proper.
As regards recruitment in small scale industries, the most prevalent practice exercised in small scale units is to seek out and select candidates rather than wait for applications as happens in the case of large scale industrial unit. Broadly, these could be two sources of recruitment in small scale enterprises:
1. Internal Sources:
Internal sources refer to recruitment from the present workforce of the enterprise itself. Filling vacancies from own existing employees boost the morale of the employees because they look forward scope and avenues for their career development and advancement. Such hope for future often motivates the employees to put in their best performance. This manner of recruitment has other side also. One of the serious drawbacks of this manner, to mention, is what while the quality of level of employee's remains limited to that of the existing employees, on the other hand, the advantages of including the induction of fresh blood is missed.
2. External Sources:
(a) Employees Referrals: Many a times, the existing employees of the enterprise and other sister organizations can refer to suitable candidates. In this case, kinship, friendship and village ties of the existing employees expectedly play a major role in the recruitment process.
(b) Recommendations: Sometimes the entrepreneurs receive recommendations from their friends and relatives to employ the persons known to them. The experience suggests that the entrepreneurs need to be cautions in considering such recommendations. The best principle in such case will be "Never hire a person to please someone, make sure that you want him."
(c) Unsolicited Applications: This is one of the common manners exercised to recruiting employees in small enterprises. The enterprise receives application and require for jobs from several sources.
The applications are kept and as and when there is a need to recruit people, these applicants are contacted if still available.
(d) Advertisements: If the entrepreneurs have sufficient time at their disposable to process and interview the candidates. They advertise their vacancies in the newspaper and other medias like radio and television. This manner ensures better choice for entrepreneurs to recruit the employees.
Recruitment Kinship, friendship and relatives
Unsolicited applications
Gate hiring
Referrals and recommendations

Advertisements
Employment Exchanges

Selection:

Selection process starts where recruitment ends. Selection means fitting a round peg in a round hole.This is done by comparing the requirements of job with the qualifications and experience of a candidate.

The basic purpose of selection is to find out right kind of people to fill the available positions; an orderly and systematic procedure is therefore always advisable selection of over qualified people results frustration on the part of the employees, selecting under qualified people invites indignation of the employer frequently.

Although, the selection procedure varies from place to place and enterprise to enterprise, most commonly used selection procedures in small scale industries are:

1. Preliminary Interview:

If the recruitment programme is non-selective, the preliminary interview is likely to be used in selection. This interview is short, often lasting for ten-fifteen minutes. The basic purpose of the preliminary interview is to determine an applicant's suitability for further consideration. The kind of work available in the enterprise is explained by the interviewer. If there is felt some chance of successful placement, the applicant is allowed to continue the rest of the selection procedure.

2. Application Blank:

It is commonly used in the selection process. Questions like work history, education level, work experience and the type of work applied for are asked in the question blank. Application blanks certain questions related to the probability of job success.

3. Psychological Test:

Most psychological tests administered in the enterprise are paper and pencil. The test taker is given a series of questions and a choice of two or more possible answers to each question.

Aptitude Test: This is a test measuring intelligence of the applicant and his ability to learn certain skills.

Performance Test: It is a test that measures one's current knowledge of a specific test.

Personality Test: Under the test, an applicant's personality traits such as dominance, sociability and conformity are measured.

Interest Test: As the name of the test itself denotes, this is the test measures one's interest in various fields of work.

4. References:

Personal references are generally unreliable and biased. Many a times reference persons are not well qualified to judge one's past work performance. Therefore, the names of previous employees and teachers are considered more reliable and unbiased in giving judgment about one's past experienced/performance.

5. Interview:

Interview facilitates an interviewer to evaluate more effectively the applicant's potential for success in the particular job. The basic objective of an interview device should be to measure those facilitating qualities and traits that cannot be better measured by some other devices like testing or application blank.

6. Physical Examination:

A physical examination is usually placed towards the end of the selection process. It gives the enterprise current information about the applicant's physical health at the time of selection or hiring.

7. Placement:

Once a new employee has been selected, he/she is finally placed to perform the specific job. A new comer should be properly introduced to his fellow workers, shown the location of facilities available, informed of regulations if any and encourages asking any needed information.

8. Orientation:

The employees selected should be made familiar with their enterprises objectives and activities and acquainted with their jobs. Thus begins their orientation period to learn about their work environment. Henceforth starting the training and development of newly selected employees.

Training and Development:

Training may be defined as any procedure, initiated by an enterprise, which intends to foster and enhance learning among the employees working in the enterprise. Training in small scale unit is concerned, the owner himself takes the responsibility for developing and conducting the training programme with an objective to enhance the employee's job related skills and knowledge.

Objectives of Training:

1. To improve job performance by enhancing employee's knowledge and skill.
2. To prepare employee's well competent to discharge the new responsibilities.
3. To impart skill how to operate the new machinery and equipments.
4. To reduce the wastages and accidents.
5. To build a second line for more responsible position at a later stage.

Characteristics of a Successful Training Programme:

1. Its objectives and scope are clearly defined.
2. The training techniques are related directly to the need and objectives of the organization.
3. It employs accepted principles of learning.
4. As far as possible, it is conducted in the actual job environment.

Methods of Training:

1. On the job Training: The oldest and most commonly used training technique in the small scale units is the on the job training. It consists of the employees receiving training from their supervisors and other departmental members while they perform their regular jobs. Such training is considered essential on every job available in the enterprise. On the job training has three categories:

(a) Demonstration: The job is demonstrated to the employees and each step involved in the process is explained thoroughly.

(b) Performance: The trainees perform the task what they have learned in the step one.

(c) Inspection: In the third and final step, the work performed by the employees, as mentioned in the step two, is inspected and immediate feedback of the job performance to the employees.

2. Apprenticeship Training: Apprentice training combines both formal classroom learning and on the job experience. This kind of training programme is provided mainly in the technical cadres.

3. Job Rotation: This kind of training is particularly beneficial in the case of small scale industries where each employee has a thorough understanding of the different functions performed in the

enterprises. In this training programme, employees are moved from one job to job for a few hours a day, a few days or several weeks.
4. Outside Training: The outside training consists of the employees being trained at schools/institutes outside the enterprise. Training is a continuous process of the employee development.
Remuneration and Benefits:
Employees remuneration expressed in terms of wages is of critical concern to personnel relations in small scale industry, whereas wages represent income to the employees, they represent cost of the employer and potential taxes to the government. Wages constitute the largest part of the employee’s purchasing power and therefore have an important bearing on the level of economic activity.
As regards labor is organized (i.e.) large industrial sector, he is politically awakened and is ready to protest to secure his rights. Wages in the small sector are around one-half of those in the large organized sector through labor productivity does not so differ between them. The high wages in the organized sector have been described as ”islands of prosperity” when compared to the poor wages or ”oceans of distress” in a small sector.
The wages in small enterprises are not fixed on well established norms and principles of equal pay for equal work. In fact, wage fixation is usually done based on the bargaining strengths of the employer and employee in which the former dominates the scene. Even knowing wide differences in wages between the two sectors, employee in the small sector/unorganized sector, they are not in the position to voice their concerns is an effective manner due to their poor bargaining strength.
Employee Benefits and Services:
In addition to remuneration (i.e.) wages to the employees for their work done, enterprises nowadays also pay for a wide variety of supplementary items - often called fringe benefits. These benefits are the indirect payments made to the employees in addition to their direct wages and salaries. The employer’s federation of India considers fringes as those benefits provided by the employer (a) which materially add to the welfare of the employees either during the tenure of their service or their retirement - (b) the expenditure of which does not form part of his normal wages and other allowances. Days are gone when the fringe benefits
were of secondary importance. Over the period, these benefits have risen to such an extent but these now command a significant proportion of the total employee compensations. All the fringe benefits can be broadly
classified into
1. Premium payments consisting of bonus
2. Payments for overtime
3. Payments for not-worked
4. Payments for employee welfare.

Production and Operation Management

Investment Analysis

Both launching new product first time or diversified the product line involve investment. Basic objective of every investment is to maximise the profit. Hence the scarce capital should be invested in those opportunities which could give the maximum return on capital employed (profit).

Tools for investment analysis:

NPV, IRR, Payback Period, ARR, Benefit cost Ratio.

Technique of ratio analysis and capital budgeting have been used as most important tool of investment analysis. Investment analysis deals with the interpretation of the data incorporated in the Performa financial statement of a project and presentation of data in the form in which it can be utilised for comparative appraisal of the projects

Ratio Analysis:

Ratio analysis established arthimetical relationship between two relavant figures.normally it is expressed in percentage.

Return on proprietor's fund(Equity)

$$\frac{\text{Net Profit after tax and interest}}{\text{Proprietors fund}} \times 100$$

Objectives of investment is to earn maximum profit whether investment to be worth making in terms of return compared to risk.

Return on Capital Employed

$$\frac{\text{Net profit before interest and tax}}{\text{Capital Employed}} \times 100$$

Equity Capital = 5 lakhs, Loan = 3 lakhs, Rs. 80,000 net profit before tax and interest.

$$\frac{80,000}{8,00,000} \times 100 = 10\% \text{ (compare with other industry)}$$

Return on Total Investment

$$\frac{\text{Net Profit after interest and tax}}{\text{Total Asset}} \times 100 = \text{Overall profitability of business.}$$

Capital Budgeting

Involves investment decision balancing the sources and uses of funds for acquiring fixed assets like plant and machinery. Investment in fixed asset implies the choice of a particular project. The project selection is made on certain techniques.

Techniques of Capital Budgeting.

Pay Back or Payout Period

How long he / she to wait before the invested capital is recovered. Cash flow start coming and accumulate after certain period of time, the accumulated amount equal to the original investment made.

Average rate of return

Accounting rate of return is a reverse of payback period method. Pay back based on cash flow. Average rate of return based upon principles of accounting. It does not consider the time period. The average rate of return is calculated by dividing the average net income after taxes by the average investment over the life of the project.

ARR = Average net income after tax X 100

Average investment over the life of the project.

It ignore time value of money.

Product Layout

During the course of technical arrangement of various facilities such as machinery, equipment etc., it is very necessary to give considerable emphasis on a proper plant layout to achieving their optimum utilization.

Some important aspects while deciding the plant layout. There are

1. Production technology and production mix.

2. Efficiency, economic and uninterrupted flow of men and material

3. Adequate space for maintenance work

4. Scope for future expansion and diversification of the project

5. Health conducive layout of the plant

6. Proper lighting and ventilation.

Marketing and Channel Selection

Before any production/ service is offered for sale to market, several decision need to taken in regarding marketing. Ex: price of product has to determined, the methods of marketing has been identified and the channels of distribution have to be worked out.

Marketing

Market : it is a place where the sellers and buyers assemble to exchange their products for money and vice versa.Concept has been change time to time.

Traditional concepts:

Early days, „marketing‟ includes activities involved in the flow of goods and services from production to consumption.

Modern Concepts:

Due to changes of customers, behaviour concepts are also changed customers started to buy the goods or services that were more beneficial to them in terms of quality, price, satisfaction, durability, look and so on. The benefits to the consumers may be tangible and intangible.

The new approach relies on to produce the goods or offer services that satisfy the customers‟ demands.

Traditional approach focus on the needs of the sellers (Buyers Beware).

Modern approach focus on the needs of the buyers. (sellers beware).

Problems of Marketing of small industries:

¬ Competition with modern section

¬ Lack of sales promotion

¬ Weak in bargaining power

Market Assessment:

Demand forecasting

Demand refers to willingness and ability of customers to buy products or services. When we consider this definition for all the potential customers having both willingness and ability to buy a product it is termed as "total Market"

There are number of techniques available for forecasting dmand.

- ¬ Survey Method
- ¬ Statistical method
- ¬ Leading indicator method

Market Segmentation:

Market segmentation is the sub- dividing of a market into homogeneous subsets of customers, where any subset may conceivable be selected on a market target to be reached with a distinct marketing mix.

Basic of Market segmentation

- ¬ Geographic variable
- ¬ Demographic variable
- ¬ Education variable
- ¬ Income variable

Marketing Mix:

Marketing mix classified the four factor under 4 P"s vie Product, Price, Promotion, Place.

"Marketing mix is the tailoring the product its price, its promotion and distribution to reach the target customers".

Brand

A brand is a name, term, sign, symbol or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

Brand mark is a symbol or mark used fr the purpose of identification of the product.

Packaging

Packaging is an art science and technology of preparing goods for transport and sales.

Pricing Policy

Price is the money that customers must pay for a product or services. Pricing the product is something different from its price.

Salient features:

Pricing cover all marketing aspect like the item- goods and service. Mode of payment, methods of distribution, currency used etc. pricing may carry with it certain benefits to the customers like free delivery, guarantee, installation from after sales servicing.

Pricing refers to different prices of a product for different customers and different prices for the same customers at different times.

Factors affecting prices:

Economic and non- economic

1. Product characteristics
2. Product cost
3. Objectives of the firm
4. Competitive situation
5. Demand for the product
6. Customers behaviour
7. Government regulation

Pricing methods / policies

Cost plus method

Total cost + profit = selling price. Total cost includes fixed cost + variable cost. Profit refers to margin.

Skimming Pricing:

It suitable for a product introduced is innovative and innovative and it used mainly by sophisticated group of customers. High price is usually promoted by heavy promotion. Recover the cost with in a shorter period of time.

Penetration Pricing:

It is Contrary to skimming to attract more customers are very particular for price and which product is an items of mass consumption. Under this policy, the price of the product is set at lower level of penetrate into the market.

Market rate policy

This policy adopts the prevailing market rates for determining the price of the product. Unusually this policy used for unbranded products like oils, couriers, tailoring, repairing.

Variable price policy:

The price of the same product varies from customers to customers depending upon the situation prevailing in the market.

Resale price Maintenance

The manufacturer of the product fixes prices of the whole seller and retailer. The retailer price of the product like drugs and detergents are printed on the package. Retail price is fixed somewhat higher to meet of the cost of inefficiency retailers not selling the goods timely.

Distribution Channels / Methods of Marketing

A channel of distribution or marketing channels is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retails through which a commodity, product or service is marketed.

In view of number of intermediaries of the product channels it can be classified into three.

- ¬ Zero level Channel◊producer to consumer
- ¬ One level Channel ◊ Producer ◊ retailer ◊consumer
- ¬ Two level Channel ◊ producer ◊ whole seller ◊ retailer ◊ consumer.

Growth strategies in small business

Stages of Growth:-

Start-up:

It refers to the birth of a business enterprise in the economy.The production takes place in limited scale.The enterprise is cot faced with any competition during this stage. Profits may not be earned during the start up stage.

A. Growth stage

B. Expansion stage

C. Maturity stage

D. Decline stage

Types of growth:-

Strategy in a sense tactics to handle some technique to grow our business. Growth strategy mean a plan to help the enterprise grow big course of time. Types of growth vary from enterprise.

1. Internal growth

2. External growth

Internal growth:-

These imply that enterprise grow their own without joining hands with other enterprises.

- Expansion

- Diversification. (FMCG ◊ Heavy vehicle manufacturing.)
  These two are popular forms of internal growth strategies.

External growth:-

Enterprises grow by joining hands with other enterprises.

- Joint ventures,

- Mergers,

- Sub-contracting.

Expansion

1) Production strategy:-

Focuses on the firms existing product in its existing market, & the entrepreneur attempts to penetrate this product or market further by encouraging existing customers to buy more of the firms current products.Marketing can be effective in encouraging more frequent repeat purchase.

2) Marketing development strategies:-

It involves selling the firms existing product to new groups of customers. New groups of customers can be categorized in terms of geographic, demographic of based on a new product use. New location, new customer.

3) Expansion through product development / modification:-

It implies developing/modifying the existing product to meet the requirement of the customers.

Advantages:-

Expansion provides the following benefits growth through expansion is natural & gradual enterprise grows without making major changes in its organisational structure.

Expansion makes possible the effective utilization of existing resources of an enterprise

Gradual growth of enterprise becomes easily manageable by the enterprise.

Expansion result in economics of large, scale operations.

Diversification:-

Not possible for a business growth by adding the new product / market to the existing one, such an approach to growth by adding new products to the existing product line is called "diversification" other word defined as "a process of adding more product / market / service to the existing one.

L & T – engineering company – cement

LIC – mutual fund

SBI – merchant banking (expand their business activities)

Advantages:-

Diversification helps an enterprise make more effective use of its resource.

Diversification also helps minimize risk involved in the business.

Diversification adds to the competitive strength of the business.

Types of diversification:-

There are 4 types

1) Horizontal
2) Vertical
3) Concentric
4) Conglomerate

Horizontal diversification:-

The same type of product / market is added to the existing ones.

Adding refrigetor ◊ to its original steel locks by godrej.

Vertical diversification:-

Complementary products or service are added to the existing product or service line of the enterprise.

AVT manufacturing start producing picture tube sugar will may develop a sugarcane farm to supply raw material or input for it.

Concentric diversification:-

An enterprise enter into the business related to its present one in terms of technology, marketing or both.

Nestle ◊ originally baby food producer entered into related product like tomato ketchup magi noodles.

Conglomerate diversification:-

It is just contrary to concentric diversification an enterprise diversifies into the business which is not related to its existing business neither in terms of technology nor marketing inter into unrelated to its present one.

JVG ◊ carrying newspaper & detergent calee & powder.

Godrej manufacturing steel safes & showing creams.

Joint venture:

Type of external growth J.V. is a temporary partnership b/w two or more firms to undertake joinly a complete a specific venture.

The purties who enter into agreement are called co-ventures.

Purties are should b/w the co-ventures in their agreed ratio & in the absence of such agreement the profits or losses are should equally.

Advantage:

1) J.V. reduce risk involved in business.

2) It helps increase competitive strength of the business.

Merger:

Merger means combination of 2 or more existing enterprise into one.

In other words, when 2 or score existing enterprises are combined into one it is called merger.

It take place in 2 ways.

Absorption:

An enterprise or enterprises may be acquired by another enterprise is called absorption.

Amalgamation:

When two or more existing enterprises merge into one to form a new enterprise. It is called amalgamation.

Advantage Merger:

1) Provide benefits of economic scale in terms of production & sales.

2) It facilitate better use of resource.

3) It enables sick enterprise to merger into healthy ones.

Disadvantage:-

◊ leads to monopoly in the particular some

Sub-contracting system:-

Sub-contracting system relationship exists when a company (called a contractor) places on order with another company (called sub-contracter) for the production of parts components, sub-assemblies or assembliest be incorporated into a product sold by the contractor.

Whirlpool ◊ sub contract

Large scale industries do not produce all goods on their own instead they reply on small scale enterprises called sub-contractors for a great deal of production.

When the work assigned to small enterprise involves manufacturing wont it is called industrial sub-contracting.

In India sub-contracting has emerged in the name of an illarisation or ancillary units.

Advantage:-

- It increase production in the fastest way without making much efforts.
- The contractor can produce products without investing in plant & machinery.
- It is suitable to manufacturing goods temporarily.
- It enables the contractor to make use of technical & managerial abilities of the sub-contractor.

Franchising:-

Defined as a form of contractual arrangement in which a retailer (franchiser) enter into an agreement with a producer (franchiser) to sell the producer‟s goods or services for a specified fee or commission.

Advantages:-

Product franchising:

Dealers were given the right to distribute goods for a manufacturer. eg: singer.

Manufacturing franchising:

Manufacturer given the dealer the exclusive right to produce & distribute the product in a particular area, soft drinks industry.

Business format:

Is an arrangement, under which the franchiser offers a wide range of service to the framer including marketing advertising strategic planning, training.

Product Launching

Launching a new product attracts consumers as well as corporate buyers, and informs the public about your product and business. Your product launch needs to be exciting and informative. Here are a few suggestions on how to launch a new product.

1. Design attractive packaging.

Create packaging that is colorful and pleasing to the consumer's eye. Smart packaging is the first step to getting your new product noticed. Include your company name, product name and any main selling points you want to convey on the outside of the packaging.

2. Determine your target audience.

Decide what demographic will benefit most from your product. This is the target audience that should receive the most attention when you market a new product. Consumers of this age, gender and social and economic background will be most receptive to the new idea and will, most likely, buy your product.

3.Implement a unique slogan.

Prepare for your product launch by creating a catchy and unique slogan that will be used to identify it. The slogan should consist of simple language and could rhyme or contain words beginning with the same letter to make it more memorable.

4. Know your competition.

Research products similar to the one you're planning to launch that are already well-known by consumers. Use this information to direct the attention of your launch at ways that your product is different and better than the competition.

5.Consult a public relations firm.

Work with a public relations agent with experience in your industry or in marketing new products. An expert can help you solidify your target audience, determine the best forms of media advertising and plan promotions.

6.Write a product sheet.

Create a list of product features and details. This should explain the product to consumers while still making it attractive. Include general usage, product components or ingredients and any relevant safety warnings or liability information.

7.Launch a website.

Design a website advertising your new product and offering more information for consumers. Include user testimonials, product comparisons and ordering information or promotional offers to entice buyers.

8.Purchase advertising.

Place ads in several media outlets to reach the maximum number of consumers. Websites work well for posting ads and linking to the product's website. Buy ad space in local newspapers or trade publications to increase the awareness of your new product.

9.Hold a press conference.

Schedule a press conference with consumers and members of industries related to your product or service. This will allow you explain the product, offer samples, answer questions and create a buzz in the industry.

Incubation

"Business incubation is a unique and highly flexible combination ofbusiness development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development."

Business incubation provide SMEs and start-ups with the nurturing environment needed to develop and grow their businesses, offering everything from virtual support, rent-a-desk through to state of the art laboratories and everything in between. They provide direct access to hands on intensive business support, access to finance and experts and to other entrepreneurs and suppliers to really make businesses and entrepreneurs to grow.

Business incubation provides a nurturing, instructive and supportive environment for entrepreneurs during the critical stages of starting up a new business. The goal of incubators is to increase the chance that a start-up will succeed, and shorten the time and reduce the cost of establishing and growing its business. If successful, business incubators can help to nurture the companies that will form the true creators of a region's or nation's future wealth and employment.

Incubators serve as a launching pad for young and small businesses. Start-ups, which are innately dynamic entities, need access to support, and incubators are a means of providing this.

Centre for Innovation, Incubation and Entrepreneurship was setup at the Indian Institute of Management Ahmedabad (IIMA) with support from Gujarat Government and Department of Science and Technology (Government of India) to promote innovation and entrepreneurship in India. Experience and expertise at IIMA in the areas of management, innovation, technology networks along with entrepreneurship provide the necessary impetus and intellectual basis for this initiative.

We comprise of faculty, alumni and students of IIMA, mentors and service providers from the industry who span a variety of functional areas, sectoral domains and geographies and are passionately committed to helping disruptive innovations and aspiring entrepreneurs succeed commercially.

We know that it takes more than just early stage risk-capital to get a company off the ground - we enable most of what may be required by entrepreneurs through seed-funding, incubation, mentoring, training, knowledge dissemination and best practice research.

Venture capital

Venture capital (VC) is financial **capital** provided to early-stage, high-potential, growth startup companies. The **venture capital** fund earns money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology and IT.

Venture capitalists (VCs) represent the most glamorous and appealing form of financing to many entrepreneurs. They're known for backing high-growth companies in the early stages, and many of the best-known entrepreneurial success stories owe their growth to financing from venture capitalists.

VCs can provide large sums of money, advice and prestige by their mere presence. Just the fact that you've obtained venture capital backing means your business has, in venture capitalists' eyes, at least, considerable potential for rapid and profitable growth.

VCs make loans to--and equity investments in--young companies. The loans are often expensive, carrying rates of up to 20 percent. Many venture capitalists seek very high rates; a 30 percent to 50 percent annual rate of return. Unlike banks and other lenders, venture capitalists frequently take equity positions as well. That means you don't have to pay out hard-to-get cash in the form of interest and principal installments. Instead, you give a portion of your or other owners' interest in the company in exchange for the VCs' backing.

The catch is that often you have to give up a large portion of your company to get the money. In fact, VC financiers so frequently wrest majority control from and then oust the founding entrepreneurs that they are sometimes known as "vulture capitalists." But VCs come in all sizes and varieties, and they're not all bad.

Venture capitalists typically invest in companies they anticipate being sold either to the public or to larger firms within the next several years. Companies they will consider investing in usually have the following features:

- Rapid, steady sales growth
- A proprietary new technology or dominant position in an emerging market
- A sound management team

- The potential for being acquired by a larger company or taken public in a stock offering

In addition, venture capitalists often define their investments by the business' life cycle: seed financing, start-up financing, second-stage financing, bridge financing, and leveraged buyout. Some venture capitalists prefer to invest in firms only during start-up, where the risk is highest but so is the potential for return. Other venture capital firms deal only with second-stage financing for expansion purposes or bridge financing where they supply capital for growth until the company goes public. Finally, there are venture capital companies that concentrate solely on supplying funds for management-led buyouts.

There are several types of venture capital:

Private venture capital partnerships are perhaps the largest source of risk capital and generally look for businesses that have the capability to generate a 30 percent return on investment each year. They like to actively participate in the planning and management of the businesses they finance and have very large capital bases--up to $500 million--to invest at all stages.

Industrial venture capital pools usually focus on funding firms that have a high likelihood of success, like high-tech firms or companies using state-of-the-art technology in a unique manner.

Investment banking firms traditionally provide expansion capital by selling a company's stock to public and private equity investors. Some also have formed their own venture capital divisions to provide risk capital for expansion and early-stage financing.

The way to contact venture capitalists is through an introduction from another business owner, banker, attorney, or other professional who knows you and the venture capitalist well enough to approach them with the proposition.

IT startups

Being an entrepreneur is tough. Having your startup make it past year one is even more so and generating revenue can at times seem next to impossible. So, for those startups that have successfully gotten over these humps and made it look easy.

There is additional encouraging news for aspiring entrepreneurs on many fronts, just in case you are thinking about joining the existing ranks:

1. Valuations of successful startups have hit an all-time high.
2. Initial Public Offerings (IPO) are back as an exit strategy.
3. Funding for early-stage startups is more available than ever.
4. Cost of entry for a startup is at an all-time low.
5. Startup incubators and accelerators are popping up everywhere.
6. The world is a now single market, both homogeneous and heterogeneous.
7. Social media is a boon for entrepreneurs and startups.
8. Large corporations have lost their ability to innovate.
9. Entrepreneurs.

CHAPTER-5

MANAGEMENT OF SMALL BUSINESS

Monitoring and Evaluation of Business

Monitoring is the systematic collection and analysis of information as a project progresses.

It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work. It helps to keep the work on track, and can let management know when things are going wrong.

What monitoring and evaluation have in common is that they are geared towards learning from what you are doing and how you are doing it, by focusing on:

- ϖ Efficiency
- ϖ Effectiveness
- ϖ Impact

Efficiency tells you that the input into the work is appropriate in terms of the output. This could be input in terms of money, time, staff, equipment and so on. When you run a project and are concerned about its reliability or about going to scale, then it is very important to get the efficiency element right.

Effectiveness is a measure of the extent to which a development programmes or project achieves the specific objectives it set.

Why do monitoring and evaluation?

In many organizations, "monitoring and evaluation" is something that that is seen as a donor requirement rather than a management Tool. Donors are certainly entitled to know whether their money is being properly spent, and whether it is being well spent. But the primary (most important) use of monitoring and evaluation should be for the organization or project itself to see how it is doing against objectives, whether it is having an impact, whether it is working efficiently, and to learn how to do it better. Monitoring and evaluation are both tools which help a project or organisation know when plans are not working, and when circumstances have changed.

Monitoring and evaluation can:

1. Help you identify problems and their causes;
2. Suggest possible solutions to problems;
3. Raise questions about assumptions and strategy;
4. Push you to reflect on where you are going and how you are getting there;
5. Provide you with information and insight;
6. Encourage you to act on the information and insight;
7. Increase the likelihood that you will make a positive development difference.

Monitoring involves:

1. Establishing indicators (See Glossary of Terms) of efficiency, effectiveness and impact;
2. Setting up systems to collect information relating to these indicators;
3. Collecting and recording the information;
4. Analysing the information;
5. Using the information to inform day-to-day management.
6. Monitoring is an internal function in any project or organisation.

Evaluation involves:

- Looking at what the project or organisation intended to achieve – what difference did it want to make? What impact did it want to make?

- Assessing its progress towards what it wanted to achieve, its impact targets.

- Looking at the strategy of the project or organisation. Did it have a strategy? Was it effective in following its strategy? Did the strategy work? If not, why not?

- Looking at how it worked. Was there an efficient use of resources? What were the opportunity costs (see Glossary of Terms) of the way it chose to work? How sustainable is the way in which the project or organisation works? What are the implications for the various stakeholders in the way the organisation works. In an evaluation, we look at efficiency, effectiveness and impact.

There are many different ways of doing an evaluation. Some of the more common terms you may have come across are:

- **Self-evaluation:** This involves an organisation or project holding up a mirror to itself and assessing how it is doing, as a way of learning and improving practice. It takes a very self-reflective and honest organisation to do this effectively, but it can be an important learning experience.

- **Participatory evaluation:** This is a form of internal evaluation. The intention is to involve as many people with a direct stake in the work as possible. This may mean project staff and beneficiaries working together on the evaluation. If an outsider is called in, it is to act as a facilitator of the process, not an evaluator.

- **Rapid Participatory Appraisal:** Originally used in rural areas, the same methodology can, in fact, be applied in most communities. This is a qualitative (see Glossary of Terms) way of doing evaluations. It is semi-structured and carried out by an interdisciplinary team over a short time. It is used as a starting point for understanding a local situation and is a quick, cheap, useful way to gather information. It involves the use of secondary (see Glossary of Terms) data review, direct observation, semi-structured interviews, key informants, group interviews, games, diagrams, maps and calendars. In an evaluation context, it allows one to get valuable input from those who are supposed to be benefiting from the development work. It is flexible and interactive.

- **External evaluation:** This is an evaluation done by a carefully chosen outsider or outsider team.

- **Interactive evaluation:** This involves a very active interaction between an outside evaluator or evaluation team and the organisation or project being evaluated. Sometimes an insider may be included in the evaluation team.

Advantages and Disadvantages of Internal And External Evaluations

Advantages of Internal Evaluations:

- ϖ The evaluators are very familiar with the work, the organisational culture and the aims and objectives.
- ϖ Sometimes people are more willing to speak to insiders than to outsiders.
- ϖ An internal evaluation is very clearly a management tool, a way of self-correcting, and much less threatening than an external evaluation. This may make it easier for those involved to accept findings and criticisms.
- ϖ An internal evaluation will cost less than an external evaluation.

Disadvantage

- ϖ The evaluation team may have a vested interest in reaching positive conclusions about the work or organisation. For this reason, other stakeholders, such as donors, may prefer an external evaluation.
- ϖ The team may not be specifically skilled or trained in evaluation.
- ϖ The evaluation will take up a considerable amount of organisational time – while it may cost less than an external evaluation, the opportunity costs may be high.

Advantages of External Evaluation

External evaluation (done by a team or person with no vested interest in the project)

- ϖ The evaluation is likely to be more objective as the evaluators will have some distance from the work.
- ϖ The evaluators should have a range of evaluation skills and experience.
- ϖ Sometimes people are more willing to speak to outsiders than to insiders.
- ϖ Using an outside evaluator gives greater credibility to findings, particularly positive findings.

Disadvantage

- ϖ Someone from outside the organization or project may not understand the culture or even what the work is trying to achieve.
- ϖ Those directly involved may feel threatened by outsiders and be less likely to talk openly and cooperate in the process.
- ϖ External evaluation can be very costly.
- ϖ An external evaluator may misunderstand what you want from the evaluation and not give you what you need.

Selecting an External Evaluator or Evaluation Team

Qualities to look for in an external evaluator or evaluation team:

(1) An understanding of development issues.

(2) An understanding of organisational issues.

(3) Experience in evaluating development projects, programmes or organisations.

(4) A good track record with previous clients.

(5) Research skills.

(6) A commitment to quality.

(7) A commitment to deadlines.

(8) Objectivity, honesty and fairness.
(9) Logic and the ability to operate systematically.

(10) Ability to communicate verbally and in writing.

(11) A style and approach that fits with your organisation.

(12) Values that are compatible with those of the organisation.
(13) Reasonable rates (fees), measured against the going rates.

Different Approaches to Evaluation

Approach Major purpose Typical focus questions Likely methodology

Goal-based Assessing achievement of goals and objectives.

- Were the goals achieved? Efficiently?
- Were they the right goals?
- Comparing baseline (see Glossary of Terms) and progress data (see Glossary of Terms); finding ways to measure indicators.
- Decision-making Providing information. Is the project effective? Should it continue?
- How might it be modified?
- Assessing range of options related to the project context, inputs, process, and product.
- Establishing some kind of decision-making consensus.
- Goal-free Assessing the full range of project effects, intended and unintended.
- What are all the outcomes? What value do they have?
- Independent determination of needs and standards to judge project worth.
- Qualitative and quantitative techniques to uncover any possible results.
- Expert judgement Use of expertise. How does an outside professional rate this project?
- Critical review based on experience, informal surveying, and subjective insights.

Our feeling is that the best evaluators use a combination of all these approaches, and that an organisation can ask for a particular emphasis but should not exclude findings that make use of a different approach.

Industrial Sickness

DEFINITION

BY SICK INDUSTRIAL COMPANIES(SPECIAL PROVISIONS) ACT, 1985, SEC 3(1) (0)

“Industrial company(being a company registered for not less than five years) which has at the end of any financial year accumulated loss equal to or exceeding its entire net worth and which has also suffered cash losses in such a financial year immediately preceding such financial year”.

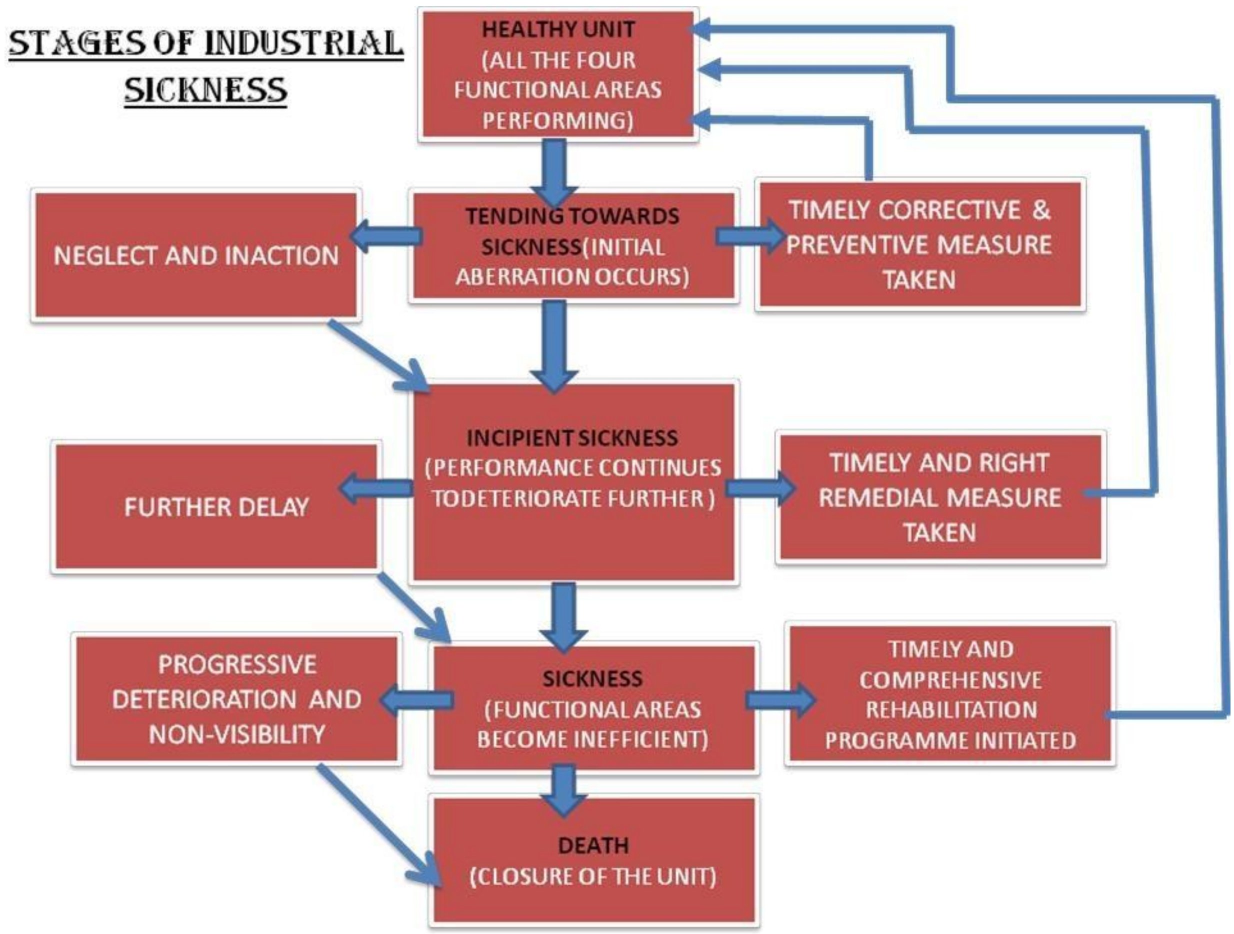
BY THE COMPANIES(SECOND AMENDMENT) ACT, 2002

Defines a sick company as one:

¬ Which has accumulated losses in any financial year to 50 percent or more of its average net worth during four years immediately preceding the financial year in question, or

¬ Which has failed to repay its debts within any three consecutive quarters on demand for repayment by its creditors.

STAGES OF INDUSTRIALSICKNESS



<u>CRITERIA TO IDENTIFY INDUSTRIAL SICKNESS</u>

¬ Continuous decline in gross output compared to the previous two financial years.

¬ Delays in repayment of institutional loan, for more than 12 months.

¬ Erosion in the net worth to the extent of 50 percent of the net worth during the previous accounting year.

SIGNALS OF INDUSTRIAL SICKNESS

ϖ Decline In Capacity Utilization

ϖ Shortage Of Liquid Funds

ϖ Inventories In Excessive Quantities

ϖ Irregularity In Maintaining The Bank Accounts

ϖ Frequent Break Downs In Plant & Equipments

ϖ Decline In The Quality Of Products

ϖ Frequent Turnover Of Personnel

ϖ Technical Deficiency

EXTERNAL CAUSES

- ¬ Improper Credit Facilities
- ¬ Delay In Advancing Of Funds
- ¬ Unfavourable Investment Climate
- ¬ Shortage Of Inputs
- ¬ Import Restrictions On Essential Inputs
- ¬ Liberal Licensing Of Projects
- ¬ Change In International Marketing Scene
- ¬ Excessive Taxation Policy Of Government
- ¬ Market Recession

INTERNAL CAUSES

(FINANCIAL CONSTRAINTS)

- ¬ Inappropriate Financial Structure
- ¬ Poor Utilization Of Assets
- ¬ Inefficient Working Capital Management
- ¬ Lack Of Proper Costing And Pricing
- ¬ Absence Of Financing, Planning & Budgeting
- ¬ Improper Utilization Or Diversion Of Funds

Consequences

- ¬ Huge financial losses to the banks & financial institutions
- ¬ Loss to employment opportunities
- ¬ Emergence of industrial unrest
- ¬ Adverse effect on perspective investors and entrepreneurs
- ¬ Wastages of scarce resources
- ¬ Loss of revenue to government

Governmental measures to combat industrial sickness

1. **The Industrial Finance Corporation of India (IFCI) in 1948** - to provide medium & long-term credits to

the public sector limited companies in order to facilitate post-war rehabilitation & development.

2. **The State Financial Corporations (SFC) were established at state level in 1951** to supplement

the work of

IFCI by financing medium and small-scale industrial concerns.

3. Industrial Reconstruction Corporation of India or (IRCI) was set up with its head quarters at Calcutta in 1971

- to revive and revitalise the closed and sick industrial concerns by removing the shortcomings.
- to reconstruct and restructure the financial base as well as the management of the assisted units, besides providing financial assistance and technical/managerial guidance.

The control measures adopted by IRCI included :

i. transfer of major shares in the name of IRCI;
ii. appointment of IRCI nominees in the Board of Directors of the sick unit;
iii. appointment of personnel and nominees in key managerial post and purchase/sales committees;
iv. frequent plant and factory inspections and so on.

4. **Industries (Development & Regulation) Act, 1951 was further amended in 1971 -**empowering the Central Government to take over industrial undertakings which special emphasis on sick units.

5. By Amendments in the relevant Act the **IFCI** with effect from 1972 was empowered to extend its assistance to Pvt Ltd Cos.

6 **Foreign Exchange Regulation Act (FERA) 1973** – limited the share of foreign companies to 40% of the total capital.

Governmental measures to combat industrial sickness

7. **The Reserve Bank of India set up Tandon Committee, in 1975-** guideline was laid down governing the participation of banks in the management of various sick industries.

8. The RBI in 1979 conducted a study to identify the causes of sickness in 378 such large industrial units

9. Further the government came up with several industrial policies in order to revive the sick units

These policies were:

i. Soft loan scheme-

- introduced in 1976 to provide financial assistance to five selected industries (jute, cotton, cement, textile and sugar) on concessional terms for modernization & rehabilitation of their old machineries.

- Was Being operated by the IDBI in collaboration with IFCI & ICICI.

- In 1984 this scheme was modified into soft loan scheme for modernization –all categories of industries are eligible for financial assistance for up gradation of process/technologies/product, export orientation/import substitution,energy saving, anti-pollution measures and improvement in productivity.

ii. Merger policy of 1977 –

- For merger of sick units with the healthy ones

- Healthy was allowed to carry forward and set off the accumulated losses & unabsorbed depreciation of the sick unit against its own tax incidence.

- Sick units to be eligible for merger should have >100 employees & assets worth >50 lakh.

Governmental measures to combat industrial sickness

iii. Policy guidelines on sick units-1978

- Made it clear that financial institutes should involve themselves in the management of the sick units in which they have substantial stake by setting up group of professional directors to look after the management of these units.

- These directors will be nominated to the board of the sick units and they will be required to report to the financial institutes regularly regarding the various measures required to be incorporated.

- Further the respective state government in collaboration with the financial institutes should provide financial & managerial assistance for the restructuring and rehabilitation of the sick units.

iv. New strategy 1981-

- Aimed at preventing industrial sickness, quick rehabilitation, & early decisions on the future of such units.

- Units employing >1000employees of having an investment of 9 crore or more should be nationalised if

¬The line of production is critical to the nation‟s economy

¬Its a mother unit with large ancillaries

¬Its closure would cause dislocation and unemployment of such a large number of people that allocation of alternative jobs is not possible.

v. <u>Different committees and industrial sickness-</u>

Government has from time to time formulated several committees like the Standing Committee On Industrial Sickness, State Level Inter-Institutional Committee, Guidance Committee & others to examine the problems of growing industrial Sickness

vi. <u>Legal framework-</u>

Various provisions for the revival of the sick industries were introduced like The Relief Undertaking Act,

Sec 72(a) Of The Income Tax Act, IRBI Act Of 1984,SICA 1985, and others.

<u>The important provisions of SICA were:-</u>

θ It provided for the constitution of two quasi-judicial bodies, that is, Board for Industrial and Financial Reconstruction **(BIFR)** and Appellate Authority for Industrial and Financial Reconstruction **(AAIFR).**

θ BIFR was set up as an apex board to tackle industrial sickness and was entrusted with the work of taking appropriate measures for revival and rehabilitation of potentially sick undertakings and for liquidation of non-viable companies.

θ AAIFR was constituted for hearing the appeals against the orders of the BIFR.

θ BIFR would make an inquiry as it may deem fit for determining whether any industrial company had become sick.

θ BIFR may appoint one or more persons as special director(s) of the company for safeguarding the financial and other interests of the company.

<u>The measures include:-</u>

¬ The financial reconstruction

¬ The proper management by change in or take over of the management of the company;

¬ The amalgamation of the sick industrial

¬ The sale or lease of a part or whole of the sick industrial company;

¬ Such other preventive, ameliorative and remedial measures as may be appropriate;

¬ Such incidental, consequential or supplemental measures as may be necessary or expedient in connection with or for the purposes of the measures specified above.

<u>The important provisions of SICA were:-</u>

- θ Under the Act, whosoever violates its provisions or any scheme or any order of the Board or of the Appellate Authority, shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to a fine.
- θ Sick Industrial Companies (Special Provisions) Act,1985 (SICA) was repealed and replaced by Sick Industrial Companies (Special Provisions) Repeal Act,2003.
- θ The new Act diluted some of the provisions of SICA & aimed to combat industrial sickness ,reduce the same by ensuring that companies do not view declaration of sickness as an escapist route from legal provisions after the failure of the project or similar other reasons and thereby gain access to various benefits or concessions from financial institutions.
- θ Under it, the Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR) were dissolved and replaced by National Company Law Tribunal (NCLT) and National Law Appellate Tribunal (NCLAT) respectively.

<u>RBI guide lines…</u>

- RBI has constituted a standing coordination committee to consider issues relating to coordination between commercial banks and lending institutions.

- A special cell has been set up within the rehabilitation finance division of IDBI to attend the case of sickness.

- RBI has issued suitable guidelines to the banks to ensure the potentially viable sick units receive attention and timely support from banks.

- RBI has clarified that units becoming sick on account of wilful mis-management, wilful default should not be considered for rehabilitation.

<u>Rehabilitation Programme:</u>

a) Change management

b) Development of a suitable management information system

c) A settlement with the creditors for payment of their dues in a phased manner, taking into account the expected cash generation as per viability study

d) Determination of the sources of additional funds needed to refinance.

e) Modernization of plant and equipment or expansion of an existing programme or even diversification of the products being manufactured.

f) Concession or reliefs or assistance to be allowed by the state level corporation ,financial institutions and central government.

RECOMMENDATIONS:

I. **A Financial reorganisation may involve** some sacrifices by the creditors and shareholders of the undertaking which can be in several forms:-

1. Reduction of the par value of shares.

2. Reduction in rates of interest.

3. Postponement of maturity of debt.

4. Conversion of debt into equity.

5. Change in the nature of claim or obligation such as from secured to unsecured.

6. Concession by the Government in the form of reduction or waiving of indirect taxes, electricity dues etc.

II. Monitoring and nursing the sick units during infancy

III. Incentives should be provided to professional managers helping in reviving sick units

IV. Issuing guidelines on major aspects that affect the image of the company

V. Brain storm with a select group to get creative ideas for improvement

VI. Adopt better practices, right technology, better work culture and professional management so that the sick industries can improve their health as well as the economy.

Effective Management of small Business

Manage a business effectively, manage staff effectively, is the key to the establishment and growth of the business. The key to successful management is to examine the marketplace environment and create employment and profit opportunities that provide the potential growth and financial viability of the business. Despite the importance of management, this area is often misunderstood and poorly implemented, primarily because people focus on the output rather than the process of management.

Toward the end of the 1980s, business managers became absorbed in improving product quality, sometimes ignoring their role vis-a-vis personnel. The focus was on reducing costs and increasing output, while ignoring the long-term benefits of motivating personnel. This shortsighted view tended to increase profits in the short term, but created a dysfunctional long-term business environment.

Simultaneously with the increase in concern about quality, entrepreneurship attracted the attention of business. A sudden wave of successful entrepreneurs seemed to render earlier management concepts obsolete. The popular press focused on the new cult heroes Steve Jobs and Steve Wozniack (creators and developers of the Apple Computer) while ignoring the marketing and organizing talents of Mike Markula, the executive responsible for Apple's business plan. The story of two guys selling their Volkswagen bus to build the first Apple computer was more romantic than that of the organizational genius that enabled Apple to develop, market and ship its products while rapidly becoming a major corporation.

In large businesses, effective manage business skills requires planning. Planning is essential for developing a firm's potential. However, many small businesses do not recognize the need for long-range plans, because the small number of people involved in operating the business implies equal responsibility in the planning and decision-making processes. Nevertheless, the need for planning is as important in a small business as it is in a large one.

This guide focuses on the importance of good management practices. Specifically, it addresses the responsibilities of managing the external and internal environments.

MANAGING THE EXTERNAL ENVIRONMENT

Three decades ago, Alvin Toffler suggested that the vision of the citizen in the tight grip of an omnipotent bureaucracy would be replaced by an organizational structure of ad-hocracy. The traditional business organization implied a social contract between employees and employers. By adhering to a fixed set of obligations and sharply defined roles and responsibilities, employees received a predefined set of rewards.

The organizational structure that Toffler predicted in 1970 became the norm 20 years later, and with it came changed concepts of authority. As organizations became more transitory, the authority of the organization and firm was replaced by the authority of the individual manager. This entrepreneurial management model is now being replicated throughout society. As a result, the individual business owner must internalize ever increasing organizational functions.

Another change in today's business environment is dealing with government agencies. Their effect on the conduct of business most recently appears to have increased. As industries fail to achieve high levels of ethical behavior or individual businesses exhibit specific lapses, the government rushes in to fill the breach with its regulations.

MANAGING THE INTERNAL ENVIRONMENT

HUMAN RESOURCE ISSUES

Ensuring Open Communications

Effective communications play an integral role in managing and operating any successful business. With open communications changes and their effects on the organization are quickly shared. Your firm then has the time and skills needed to respond to changes and take advantage of evolving opportunities.

The following checklist addressing how you would respond to an employee's suggestion provides an assessment of the communication process in your business. Place a check next to the statements that are commonly heard in your business.

Statement

Face facts it's unrealistic. -----

Who else has done it? -----

It's not your problem. -----

Fill out form XX/xx revised. -----

It won't work. -----

Bring it to the committee. -----

We don't have the time. -----

We tried it before and it failed. -----

You think what? You're joking! -----

Everybody knows that that's foolish. -----

We can't afford to think about it. -----

Don't you have better things to do? -----

Are you some kind of a radical? -----

We're too small/big for that. -----

Impossible; our main product line would be obsolete. -----

The boss would never consider it. -----

It's contrary to company policy. -----

Carefully consider any statements that you have checked. This may indicate that management is inflexible and unresponsive to employee suggestions. Management that is unable to respond immediately to changes in the market signals an inflexible unstable firm. In the rapidly changing business environment such management can mean eventual failure for your business. If you haven't developed such a checklist do so. It will help you determine if and where adjustments are needed in your management staff.

Balancing Schedules Stress and Personnel

Without organization and good management the compressed time schedules associated with modern business can cause stress and make extraordinary demands on people. An effective management structure can reduce stress and channel the productive capacity of employees into business growth and profits.

Setting Duties Tasks and Responsibilities

An organization is characterized by the nature and determination of employees' duties tasks and responsibilities. While many organizations use different methods for determining these it is essential that they be clearly defined.

The core of any organization is its people and their functions. Duties tasks and responsibilities often evolve in an ad hoc manner. A typical firm starts with a few people often one performing all duties. As the firm grows others are hired to fill specific roles often on a functional basis. Roles that were handled by consultants and specialists outside the firm now are handled internally. As new needs emerge new roles are developed.

Just as an emerging business develops an accounting system it should also develop a human resource system. For instance the following employee information should be available and checked for accuracy at least once each year.

- Name

- Address

- Nationality (immigration status)

- Marital status and dependents

- Hire date

- Company job history:

- Title and code

- Performance

- Location

- Salary rate and history

- Education including degrees

- Specialty training

- Transcripts as appropriate

- Pre-employment work experience:

- Key responsibilities and levels

- Professional licenses or certificates

- Professional publication and speaking engagements

- Teaching experience

- Language abilities:

- Reading

- Writing

- Speaking

- Leadership evidence:

- Company

- Civic

- Other

- Relocation preferences and limitations

- Travel experience and preferences

- Career goals

Review your personnel files periodically to ensure that the information is correct and current. Implement a system that will make updating personnel files a fairly simple routine yet confidential process.

Business Team

The apex of an effective organization lies in developing the business team. Such a team involves delegating authority and increasing productivity. Assess the effectiveness of your business team with the following checklist:

The leader of the team is respected by the members. -----

The abilities of all team members are respected. -----

A team spirit is evident through activities. -----

Individual members compensate for weaknesses in each other. -----

Jokes are not disparaging. -----

A genuine feeling of being part of the best is exuded. -----

The work area is self-delineated and reflects a spirit. -----

Mistakes result in corrective action not retribution. -----

Each member understands the importance of his or her contribution. -----

The team can explore new areas of activity. -----

Security of employment is evident. -----

Controlling Conflict

Another key to successful management lies in controlling conflict. Conflict cannot be eliminated from either the business or the interpersonal activities of the enterprise. A measure of the organization's success is the degree to which conflict can be exposed and the energies associated with it channeled to develop the firm. Although establishing policies and procedures represents the tangible aspect of organization and management the mechanisms to tolerate and embody challenges to the established operation serve as the real essence of a firm that will survive and prosper.

Structural Issues

Organization

The effectiveness of a particular organizational form depends on a variety of internal and external events for example:

- Competitors (number or activity)
- Technology (internal or external)
- Regulatory environment
- Customer characteristics
- Supplier characteristics
- Economic environment
- Key employees
- Growth
- Strategy (including new products and markets)

Even though you may discover that certain events are affecting your business be careful not to change the organizational structure of your firm without discussing it with your management team.

Employees generally can accomplish goals despite organizational structures imposed by management. Because restructuring involves spending a lot of time learning new rules implementing a new organizational structure is costly.

Structure

The essence of a successful organization can be more simply summarized than implemented. The following checklist can help you determine measures to ensure your management structure is adequate. Check the entries that apply to your firm and also find out what measures your company needs to take to improve its management structure.

- Key market and customers are understood. -----
- Technology is mastered. -----
- Key objectives are articulated and shared. -----
- Major functions are identified and staffed. -----
- A hierarchy of relationships is established. -----
- A business team is in place and functioning. -----
- Measurable results are well above industry standards. -----
- Employees are the best source of new hires. -----

Policy and Procedural Issues

Authority

The central element of organizational management is authority. Through authority your firm develops the structure necessary to achieve its objectives.

A. L. Stinchcombe summarized the role of authority succinctly when he stated any administrative system that decides on the use of resources is also a system of authority directing the activities of people.

The authority that once was conferred by either owning a small business or having a position in the bureaucracy of a larger firm has been replaced by technical competence (including that of forming and running the business). Forces external to your business may emphasize the elements of granted versus earned authority. Once the owner-manager controlled the entire business but suppliers customers unions and the government have severely limited the ability of the business owner-manager to take independent action.

A primary component of authority is the exercise of control within the organization. A thorough system of controls ensures the firm's operation and provides a mechanism for imposing authority. Internal controls include the provision that authority be delegated and circumscribed; examples of these provisions follow. Place a check by the provisions that apply to your firm. Consider implementing controls over areas that you have not checked.

- Approval for disbursements of cash and regular accounting. -----
- Reconciliation of bank statements. -----
- Periodic count and reconciliation of inventory records. -----
- Approval of pricing policies and exemptions. -----
- Approval of credit policies and exemptions. -----
- Review of expense and commission accounts. -----
- Approval of purchasing and receiving policies. -----
- Review of payments to vendors and employees. -----
- Approval of signature authorities for payments. -----
- Review of policies. -----

Delegation is a key to the effective exercise of authority in your business. By delegating limited authority to accomplish specific tasks the talents of employees in the organization can be used to upgrade the skills and experience of the manager. The following checklist enables you to determine if you are taking advantage of opportunities to delegate authority.

Is your time consumed by daily chores? -----

Do you have time for the following:

- Training and development of subordinates? -----

- Planning? -----

- Coordinating and controlling work of subordinates? -----

- Visiting customers and subordinates regularly? -----

- Remaining involved in new product development? -----

- Visiting branch locations regularly? -----

- Attending business meetings outside your business? -----

- Participating in civic affairs? -----

Is no one on your staff as good as you are? -----

To effectively delegate responsibility and authority in your organization you must:

- Accept the power of delegation.
- Know the capabilities of subordinates.
- Ensure that specific training is available.
- Select specific responsibilities to be delegated.
- Clearly define the extent and limits of delegation.
- Match each with necessary authority.
- Provide periodic monitoring and interest.
- Restrain the impulse to insist on how to do something.
- Remember there are many ways to accomplish a specific objective.
- Assess results and provide appropriate feedback.
- Praise and criticize.

The skills and abilities of each level of authority can be increased by effectively delegating authority throughout any organization.

Operating Reports

Operating reports form the organizational basis of your business. Such reports mirror the organization its structure and function. They define key relationships between employees and can either minimize or increase organizational stress.

For many businesses the following reports form the basis for analyzing the specific areas of a business (the frequency of each report depends on the nature size and organization of your business). Check the reports your firm currently generates.

Consider creating reporting systems where they are lacking.

- Case reports (daily, weekly, monthly) -----
- New orders and backlog (weekly, monthly) -----
- Shipments/sales (weekly, monthly) -----
- Employment (monthly) -----
- Inventory out of stock (weekly, monthly) -----
- Product quality (weekly, monthly) -----
- Accounts receivable aging accounts (monthly) -----

- Weekly overdue accounts -----
- Returns and allowances (monthly) -----
- Production (weekly, monthly) -----

Reporting must be kept current to allow for timely identification and correction of problems before serious damage to the organization occurs.

Too much reporting as well as inappropriate reporting can be as destructive as too little reporting. For instance the CEO of a major industrial firm who receives daily production and inventory reports by model can lose his or her ability to maintain an overall perspective. Thus operating managers must attempt to identify and solve local problems and take advantage of local opportunities within their own authority. Inappropriate reporting compromises management's ability to leverage individual skills and abilities.

Operating reports not only provide essential data that enable management to accomplish its objectives they also focus staff's attention on the organization's goals. If reporting is not taken seriously employees may deal with customers suppliers and each other in a similarly trivial manner.

To avoid inappropriate reporting review reporting policies annually to ensure that reports are appropriate and contain the information needed to make sound management decisions.

Conclusion

Successful management is founded on the mastery of a myriad of details. While management schools teach the importance of focusing attention on major issues affecting the business practical managers realize the major issues are the variety of small aspects that form the business. In an increasingly structured society inattention to even one minor detail can result in significant disruption of the business or even its failure.

Checklist for an Effective Organization

The following checklist will help you identify and determine the effectiveness of the management and organizational structure of the firm. If you answer yes to most of the following questions you are effectively managing your firm. A no answer indicates that you need to focus on this management issue.

yes/no

- Are responsibilities clear and matched by authority? -----
- Is your business structure clear yet flexible? -----
- Are communications focused on finding solutions rather than placing blame? -----
- Do people have the information and resources necessary to do an excellent job? -----
- Do you and your employees care about the business? -----

- Does staff come in early and stay late on their own initiative? -----
- Are mechanisms for conflict resolution working? -----
- Is disorder minimized and channeled? -----
- Can people joke with and about each other and you? -----
- Does a corporate plan spell out the firm's vision? -----
- Do employees pitch in unasked during a crisis? -----
- Do customers and suppliers prefer to do business with you? -----