Dr. Babasaheb Ambedkar Open University
(Established by Government of Gujarat)

BBA
SEMESTER - 5
BBAR24503
Entrepreneurship Development

Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.

On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

> ***"We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one's own feet".***

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto 'स्वाध्यायः परमं तपः does believe in offering

enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who

are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.

Prof. Ami Upadhyay

Vice Chancellor,

Dr. Babasaheb Ambedkar Open University,

Ahmedabad.

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ENTREPRENEURSHIP DEVELOPMENT

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BLOCK 1

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Unit 1

OVERVIEW OF ENTREPRENEURSHIP

STRUCTURE

OVERVIEW

Entrepreneurship is characterised through the technique of spotting possibilities to construct a brand new product, service, or technique and locating vital assets to take advantage of the possibility and enhancing the way of life of people. This may be completed as an character or as a team. Entrepreneurship is the creation of a brand new services or products through the introduction of a brand new employer or the innovation of an present organization.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- define entrepreneur and explain it's meaning
- identify the characteristics of entrepreneurship
- describe the types of entrepreneur
- discuss the theories of entrepreneurship.

1.1 MEANING OF ENTREPRENEUR

The term 'entrepreneur' is derived from the French verb 'enterprendre'. The meaning of this verb is to undertake. The term 'entrepreneur' was applied to the leaders of military expeditions in the early 16th century. Later on it was used to cover the contractors undertaking the civil contracts of construction of bridges, dams, roads, etc. In the beginning of the 18th century the term was used to refer to the economic activities. In France the farmers doing the farming activity on commercial basis were also considered as entrepreneur. Thus we find that the meaning of the term 'entrepreneur' has changed over a period of time from the leader of military expeditions to individuals doing business by bearing the risk. An entrepreneur is ordinarily called a businessman.

1.2 DEFINITION OF ENTREPRENEUR

According to Peter Drucker "Entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is a specific instrument of entrepreneurship. It is an act that endows resources with a new capacity to create wealth; innovation indeed creates a resource." According to Joseph Schumpeter "Entrepreneur is an individual who carries out new combines of means of production by which there occurs disequilibrium."

1.3 THEORIES OF ENTREPRENEURSHIP

Various authorities have developed various theories of entrepreneurship. Let us now discuss some important theories of entrepreneurship.

1.3.1 Schumpeter's Theory of Innovation

Joseph Schumpeter in 1934 has developed the famous innovative theory of entrepreneurship. Schumpeter has tried to establish correlation between the economic activity and economic development of a country. According to him the innovation function of entrepreneurs is responsible for the rapid economic development of any country. Schumpeter states that entrepreneur is basically an innovator who introduces new combinations as mentioned below:

- Introduction of a new good which consumers are not yet familiar or a new quality of a good.
- Introduction of new technology of production
- Opening a new market
- Discovering a new source of raw material
- Carrying out a new form of organization either creating a monopoly position or breaking up of a monopoly position in the industry.

Schumpeter made a distinction between an innovator and an inventor. The inventor discovers new materials and new methods. Where as the innovator utilizes these inventions and discoveries in order to make new combinations. He further states that an individual is an entrepreneur only when he carries out new combinations and ceases to be an entrepreneur, the moment he runs the established business. In other words innovation is the main function of entrepreneur and not the maintenance of the enterprise.

Critical evaluation:

Schumpeter's theory of innovation has been criticized on the following grounds.

i) Schumpeter has given undue emphasis on the innovative function of entrepreneurs and has ignored the other equally important functions viz. risk taking and organizing.

ii) Schumpeter's theory holds goods to developed countries only. In underdeveloped and developing countries there is a scarcity of innovative entrepreneurs.

iii) Schumpeter does not consider individuals running the established enterprises as entrepreneurs.

iv) Schumpeter's theory neglects the role of small entrepreneurs in economic development. It stresses on establishment of large enterprises based on new combinations of production.

v) According to Schumpeter, there is no separate class of entrepreneurs in a society.

vi) Schumpeter's theory fails to give satisfactory answer to questions like why some countries have more entrepreneurship talent than others.

In spite of the above criticism Schumpeter's theory is regarded as a milestone in the development of entrepreneurship theories.

1.3.2 Mc-Cleland's Need Achievement Theory

This theory of entrepreneurship is developed by David Mc-Cleland. David Mc- Cleland and his colleagues studied the motives responsible for entrepreneur's development and concluded that high achievement motive induces an individual towards entrepreneurship. Mc-Cleland states that individuals with high need achievement will be motivated to become entrepreneur. It is a tendency to strive for excellence, one's performance, achieving high levels of success for the sake of personal accomplishment and not for the sake of just monetary rewards. The motive of hi-achievement guides the actions of people and induces them towards entrepreneurship. People with high need achievement motive are more likely to succeed as entrepreneurs.

Mc-Cleland further states that it is possible to inculcate the need for achievement motive in a person. Deliberate efforts are required to be made from the childhood of a person. If the child is given training with emphasis on standards of excellence, maternal warmth, self-reliance and low father domination the child can afterwards become an entrepreneur. Mc-Cleland identified two main characteristics of entrepreneurship viz. doing things in a new and better way and taking decision under uncertainty, parents can bring up their children in a particular manner which helps to raise the level of achievement motivation. Thus Mc-Cleland's theory gives emphasis on psychological factors of entrepreneurship development. Such persons excel in their pursuit not for the sake of monetory rewards or gaining social prestige but for the sake of an inner feeling of personal accomplishment.

Critical evaluation:

- Mc-Cleland takes into consideration psychological factors only and ignores the impact of other factors on entrepreneur's development.
- It is not possible for all families and educational institutions to inculcate the achievement motivation in children.
- It is not necessary to put efforts on developing achievement motivation from the childhood itself. It is possible to impart entrepreneurial training at later stages also.

1.3.3 Hagen's Status Withdrawal Theory

This is another important psychological theory of entrepreneurship. It is developed by E. Hagen. Hagen has attributed the withdrawal of status of a group as the starting point for entrepreneurship development process. According to Hagen, entrepreneurship is a function of status withdrawal which forces the members of a group who has lost its status to become aggressive and innovative and become entrepreneurs. However, this process has a long-term process. After three-four generations, this situation takes place in the status loosing group and the members of such group try to regain their status by showing aggressive entrepreneurial drive. When a social group losses its status it responds to such a loss in a number of ways. Hagen has categorized these responses into following four types.

i) Retreatist: A person who continues to work in the society but remains indifferent to his work and position.

ii) Ritualist: A person who acts in the ways accepted and approved by the society, whose behaviour is defensive but has no hopes of improving his position.

iii) Reformist: A person who fights against the injustice caused to him, tries to rebel against the established society and form a new society.

iv) Innovator: A creative person who welcomes change, tries to do things in a different and better manner. Such a person is likely to be an entrepreneur.

v) Innovators are creative: They accept more challenges and responsibility. Entrepreneurs are made from these innovators. These persons try to regain their lost status by establishing new enterprises on a large scale. The example of Samurai group in Japan can be cited in this context.

Critical evaluation:

According to Hagen, entrepreneurship emerges after three to five generations. But in reality this much longer period is not required. In India, even the first generation entrepreneurs have been successful in their entrepreneurial pursuit.

This theory concentrates on psychological factors and ignores other factors which are responsible for entrepreneurial growth.

1.3.4 Max Weber's Theory of Social Change

Max Weber studied the entrepreneurship issues from the sociological point of view and presented his theory of social change. Max Weber was the first thinker to explain the impact of ethical value system of the society on entrepreneurial growth. According to Max Weber, the spirit of rapid industrial growth depends upon the ethical values professed by the society. He found relationship between protestant ethic and the spirit of capitalization. He states that protestant progressed fast in bringing about capitalism in Europe only because their ethical value system provided them with rational economic attitude, gave recognition to work hard for accumulating assets, undertake economic activities and allowed them to enjoy the material life by fulfilling their worldly desires. He found his thesis true about other communities like Hindu, Jain, & Jew. Hindu community gave little importance to accumulation of wealth, business activities and material life, and emphasis on sacrifices, minimum wants and attainment of moksha. Jew and Jain communities had put restrictions on having any contact with other communities as a result they failed to develop industrial capitalism.

Critical evaluation:

Max Weber's theory of social change is based on invalid assumptions. Hindu community always responds to changes, changed its values and allowed the disciples to accumulate assets, work hard for establishment of capitalism. Hindu community never opposed the spirit of capitalism and adventure. The rapid progress made by India after independence disproves Max Weber's theory. Jews and Jains are known for their enterprise, hard work, savings and wealth accumulation.

1.3.5 Kunkel's Theory of Social Behavior

Kunkel's theory deals with social behaviour in the context of entrepreneurship supply. According to Kunkel, supply of entrepreneurs is a function of social, political and economic structure. Individuals are performing various activities in a society of these activities some are accepted by the society and those activities are rewarded. The reward acts as a stimulating factor for the repeated behaviour of an individual. This pattern of social behaviour is nothing but entrepreneurial behaviour. The supply of entrepreneurship depends upon following four structures found in a society.

i) Limitation structure: Society limits specific activities. This limitation structure affects not only the entrepreneurs but also all other members of a society.

ii) Demand Structure: The individuals demand rewards for their acts. The demand structure motivates individual towards entrepreneurship.

iii) Opportunity Structure: Opportunity structure comprises of the availability of capital, management, technological skills and information about production methods, labour and market. Favourable opportunity structure increases the supply of entrepreneurship.

iv) Labour Structure: It is related with the supply of competent and willing labour. The supply of labour depends on a number of factors like alternative means of livelihood, traditionalism and expectations of life. Entrepreneurship supply increases when the labour structure is favourable.

Critical evaluation:

Kunkel's theory assumes the ideal structure for the supply of entrepreneurship. But in reality we rarely find such ideal structures.

1.3.6 Hoselitz's Theory of Marginal Groups

Hoselitz has emphasized the role of culturally marginal groups in the development of entrepreneurship. Hoselitz states that marginal men, because of their ambiguous position from a cultural and social stand point are in better suited to make creative adjustments in situations of change and in the course of this adjustment process they become more innovative and establish a number of enterprises. Cochoran explains his theory by quoting the examples of marginal groups like Jews and Greeks in medieval Europe, the Lebanese in West Africa, the Chinese in South Asia and the Indians in East Africa in promoting economical development. The marginal groups in any society want to elevate their status, they adjust themselves with the prevailing conditions and turn to innovation and become entrepreneurs.

Critical Evaluation:

Entrepreneurial behaviour is governed by not only the cultural values but also by the economic and political factors. It is possible to motivate persons towards entrepreneurship by offering a number of facilities and incentives for establishment of enterprises.

According to Hoselitz, entrepreneurship can develop in a society where there is no bondage of tradition and the culture permits a variety of choices. Such social conditions motivate the development of enterprise-oriented personalities.

1.3.7 Cochoran's Theory of Model Personality

Cochoran's theory is related to the supply of entrepreneurship. It is a sociological theory of entrepreneurship. Cochoran states that cultural values, role expectations and social sanctions are the key determinants of the supply of entrepreneurship. He further opines that an entrepreneur is neither a super normal individual nor a person deviating from the established routine but represents a society's model personality. The following factors have impact on his performance.

i) a person's own attitude towards his occupation

ii) the role expectations of sanctioning group

iii) the operational requirements of the job

According to Cochoran society's values determine the attitudes of a person and expectations about his role.

Critical evaluation:

Cochoran's theory deals with only social factors and ignores the factors of risk taking and profit making. Besides it does not take into consideration the managerial functions of an entrepreneur.

1.3.8 Peter Drucker's Theory of Systematic Innovation

Peter Drucker, the management guru has developed the theory of systematic innovation. Drucker's thought on entrepreneurship have been presented in his book 'Innovation and Entrepreneurship – Practice and Principles.' According to Drucker "Systematic innovation consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer for economic or social innovation."

Sources of Systematic innovation opportunity: According to Drucker, there are seven sources of systematic innovation opportunity.

Sources within the enterprise	Sources outside the enterprises
Unexpected Successes and Unexpected Failures	Changes in Demographics
Incongruities	Changes in Meaning and Perception
Process Needs	New Knowledge
Changes in Industry and Market Structure	

Drucker further states that innovation is the specific tool of entrepreneurs by which they always search for changes, respond to the changes occurring and exploit them into opportunities. Innovation is a purposeful and well-planned activity.

Critical evaluation:

It is very difficult to predict the occurrence of sources of opportunity. Reliability of these sources is another problem attached with Drucker's theory, e.g. new knowledge may be good but not reliable from commercial point of view. In spite of this criticism, Drucker has given a comprehensive theory of entrepreneurship.

1.4 NEED OF ENTREPRENEURSHIP DEVELOPMENT

The word ‘Entrepreneurship’ is very often confused with the word Entrepreneur’. They look alike but carry different meanings. Entrepreneurship is nothing but all those activities which are to be undertaken by an entrepreneur. The prevailing socio, political and economic activities act as a propelling force for the aspiring personalities to become entrepreneurs. Entrepreneurship development is the outcome of the entrepreneurs. In other words, the entrepreneurs give birth to entrepreneurship. This statement is partially true because certain activities of the entrepreneurs are due to the existing policies and programmes of the Central as well as the state governments and not only by the entrepreneurs themselves. Under such circumstances, it is not the entrepreneurs who give birth to entrepreneurship. Instead, it is the existing entrepreneurship development programmes that give birth to entrepreneurs. The emergence of entrepreneurs and the level of entrepreneurship development are also the far reaching changes that are taking place in the social and political activities rather than changes taking place in the economic activities.

Entrepreneur cannot emerge from the vacuum. Entrepreneurship development depends upon the environment (both external and internal) within which the entrepreneurs have to do their business. Entrepreneurs are closely associated with the existing as well as the past entrepreneurial activities of the society. Business opportunities are identified from the social, political and economic crisis and in turn these crisis become the favourable climate for the entrepreneurs to innovate new business ventures. From this perspective, it is true that entrepreneurial activities are the resultant efforts of the prevailing entrepreneurship development programmes.

1.5 CHARACTERISTICS OF AN ENTREPRENEUR

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

1. An entrepreneur brings about change in the society. He is a catalyst of change.
2. Entrepreneur is action-oriented, highly motivated individual who takes risk to achieve goals.
3. Entrepreneur accepts responsibilities with enthusiasm and endurance.
4. Entrepreneur is thinker and doer, planner and worker.

5. Entrepreneur can foresee the future, seize market with a salesman's persuasiveness, manipulate funds with financial talent and smell error, frauds and deficiencies with an auditor's precisions.
6. Entrepreneur undertakes venture not for his personal gain alone but for the benefit of consumers, government and the society as well.
7. Entrepreneur builds new enterprises. He possesses intense level of determination and a desire to overcome hurdles and solves the problem and completes the job.
8. Entrepreneur finds the resources required to exploit opportunities.
9. Entrepreneur does extraordinary things as a function of vision, hard work, and passion. He challenges assumptions and breaks rules.
10. Although many people come up with great business ideas, most of them never act on their ideas.

1.6 IMPORTANCE OF ENTREPRENEURS

Prosperity of a nation depends on the development of its economy. Every nation has a responsibility to ensure economic development to improve the living standards of the people, eliminate poverty and backwardness. The process of economic development involves improvement in Gross National Product and depends on the utilization of physical natural resources by the human resources to realize the productive potential of the nation. It requires increase in production and level of consumption. In a labor abundant but capital short economy like India, there is limitation to the government in directly involving itself in increasing productivity considering the severe budgetary constraint for funds and the pressing need for higher investment in the frontiers of social development. The government implements a number of programmes to induce self-employment and to develop entrepreneurship in the country. Hence, development of entrepreneurship and entrepreneur are sine-qua-non for the economic prosperity of the nation. Following are the reasons why entrepreneurship holds vital role in an economy:

i) Creates wealth for nation and for individuals as well: All individuals who search business opportunities usually, create wealth by entering into entrepreneurship. The wealth created by the same play a considerable role in the development of nation. The business as well as the entrepreneur contributes in some or other way to the economy, may be in the form of products or services or boosting the GDP rates or tax contributions. Their ideas, thoughts, and inventions are also a great help to the nation.

ii) Provides employment to huge mass of people: People often hold a view that all those who do not get employed anywhere jump into entrepreneurship, a real contrast to this is that 76% of establishments of new business in the year 2003 were due to an aspiration to chase openings. This emphasizes the fact that entrepreneurship is not at all an encumbrance to an economy. What more is that approximately 34 million of fresh employment opportunities were created by entrepreneurs from the period of 1980. This data makes it clear that entrepreneurship heads nation towards better opportunities, which is a significant input to an economy.

iii) Contributed towards research and development system: Almost 2-3% of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.

iv) It is a challenging opportunity for the people: Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates. It does not only reward an entrepreneur at financial levels but also on individual level. It provides self-satisfaction to the entrepreneur.

v) Entrepreneurship provides self-sufficiency: The entrepreneur not only become self-sufficient but also provide great standards of living to its employees. It provides opportunity to a number of people working in the organization. The basic factors which become a cause of happiness may be liberty, monetary rewards, and the feeling of contentment that one gets after doing the job. Therefore the contribution of entrepreneurs makes the economy an improved place to live in.

vi) Sky-scraping heights of apparent prospect: The individual gets maximum scope for growth and opportunity if he enters into entrepreneurship. He not only earns, the right term would be he learns while he earns. This is a real motivating factor for any entrepreneur as the knowledge and skills he develops while owning his enterprise are his assets for life time which usually, lacks when a person is under employment. The individual goes through a grooming process when he becomes an entrepreneur. In this way it not only benefits him but also the economy as a whole.

1.7 FUNCTIONS OF AN ENTREPRENEUR

An entrepreneur is expected to perform the following functions.

i) Risk Absorption: The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialize, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.

ii) Formulate Strategic Business Decisions: The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from he best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

iii) Execute Managerial Functions: The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material, provides, production facilities, organises sales an assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

iv) Adopt Innovation Function: An important function of an entrepreneur is “Innovation”. He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity.

1.8 QUALITIES OF ENTREPRENEURS

1. Ambition: Successful entrepreneurs have high ambitions about their venture. They want to achieve high goals in business. Due to this high ambition or high achievement motive, they are able to overcome the obstacles in their business, turn misfortunes into fortunes, suppress anxieties and find out new ways and means.

2. Creativity: Successful entrepreneurs are creative or innovative in their task. They do new things, manufacture new goods, find new sources of materials, use new methods of production, search new markets and so on. They do not invent new things but use these inventions for producing new goods and services. Tata Motor's Nano car shows the innovativeness of Ratan Tata.

3. Self-confidence: Successful entrepreneurs have confidence in their skills and abilities. They are sure about success in their business. They do not hesitate to launch new products, expand and diversify their business. They are confident of overcoming any unanticipated problem and survive in the adverse conditions.

4. Foresight: The successful entrepreneurs have a good foresight. They forecast the future business environment i.e. how will be the likes and dislikes of customers, what will be the state of technology and prepare a plan of action accordingly. Foresight helps them to cope up with future environment effectively and stay ahead of others in the industry. Ratan Tata started manufacturing of consumer cars after anticipating a sharp decline in the demand of heavy commercial vehicles.

5. Hard work: If the entrepreneurs desire to succeed in their enterprise, they should be prepared to work hard. They should work untiredly for hours together, be ready to do any kind of work in their business. They should always remember that hard work fetches good fruits.

6. Emotional balance: There are always ups and downs in the business. Sometimes you make profit; on other times you incur loss. But if you wish to succeed in business, you should control emotions. Successful entrepreneurs neither get carried away due to huge profit nor loose their hearts due to a heavy loss. They maintain emotional balance. They treat these situations as normal features of business and remain calm and quiet.

7. Decision-making ability: The successful entrepreneurs have a good decision making ability. They make decisions promptly and accurately. The decision- making ability helps them to solve the business problems satisfactorily and exploit the opportunities. Decision-making is an important function of entrepreneurs.

8. Courtesy: The successful entrepreneurs deal with the customers, vendors, employees, government officials and the general public in a courteous manner. Courtesy and modesty leads them to success.

9. Communication skill: Communication skill is another important quality of successful entrepreneurs. With good communication skill entrepreneurs are able to convince effectively their ideas, thoughts and job requirements to the employees and get the work done in a better manner.

10. Good character: The character of an entrepreneur has become an important quality in modern business. Today no enterprise can survive for a long time by following unethical and fraudulent practices. Character is the result of cultural values.

11. Motivational ability: The successful entrepreneurs have ability to motivate the employees. They can extract best work from them and achieve high goals. Motivational ability is also required for getting the expected response from the customers, vendors and the government. Consider again Ratan Tata, who ably motivated the vendors to supply components at a lower price for the Nano car project.

12. Opportunist: The successful entrepreneurs are opportunists. They seek opportunities and exploit them. They convert 'problems' into opportunities, i.e. polluted water may be a problem for the general public but it is a golden opportunity for the entrepreneur to treat the water and provide packaged pure drinking water.

13. Patience: The successful entrepreneurs have a lot of patience. They are not affected by adverse situations like temporary failure, low consumer response, labour problems etc. They continue to work hard and do not run away from the business. They are confident of achieving success after some initial period.

1.9 ROLE OF ENTREPRENEUR

A lot of hard work goes into starting and eventually expanding an enterprise. This hard work starts with the entrepreneur and trickles down the entire organization. But this is a very broad definition and does not really appreciate and highlight the actual role of entrepreneurs with respect to their enterprises.

So to explain it in a better way, let us break it down into points about how an entrepreneur is vital to the enterprise.

1. Initiator: The entrepreneur is the one who initiates the process of creating an enterprise by coming up with the idea for the business and planning out how to turn that idea into a reality.

2. Risk Taker: In an enterprise, the entrepreneur, being the owner, is the biggest risk taker. He is the one who finds the capital to back up his idea and also the person who is accountable in the face of the failure of that particular idea.

3. Reduces Risk: It is also one of the most important roles of entrepreneurs to reduce the risk of an enterprise failure by bringing in people that can help the organization grow. These people can be shareholders or investors that have a stake in the company and therefore are motivated to help the company succeed.

4. Allocator: An entrepreneur procures and allocates various resources in the organization. The most important of these resources is manpower. The entrepreneur is responsible for hiring an efficient staff to help him carry out his business. This is important because a good manager can take a business to new heights, while a bad manager can destroy the business. He is also responsible for creating an organizational structure and departments for a more efficient functioning of the enterprise.

5. Adhering to Legal Norms: To ensure that the enterprise adheres to legal norms and policies, such as obtaining a license is also the duty of the entrepreneur. Not pertaining to these can mean serious legal consequences for the enterprise. These could be in terms of financial losses for the organization or something even more serious such as shutting down of an enterprise.

6. Forecasting: Last but far from least, the role of entrepreneurs involve acting as a forecaster. The enterprise works in a business environment and is affected by changes occurring in various aspects of this environment. It could be internal, such as strikes, machinery breakdowns, budget cuts etc. or these could be external, such as legal policy changes, political or social unrest, technological advancements, etc. An entrepreneur must be able to correctly forecast these changes and prepare the organization to deal with these changes.

1.10 TYPES OF ENTREPRENEURS

1. Innovative Entrepreneur: Innovative entrepreneurs are motivated by the idea of doing something new. They welcome the advancements in science, technology and research fields. They make commercial use of inventions and introduce new products, which hitherto were not used by customers, e.g. increasing prices of petrol – diesel and their reducing supplies motivate them to launch LPG or electric battery operated motorcars. Innovative entrepreneurs form a large number in developed countries like U.S.A., France, and Germany etc. The favorable environment in terms of educational, infrastructural facilities, availability of huge funds and the latest technology, increased needs of people in developed countries enables the entrepreneur to innovate.

2. Imitative Entrepreneurs: The tendency of imitative entrepreneurs is just reverse of that of innovative entrepreneurs. They do not innovate but imitate the products and policies of innovative entrepreneurs functioning in developed country. Underdeveloped or developing countries require imitative entrepreneurs more than the innovative entrepreneurs. The environment in these countries is not conductive for innovation. There is a scarcity of funds, materials, labour in these countries. The level of research is low, technology is quite old and the needs of people are limited. The entrepreneurs, therefore, cannot assume the risk of innovation. They take moderate risk and are content with limited income. Sony Corporation of Japan first launched a pocket cassette recorder 'Walkman' when it received tremendous response; the other entrepreneurs imitated it and started manufacturing such product.

3. Fabian Entrepreneurs: These entrepreneurs take great precaution and are of suspicious mind in experimenting any change in their entreprises. They conduct the business in a routine manner and are ready to change only when they feel that failure to change would affect their position. They do not welcome the changes. They are lazy and indifferent towards the enterprise. They have moderate ambitions. They are happy in carrying on their family business in a traditional manner. They are not prepared to expand or change their business. Their traditional outlook is detrimental to the progress of the country.

4. Drone Entrepreneurs: These entrepreneurs stick up to the old values, customs and traditions. They are not willing to effect changes in their enterprise, rather they oppose such changes. They blindly follow the traditional methods of business even when it causes loss to them. Their attitude affects the profitability, competitiveness and productivity of their enterprises.

5. First generation Entrepreneurs: These entrepreneurs have no entrepreneurial background. They do not inherit entrepreneurship from their earlier generation. They are first generation entrepreneurs in their family, e.g. Late Dhirubhai Ambani was a first generation entrepreneur. His father and forefathers had no business background. The first generation entrepreneur has to face a number of difficulties intheir enterprise. Their fund raising capacity is limited. No doubt these entrepreneurs have acquired high knowledge and experience in their field. They are technocrats and have a strong desire of starting their own enterprise. In most of the cases, they come from ordinary family and lower castes. First generation entrepreneurs should be encouraged since they create self-employment opportunities and provide employment to others also.

6. Entrepreneurs by Inheritance: Some persons become entrepreneurs by inheritance. They inherit entrepreneurship from their earlier generations, e.g. Ratan Tata inherited entrepreneurship from

J.R.D.Tata and Jamshetji Tata. Due to entrepreneurial heritage these entrepreneurs have some inborn qualities of entrepreneurship. They are brought up in the entrepreneurial environment. The ownership and control of enterprise comes to them from their ancestors. The entrepreneurial culture is imbedded in them from childhood. Since they belong to affluent families they are able to secure higher education and advanced training. They get an opportunity of apprenticeship in their family business. With this background they can easily become entrepreneurs. There are certain disadvantages of this type of entrepreneur, i.e. they create monopoly in the business, & the economic power is concentrated in few hands.

7. Urban Entrepreneurs: These entrepreneurs come from urban areas. They get ample opportunities of higher education in cities. The environment in cities is favourable to entrepreneurial growth. In urban areas, there is a vast scope for starting enterprises in various fields. Adequate infrastructural facilities, availability of skilled labour, regular supply of raw materials, provision of financial credit and availability of large market enables the urban people to become entrepreneurs.

8. Rural Entrepreneurs: These entrepreneurs are having their enterprises in rural area. They are engaged mostly in traditional businesses, agriculture and village industries. They utilize the natural resources available in local place and manufacture the goods required by the society. They can also provide services required in rural area. They have to face a number of problems like shortage of capital, lack of modern technology, skilled labour shortage and inadequate infrastructural facilities in running their enterprises.

9. Foreign Entrepreneurs: The entrepreneurs going out of their country and those coming from abroad in our country are called as foreign entrepreneurs, e.g. Suzuki Company of Japan manufacture motor vehicles in India. The world famous Indian hoteliers are less seen in industries requiring heavy manual work. They are less mobile as compared to male entrepreneurs. The negative attitude of society has restricted the growth of women entrepreneurs. Even in 21st century males are treating women as weak in all respect and have reservations about their role and capacity.

10. Individual Entrepreneurs: These entrepreneurs start an enterprise by investing own funds and manage it themselves. If required, they employ a few employees. They are sole operators. These entrepreneurs are found on a large scale in small business, small industries, village and cottage industries. They become entrepreneurs on the strength of their education, technical knowledge, skill and capital. There are limits to the growth of their enterprises.

11. Institutional Entrepreneurs: When a number of individuals come together and form a partnership company or co-operative society to carry on some business, they are called institutional entrepreneurs. In institutional entrepreneurs, the resources, knowledge and skill of a large number of individuals are pooled together. Hence these entrepreneurs can do business on a large scale. Institutional entrepreneurs are essential for carrying on business requiring huge amount of capital for reaping the benefits of large scale operations.

12. Technological Entrepreneurs: They are high-tech entrepreneurs; they have acquired advanced technical knowledge and are interested in using this knowledge for business purpose, e.g. software engineers. Vitthal Kamat has opened hotels in foreign countries. These entrepreneurs want to establish their presence in the world, exploit business opportunities in foreign countries. The number of foreign entrepreneurs has increased significantly due to the globalization policy followed by various countries in last two decades.

13. Male Entrepreneurs: On the basis of gender differences, the entrepreneurs may be classified into two types, viz. male entrepreneurs and women entrepreneurs. Male entrepreneurs are found on a very large scale because of the male dominated societies across the world. Male entrepreneurs are hard workers, ambitious and are functioning in all fields. They assume high risk; they start high- tech business. The extent of mobility is high in case of male entrepreneurs. They are ready to go anywhere in the world.

14. Women Entrepreneurs: In recent years, the number of women entrepreneurs is increasing at a rapid rate. Women liberation movement, spread of education in women, increasing awareness of women's rights and family need have contributed to the growth of women entrepreneurs. Women entrepreneurs have to perform the same functions as the male entrepreneurs. However, women, by nature, are more sensitive, less ambitious, moderate risk takers and have physical limitations. Due to shortage of capital, lack of high technology, they enter into traditional business.

LET US SUM UP

Entrepreneurship is a tendency of an individual. It is related with the action of the individual of putting his idea into reality. The economic development of any country depends on the supply of entrepreneurship.

It is therefore, necessary to nurture the entrepreneurial values and culture in the society. Efforts need to be made on individual and collective basis to develop entrepreneurship. The concept of entrepreneurship has been explained by various thinkers in the economic, sociological and psychological context. The entrepreneurship theory has been developed by thinkers like Schumpter, McClelland, Weber, Hagen, Kunkel, Hoselitz, Cochran, Yang, and Drucker. Schumpter's theory emphasises the innovation aspect. McClelland states that need for high achievement is required for entrepreneurial growth.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The process of gathering information about trends is called ___________.

a) Need for achievement b) Tendency

c) Neuroticism d) Scanning the environment.

2. Product quality is only one of the possible bases upon which to build a business using what strategy?

a) Focus b) Differentiation

c) Low-cost d) All of the above

3. According to David McClelland achievement motivation, which of the following is true for entrepreneur?

a) High need for achievement b) Low need of achievement

c) High need for power d) High need of affiliation

4. Which of the following is not related to Opportunity Identification?

a) Brainstorming b) Pain storming

c) Causation d) Opportunity walks

5. Which of the following is not a personal characteristic often found in entrepreneurs?

a) Self-Confident b) Independent-minded

c) Perceptive d) Follower

GLOSSARY

Entrepreneurship : Entrepreneurship is the process of a person or group of people who create a new business on their own.

Innovation : Innovation refers to a change that creates a new dimension of performance. The process of making improvements by introducing something new.

Opportunity : An opportunity is a chance to take advantage of a situation.

Development : Development is a process that creates growth, progress, positive change or the addition of physical, economic, environmental, social and demographic components.

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ANSWERS TO CHECK YOUR PROGRESS

1. d) 2. b) 3. a) 4. c) 5. d)

Unit 2

WOMEN ENTREPRENEURSHIP & RURAL ENTREPRENEURSHIP

STRUCTURE

OVERVIEW

In short, women entrepreneurs are those women who think of a business enterprise, initiate it, organize and combine factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running it. Women entrepreneurs account for improved economic growth and stability within a country. Development of rural entrepreneurship is necessary for rural development. This helps the progress of the nation. However, the circumstances in rural area create problems in the development of entrepreneurs locally. As a result rural population has to depend predominantly on agriculture. In this unit we take into consideration the concept of rural entrepreneurship, its need, rural industrial environment, problems of rural entrepreneurs in agriculture and rural industry, rural development strategy and various schemes in this respect being implemented in India.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the concept of women entrepreneurship and development of women entrepreneurs
- describe the challenges faced by the women entrepreneurs
- discuss about rural entrepreneurship and list out it's opportunities and challenges.

2.1 INTRODUCTION OF WOMEN ENTREPRENEURS

It is a general belief in many cultures that the role of women is to build and maintain the homely affairs like task of fetching water, cooking and rearing children. Since the turn of the century, the status of women in India has been changing due to growing industrialization, urbanization, spatial mobility and social legislation. With the spread of education and awareness, women have shifted from kitchen to higher level of professional activities.

Entrepreneurship has been a male-dominated phenomenon from the very early age, but time has changed the situation and brought women as today's most memorable and inspirational entrepreneurs. In almost all the developed countries in the world women are putting their steps in line with the men in the field of business. Except some Islamic countries of the world the law of the country has been made in favour of the development of women entrepreneurship.

2.2 DEFINITION OF WOMEN ENTREPRENEURS

Women Entrepreneurs may be defined as the women or a group of women who initiate, organize and operate a business enterprise. Government of India has defined women entrepreneurs as an enterprise owned and controlled by women having a minimum financial interest of 51% of the capital and giving at least 51% of employment generated in the enterprise to women. Like male entrepreneurs women entrepreneurs have many functions. They should explore the prospects of starting new enterprise; undertake risks, introduction of new innovations, coordination administration and control of business and providing effective leadership in all aspects of business.

2.3 DEVELOPMENT OF WOMEN ENTREPRENEURS – RECENT TRENDS

All women who have accomplished great things have had a great aim and had fixed their gaze on a goal which was so high. This is the secret behind the success of every women entrepreneur who had thrown away the fear in their thought and transpires out with thundering spirit.

Several national and international organizations and agencies have appreciated the need for and importance of developing women entrepreneurs in recent years. A brief review of it is given here. The United Nations declared the decade 1975-85 as the Decade for Women. The World Conference of the United Nations Decade for Women held at Copenhagen in Denmark on 30th June 1980 adopted a programme aimed at promoting full and equal opportunities and treatment of women in employment and their access to non- traditional skilled trades.

The First National Conference of Women Entrepreneurs held at New Delhi in November 1981 advocated the need for developing women entrepreneurs for the overall development of the country. It called for priority to women in allotment of land, sheds, sanction of power, licensing etc.

The Second International Conference of Women Entrepreneurs organized by the National Alliance of Young Entrepreneurs (NAYE) held in 1989 at New Delhi also adopted certain declarations involving women's participation in industry. The Government of India has been assigning increasing importance to the development of women entrepreneurs in the country in recent years. The Sixth Five Year Plan, for example, proposed for promoting female employment in women-owned industries. The Government moved a step forward in the Seventh Five Year Plan by including a special chapter on Integration of Women in Development. The chapter suggested:

- To treat women as specific target groups in all development programmes and involve them in decision making process.
- To devise and diversify vocational training facilities for women to suit their varied needs and skills.
- To promote appropriate technologies to improve their efficiency and productivity.
- To provide assistance for marketing their products.

Women entrepreneurs can also hire professionals, trained under Small Industry Management Assistant's Programme (SIMAP) of Small Industries Development Bank of India (SIDBI).

2.4 SCOPE OF ENTREPRENEURSHIP AMONG WOMEN

Although many women have advanced in economic structures, for the majority of women, particularly those who face additional barriers, continuing obstacles have hindered their ability to achieve economic autonomy and to ensure sustainable livelihoods for themselves and their dependents. Women are active in a variety of economic areas, which they often combine, ranging from wage labour, subsistence farming and fishing to the informal sector. However, legal and customary barriers to ownership of access to land, natural resources, capital, credit, technology and other means of production, as well as wage differentials, contribute to impeding the economic progress of women. Women contribute to development not only through remunerated work but also through a great deal of unremunerated work.

On the other hand, women also perform the great majority of unremunerated domestic work and community work, such as caring for children and older persons, preparing food for the family, protecting the environment and providing voluntary assistance to vulnerable and disadvantaged individuals and groups. This work is often not measured in quantitative terms and is not valued in national accounts.

Women's contribution to development is seriously underestimated, and thus its social recognition is limited. The full visibility of the type, extent and distribution of this unremunerated work will also contribute to a better sharing of responsibilities between women and men. Lack of employment in the private sector and reductions in public services and public service jobs have affected women disproportionately. In some countries, women take on more unpaid work, such as the care of children and those who are ill or elderly, compensating for lost household income, particularly when public services are not available.

2.5 CHALLENGES OF WOMEN ENTREPRENEURS

The problems and constraints experienced by women entrepreneurs have resulted in restricting the expansions of women entrepreneurship across the world. The major barriers encountered by women entrepreneurs can be consolidated as:

i) Lack of Confidence: Women generally lack confidence in their own capabilities. Having accepted a subordinate status for long, even at home, members of the family do not appear to have total confidence in their abilities and in their decision making capacities.

Society in general also lacks confidence on women's strength, traits and competence. This is quite apparent in the family's reluctance to finance a woman's venture, bankers are reluctant to take risks on the projects set by women, and individuals are unwilling to stand guarantee for loans to women.

ii) Problems of Finance and Working Capital: Another problem faced by women entrepreneurs is lack of access to funds because they do not possess any tangible security and/or other assets. Since women do not enjoy right over property of any form, they have limited access over external sources of funds. Women entrepreneurs face serious problems in obtaining working capital for financing day-to-day operations of the enterprises, including purchase of raw materials, meeting pay rolls. This situation needs to be improved with time and women entrepreneurs must get their financial freedom.

iii) **Socio-Cultural Barriers:** A woman has to perform her family duties irrespective of her career as a working women or an entrepreneur. Traditionally in our society, more importance was given to educating the male child as compared to the female child. This has resulted in lack of schooling and vocational training of women, shortage of technical skills and thereby lack of awareness of opportunities available. This adds to the constraints in establishing enterprises by women. Even the male labor force generally does not prefer to work under a lady boss. Women entrepreneurs are not taken seriously enough by the labor force. All these hinder women entrepreneurship.

iv) Production Problems: Production in a manufacturing enterprise involves coordination of a number of activities. While some of these activities are in the control of entrepreneur, there are others over which she has little control. Improper coordination and delay in execution of any activity cause production problems in industry. The inability of women entrepreneurs to keep pace with implementing the latest advances in technology and lack of technical know-how results in high cost of technology acquisition and machinery utilization. These problems result in increased cost of production and adversely affect the profitability of the unit.

v) Inefficient Marketing Arrangements: Heavy competition in the market and lack of self-mobility makes the women entrepreneurs dependent on middlemen. For marketing their products, women entrepreneurs are at the mercy of middlemen who pocket a major chunk of profit. Further, women entrepreneurs also find it difficult to capture the market and make their products popular because of the resistance posed by the society. In addition, women entrepreneurs face difficulty in collection of payments.

2.6 SUGGESTIONS FOR IMPROVEMENT IN THE STATUS OF WOMEN ENTREPRENEURS

Hisrich has suggested six ways to help women entrepreneurs to successfully develop and manage new enterprises.

i) Acquire some experience in dealing with money: By applying for somloan and repaying it back if not required, filing tax returns, managing the finances for family, obtain booking keeping experience, etc.

ii) Conduct honest self-appraisal: Identify the strength and the weak areas, seek family and friends help for the same.

iii) Gain occupational work experience: Rotate to various job profiles to gain experience of marketing, finance, planning.

iv) Prioritizing responsibilities: Identify and delegate responsibilities at home and in business, organize and prioritize work.

v) Establish a support system: A strong network of family, friends, clients, business associates should be established.

vi) Be determined and professional in the business: It is also very important; it helps in gaining respect and confidence from employees, customer's financiers and other professional associates.

2.7 THE CONCEPT AND NEED FOR RURAL ENTREPRENEURSHIP

Rural entrepreneurship is entrepreneurship that emerges in the local rural area in the field of rural industry, agriculture and handicrafts. Rural population has a multitude of wants. To satisfy theses wants the rural population requires adequate income. This requires employment and more particularly self employment. It is true that employment opportunities in urban areas are relatively more because in urban places capital, skilled labour, technology, power, water, transport, communication and other facilities, which are necessary for industrial development are easily and adequately available. On the other hand, in rural places these industrial requirements are almost absent or inadequate. Employment opportunities are very limited. It therefore, becomes necessary to adopt positive and proactive policies for developing rural entrepreneurship.

2.8 ENTREPRENEURS FROM AGRICULTURE

Agriculture is the main source of living for a large majority of rural population. However, traditional agriculture based on seasonal rains does not maintain the farmers and their family's satisfaction for the whole year. It, therefore, becomes necessary to develop agricultural entrepreneurship in rural areas. Agricultural entrepreneurship is developing agricultural and agro-based productive activities and professions at the local level. Agricultural enterprise are listed below:

1. Agriculture- food grains, oilseeds, pulses, sugarcane and cotton and their processing and marketing.
2. Horticulture- This covers cultivation, processing and marketing of various fruits, vegetables, medicinal plants, tea, coffee, rubber and spices.
3. Animal husbandary- Milk cattle, poultry, ship rearing, pigoury and fishery.
4. Apiary
5. Fertilisers, pesticides and insecticides.
6. Agricultural machinery and equipment.
7. Forest based industry.
8. Seed farms and nurseries
9. Processing of agro produce and its marketing.
10. Agro-services-storage, technical guidance, insurance, communication and transport.

2.9 OPPORTUNITIES OF RURAL ENTREPRENEURSHIP

1. Support & Motivation to local people: Rural entrepreneurs have a lot of support from the Rural people. Rural village people always encourage and give the motivation to the entrepreneurs.

2. Low Establishment Cost: When compared to the urban areas, rural entrepreneurs' business establishment cost is very low. There is no need to construct or facilities huge infrastructure and buildings.

3. Competitive Advantages / Availability of Labour: In India seventy percent of the people are living in the village. Majority of the rural people are depending on the agriculture. The agriculture work is not available throughout the year. That is the reason why rural entrepreneurs have the competitive advantage in easily acquiring unskilled and semiskilled labor.

4. Government Policies and Subsidies: The government of India is continuously monitoring and introducing the new policies for encouraging the rural entrepreneurship. These policies are very flexible, innovative, liberalized and giving continues support to rural entrepreneurs. At the same time government has also announced huge subsidies for promoting the rural entrepreneurship.

5. Availability of Raw Materials: Most of the times the rural entrepreneurs are depending upon the farm based products as raw materials, which are available through-out the year. These raw materials are available in the rural area that is the reason there is no transportation cost and flotation cost.

6. Cost of Production: Rural entrepreneurs cost of production is very low when compared to the urban industries. The factors of production are available with low cost, automatically the cost of production is also low. Because of this rural entrepreneurs can sell their goods and services with cheaper cost.

7. Optimum Utilization of Produces: Optimum utilization of farm produces is only possible through the rural entrepreneurship only. Most of the rural entrepreneurs depend upon the farm produces as raw materials.

8. Employment Generation for Rural Youth: Rural entrepreneurs are providing hundred percent jobs for rural youth. If the rural entrepreneurs are succeeding in this activity the migration of the people to urban from rural will be immediately stopped to a maximum extent.

9. Promotion Cost: There is no promotion cost for rural entrepreneurs; in fact the competition is very less. Particularly there is no need for advertising and other promotional activities for their products.

10. Potential Customer: In this twenty-first century rural villagers are economically strong and also heavily populated. This heavy population can be converted as potential customers. That is the reason all the MNC's are concentrated in rural villages for their potentiality.

11. Building the Goodwill: Rural entrepreneurs have a lot of scope building the goodwill. Most of the rural entrepreneurs have ethical values and also these people do not work for pure profits.

2.10 CHALLENGES OF RURAL ENTREPRENEURSHIP

Rural entrepreneurship has its own drawbacks. Policies such as keeping of land in protection when there is already an over production and pricing income are two of the greatest threads to rural entrepreneurship. Due to the remote access and unavailability of knowledgeable labor, commercial markets and managerial staff are hindered due to the remote locations. It is also vital for the success of the rural communities that the development of each rural project remain in the hand of the local agencies which in return cooperate with the government to oversee the leading factor that can help develop the rural areas.

1. Distribution and Logistics: Infrastructure contains to be a challenge in rural India. Moreover, the lack of an efficient distribution network prevents penetration of products/services into rural India.

2. Payment Collection: The majority of the rural population is still unbanked. Clearly , non-cash collection becomes rather unlikely. Cash collection , on the other hand, are messy and difficult to monitor.

3. Pricing: It is easier to collect in larger amounts as every instance of collection and carrying of cash has associated cost. Disposable income, through , isn't always high since the bulk of rural India is agriculture and income cycle in agricultural are very erratic and not as predictable as in the case of us salaried individuals.

4. Scaling Across Geographies: India is a land of many cultures and tradition, the contrast become that much starker in the case of rural India. Setting up operation on a pan-India level present different types of hurdles in different states ranging from political juggling to downright local factors. Any model where scalability involves scaling on-ground operations is bound to run into myriad issues as we move from one state to the next. Add to that the greater differences in consumer tastes and behavior across geographies then in the relatively more cosmopolitan urban population.

LET US SUM UP

We studied the concept of women entrepreneurship and rural entrepreneurship. Women entrepreneurship refers to the process of creating, managing, and developing a business enterprise by a woman or group of women. It involves the identification of opportunities, developing and executing business strategies, managing financial resources, and taking calculated risks to achieve business objectives. Rural entrepreneurship has its root lying in non-urban areas and has a lot of potential for undertaking numerous endeavors in business, industry, agriculture, etc. Generally, industries and business enterprises in rural areas are involved in agriculture and its allied activities. These activities support the livelihood of the majority of the population living in rural areas.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1._____________ are the informal associations of people who choose to come together to find ways to improve their living condition.

a) NGO b) Self-Help Groups

c) Private companies d) None of these

2. Why the majority of women are unaware of technological developments?

a) Low-risk bearing ability   b) Low mobility

c) Lack of education   d) Low need for achievement

3. According to Frederick Harbison, which of the following is not a function of a women entrepreneur?

a) Explore the prospects of starting new enterprises.

b) Co-ordination, administration and control

c) The power to resist criticism

d) Supervision and providing leadership in all aspects of the business.

4. Which of the following is a remedy to solve the problems of women entrepreneurs?

a) Social attitude   b) Finance cells

c) Stiff Competition   d) Supervision

GLOSSARY

Empowerment	:	Extending powers to make decisions and having freedom to implement.
Socio – personal problems	:	women in India face certain problems which are not faced by male or men entrepreneurs. In addition to managing the business, women are burdened with domestic commitments and child care.
Rural Entrepreneur	:	Carry out Entrepreneurial activities by establishing business in rural sector.

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ANSWERS TO CHECK YOUR PROGRESS

1. b) 2.c) 4.c) 5.b)

Unit 3

FACTORS AFFECTING ENTREPRENEURSHIP

STRUCTURE

OVERVIEW

Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects. Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- describe the factors influencing entrepreneurship
- indicate the obstacles to entrepreneurship
- explain the social responsibility of entrepreneurs.

3.1 INTRODUCTION OF ENTREPRENEURIAL SKILLS

What skills are needed to be an entrepreneur? There are many skills that entrepreneurs develop over time, but there are a few skills that every entrepreneur must have before opening their "door" for business. Successful entrepreneurs have to start with these six skills:

1. Self-Motivation: People who start their own businesses have typically worked in a larger organization and have enjoyed the amount of control and autonomy that self- employment gives them, when they see the direct rewards for labor, they are motivated to setup their own business. Money is also a big motivator.

2. Self-Confidence: Every entrepreneur needs to be confident in themselves, their product and their business. One needs to know that his product can truly help people and he is charging prices that are both fair to him and his clients.

3. Ethics and Morals: Ethics and morals are the foundation of every good entrepreneur. Early on one must decide what he and his business will stand for and what lines he will refuse to cross. Many entrepreneurs close their doors because the dollar outshines their morals. If one stray too far from his morals he will give himself and his business a bad name. No one wants to do business with someone who will not stand up for his own morals.

4. Time Management: One should schedule his day and stick to that schedule. This cannot be emphasized enough. New entrepreneurs need to realize that every minute is valuable. When first starting out, most likely one will not have enough "work" to fill an eight hour day. This does not mean that he has time to take a three hour lunch with friends. He should utilize this time to learn more skills related to his business, find ways to advertise and contact potential clients.

5. Sales: No matter how much you do not like the idea of it, every business has to work with sales. Each industry and business has a unique way of handling its sales. As an entrepreneur, it is his job to figure out what type of sales he will prefer and what type is best for his services or products. If he had ever worked in retail sales or advertising he already has an edge on most other hopeful business people. All entrepreneurs will benefit from sales seminars, books and motivational programs.

6. Financial Knowhow: When in business, knowledge of finance is a must. Knowing how to balance a check-book and keep track of numbered invoices is all most small businesses need to start out. The most important aspect of small business finance is scheduling time specifically for the finance management. Granted it helps to have an accounting degree or extensive Quick Books knowledge but these skills are not mandatory.

7. Communication Skills: Businesspeople communicate by writing letters and memos, talking on the telephone, and meeting with customers, suppliers, bankers, employees, and others. To succeed as an entrepreneur, he will need to develop his writing, speaking and listening skills because he will use them every day:

> **i) Writing Skills:** As an entrepreneur, a person will have to frequently communicate in writing with customers, suppliers and employees, among others. To do so effectively, he will need to develop his business writing skills. Good business writing communicates ideas clearly. It also gets results by being positive and persuasive and by convincing readers that they should accept what the writer is communicating.
>
> **ii) Speaking Skills:** Much of our communication as a business owner will be conducted verbally either over the telephone or face-to –face. How we yourself will have a big impact on the people with whom we deal.
>
> **iii) Listening Skills:** Problems in business often occur because people fail to listen to each other. As a business owner, we need to listen carefully to our employees. We also need to listen to bankers, suppliers, customers and anyone else who may impact our business.

8. Problem-Solving Skills: Many entrepreneurs make decisions casually or base them on intuition. As a result, their decisions are based on faulty assumptions or illogical thinking. The best entrepreneurs use formal problem- solving mechanisms to gather information and evaluate different options. For many kinds of problems, a person will need to make decisions alone. For other kinds of decisions, however, involving other people in the company in brainstorming and consensus- building techniques can make the most of group decision- making. Possessing or nurturing these skills before going into business will help to ensure successful outcome. So long as one has an excellent.

3.2 FACTORS AFFECTING ENTREPRENEURIAL GROWTH

The factors stimulating entrepreneurship may be divided into the following two groups.

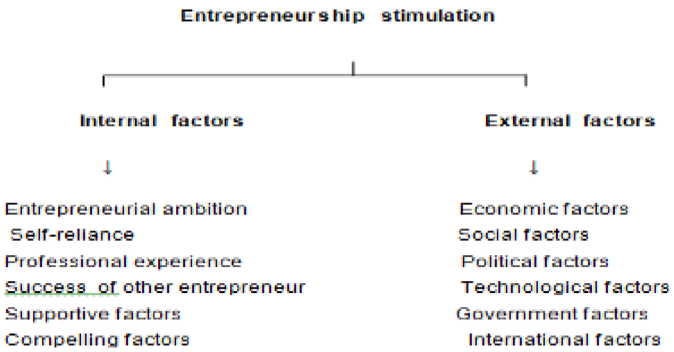

Figure 3.1 Factors Affecting Entrepreneurial Growth

3.2.1 Internal Factors

Internal factors are related with a person. They shape the entrepreneurial personality. These factors are as follows:

i) Ambition: An ambitious person is likely to turn to entrepreneurship more than an ordinary person. A highly ambitious person tries to become an entrepreneur for earning money, prestige and respecting society, for working independently and for creating employment for himself and others.

ii) Self-reliance: The tendency of independence motivates a person towards entrepreneurs. These persons are their own bosses. They do not like to take orders from other persons. Instead of becoming 'servant' they want to become entrepreneur.

iii) Success of other entrepreneurs: The stories of successful entrepreneurs in the surroundings motivate persons to follow the route of entrepreneurship. These successful entrepreneurs are role models for the potential entrepreneurs, for example, a young computer software engineer is motivated by Bill Gates of Microsoft, and Narayan Moorthy of Infosys.

iv) Professional experience: After working in a particular field for a number of years, some persons want to start their own enterprise. They feel confident to overcome the difficulties and problems in the business because of their rich experience.

v) Supportive factors: A person gets financial and mental support from his family members, friends, and relatives to start an enterprise. In certain communities like Marwaris, Parshis, Sindhis, entrepreneurship is encouraged from childhood and hence most of the people from these communities turn to entrepreneurship.

vi) Compelling factors: Sometimes a person is compelled to become an entrepreneur because of adverse conditions, unemployment problem, job dissatisfaction, untimely death of family head etc. Under these circumstances there is no choice before a person than to become an entrepreneur.

3.2.2 External Factors

Entrepreneurship gets encouragement from the external environment as well. These factors arise outside the person and motivate him to become entrepreneur. The external factors are explained below:

i) Economic factors: Favourable economic condition, ample natural and physical resources availability, rising income of people encourage persons to start new enterprises and make money by providing goods and services for fulfilling the increased demands of people. Investment in shopping malls, hotels, tourism, health centers, entertainment industry, increases.

ii) Social factors: Entrepreneurship is influenced by the customs, traditions and values of a society. The materialistic attitude of society stimulates entrepreneurship. Entrepreneurship is developed significantly in a society where the activities of entrepreneur are recognized, respected and rewarded and where the religious values do not prohibit business activities and wealth formation.

iii) Technological factors: Technological advancements and cheap availability of technology induce a person to introduce new products, improve the quality of existing products and start high-tech enterprises. For example, due to technological advancements entrepreneurship has flourished in the sectors like infrastructure, non-conventional energy, construction, automobiles, information technology.

iv) Political factors: Political stability, attitude and policy of the government towards business, stable policy, maintenance of law and order and such political factors stimulates entrepreneurship, attract domestic and foreign entrepreneurs in various fields. For example, stable and democratic governments, feeling of security, rule of raw have attracted huge foreign investments. The liberalization, privatization and globalization policy in the country has provided greater scope to private sector to establish, expand and diversify the enterprises. Steps like incentives, tax holiday benefits, cheap credit facility, export promotion measures and assistance for technological up gradation have given impetus entrepreneurial development in the country.

v) International factors: Entrepreneurship is influenced by the international environment. Free global trade policy and need of international co-operation, have encouraged entrepreneurs to take their activities on international level, install production facilities abroad and tap new foreign markets. Favourable international environment has increased foreign investment.

3.3 OBSTACLES IN ENTREPRENEURIAL GROWTH

Several obstacles restrict the entrepreneurial growth in a society. These factors may be divided in to two groups, viz. economic obstacles and non-economic obstacles. These obstacles affect entrepreneurial development in the less developed countries.

3.3.1 Economic Factor

Shortage of capital, lack of infrastructural facilities, non-availability of raw materials, labour shortage, defective tax structure, lack of technology, indifferent attitude of bankers etc. retard entrepreneurship.

Economic factors inhibiting entrepreneurial growth:

The economic obstacles in the way of entrepreneurial growth include shortage of capital, lack of infrastructural facilities, non-availability of raw materials, shortage of skilled labour, lack of technology, indifferent attitude of banks, heavy taxation and the likes. In Maharashtra, Konkan and Marathwada, regions could not develop because of un favourable economic factors. Today the situation has changed to some extent. Automobile industry in India could not prosper upto 1980's only because of lack of modern technology and the limited research. Today, the automobile companies from different advanced countries have

3.3.2 Non- Economic Factor

Following non-economic factors obstruct the growth of entrepreneurship.

i) Social factors: customs, traditions, lack of social mobility, rationality of society, social system etc.

ii) Personal factors: lack of creativity, low achievement motive, indifferent attitude, lack of entrepreneurial qualities, suspect personality etc.

iii) Other factors: increasing competition, ineffective administration, lack of political will, complex laws, in adequate facilities of higher education, adverse attitude of the government etc.

Non-economic factors inhibiting entrepreneurial growth

Besides economic obstacles, there are a few non-economic obstacles affecting entrepreneurial growth. They may be sub-divided as follows:

i) Personal factors: These factors revolve around the person. A person having no adventurous spirit, lack of interest, lack of ambition cannot become entrepreneur. The attitude and value system of a person create obstacles in turning to entrepreneurship.

ii) Social factors: The customs, traditions, values and attitude of society also create hindrances for entrepreneurship development. A society giving no recognition to wealth accumulation, business activities and materialism cannot stimulate entrepreneurship among its members. If entrepreneurs are not respected in the society and accorded a higher status, people never think of becoming entrepreneur.

iii) Political factors: Inefficient, corrupt administration, the adverse attitude of government towards entrepreneurship and the lack of political will, act as obstacles to entrepreneurial growth. The stringent laws, heavy taxation, and less scope to private sector stand in the way of entrepreneurship development and the country remains backward.

iv) Other factors: This sub-group includes factors like increasing competition, inadequate higher education facilities, poor infrastructure. These factors have a negative impact on entrepreneurship development.

3.4 ENTREPRENEURIAL MOTIVATION

Entrepreneurial behaviorism the result of entrepreneurial motivation. Motivation refers to the inner urge that ignites and sustain behavior to satisfy need. Motivation has been derived from the word motive which implies the inner state of mind that activates provokes and directs our behavior towards the goal.

It is understood from the previous chapter that entrepreneurship development is due to the entrepreneurial role played by the entrepreneur’s and. the Government. The role of entrepreneurs is a continuous phenomena. In the dynamic society, the entrepreneurs foresee the future and smell the undesirable consequences well in advance. Predicting the future with all accuracy is the first step for a successful entrepreneur. Entrepreneurs identify the business opportunities. Motivation ‘is the propelling force for an entrepreneur to predict the future and identify innovative and hitherto unknown business opportunities. The growing consumers awareness enable and motivate entrepreneurs to identify their expectations and assess the amount of consumers demand well in advance and sometimes even before identifying the location of the industry. The new economic policy of the Government motivates entrepreneurs to seek trade and business relations at the global level and motivate them as how best to manufacture quality goods so as to compete in the global market.

3.5 THEORIES OF MOTIVATION

Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction oftension. Several studies have been undertaken to identify the factors that motivate people to start their own enterprises. P.N Sharma has identified nine motivating factors which are as under:

1. Educational background.
2. Occupational experience.
3. Desire to do work independently.
4. Desire to branch out to manufacturing.
5. Family background.
6. Assistance from government.
7. Assistance from financial institutions.
8. Availability of technology/ raw material.
9. Other factors demand of the particular product, utilization of excess money earned from contractual estate business, started, manufacturing to facilitate trading/ distribution business since the product was in short supply, unstable policy of the foreign government for non-residents and no chance for further promotion.

The above nine factors were grouped into two major categories-internal and external. First five motivating factors were termed as internal and the last four factors as external. The internal motivating factors like education, occupational experience, family background, the desire to do something independently together make the personality of the entrepreneur. These factors generate an inclination to adopt entrepreneurial activity. But entrepreneurial ideas cannot fructify or take real shape without a proper or conducive environment which provides support in terms of financial assistance, technology and raw material and infrastructural facilities. These factors give a boost to the entrepreneurial activities. They had strong desire to do something independent in life. They were having technical knowledge or manufacturing experience Availability of governmental and non-governmental assistance.

3.6 MOTIVATION AND ENVIRONMENT

Motivation of entrepreneurs depends upon the environment with which the entrepreneurs live in the society. The entrepreneurial environment could be classified into two viz.,

1. External environment and
2. Internal Environment

3.6.1 External Environment

The entrepreneurial role played by the Government trade regulations. Industrial policy and the import and export restrictions living standard of the people. Level of education and standard of education occupation of the people and their strong faith in religion. Besides, the infrastructural facilities available in the country, political stability, availability of capital and technical know-how are some important factors come under the external environment. Some of the above said factors can be controlled. Entrepreneurs are motivated by the speed with which this knowledge based innovators join together and invent new things. For instance, the invention of computer was not due to the innovative efforts of one or two scientists. It required the innovating efforts of scientists who aimed for different products, and the convergence of not less than 5 kinds of knowledge viz.

- a scientific invention.
- the audian tube mathematical discovery the binary theorem
- a new logic.
- design concept of punch card and
- the concept of programme and feedback.

Technical entrepreneurs have motivation to combine the different branches of knowledge and thereby try to manufacture new products. It is also the duty of these entrepreneurs to identify the gap and inform the scientists to invent something new so as to fill the gap.

i) Production Opportunity: Identification of business and production opportunity becomes the prime motive of entrepreneurs to set up a new line of business enterprises. Production opportunities cold be identified through the introduction of:

New technology Change of consumers tastes and fashions and Change of the income level of consumers., Opportunities could be identified through the application of the laboratory research findings. Industrially advanced countries rely upon the R & D departments and apply their research findings in the manufacturing process and thereby introduce new products in the market. Production opportunities could also be identified when we adapt of new technology. There are many alternatives for the production of a particular product. It is the entrepreneurs' duty to forward out the best alternatives and manufacture goods at the earliest so as to enable them to meet out the unexploited market. New production opportunities motivate entrepreneurs to combine new factors of production and thereby explore the possibility of setting up of a new industrial unit.

ii) Investment Opportunities: Like production opportunity, entrepreneurs are motivated by the investment opportunities. There are ample scope for young businessmen to mobilize capital from the capital market and financial institutions. Financial institutions are ready to provide any amount of financial assistance for viable projects and innovative projects. Far reaching changes are taken place in the stock exchange dealings. The stock exchange reforms create a congenial atmosphere for the enterprising entrepreneurs to raise adequate capital through the public issues. The commercial bank now-a-days offer not only financial assistance to young entrepreneurs but also render training and help young entrepreneurs to mobilize factors of production. All these conducive atmospheres motivate young entrepreneurs to set up their own industrial units especially the SSI units.

iii) Entrepreneurial Development Programmes: There is a need to reformulate the existing entrepreneurial development programmes that suit to the entrepreneurs of different groups. Entrepreneurs need training at regular intervals so that they could clarify their doubts which many come at every subsequent stages of manufacturing process. Training enable and motivate entrepreneurs to find alternative course, of action to be taken in the event of dearth of funds, poor quality and labour deficiencies.

The objectives of training programmes must be clear and unambiguous. While selecting entrepreneurs for training, chance must be given to a group of entrepreneurs whose status, family and social background are uniform.

Only the enthused and self-motivated entrepreneurs shall be given chance for undergoing training. The entrepreneurial development programmes become failure due to the wrong choice of selection of entrepreneurs.

iv) Risk Management: Entrepreneurial motivation is also due to entrepreneur's mental ability to bear the risks and his capacity to calculate the risks. Successful entrepreneurs are ready to bear 'calculated' risks only. For instance the raising of capital through equity issue enables entrepreneurs to shift their risks towards the investors. Risks are also shared through collaborative and joint venture agreements. Entrepreneurs in these days would like to diversify their business mainly with the intention of overcoming the losses. Thus, the opportunity for the avoidance of risks motivates entrepreneurs to take up new business ventures.

v) Cultural Development: The prevalence of rigid cultural norms and mores act as an impediment for entrepreneurs to introduce innovative businesses. This problem is found more in less developed countries. On the other hand in the industrially advanced countries, the. Existing culture is such that allows people to develop and start any new business. Though the cultural rigidity is an obstacle, entrepreneurs can be motivated to develop new business through cultural liberalization.

vi) Aggrandise Profit: In a true sense, the entrepreneurs are motivated by profit. The expected profit of any new business ventures is always high. Since there is little competition at the initial stage of business entrepreneurs are motivated to introduce new business and earn the maximum profit until other competitors enter into their lines of businesses. Entrepreneurs in Japan follow this practice. Though they import technology, they adapt and manufacture new lines of goods and earn high rate of profit. As soon as they face competition, they give away their existing business and try to establish a new one. Thus, entrepreneurs are motivated to introduce new business mainly due to the chance for earning a high rate of profit.

vii) Economic Environment: The changing economic environment acts as a motivating factor for entrepreneurs to think of new business developments. The policy of liberalization enable Government to invite NRI investors and allow them to establish infrastructure supporting industries like generation of power, communication equipment's etc., The free exports and imports motivate entrepreneurs to find a new for their goods at the international market. The development of private large scale industry would pave way for ancillarisation and there is a vast scope for the growth of SSI units. The globalization of the business sector enables entrepreneurs to mobilize the latest talents and thereby develop new business.

3.6.2 Internal Environment

Apart from the above said external environmental factors, the entrepreneurs' motivation also depends upon the internal environment viz., the family background of the entrepreneurs that is weather they hail from the agricultural family or business family, the professional and academic achievements of the entrepreneurs, the level of education, training acquired, their previous experiences and their mental behaviors. Besides, the personality development, leadership qualities and ability to achieve character of the entrepreneurs also act as congenial climate for entrepreneurs to enter into new business ventures.

Though there are many environmental factors, all entrepreneurs are not motivated by all the factors or a group of similar factors. No research study has so far been found and undertaken to prove the fact that what environmental factors that exactly motivate entrepreneurs and in what proportion. Again there is no adequate literature found available as when the motivation works in the mind of entrepreneurs. However, one would say that behind every successful entrepreneur there is at least one motivational factor that strongly influences him to become a successful entrepreneur.

The entrepreneurs must have some inborn skills which in turn motivate entrepreneurs to establish new business. Thus, motivation is like a foundation with which the entrepreneurs build new business, and it is the intensity of motivation that determines the height of success of new business ventures. Let us see the various factors that motivate entrepreneurs to play their role and thereby see how far motivation helps to build entrepreneurship development.

i) Demonstration: Demonstration of successful business enterprises motivate entrepreneurs to enter into similar lines of businesses. In under •developed countries demonstration is normally being done by the Government. In India, the Government at present invites foreign investors who would like to invest their capital and new technology and develop new business enterprises. This in turn encourages and motivates the emerging entrepreneurs to set up similar lines of business.

Thus, the establishment of one successful business venture attracts and motivates entrepreneurs to develop and run similar I business. Entrepreneurs also learn the demonstration effects through the foreign entrepreneurs.

ii) Business Background: Entrepreneurs who hail from business families are able to establish new business more easily than those who hail from agricultural families. Though, it is true,' the research findings revealed different findings. Entrepreneurs who hailed from the agricultural families are found more successful in their business ventures than those who hailed from business families.

Lack of employment opportunities is the main factor which motivates these entrepreneurs to enter into business ventures. However entrepreneurs with business background are able to Identify business diversions and able to enter into profitable business ventures since they have managerial and organizing capacity.

iii) Technical Knowledge: People with technical knowledge are more interested in entering into new business ventures than people with less technical knowledge. With the help of technical knowledge, the entrepreneurs are motivated to set tip their own business or industrial units and they themselves engage in the day to day operations. They have no fear in attending the repair and maintenance works and also able: to direct subordinates and delegate their works easily. Thus, possessing the technical knowledge is the prime motivating factor for entrepreneurs to come out with a successful business venture. Similarly, many. Engineers who served in big industrial establishments have come out from the existing job and try to set up their own industrial units. Thus, holding technical knowledge and experience is one of the motivating factors for entrepreneurs to enter into the business world.

iv) Stable Market: Stable market is one of the prerequisites for a growing economy. Stable market ensures long term planning. Stable market motivates entrepreneurs to manufacture goods on a large scale with the intention of capturing market. It attracts entrepreneurs to devote their time and energy towards 'Research and Development'. Unless the market is stable, the entrepreneurs cannot manufacture new products and plan to spend huge amount of money for research and advertisement. Entrepreneurs expect stable market not only at the national level but also at the international level. Stable market motivates entrepreneurs abroad to invest then- money and technical know-how in other countries which in turn gives room for global market and as a result the consumers all over the world are able to enjoy the benefits at a time.

v) Skilled Labour: Entrepreneurs however they are trained and experienced cannot become successful in their business ventures, unless they rely upon the skilled labour force. Specialization becomes the order of the day. Consultancy services are rapidly growing. The availability of skilled labour force in the local places motivates entrepreneurs to make use of their services at relatively cheaper prices. The success of any entrepreneurs depends upon the skilled personnel who are employed in his business ventures. Entrepreneurs seek their help and guidance and thus, the decision taken by them is always right and it gives scope for the development of "group entrepreneurs".

vi) Self Determination: Entrepreneurs are motivated by means of their 'will power' and 'self determination'. They fix the target for themselves and try to attain the target. They have power to resist and overcome all the obstacles and external or internal forces. They have strong determination in bringing out their business ventures successfully. They have no second thought soon after entering into a new line of business. Self-determination depends upon the behaviour of the entrepreneurs. This self-determination motivates the power of achievement of entrepreneurs.

vii) Ancillarisation: Establishment of big business ventures is always unthinkable. Big business houses need huge amount of capital and labour force. Besides, entrepreneurs have to observe cumbersome formalities. Small scale industrial units are mostly established in and around the existing large scale industries. The successful running of SSI depends upon the extent with which the large scale industrial units shall come forward to seek the help of SSI in manufacturing spare parts and ancillary products.

The entrepreneurs of SSI are thus motivated to set up their industrial establishments when there is a scope for ancillarisation. Entrepreneurs ensure stable market for their products. They can be able to identify the expectations of the large scale industrialists and determine the quality too. As a result, entrepreneurs could concentrate more on production and quality. Besides, they are assured of stable and predetermined income. Ancillarisation gives much benefit to large scale industrial units since they need not concentrate on trivial matters.

viii) Risk Bearing Capacity: The risk bearing capacity motivates entrepreneurs to establish businesses of different sizes. 'Risk' and 'Profit' are closely associated with each other. Higher the scope for profit higher would be the risk that an entrepreneur should bear and vice versa. It is because of the risk bearing capacity, entrepreneurs are found little in under-developed countries. Thus, risk bearing capacity is one of the motivational factors that determines entrepreneurs whether to enter into new line of business or other similar lines of businesses.

ix) Success Stories: Publication of success stories motivate enthused" and young entrepreneurs to set up their own business ventures. Success stories reveal and highlight the circumstances under which successful entrepreneurs started their business ventures. It also highlights the precautions to be taken and the practical difficulties involves in the proposed businesses. The success stories of manufactures like NIRMA and Dhabur Hair Oil Company motivate many entrepreneurs to enter into the manufacturing of detergents and hair oil. The success stories enable entrepreneurs to step into the shoes of the successful businessmen and develop similar business. Success stories of entrepreneurs must be published and screened through T.V. very often and in different and in different languages so that there is a chance for new entrants to venture into new business with all vigor.

3.7 ENTREPRENEURIAL COMPETENCIES

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

It is defined as characteristics such as generic and special knowledge, motives, traits, self- image, social roles and skills which result in birth of a venture, its survival and/ or growth. In short, the competencies required by an entrepreneur for starting a business venture and carrying it on successfully are known as entrepreneurial competencies.

3.8 TYPES OF ENTREPRENEURIAL COMPETENCIES

It may be classified into two types:

3.8.1 Personal Entrepreneurial Competencies

These are required to perform the tasks effectively and efficiently. This includes the following:

i) Initiative: It is an inner urge in an individual to do or initiate Something.

ii) Ability to See and Act on Opportunities: Entrepreneurs look for opportunities and take action on such opportunities.

Persistence: It means the capacity or skill to take repeated and different actions to overcome obstacles.

iii) Information Seeking: A successful entrepreneur always keeps his eyes and ear open. He should accept new ideas which can help him in realizing his goals. He is ready to consult experts for getting their expert advice.

iv) Concern for High Quality of Work: Entrepreneurial persons act to do things that meet or beat existing standards of excellence.

v) Commitment to Work: Successful entrepreneurs are prepared to make all sacrifices for completing the commitments they have made.

vi) Commitment to Efficiency: Entrepreneurial persons have to look and find ways for or find ways to do things faster or with fewer resources or at a lower cost. They should try new methods aimed at making work easier, simpler, better and economical.

vii) Systematic Planning: Entrepreneurial persons should be able to develop and use the logical step by step plans to reach goals.

viii) Problem Solving: Entrepreneurial persons are supposed to possess the skill of identifying new and potentially unique ideas to reach goals. They should generate new ideas or innovative solutions to solve problems.

ix) Assertiveness: They assert own competence, reliability or other personal or company's qualities. They also assert strong confidence in own company's products or services.

x) Persuasion: Entrepreneurs should have the ability to successfully peruse others to perform the activities effectively and efficiently.

xi) Use of Influence Strategies: Entrepreneurs should have the competence of using a variety of strategies to influence others. Such entrepreneurs can develop business contacts and use influential people to accomplish his/her own objectives.

3.8.2 Venture Initiation and Success Competencies

An entrepreneur must also posses the competencies required for launching the enterprise and for its survival and growth. These competencies may be further divided into two categories of competencies:

ENTERPRISE LAUNCHES COMPETENCIES: These include the following:

- Competency to understand the nature of business.

- Competency to comply with Government regulations.
- Competency to deal with the business.
- Competency to finance the business.
- Competency to locate the business.
- Competency to plan the marketing strategy.
- Competency to choose the type of ownership.
- Competency to obtain technical assistance.
- Competency to develop a business plan.
- Competency to determine the potential as an entrepreneur.

ENTERPRISE MANAGEMENT COMPETENCIES: These include the following:

- Competency to protect the business.
- Competency to manage customer credit and collection.
- Competency to manage the finances.
- Competency to manage the business records.
- Competency to manage sales efforts.
- Competency to promote the products and services of the business.
- Competency to manage human resources.
- Competency to manage the business.

3.9 ETHICS FOR AN ENTREPRENEUR

Social Responsibility means eliminating corrupt, irresponsible or unethical behaviour which might harm to the community, its people and the environment.

1. Public Image: The activities of an entrepreneur towards the welfare of the society earn goodwill and reputation for the business. People prefer to buy products of a company that engages itself in various social welfare programs. Again good public image also attracts the honest and competent employees to work with such employers.

2. Employee Satisfaction: Employees are the part of the society. If you satisfy your needs, then you are doing social work.

3. Ethical Leadership: It is the belief that what entrepreneur does has a strong influence on employees. If manager cheats, Lies, steals or manipulates, then they are sending wrong signals to employees.

4. Social Entrepreneur: A social entrepreneur is an individual or organization who seeks out opportunities to improve society by using practical, innovative and substantial approaches. Since last three decades, HDFC contributes 7% of its income to support community needs. Mahindra Tech employees donated one day salary to help victims of Bihar floods. Wipro has set up a foundation named Azim Premji Foundation to help improve education of the elementary schools in rural India.

5. Environment Management: Managers and Organizations can do many things to protect and preserve the natural environment which includes plastic less business by giving paper bag, creating eco-friendly product, by eliminating production.

6. Consumer Awareness: Consumers have become very conscious about their rights. If you are giving high quality products at cheap rate, that is kind of social Responsibility.

3.10 SOCIAL RESPONSIBILITY OF AN ENTREPRENEUR TOWARDS DIFFERENT SECTIONS OF THE SOCIETY

1) Responsibility towards Employees:

- Fair wages and salaries.
- Adequate Basic Facilities like safe drinking water, electricity, canteen, hygienic toilets.
- Skill development programmes.
- Good and safe working environment.
- Retirement benefits and pension schemes.
- Collective bargaining o Insurance cover.
- Medical facilities.

2) Responsibility towards Customers:

- Charge reasonable price for products or services
- Supply of right quality of goods in right quantity.
- No use of manipulated or false advertisements.
- Avoid unfair selling practices.
- Fair guarantee of product.

3) Responsibility Towards Shareholders:

- A fair return on investment.
- Safety of invested capital.

- Regular and complete information about the performance and progress of the company.
- Regular Payment if dividend.

4) Responsibility towards Suppliers, Creditors:

- Maintain healthy and co-operative inter-business relationship between different businesses.
- Provide accurate and relevant information to creditors.
- Payment of price of materials on time.
- Prompt payment of interest on borrowed funds.
- Producing original documents for credit processing.

5) Responsibility towards Public in General:

- Help the weaker section of the society.
- Creation of job opportunities.
- Improvement in living standards.
- Building of basic infrastructure like roads, sewerage.
- Health and educational development schemes.
- To make best use of society's resources for their welfare.

6) Responsibility towards Government:

- Payment of corporate tax in correct amount with no manipulation of profit figures.
- To avoid corrupting public servants by offering bribe.
- To encourage fair trade practices.
- To avoid monopoly practices.
- To improve national income.

LET US SUM UP

In this unit you have learnt the Factors influencing Entrepreneurship, Challenges of Entrepreneurship, Ethics of Entrepreneurship. You have also come to know about the Social responsibility of Entrepreneurs towards different sections of the society. Thus, the entrepreneurship development is mainly due to the entrepreneurial motivation. Motivation of entrepreneurs is influenced by the external as well as internal environmental factors.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. ____________is the drive to achieve a goal.

a) motivation b) need for achievement

c) competency d) none of these

2. ____________entrepreneurs neither introduce new changes nor adopt new methods innovated by others.

a) technical b) fabian

c) induced d) business

3 Which of the following factors does not affect a person for being an entrepreneur?

a) Work history b) Nationality

c) Education d) Personal values

4. A new venture's business plan is important because ____________.

a) It helps to persuade others to commit funding to the venture.

b) Can help demonstrate the viability of the venture.

c) Provides a guide for business activities by defining objectives.

d) All the above.

5. Someone legally appointed to resolve the financial difficulties of an insolvent firm is called ____________.

a) an administrator b) a predator

c) an auditor d) a turnaround consultant

GLOSSARY

Social Responsibility : contribute to the welfare of society and the environment.

Ethics : a set of moral principles which should play a very significant role in guiding the conduct of managers and employees in the operation of any enterprise.

Delegate : Delegation is assigning tasks or authority to another person or group to accomplish a goal.

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WEB RESOURCES

1. What are factors influencing Entrepreneurial development in India? – BMS | Bachelor of Management Studies Unofficial Portal
2. Factors influencing entrepreneurship - Factors impacting entrepreneurship -BBA - YouTube
3. Factors influencing entrepreneurship | PPT (slideshare.net)

ANSWERS TO CHECK YOUR PROGRESS

1. b) 2. b) 3. b) 4. d) 5. a)

Unit 4

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

STRUCTURE

OVERVIEW

Entrepreneurship Development Programme (EDP) is a programme which helps in developing entrepreneurial abilities. The skills that are required to run a business successfully is developed among the students through this programme. Sometimes, students may have skills but it requires polishing and incubation. The main objectives of entrepreneurial development programmes (EDP) are to provide knowledge of business to the people having no knowledge and to make them successful businessmen.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the meaning of entrepreneurship development programme

- list out the features of entrepreneurship development programme
- discuss the phases of entrepreneurship development programme.

4.1 MEANING OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

Entrepreneurship development programme is a programme meant to develop entrepreneurial abilities among the people. The concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise. EDP is an effective way to develop entrepreneurs which can help in accelerating the pace of socio-economic development, balanced regional growth, and exploitation of locally available resources.

Entrepreneurial Development Programme (EDP) may be defined as a programme designed to help a person in strengthening his entrepreneurial motives and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively and efficiently. It is therefore necessary to promote his understanding of motives, motivation pattern, impact on behaviour and entrepreneurial values. A programme that seeks to do this is called an EDP This point is to be stressed here because there are several programmes which aim at providing information or managerial inputs or focus on preparation of a project. Of course a new entrepreneur requires all these inputs but programme which does not touch entrepreneurial motivation and behaviour cannot be regarded as an EDP.

EDPs are planned programmes developed to identify, inculcate, cultivate, develop, and polish the capabilities and skills as the prerequisites of a person to become an entrepreneur. The EDPs focus on training, education, reorientation and creation of conducive and healthy environment for the growth of entrepreneurship.

4.2 OBJECTIVES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

Entrepreneurship Development Programme (EDP) in India has many objectives.

1. Develop and strengthen their entrepreneurial quality/motivation;
2. Analyse environment related to small industry and small business;
3. Select project/product;
4. Formulate projects;

5. Understand the process and procedure of setting up of small enterprise;
6. Know and influence the source of help/support needed for launching the enterprise;
7. Acquire the basic management skills;
8. Know the pros and cons of being an entrepreneur; and
9. Acquaint and appreciate the needed social responsibility/entrepreneurial disciplines.

4.3 NEED FOR OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

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

India needs to return to the syndrome of high growth rate quickly and sustain it for at least eight years to eradicate poverty, illiteracy, unemployment and backwardness. Entrepreneurship development programmes help people towards self-employment and provide entrepreneurship as a career. Government of India has introduced various programmes to eliminate the poverty and solve the unemployment problem through National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc.

ii) Balanced Regional Development and Growth: One of the objectives of setting up of public enterprises is to promote balanced regional development. It can be possible through the expansion of the employment opportunities in backward regions. The pace of economic development of different States and Regions in the country has not been uniform over the years owing to historic reasons and a number of other factors. Industrialisation plays an important role in correcting the regional imbalances and accelerating the industrial growth.

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

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

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

People use many of the earth's natural resources. All of the products we use have a natural resource base. Minerals, forest products, water, and soil are just a few of the natural resources humans use to produce energy and make things people use. Since abundant resources are available locally, proper use of these resources will help to carve out a healthy base for sound economic and rapid industrialisation. The EDPs can help in harnessing these resources by training and educating the entrepreneurs.

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

vi) Capital Formation: It is one of the most critical activities in getting a business started. Business creation has moved a lot from the days of Marco Polo and Schumpeter. The biggest hurdle the entrepreneurs face is in raising the initial capital needed for the new venture. Getting equity from family and friends has many advantages over o there types of financing. Entrepreneurship development programmes helps an individual to raise capital to start a business or to grow an existing business.

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

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

4.4 FEATURES OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

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

1. Identification and careful selection of entrepreneurs for training;
2. Developing the entrepreneurial capabilities of the trainee;
3. Equipping the trainee with the basic managerial understanding and strategies;
4. Ensuring a viable industrial project for each potential entrepreneur;
5. Helping him to secure the necessary financial, infrastructural and related assistance; and
6. Training cost is highly subsidized and only token fee is charged. A deposit is, however, taken to ensure commitment of participants.

4.5 PHASES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

An entrepreneurial development programme consists of three broad phases:

4.5.1 Initial or Pre-training Phase

This phase includes the activities and the preparations required to launch the training programme. The main activities are:

- i) Creation of Infrastructure for training
- ii) Preparation of training syllabus
- iii) Tie up of guest faculty
- iv) Arrangement for inauguration of the programme.

v) Designing tools and techniques for selecting the trainees

vi) Formation of selection committee

vii) Publicity campaign for the programme

viii) Development of application form

ix) Pre-potential survey of environmental opportunities.

Thus, pre-training stage involves the identification and selection of potential entrepreneurs and providing initial motivation to them.

4.5.2 Training or Development Phase

During this phase the training programme is implemented to develop motivation and skills among the participants. The objective of this phase is to bring desirable changes in the behaviour of the trainees. The trainers have to judge how much, and how far the trainees have moved in their entrepreneurial pursuit's. A trainer should see the following changes in the behaviour of participants:

i) Is he attitudinally tuned very strongly towards his proposed project idea?

ii) Is he motivated to plunge for entrepreneurial venture and risk that is expected of an entrepreneur?

iii) Is there any change in his entrepreneurial outlook, role and skill?

iv) How should he behave like an entrepreneur?

v) What kind of entrepreneurial behaviour does the trainee lack?

vi) Does he possess the knowledge of technology, resources and other related entrepreneurial knowledge?

vii) Is he skilful in choosing the right project, mobilizing the right resources at the right time?

4.5.3 Post Training or Follow-up Phase

This phase involves assessment to judge how far the objectives of the programme have been achieved. Monitoring and follow up reveals drawbacks in the earlier phases and suggests guidelines for framing the future policy. In this phase infrastructural support, counselling and assistance in establishing new enterprise and in developing the existing units can also be reviewed.

Selection of Potential Entrepreneurs

The first and the foremost step in the EDP is the proper identification and selection of potential entrepreneurs. Selection and training of an unsuitable person to go into independent business is both a national waste and a disservice to the person concerned. His failure in business would result in loss of prestige, or social standing and a setback in life. Therefore, utmost care should be exercised to identify the right candidates for training. Due recognition should be given to their family background, entrepreneurial skills and suitability to the trade chosen. Tests, group discussions and interviews may be used in the selection of entrepreneurs. Selection of potential entrepreneurs has two essential components; namely (1) identification of entrepreneurial traits in the potential entrepreneurs, and (2) identification of suitable and viable opportunity or enterprise (project) for each identified entrepreneur.

(1) Identifying Entrepreneurial Traits

Every participant must have a minimum level of eligibility for developing into an entrepreneur. Entrepreneurial traits include socio- personal and human re-sources characteristics.

Socio-personal Characteristics: The most common socio- personal characteristics are caste, family occupation, age, education, size and type of family working hands, earning members and social participation. A brief description of these characteristics is given below:

(i) Caste and family background: Caste and family background help create entrepreneurial environment and occupational awareness for the entrepreneurs. There are certain castes which are traditionally involved in certain types of work. Matching of castes with trades, therefore, appears to be logical. Most people prefer to accept familiar tasks easily. If an entrepreneur chooses a trade which is being carried in his family it is obvious that he would be more at ease with it.

(ii) Age: Studies have revealed that younger people are more successful entrepreneurs. This may be because older people are more reluctant to take risky ventures. They are more concerned with avoiding failure than achieving success.

(iii) Education: A minimum level of education is essential to perform functions like meeting officials, etc.

(iv) Size and type of family: The size of the family and the entrepreneur’s status in the family are important. In a large family the entrepreneur may command little authority. But other earning members of the family may enable him to pay undivided attention to his enterprise by providing financial support to the family. A joint family has generally a greater risk-bearing capacity. But the entrepreneur has greater command over the family resources in a nuclear family.

(v) Working hands: A small entrepreneur has generally to depend upon family members as he cannot afford to hire workers.

(vi) Social participation: This determines the amount of influence the entrepreneur will be able to muster outside his immediate family circle. Greater social participation improves the ability to influence and thereby the success of the entrepreneur. Thus, while selecting candidates for EDP, preference should be given to those having experience in the trade, a functional level of education, young, family resources, financial support and authority.

Human Resource Factors: These are the inherited or acquired traits. Research reveals the following human resources factors that influence entrepreneurial success:

(i) Achievement-motivation: It is the urge to improve one-self in relation to a goal. It includes both personal achievement and social achievement. It is the basis of entrepreneurship as entrepreneurs with high need achievement success better.

(ii) Risk taking willingness: It refers to seeking challenge in one's activity. Two persons may view the same venture as involving different degrees of risk. If both of them go for the same venture, it means that the person perceiving greater amount of risk in the venture has the higher risk-taking willingness.

(iii) Influence motivation: It has been defined as the desire for influencing other people and the surrounding environment. In order to succeed in dealing with these diverse agencies and forces, the entrepreneur would need sufficient motivation to both influence them and control the means to achieve the end.

(iv) Personal efficacy: It has been defined as the general sense of adequacy in a person. Personal efficacy is an important factor contributing to entrepreneurial behaviour of a person. It represents the potential effectiveness present at the inner level. The roots of efficiency of an individual lie in his perceptions and beliefs about himself. These beliefs may be the result of an individual's self- concept and perception of his own strength. Personal efficacy can be measured by 'Rotter's locus of control' defined as the tendency in the individual to attribute success or failure to external factors. A person scoring high on internal control believes in his capacity to control and shape the environment.

(v) Aspirations: These are goal statements concerning future level of achievement. These can be regarded first as in individual's concepts of his future prospects and secondly as a form of self- motivation.

Aspirations are related with education of children, income and material possession. A person with low aspirations is not likely to develop into entrepreneur. Therefore, it would be more meaningful to study an individual's achievement motivation in relation to his aspiration. In general, individuals with lower socio-economic background have a higher discrepancy between their aspiration and achievement. This suggests that low socio-economic groups are unrealistic in their aspiration levels. A number of other human resources variables such as independence, leadership, self-confidence, initiative, etc. are also important for entrepreneurship. Thus, persons possessing a minimum level of entrepreneurial traits like the urge to achieve, risk-taking, positive self-concepts, initiative and independence, problem solving, hope about future, urge for goal setting and interest in environment scanning should be selected for an EDP.

(2) Identification of Enterprise

Once an entrepreneur having necessary socio-personal and human resources characteristics is identified, it is necessary to identify a suitable enterprise or project for him. The enterprise must be matched with the potential entrepreneur. All the background information like his skills, experience in the field, the physical resources available, family occupation, etc. should be taken into consideration, Having found a suitable trade an entrepreneur needs to thoroughly examine its viability in terms of financial implications. The raw materials availability, the marketing avenues and profitability of the enterprise have to be explored. It would also involve detailed exploration of services needed and available in the area.

LET US SUM UP

After reading this unit you will learn EDP is a programme meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise. Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. An entrepreneur who enters the market with a product or service which is based on new technology is called ___________.

a) Innovative entrepreneur b) Replicative entrepreneur

c) Opportunity entrepreneur d) Necessity entrepreneur

2. Which of the following is not an entrepreneurial work in economics?

a) Taking risks

b) Provision of capital and organization of production

c) Innovation

d) Conducting day-to-day business

3. Which of the following statements does not explain the difference between entrepreneurship and management?

a) Entrepreneurs find the business, managers run it

b) Entrepreneurs own their business, managing employees

c) Entrepreneurs earn profit, managers get salary

d) Entrepreneur is a one time job, management is an on going process.

4. Provides Entrepreneurship Development Program____________.

a) Unemployment b) Employment

c) Dishonesty d) Corruption

5. Indian Entrepreneurship Development Institute is located____________.

a) In Ahmedabad b) In Mumbai

c) In New Delhi d) In Chennai

GLOSSARY

Training and Development	:	The process of training and development is an activity that aims to improve the performance of the individuals and groups in an organisation.
Industrialisation	:	Industrialization is the process of transitioning from an agrarian, or agricultural, economy to one focused on industry.
Unemployment	:	Unemployment refers to a situation where a person actively searches for employment but is unable to find work.

Motivation	**:**	Motivation is the word derived from the word 'motive' which means needs, desires, wants or drives within the individuals.

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WEB RESOURCES

1. Entrepreneurial Development Programme | Objectives, Phases (toppers4u.com)
2. Entrepreneurial Development Programme - An Overview - YouTube
3. Entrepreneurial Development Programmes(EDP) - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a) 2. d) 3. d) 4. b) 5. a)

BLOCK 2

Unit 5

BUSINESS IDEATION TECHNIQUES

STRUCTURE

OVERVIEW

A promising venture always starts with a brilliant business idea. Successful entrepreneurs are innovators or problem resolvers who come with ideas to fill the potential gaps in the market or handle an existing

Scenario with an alternative outlook to find the better and cheaper way of doing the things. Once a business idea is conceived, the next step is to deliberate on the viability and the feasibility of the business idea. The entrepreneurs are the disruptive thinkers, offering innovative yet commercially viable ideas, later culminating in to successful business stories.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain about the various business ideation techniques
- identify evaluation of idea to opportunity map
- discuss about the opportunity analysis in business idea
- Evaluate the elements of feasibility analysis.

5.1 INTRODUCTION OF BUSINESS IDEAS

According to Webster's dictionary, "an idea means what exists in the mind as a representation (as of something comprehended) or as a formulation (as of a plan)." An idea is the content of cognition or the main thing one is thinking about or intends to do. An idea may apply to a mental image or formulation of something seen or known or imagined, to a pure abstraction, or to something that exists in the mind of a person. The celebrated economist, Joseph Schumpeter perceived an entrepreneur as a person having the willingness and the ability to convert a new idea or invention into a successful innovation. Those idea which have a value to the investor, customer and capable of generating a revenue model for a business, are business ideas. All ideas despite being innovative may not culminate into a viable business opportunity. Business ideas should be thoroughly tested and validated before resources are tied up in the business. The success of a business, in the first place rely heavily on robustness of sound business idea.

5.2 FEATURES OF SOUND BUSINESS IDEAS

Unless an idea meets certain prerequisite it cannot be termed as business idea.

Following are the characteristics of a sound business idea:

- Fulfills a customer need – a problem is solved
- Clear focus
- Innovative
- Unique
- Sustainable

- Profitable in the long term

The development of new products and/or services usually focuses on improving “customer’s satisfaction”. Successful implementation of a business idea eventually leads to lowering of cost, while also passing on the benefits to the consumers in terms of lower product prices.

5.3 NEEDS OF BUSINESS IDEAS

The business idea must be relevant to the entrepreneur. It should be based on a fact that the entrepreneur should be able to sell the product/service at a profit. The business idea should be selected so as to:

- Enable entrepreneur to utilise the skills. An entrepreneur may have technical, market or any other skills. This gives much greater confidence in entering the market. Enable the use of locally available raw materials for product or service. As compared to imported materials local materials are easy to procure and convert.
- Help entrepreneurs make products that have a demand, but are not freely available in the market. It is potentially a good idea to start with a product that can be sold. In this case the entrepreneur has only to learn production technology and locate the sources of raw material.
- Enable use of any technical know-how of the entrepreneur or some specific machines, the entrepreneur is familiar with. If an entrepreneur has knowledge of some special manufacturing techniques, because of previous experience or otherwise it is easier for the entrepreneur to manufacture the product.
- Enable the entrepreneur to solve a current problem existing in the market. Products may be available in the market but do not meet the demand fully or in a satisfactory manner.

5.4 ASPECTS OF BUSINESS IDEA

To persuade an investor to park the funds into a business idea, the following aspects should be considered:

i) End User’s Benefit: An entrepreneur should introspect and ask what the real customer benefit is, and what problems will be solved through his product or service? The key to marketing success is not ingenious product – rather it is the satisfied consumer. People buy products services to satisfy a need, or to solve a problem, e.g., food and drink, home, clothes or movie tickets-something that makes work easier, or enhancing their wellbeing or self-esteem, etc. The first vital aspect of a successful business idea is to clearly describe what need will be catered to and how, i.e. in which form it will be catered to. This is also referred as a “Unique Selling Proposition” (U.S.P) by marketing practitioners.

ii) Market: A business idea can succeed only when it has commercial value, i.e. when the market accepts it. The second important aspect of a successful business idea is to identify how big the target market is for the product or service offered and how it differentiates itself from the products and services of competitors.

iii) Revenue Mechanisml: The business idea should clearly reflect the manner in which the revenue will be earned along with the quantum of revenue to be earned by selling the product or service. The business so set up on the basis of such an idea, should not only be profitable but also sustainable in line with the legal, social and environmental challenges and expected compliances with the relevant laws.

5.5 SEVERAL SOURCES OF BUSINESS IDEA TECHNIQUES

A business idea/project idea may be discovered from several sources. The ideas also originate in several forms:

A government-owned laboratory filing the most parents in the country; the chief of another government-owned laboratory defecting to the private sector; a resurgence in venture capital activity in the country, this time focused around the creation of IP (Intellectual Property); a continuation of the trend of multinationals putting down research laboratories and development centres in India; and a significant growth in patent-filing activity by Indian companies.

Project identification is concerned with collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and with the development of such opportunities.

Opportunities according to Drucker are of three kinds – additive, complementary and breakthrough. Additive opportunities are those opportunities which enable the decision-maker to better utilise the existing resources without in any way involving a change in the character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk.

Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. The element of risk is greater in the case of complementary opportunities and is greatest in the case of breakthrough opportunities.

As the element of risk increases, it becomes more and more important to precisely define the scope and nature of the project objectives and to select the best possible approach so as to minimise both resource consumption and risks and to optimise the return or gains. Human mind has an infinite capacity to observe and to innovate and deduct. Observation is one of the most important sources of project ideas. The observant mind continuously comes across situations which can be utilised to develop investment opportunities. The observation may be made during the com of one's routine occupation or otherwise. The dearth of a particular article or service may for instance lead to the development of an industry which can provide the article or service in short supply.

The availability of a specified type of raw material or skill may lead to yet another type of industrial activity. The observant mind is always on the lookout for opportunities which can form the basis for the development of new project ideas. Observation of the existing processes can sometimes lead to new opportunities and financially beneficial project ideas.

This would for instance be the case when a processing unit decides to manufacture machines which it has so far been using for processing purpose only. The process of deduction is on many occasions used to supplement and rationalise project ideas based on pure observations. In innovative units, it often becomes necessary to depend upon the deductive process for the development of new approaches to the solution of existing problems.

Trade and professional magazines provide a very fertile source of project ideas. The statistics and information given by these magazines and reports and records of professional bodies often reveal opportunities which can be eventually developed into investment propositions. It is very important for every person who is involved in the development of new investment opportunities to remain in touch with the latest developments in his own field of specialisation.

In most developing countries where planned development has been accepted as an approach towards the removal of poverty the plan document published by the Government provides a very useful source of project ideas. The plan document generally analyses the existing economic situation in a country and also pinpoints the investment opportunities which fit into the overall planning effort. Considerable information can, therefore, be gathered from the plan document.

Departmental publications of various departments of Governments also provide useful information which can help in the development of new project ideas. These publications are either periodical in character or are issued on special occasions. The census document which is a periodical publication is a very useful source of information about the economic structure of the society and various trends in the growth of economy and purchasing power and can be used to develop new ideas.

The project idea is a user friendly concept of what a project should be like. It is the raw expression of the desire of the project sponsoring body to achieve something. The exact form in which the project idea is expressed is immaterial.

Brainstorming – It helps in generating a large number of product ideas. It should be conducted by an expert and none of the ideas mentioned be evaluated or judged. At this stage one should not worry if the ideas is suitable or not.

New ways of doing old things – A large number of products are being made and provided in the market using traditional methods and practices. One approach can be to examine if these can be made by a different and newer method that gives the entrepreneur an advantage over the older method.

Converting hobby into business – Some people are adept at doing something or the other as a hobby or for use in the house only. It is possible to use such skills to set up an enterprise. Hobbies like photography, interior decoration, fashion designing etc., are often developed as business ventures.

Utilising waste material – Conservation and environment protections are presently getting a lot of attention. Recycling waste or turning them into useful products are good product ideas. Presently energy conservation products also have good potential.

Improving an existing product – An existing product can be improved by using old techniques with more care or using newly developed technology.

5.6 PROJECT FORMULATION IN BUSINESS IDEA

In order to avoid unnecessary communication between the project sponsoring body and the project formulation team, the project idea should indicate broad objectives of the sponsor and limit these in time, space, function and structure. In case no limitations are envisaged, the sponsoring body should state so and leave the project formulation team in no doubt about it.

1. Observing Markets

Careful observation of markets can reveal a business idea. Market surveys can also reveal the demand and supply position for various products. It is necessary to estimate future demand and to take into account anticipated changes in fashions, income levels, technology, etc. In this connection, it will be useful to ascertain whether the demand is elastic or inelastic and whether the product is repeat purchase or not.

Attempt should be made to determine the trend of demand and the composition and pattern of potential users of the product. A survey of the available channels of distribution should also be made so that the selling campaign can be properly planned well in advance of the production. Advice of professional experts like dealers, commercial consultants, bank managers, advertising agencies may also be obtained to supplement product analysis and market surveys.

Competition and price trends can also be found through market surveys. From the data collected through market observation, one can identify the products/industries which are in demand and which require increase in supply. A promoter can then find out the most profitable line of business. For example, the scarcity of edible oil prompted many firms to enter into the production/supply of edible oils in India.

2. Prospective Consumers

Consumer knows best what he wants and the habits/tastes which are going to be popular in the near future. Contacts with prospective consumers can also reveal the features that should be built into a product/service. These days' good business firms generally conduct a survey among prospective consumers before choosing the product to be manufactured.

These firms also conduct a market test of the prototype product before launching it into the market. The customer is the foundation of a business and it is he who keeps it going. Therefore, data on consumer needs and preferences must be collected. Initially, a new enterprise should concentrate on one or a limited range of products. More products can be added to complete the line later on as the business becomes well established.

3. Developments in Other Nations

People in underdeveloped countries generally follow the fashion trends of developed countries. For example, video, washing machines, micro ovens, etc. which are now the 'in things' in India were being used in the United States and Europe before the eighties.

Therefore, an entrepreneur can discover good business ideas by keeping in touch with developments in advanced nations. Sometimes, entrepreneurs visit foreign countries in search of ideas for new products/processes. Trade delegations of various chambers of commerce, etc. visit foreign markets to explore foreign collaborations and other types of business ideas.

4. Study of Project Profiles

Various Government and private agencies publish periodic profiles of various projects and industries. These profiles describe in detail the technical, financial and market requirements and prevailing position. A careful scrutiny of such project profiles is very helpful in choosing the line of business. Technical and other types of experts may be employed to carry out a specialised study of project profiles and to suggest the most promoting projects/industries for further evaluations.

5. Government Organisations

Several Government organisations nowadays assist entrepreneurs in discovering and evaluating business ideas. Development banks, state industrial development/investment corporations, technical consultancy organisations, investment centres, export promotion councils, etc. provide advice and assistance in technical, financial, marketing and other areas of business.

Government also identifies the priority sectors for investment through five year plans, industrial policy resolutions and guidelines for industry. In this connection government publications on trade and industry can also be helpful in discovering business ideas. Items reserved for small sector will also indicate the potential areas.

6. Trade Fairs and Exhibitions

National and international trade fairs are a very good source of business ideas. At these fairs, producers and dealers in the concerned industry put up their products for display and/or sale. A visit to these fairs provides information about new products/machines. Negotiations for the purchase, production, collaboration, dealership, etc. may also be made at these fairs.

7. Attending Motivation Campaigns

Entrepreneurial programmes are organised periodically by the Public Sector Commercial banks, Industrial and Technical consultancy organisations, Small Industries Service Institute and the District Industries Centres individually and in association with one another where also advice and guidance are made available to the Interested participants/potential entrepreneurs.

5.7 ELEMENTS OF THE GOOD IDEA GENERATION PROCESS IN BUSINESS IDEA

It seems incongruous that good idea generation can be a process or that a process may lead to insight. However, if you examine the behaviour of people who regularly generate good ideas? Such as creative in advertising – you will find that common patterns of behaviour do emerge and it is possible to make insight more likely. Below are just some elements of the good idea generation process:

1. Read and Study: Read and study as many things about your industry or product and services. You need to investigate specific information of what you are going to sell. Keep up with current events and be ready to take advantage of business opportunities. If you read or watch the news regularly with the conscious intent of finding business ideas, you'll be amazed at how many business opportunities your brain generates.

2. Improve General Knowledge: Don't limit yourself to only learn about things in your own industry. Learn as many topics as possible from other industries. It can be any topic. This enables you to think out of your own industry. Once you investigate and research enough, your mind is the storehouse of all the ideas you have studied. You have full knowledge of what to do next with your idea. And this is the main source to your creative ideas. All the knowledge you have learned so far is the raw materials to produce new ideas. Mix all the knowledge and generate the best one.

3. Brainstorming: Brainstorming is one group method for generating both business solutions and ideas. It is most effective if performed within a criticism-free zone where group members are encouraged to freely contribute ideas during the brainstorming session. Brainstorming is a way in which you get out of your conscious self and become an idea machine.

4. Checking out the competition: Your aim is to understand what your competition is doing so you can do it better. Maybe their service is poor. Maybe their product has some flaws-something you'll only know if you try it out yourself. Or maybe you've figured out a way to do things better, smarter, more cost-effectively. Market yourself or your product in a way that is completely unique from your competition. Look around at what they're doing and do something different. It's actually easier to do this than it sounds. It just takes a little thought, preparation, trial and error. But no matter what, dare to be different.

That can be disheartening if you've already spent X amount of hours in the idea stage, plus X amount of hours on market research-only to find that you're not quite ready to get started after all. But taking the time to refocus your energies and determine why your idea needs some tightening is the best predictor of future success.

5. Analysis: Analyze the business idea from three perspectives – company, customer, and competitors. Here's what he looks at for each of the four issues:

i) Company – Think of your idea in terms of its product/service features, the benefits to customers, the personality of your company, what are your promises and commitments to the customers?

ii) Customers – There are three different customers you'll need to think about in relation to your idea – purchasers (those who make the decision or write the cheque), influencers (the individual, organization or group of people who influence the purchasing decision) and the end users (the person or group of people who will directly interact with your product or service).

iii) Competitors – Think about the competitors, some competitors are good in innovation; some are in setting pricing etc. You must be able to beat the competitors by thoroughly analyzing their core competencies. Their placement within each level is based on how often your business would compete with them and how you would tailor your messages when competing with each of these groups.

6. Think on the Viability of the Idea: Unless you have lots of your own money to pour in, you need a business that can operate cheaply to begin with and one that doesn't require dozens of staff. At the initial stage to make the idea practical it should be the economic one. It should not involve number of resources that is difficult to arrange. Otherwise even if your idea is the best one but if it is not under the reach of maximum people then it is of no use. Work out who would make it and for how much.

i) Be realistic.

ii) Low starting costs and fewer staff are more likely to work.

7. Refine and Narrow: Refine your raw idea until it's up to your satisfaction. You can always do your own research on the raw idea by asking questions to target market to test the feasibility of the idea and how to improve the idea further. Your idea ought to be able to satisfy a very precise need and be readily acceptable once it comes into fruition. Refining will take care of any general indicators and concentrate on the core of the business idea.

8. Is there room for growth: You could gradually offer a bigger range of products, set up business in new locations, make on going improvements to your service and reach more customers. Look to web technology for ways to evolve. It's best if plans for growth correspond with how the market working in looks set to develop over the next few years. Basically new idea is a combination of old ideas. You need to have enough old ideas to come up with new ideas. That's why constant reading and observation are important.

5.8 IDEA GENERATION TECHNIQUES

It is beyond doubt that sound business ideas lay the foundation for the lucrative business. Business ideas can be generated from the following sources:

1. SCAMPER: It is an idea generation technique that makes use of action verbs as a stimulus to generate the business idea. This checklist technique was developed by Bob Eberie. Through this technique people are aided to generate ideas either for product modification or for developing a new product. SCAMPER is an acronym word, where each letter in it, indicates an action verb which in turn signify for a quick call for a creative idea.

S – Substitute
C – Combine
A – Adapt
M – Modify
P – Put to another use
E – Eliminate
R – Reverse

2. Brainstorming: In this process, large number of solutions for a specific impending problem (idea) is sought from the participants. While stressing on the large number of ideas, participants are allowed to speak about their ideas freely without fear of criticism or sarcasm. Even bizarre/weird ideas are considered with open hands. In fact, the crazier the idea, the better it is. Frequently, ideas are worked together to nurture one good idea, often indicated by the slogan “1+1=3”. Brainstorming generally involves employees, prospective entrepreneurs, customers or even group of people. The typical brainstorming group can include six to ten participants.

3. Mind Mapping: Mind mapping is a graphical technique developed by Tony Buzan, a UK researcher, who developed this technique so that mind is provoked to imagine connections between various pieces of information or ideas. In this technique, first each fact or idea is written down and later connected by curves or lines to its minor or major (previous or following) fact or idea, thereby creating a web of relationships. It is used in brainstorming, project planning, and problem solving. The intent behind this technique is to capture attention and to gain and frame information to enable sharing of concepts and ideas.

4. Focus Groups: It is a guided activity where the participants are already informed about the situation/ product or service or being users themselves. People are selected for this activity based on their insights or relationships so as to extract business ideas through open and frank discussion. Participant is generally five to ten in numbers, selected from either employees, customer base, or are a research group having requisite knowledge about the topic. There is a moderator who keeps the discussion live on the underlined topic so that viable ideas can be found out.

5. Problem Inventory Analysis: Problem Inventory analysis though seems similar to focus group method, yet it is somewhat different from the latter in the sense that it not only generates the ideas, but also identifies the problems the product faces. The procedure involves two steps – One, providing consumers a list of specific problems in a general product category.

This method is found relatively more effective for the reason that it is easier to relate known products to a set of suggested problems and then arrive at a new product or an idea. However, experiences available suggest that problem inventory analysis method should better be used for generating and identifying new ideas for screening and evaluation. The results derived from product inventory analysis need to be carefully screened and evaluated as they may not actually reflect a genuine business opportunity.

6. Synectics: Synectics is another kind of creative idea generation and problem solving technique developed by William J.J. Gordon and George M. Prince. In this technique, interest is provoked in those areas, of which the subject may not be aware of. It is a manner of approaching problem-solving and creativity in a rational manner. This study endeavors to examine the creative processes while they are in progress. According to J. J Gordon, three vital assumptions are central to Synectics research:

- It is possible to describe and teach the creative process.
- Invention processes in sciences and the arts are analogous and triggered by the very same "psychic" processes.
- Group and individual creativity are analogous.

7. Storyboarding: Storyboarding is sought to create a visual story to explore or describe a particular problem/ situation. In this activity, creative people are allowed to represent information obtained during research in a lucid manner. Cork board is used to depict pictures, quotes from the user, and other relevant information to explain a particular scenario. This enables the listeners to imagine and comprehend the relationships and relevance between various ideas, possibly giving way for a plausible solution.

8. Role Playing: In the role playing technique, each participant can take on a personality or role different from his own. As the technique is fun, it can help people reduce their inhibitions and come out with unexpected ideas.

9. Customer Advisory Boards: Organisation in order to assess customers wants, preferences, dislikes, and problems develop and organize customer advisory boards. At such boards, customers are allowed to voice suggestions, challenges and problems faced so as to chalk out the strategy to deal with them, often leading to creating a refined or altogether a new product or service.

10. Attribute Listing: It is an analytical approach to identify new forms of a system or product by recognizing possible areas of improvement. Initially, it is broken into parts, finding the physical features of each component along with its all functions being studied, to know how much to alter/enhance a particular product. It is primarily done to assess whether recombination of the components would damage or improve the product.

11. Morphological Analysis: Morphological analysis has to do with recognizing the structural aspects of a problem and studying the relationships among them. For example – Imagine the problem is transporting an object from one place to another by way of a powered vehicle. The significant dimensions are- the kind of vehicle (cart, sling, bed, chair); the power source (internal-combustion engine, pressed air, electric motor); and the medium (air, hard surface, rails, rollers, oil, water). Thus, a cart-kind of vehicle moving over rough surface with an internal-combustion engine to power, is an automobile. The expectation is that it would be possible to determine some novel combinations.

12. Forced Relationships: In this technique, completely different ideas are joined together to create a new idea. Due to different outcomes resulting from different combinations very often worthy ideas are generated, while some of them have future viability also. For e.g. I-Watch a smart watch, created by Apple Inc. while combining the features of a traditional watch with other real time applications, offers a novelty to its users.

Another e.g. can be seen in the case of electric cars, where the future seems very promising, as the idea of having greener and cleaner means of transportation, culminates into having place and time utility. (TESLA INC. is world's leading organization engaged in making electric cars and other utility vehicles).

13. Reverse Brainstorming: This technique is also sometimes called "negative brainstorming," It is a process which turns typical brainstorming technique into upside down situation. Rather than asking the participants to find the ways for solving a problem or coming up with great ideas for improving a process or achieving a goal, they are asked to brainstorm different ways to completely undermine a process or make it impossible to achieve a goal. Through this, all the pent-up negative thoughts are allowed to flow to the surface. This leads to assess the reasons for the possible failures or bottlenecks.

Accordingly tools are developed to find out the possible solutions. One of the best ways to envision the process of reverse brainstorming is to compare it to a typical brainstorming process. For instance, following sets of questions can be examined:

i) Typical brainstorming question – How can we increase sales? Improve customer service?
ii) Reverse brainstorming question – How can we decrease sales so that the sales figure comes to zero?
iii) Typical brainstorming question – How can we increase our market share in the competitive market?
iv) Reverse brainstorming question – How can we ensure that our market share is reduced to abysmally low levels?

5.9 MEANING OF IDEATION CATALYSTS AND INHIBITORS

An economic catalyst is an entrepreneur or company that precipitates a fundamental change in business or technology. A more precise definition of a catalyst is based on the new economics of multi-sided platforms A reaction inhibitor is a substance that decreases the rate of, or prevents, a chemical reaction. A catalyst, in contrast, is a substance that increases the rate of a chemical reaction. There are factors that enable and inhibit ideation. Some members of these two categories are:

1. CATALYSTS

- Being resourceful
- Being knowledgeable
- Fresh thinking or child like ability to think without barriers
- Open mindedness to happenings in the ecosystem
- Tolerance for error
- Acceptance of failure
- Increase in the variety of people and experience
- Belief in oneself

2. INHIBITORS

- Belief that creativity or ideation cannot be learnt
- Fear of failure
- Pressure to align and think in a programmed fashion
- Greater importance for reputation

5.10 INTRODUCTION OF OPPORTUNITY MAPS

Opportunity mapping is an analytical tool that deepens our understanding of "opportunity" dynamics within regions. The goal of opportunity mapping is to identify opportunity-rich and opportunity isolated communities. After identifying opportunities that could best suit one's personal and professional profile, ideation techniques can be used to come up with many ideas in the specific opportunity space. Once the entrepreneur comes out with a list of ideas, then every idea tied to the opportunity under consideration becomes known as an Idea to Opportunity Map (I2O Map). One opportunity could have many ideas associated with it.

For example, if one has identified 'working professionals not having access to healthy wholesome breakfast' as an opportunity, many ideas can be associated with it like a chain of healthy breakfast stores near IT parks, a serve-at-desk option or a stall in the cafeteria. All the three ideas are mapped to the single opportunity. Each of these is called as an I2O map. Now an I2O map has its own demands on implementation and limits of returns it can provide. The next step is to weigh the I2O maps against a set of criteria that will allow the entrepreneur to recognise those that are best suited in terms of commercial and personal gains.

5.11 EVALUATION OF IDEA TO OPPORTUNITY MAP

Every idea selected for the opportunity represents an Idea to Opportunity Map (I2O Map) for us. Instead of evaluating only the idea, we would be evaluating the idea in the context of the opportunity to select the more suitable ones for further processing. Similar to the opportunity evaluation sieve, this sieve is also made of certain imperatives, namely:

i) The economic imperative
ii) The cultural imperative
iii) The social imperative
iv) The personal imperative

i) The economic imperative: This imperative addresses the viability of the I2O map and the entrepreneur's capability and willingness to go ahead with the venture. It weighs each of the I2O Map for clear customer definition, possible cost of execution, industry nuances, alignment of economic gains with entrepreneurial aspirations and the value proposition offered by it.

ii) The cultural imperative: The second aspect is the cultural imperative. It is important to take the I2O Maps' capability to cater and leverage to the cultural nuances of the potential customer segment. Also it provides an early check to see if there are any alignment issues with respect to cultural aspects of the potential market that is to be served.

iii) The social imperative: It is important to understand if the I2O map is socially acceptable or would give rise to some concerns. Trying to understand the possible reactions of the social ecosystem to the I2O map, levers of support and roadblocks could go a long way in the successful implementation of the venture.

iv) The personal imperative: The personal imperative are the questions that are to be answered by the entrepreneur or the founding group about their view on the I2O map. This enables an early check to see if the entrepreneur would be excited enough to persevere doing the business represented by the I2O Map across the highs and lows of the entrepreneurial journey.

5.12 INTRODUCTION OF OPPORTUNITY ANALYSIS

Opportunity analysis refers to establishing demand and competitive analysis, and studying market conditions to be able to have a clear vision and plan strategies accordingly. Opportunity analysis is a vital process for the growth of an organization and needs to be performed frequently.

5.13 FACTORS THAT INFLUENCE IN BUSINESS OPPORTUNITY IDENTIFICATION

There are five factors that influence identification of opportunities. These are:

i) Entrepreneurial Alertness: This is a predisposition to observe and be responsive to information about objects, incidents, and patterns of behaviour in the environment, with special sensitivity to maker and user problems, unmet needs and interests, and novel combinations of resources. This is usually preceded by a position of enthusiastic awareness of information. Entrepreneurs constantly search about for opportunities that have been overlooked before then but unfortunately not all that have entrepreneurial alertness become successful entrepreneurs. Opportunity identification is only an indispensable stage of a process in initiating a new successful business.

There are two types of alertness. These are the potentially worthwhile goal s that have remained unnoticed and the unnoticed but potentially valuable resources. The alert entrepreneur is said to be alert to the receipt of information rather than already being in possession of it. Entrepreneurial alertness is of major importance in opportunity identification. Alertness for a venture is built upon the three ideas of personality traits, social networks and prior knowledge.

People's self-perception of creativity, high intelligence and a supportive family environment that encourages creative thinking contributes highly to execution of entrepreneurial plans. The optimism acquired from these builds up a self-confidence attitude and eventually success in recognizing entrepreneurial opportunities when it comes. It is the belief by many people that they are very good experts in decision making, thereby detect opportunities and take risks.

ii) Prior Knowledge: People tend to discover opportunities from the information that is related to the information they already know. Prior knowledge and experience are the primary source of searching for opportunities. Entrepreneurs narrowed their search to areas where they had specific prior knowledge. Prior knowledge triggers identification of the value of new information. There are two main areas of prior knowledge relevant to the identification process. The first one is the knowledge that is of special fascinating interest to the entrepreneur. The second area is the knowledge accumulated over the years and eventually got familiar with customer problems and issues involved.

iii) Discovery versus Purposeful Search: Some entrepreneurs absolutely believe that opportunity identification has to be through a purposeful search for opportunities while others believe that opportunity is something that had been readily available and overlooked but now discovered accidentally. Businesses established on accidentally discovered venture ideas and which had not been subjected to prescribed screening achieved break-even sales faster than those businesses that had undergone purposeful searches.

iv) Networking versus Solo Entrepreneur: Entrepreneurs' network is vital in opportunity identification. The main contribution of network to identifying potential venture opportunities is from information gathered from social exchange of ideas. The common sources for such opportunity are from friends, relatives, businessmen, lawyers, bankers, participation in professional seminars, workshops and conferences, newspapers, books, periodicals and manuals. It is the belief that an individual's strong-tie network within the family and friends set up are fragile information sources compared with weak ties that are casual acquaintances.

There are three categories of opportunity recognition attitudes from social networks. These are the solo, the network and the informal categories. The solo entrepreneur category has a very creative, opportunistic and distinctive alertness attitude. They develop business ideas on their own with the belief that new opportunities which is claimed to be theirs alone, come naturally. Network entrepreneurs obtain their ideas from their social networks.

v) Creativity: There is a link between creativity and entrepreneurship and are sometimes refer to be same. The nature of creativity is about innovation leading to the creation of new ventures while entrepreneurship itself is a form of creativity or can even be referred to as business creativity and in most cases new businesses are creatively original and functional. Most successful entrepreneurs identify opportunities that others do not see due to the special creativity attribute they possess. These creative attributes has a lot to do in business decision making and therefore very significant in opportunity-identification process. To entrepreneurs, the more innovative the idea the better the idea this makes creativity a fundamental component in the entrepreneurial process. Hence creative entrepreneurship is described as the accomplishment of original useful ideas to start a new business to product and service delivery level.

5.14 INTRODUCTION OF SWOT ANALYSIS

A SWOT Analysis is a framework for identifying Strengths, Weaknesses, Opportunities and Threats. It is often presented a 2x2 matrix and can be applied to any business and industry, from non-profit charities through to large corporate entities. Opportunities are openings or chances for something positive to happen, but you'll need to claim them for yourself! They usually arise from situations outside your organization, and require an eye to what might happen in the future. They might arise as developments in the market you serve, or in the technology you use

Strengths: Strengths describe what an organization excels at and what separates it from the competition: a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

Weaknesses: Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

Opportunities: Opportunities refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market share.

Threats: Threats refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply. and so on.

Strengths 1. What is our competitive advantage? 2. What resources do we have? 3. What products are performing well?	**Weaknesses** 1. Where can we improve? 2. What products are underperforming? 3. Where are we lacking resources?
Threats 1. What new regulations threaten operations? 2. What do our competitors do well? 3. What consumer trends threaten business?	**Opportunities** 1. What technology can we use to improve operations? 2. Can we expand our core operations? 3. What new market segments can we explore?

Figure 5.1 SWOT Table

5.15 INTRODUCTION OF FEASIBILITY ANALYSIS

Feasibility Analysis refers to the process of examining the viability of a business idea. It means assessment of the potential and practical applicability of business idea. It is not just concerned with product or service but it is study of business viability as a whole. Feasibility analysis helps in identifying possibility, practicality, capacity and achievability of the project. A prospective entrepreneur having creative and innovative idea must conduct feasibility analysis. It may not only add vitality to the viability of the underlying business proposition but also add vision to the business opportunity. The following point equips an entrepreneur to decide if he should continue with the existing business idea or not:

- Is this business possible?
- Is this business practicable?
- Probability of success of business in future?
- Do I have access to all the resources required to start the business?

Feasibility analysis helps to critically analyze the business concept in detail. It requires use of both primary as well as secondary data. Primary data can be collected from potential customers, industry experts etc. while secondary data can be collected through previous studies (if any), published sources, reports and feedback taken by other firms.

5.15.1 Need for Feasibility Analysis

i) Feasibility analysis helps in providing guidelines for preparing business plan.

ii) Through feasibility study, Shortcomings/gaps if any can be detected and measures can be taken to resolve them.

iii) It helps in understanding the viability of the concept or business idea.

iv) It boosts up the confidence level of an entrepreneur w.r.t the business idea.

v) It reduces the chances of business failure.

vi) It apprises entrepreneur about the risk involved.

vii) It Saves an entrepreneur from potential business loss and instils the prospects of success driven by hard work and risk taking capability.

viii) It also ropes in the confidence of potential investors.

5.15.2 Elements of Feasibility Analysis

Feasibility analysis includes study of various aspects of a business. It includes identifying product viability, technical feasibility and commercial feasibility. Following are some of the important aspects that should be considered by an entrepreneur while conducting a feasibility analysis:

1. Product/Service Feasibility Analysis – Give Example: It includes studying various aspects of product/service to be provided to customers. The main aspect to be examined here is testing the desirability and demand for product/service. In order to test the desirability, one needs to examine following factors:

- What excites consumer about the product. What attributes makes him desire a product? Is it look of the product, is it the fragrance, do users provide importance to size and shape of the product (e.g. soaps).
- What need does the product satisfy?
- Does it fill a gap in market?
- Does it solve customer's problem?
- Not only these, it also includes the study of right time to introduce a product?

So in order to test desirability and demand for the product, concept testing is done at this stage. Under this, description about product/service is mentioned and shared with potential customers, industry experts to solicit their responses. Their feedback on the same provides insights about the viability of a product. It provides answers to questions like preferences/dislikes about the product, suggestions that can be incorporated to improve the utility of the product.

2. Industry Analysis/Target Market Accessibility (Primary Search, Secondary Search):

Industry refers to groups of firms producing similar or substitute products/services. An Entrepreneur should conduct feasibility analysis to find, industry attractiveness for the product. Various parameters can be used to study an industry like demographic characteristics of the target group, growth pattern in industry, number of firms competing against each other, profit margins, entry barriers in the industry etc.

Industry is considered attractive enough if profit margins are high, numbers of competitors are low and firm's life cycle is in initial stages. This gives lot of scope for the firm to venture in the industry and innovate.

3. Technical Feasibility/Concept Test: Technical feasibility is study of most appropriate technology to be adopted by business to transform business idea into easily marketable product. Under this, factors like technology to be used, production process involved, type of raw materials needed, ideal size of plant to be installed and equipment's required are assessed. Also factors like manpower requirement, funds needed to support use of latest technologies, cost involved in developing or buyout along with implementation, are judged for success of business.

4. Commercial Feasibility/Business Concept: Commercial viability is the study of viability of business idea on commercial scale. It is possible to develop environmentally sustainable as well as useful products, yet such products may not be commercially appropriate. Therefore, it is imperative to conduct commercial feasibility test before taking the final decision to commence the production of a product. A commercial feasibility facilitates an entrepreneur to identify following relevant factors:

- Manufacturing cost of production over short run and long run.
- Anticipating demand for product in near future and in long run.
- Competition level in the market.

Higher cost of production, intense competition level and inefficiency in operations can pose serious threats for firm in long run. One should either be able to fight these challenges to survive or should scrap the project at its planning stage only to avoid wastage of time, resources, manpower and capital.

5. Financial Feasibility: Assessing financial feasibility of the product involves study of various costs aspects related with carrying of the project. Under financial feasibility firm identifies following factors:

- **Cost of the Project-Fund Required to Start Sustain Initial Losses:** Cost of project primarily includes capital budgeting expenditure on acquisition of capital assets like land and building, plant and machinery, furniture and fixture and other long term revenue yielding assets. It is a long term commitment of substantial amount therefore decisions for investment in these types of assets should be taken carefully. Investments in long term assets are irreversible in nature and expose the firm to substantial risks.
- **Working Capital:** Estimation of Working capital requirements should be done with utmost care as both over investments as well as under investments in working capital can hamper routine nature activities to great extent. Having insufficient working capital will lead to liquidity crunch and will stall the business activities while excessive investments in working capital will block the funds that will undermine the profitability.
- **Break Even Analysis:** Break-even level is that level of activity at which a firm is able to meet all the variable costs out of its revenue. Identifying the possible sales volumes at which break-even level will be achieved is important for working of business, as it indicates the stage till which firm will continue to make

losses. Break-even level will give an idea about resources and time required to reach that particular level of activity,

- **Projected Income Statements:** Finance is the backbone of any business. Future sales are projected and revenue charts are prepared to assess the inflow and outflow of funds in the business. Projected income and expenditure statements reflect the magnitude of gap between the income and expenditure so that the difference between the two can be bridged by arranging for funds or deploying excess funds in lucrative avenues.

5.16 CONVERTING A BUSINESS IDEA INTO A BUSINESS OPPORTUNITY

A business idea germinates and to convert into a business opportunity it is to be scrutinised carefully.

1. Preliminary Evaluation and Testing of Ideas

Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significant in the evaluation and testing of business ideas:

Technical Feasibility: It refers to the possibility of producing the product. Technical feasibility of an idea is judged in terms of availability of necessary technology, machinery and equipment, labour skills and raw materials. The advice and assistance of technical experts may be necessary to judge the technical feasibility of various business ideas.

Commercial Viability: A cost-benefit analysis is required to ascertain the profitability of the ideas. An elaborate study of market conditions and prevailing situation is made to assess the viability and prospects of the proposed project. This is known as feasibility study of the project. The services of market analysis and financial experts may be necessary for this propose. There is a difference between a business idea and a business opportunity. While the idea for a product or service may be workable (technically feasible), the proposed business built on this may not be profitable. It is normal for an entrepreneur to have several ideas that have to be rejected before finding one that is not only workable but worthwhile. In order to judge the workability and profitability of the proposed business, feasibility analysis has to be conducted.

2. Detailed Analysis

After preliminary evaluation of the idea, the promising idea is subjected to a thorough analysis from all angles. Full investigation is carried out in the technical feasibility and economic viability of the proposed project. Financial and managerial feasibility of the idea are tested.

At this stage a lot of information is required. Consultations with experts in various areas of the industry may be necessary to carry out the detailed analysis. Due care should be exercised at this stage because the idea is finally accepted or rejected at this stage.

After the evaluation of a business idea is completed, the findings are presented in the form of a report known as 'feasibility report' or 'project report.' This report helps in the final selection of project. It is also useful for procuring licenses, finance, etc. from governmental agencies.

3. Idea Selection

The feasibility report is analysed to finally choose the most promising idea. Generally, the following considerations influence the selection of idea for a product or service:

- Products whose imports are banned or restricted by the government.
- Products which can be exported easily and profitably.
- Products whose demand exceeds their supply so that there exists ready demand.
- Products in which the entrepreneur has manufacturing and/or marketing experience.
- A parent ancillary relationship, i.e., the product is to be manufactured for a parent company.
- Products which showed high profitability.
- Products based on the expansion or diversification plans of existing forms of the family/ friends/relatives.
- Products which ensured specific advantages. The advantages might accrue because of the scale of the industry or the location of the factory or technology of manufacture.
- Products favoured by the country's industrial/licensing policy, e.g., delicensed industries.
- Products for which incentives and subsidies are available.

While considering these various factors - market, owner's own experience, policy and incentives - an entrepreneur would generally come across a mix of some encouraging and some discouraging factors with reference to every product. It therefore, becomes necessary to analyse and compare the pros and cons. A selection matrix may be prepared for this purpose.

4. Input Requirements

Once the promoter is convinced of the feasibility and profitability of the project, he assembles the necessary resources to launch the enterprise.

He has to choose partners/collaborators, collect the required finances and acquire land and buildings, plant and machinery, furniture and fixtures, patents, employees, etc. Decisions have to be made about the size, location, layout, etc. of the enterprise. The form of ownership organisation has to be selected.

According to Shubin "the firm is launched by assembling and organising the physical facilities, developing operation and production processes, advertising its product and initiating a sales promotion campaign, recruiting labour and accumulating inventories."

LET US SUM UP

Entrepreneurial opportunity exists when consumer demand meets the feasibility of bringing the product or service to market. Joseph Schumpeter, an early scholar of entrepreneurship, identified creative destruction—when innovation is disruptive and creates potential entrepreneurial opportunities. Schumpeter's focus on economics led him to categorize potential opportunities based on supply, demand, or changes in how technology is used. Burgeoning entrepreneurs should be engaged with industries of interest to remain informed and aware of opportunities to research. Additionally, they should be attentive to drivers of opportunity, such as emerging funding options, technological advancements, and economic factors.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Why should an entrepreneur do a feasibility study for starting a new venture?

a) To identify possible sources of funds

b) To see if there are possible barriers to success

c) To estimate the expected sales

d) To explore potential customers

2. What is the process by which individuals pursue opportunities without regard to resources they currently control?

a) Startup management b) Entrepreneurship

c) Financial analysis d) Feasibility planning

3. ____________ is primarily concerned with the identification of the project demand potential and the selection of the optimal technology.

a) Techno-economic analysis b) Feasibility analysis

c) Input analysis d) Financial analysis

4. ____________ can be defined as a specifically evolved work plan densed to achieve a specific objective within a specific period of time.

a) Idea generation b) Opportunity Scanning

c) Project d) Strategy

5. Government can help in forming new venture by providing ____________.

a) Finance b) Technology

c) Infrastructure d) Subsidiaries

GLOSSARY

Competitive advantage	**:**	describes your venture's unique benefits that poise it for growth.
Creative destruction	**:**	theory developed by joseph schumpeter stating that entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it destroys established companies and disrupts employment.
Entrepreneurial opportunity	**:**	point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service and meets the following conditions: significant market demand, significant market structure and size, significant margins, and resources to support the venture's success.
Financial viability	**:**	long-term financial sustainability of an organization to fulfill its mission opportunity screening: process used to evaluate innovative product ideas, strategies, and marketing trends, focusing on financial resources, skills of the entrepreneurial team, and competition
Opportunity screening	**:**	process used to evaluate innovative product ideas, strategies, and marketing trends, focusing on financial resources, skills of the entrepreneurial team, and competition.

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WEB RESOURCES

1. Introduction to the Essential Ideation Techniques which are the Heart of Design Thinking | IxDF (interaction-design.org)
2. Feasibility Analysis: Meaning, Importance, Report, Types, Process, Objectives and Advantages | Business (businessmanagementideas.com)
3. Business Idea Generation Techniques Part 1 - YouTube
4. SWOT Analysis | Explained | Learn It In Tamil | தமிழ் - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. b) 2. b) 3. a) 4. c) 5. c)

Unit 6

OVERVIEW OF BUSINESS MODEL

STRUCTURE

OVERVIEW

A business plan is a tool with three basic purposes: communication, management, and planning. As a communication tool, it is used to attract investment capital, secure loans, convince workers to hire on, and assist in attracting strategic business partners. The business overview is a component of a business plan that provides a general explanation of your company. By reading this section, the audience learns about your company and its structure, values, mission and offerings. It can also demonstrate what makes your company unique from competitors.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the concept of business plan
- list out the importance of a business plan
- describe the steps involved in building a business plan
- discuss the various types of business plan
- describe the content of business plan and state the format of the business plan.

6.1 INTRODUCTION OF BUSINESS PLAN

Business Plan is a written document that describes the business idea and all the relevant internal and external elements involved in launching a new venture. It describes the nature and context of the business opportunities and the plans to exploit the opportunity. It is usually an integration of functional plans in finance, marketing, manufacturing, and human resources. It serves as a road map for the entrepreneur. The business plan is prepared by the entrepreneur in consultation with lawyers, accountants, consultants, engineers, etc.

Investors, venture capitalists, bankers, and suppliers read the business plan. Each group reads it for a different purpose. The focus and contents of the business plan will differ from one venture to another depending on its nature and size.

Three main perspectives must be considered in every business plan.

i) The perspective of the entrepreneur who must articulate what the venture is all about.

ii) Marketing perspective.

iii) Investors perspective.

Business plan is the blue print that provides a clear view of what the entrepreneur wants to do and key variables influencing success. It must describe where you are, where you want to go and how you propose to get there.

A business plan is a blue print or roadmap for building a business. It is a word picture of what the entrepreneurial dream is, why the dream can be economically viable for those involved and how the dream will be realized. A business plan is an operating document. Starting a new enterprise is highly risky. If the venture fails, it can spoil career, wealth, reputation, family and even life. Therefore, through thinking and planning is needed before starting.

6.2 IMPORTANCE OF A BUSINESS PLAN

The business plan is a valuable document for the entrepreneur, potential investors and even for the employees. The business plan is important to these people due to the following reasons:

1. It helps determine the viability of the venture in a target market.

2. It guides the entrepreneur in starting the enterprise.

3. The thinking involved in the preparation of the business plan makes the entrepreneur aware of the issues that could impede the venture's success.

4. It serves as a guide to investors and thereby helps in obtaining finance.

5. Writing the business plan forces the founders to think about all aspects of the venture.

6. A clear business plan articulates the vision and goals of the founders.

7. A business plan communicates to all stakeholders. They can judge the venture's future on the basis of the business plan.

8. The business plan helps identify the important variables that will determine the success or failure of the firm.

9. The business plan is used as a selling document to outsiders.

6.3 BUSINESS PLANNING PROCESS

A business plan is the first vital document for any enterprise. Its use is not only restricted to the initial phase of starting a business but extends to various stages of an established company. A business plan should, therefore, be revised periodically, after every three-to-five years. To prepare a business plan the following seven steps should be followed:

Step 1: Assessing The Situation

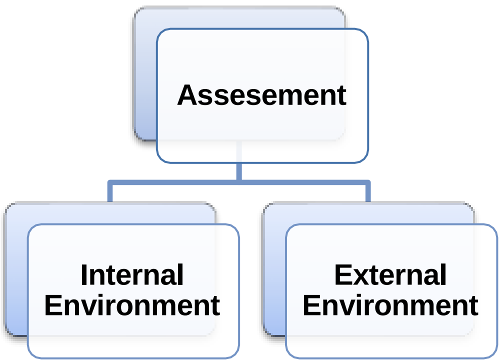

Figure 6.1 Assessing the Situation

The first step towards preparing your business plan is to assess the external and internal environment and understand the ground realities.

i) Assessment of Internal Environment: Internal assessment is all about self-examination. The position of the service offered by the company and availability of resources are examples of the internal environment. This stream of activities involves identification of Strengths and Weaknesses.

ii) Assessment of External Environment: Political, economic, social and competitor analysis are examples of external environment assessment. The external environment helps ascertain Opportunities and Threats for the company**.**

Step 2: Setting Goals and Objectives

Environmental assessment forms the basis of formulating the objectives for an event company. Objectives are written in broader qualitative terms. For example, the business must achieve higher market share by 2022. Goals, on the other hand, are more specific and can be quantified. For example, the event company should increase its profits by 15 per cent every year for the next three years. Objectives and goals vary from company to company and are usually based on different aspects of the business like market share, event service branding, marketing, customer service, finance, etc.

Step 3: Crafting Business Strategies

After setting the objectives and goals of an event company, an entrepreneur must formulate the strategy to achieve them. For example, an entrepreneur could develop a different public relations (PR) strategy to achieve the company's objective of gaining 40 per cent market share in sports events

Step 4: Writing a Business Plan

Thorough knowledge and understanding of the event industry are essential for a well-written business plan document. This plan highlights all the aspects covered so far. Additionally, vision and mission, monitoring and evaluation of the business plan, sub-plans for critical sectors such as marketing, operations, human resource, information systems, etc. are included.

Step 5: Financial Assessment and Writing

The most difficult step in the process of making a business plan is the financial assessment of the business. Financial assessment is necessary as it acts as a benchmark for monitoring and evaluation later. Standard business templates can be used to prepare the financial plan for the company. For the same, many entrepreneurs also prefer availing the services of an accountant.

Step 6: Monitoring the Process

To monitor the process of setting up a company, action plans, monitoring systems and constant feedback should integrate into the business plan. Periodic monitoring ensures implementation of the action plans in line with the objectives of the company.

6.4 TYPES OF BUSINESS PLAN

Business plans are formulated according to the needs of a business. It can be a simple one-page document or an elaborate 40-page affair, or anything in between. While there's no rule set in stone as to what exactly a business plan can or can't contain, there are a few common types of business plan that nearly all businesses in existence use.

Here's an overview of a few fundamental types of business plans.

i) Start-up plan: As the name suggests, this is a documentation of the plans, structure, and objections of a new business establishment. It describes the products and services that are to be produced by the firm, the staff management, and market analysis of their production. Often, a detailed finance spreadsheet is also attached to this document for investors to determine the viability of the new business set-up.

ii) Feasibility plan: A feasibility plan evaluates the prospective customers of the products or services that are to be produced by a company. It also estimates the possibility of a profit or a loss of a venture. It helps to forecast how well a product will sell at the market, the duration it will require to yield results, and the profit margin that it will secure on investments.

iii) Expansion Plan: This kind of plan is primarily framed when a company decided to expand in terms of production or structure. It lays down the fundamental steps and guidelines with regards to internal or external growth. It helps the firm to analyze the activities like resource allocation for increased production, financial investments, employment of extra staff, and much more.

iv) Operations Plan: An operational plan is also called an annual plan. This details the day-to-day activities and strategies that a business needs to follow in order to materialize its targets. It outlines the roles and responsibilities of the managing body, the various departments, and the company's employees for the holistic success of the firm.

v) Strategic Plan: This document caters to the internal strategies of the company and is a part of the foundational grounds of the establishments. It can be accurately drafted with the help of a SWOT analysis through which the strengths, weaknesses, opportunities, and threats can be categorized and evaluated so that to develop means for optimizing profits.

6.5 SIGNIFICANCE OF WRITING THE BUSINESS PLAN

Business Plan is a formal documentation which contains the set of business goals which are attainable for the business. It can be regarded as significant because of the following reasons:

1. Helps in Setting Objectives for Managers: A detailed business plan helps in setting short- and long-range objectives for the business. Specific objectives can be set and appropriate strategies can be built around within a limited time frame.

2. Managing Workforce: With business plans the managers have the luxury to pre-determine the requirements of the organizations in terms of the total manpower required. The rationale for hiring people should be there in the business plan.

3. Creating a New Business: A business plan is a must have document when an entrepreneur is planning to have an entirely new business in place. What could be the right steps in starting a business, what are the pre-requisites and what are the resources which need to be arranged should be necessary part of a business plan.

4. Providing Credibility: A good business plan converts a good business into a credible, understandable and attractive business.

5. Makes Prospects Familiar: The business world is dynamic and diverse at the same time. A good business plan brings in familiarity for people who do not know much about the business.

6.6 CONTENT OF BUSINESS PLAN

The content of business plan depends upon the objectives and goals set for the business undertaking. A business plan should include a market plan, financial plan, human plan, resource plan, etc.

1. Title Page and Table of Contents: A business plan is a professional document and should contain a title page with the company's name, logo,and address as well as the name and contact information of the company's founders. Many entrepreneurs also include the copy number of the plan and the date on which it was issued on the title page.

2. Executive Summary / Management Summary: It will usually contain a brief statement of the problem or proposal covered in the major documents, background information, concise analysis and main conclusions. It is intended as an aid to decision making by managers. Executive summary should be concise a maximum of two pages and should summarize all of the relevant points of the business venture.

3. Business Description, Vision & Mission Statement: Business description summarizes the key technology, concept, or strategy on which the business is based. The mission statement clearly states the company's long- term mission. In the mission statement the use words should be such that which would help direct the growth of the company. For example McDonald's mission statement reads like this- "To provide the fast food customer food prepared in the same high-quality manner would world-wide that has consistent taste, serving time, and price in a low-key décor and friendly atmosphere.

4. Business and Industry Profile: In industry analysis future outlook and trends of the industry needs to be looked into. A proper analysis of the competitors in the market and industry should also be carried out properly and the results should reflect in the business plan drafted.

5. Description of the Company's Product or Service: The business plan should include the overall description of what the company is going to offer to its customers in terms of product/services on offer. Product/service detail should be written in a terminology-free style so that it is easy for others to understand.

6. Market Analysis: The most important section in the business plan, the market analysis section should include conclusive information of how the company will react to changes in the market, generate sales, and explain why the company should be invested in. The market analysis section should include:

i) Market opportunity

ii) Competition analysis

iii) Marketing strategy

iv) Market research

v) Sales forecasts

7. Management Team: The management team section should share in detail the management team, as investors usually invest in people not their ideas. Included within this section should be:

i) Management Talent and Skills

ii) Organizational chart

iii) Policy and strategy for employees

iv) Board of Directors and Advisory Board

8. Managerial and Structural Aspects: In this the entrepreneur needs to decide which kind of organization structure should be adopted.

Further, the authority responsibility relationship also needs to be planned out. It is also necessary for the organization to specify the type of business process being followed.

9. Technical Analysis: In technical analysis the results of the technical feasibility carried out earlier is drafted. In this generally the requirements of the plant and machinery, plant capacity utilization, location of the plant etc. is analyzed and drafted.

10. Production Analysis: In this a comprehensive budgetary proposal with sub-budgets for all necessary elements is drafted. In addition to this the quality control system of the organization and inventory control systems detail should be there in the business plan.

11. Financial Plan: In this the source of capital whether it be fixed or working capital is elaborated. Secondly, the capital structure in a broad based manner should also be a part of the financial plan. Thirdly, schemes and strategies to ensure financial control and financial discipline needs to be drafted firsthand. Other details such as agreements or Memorandum of Undertakings (MOU) with banks, financial institutions, underwriters etc. should also be a part pf the financial plan.

12. Human Resource Plan: The manpower planning and the need of human resource for the organization should be analyzed and assessed. Business would do well to draft the procedures for recruitment, selection, placement, career advancement plans, training and development programmes, system of personnel compensation etc. in the business plan to draw in clarity about the priorities of the business.

6.7 BUSINESS PLAN FORMAT

Every business plan is unique, reflecting its own elements and circumstances. However, certain elements are universal and commonly followed.

1. Executive Summary (should not exceed 2 pages)

    A. Name, Address, Contact Information of the Company,

    B. Contact details of key people of the organization

    C. Description of the business, its products and services, and the customer problems being solved

    D. Description of the market for the products and services on offer

    E. Overview of the venture’s competitive advantages

    F. Mentioning the brief description of managerial and technical expertise

    G. of key people
    H. Highlighting financial forecasts through charts and graphs

2. Vision and Mission Statement
3. Company history (if venture is existing)
4. Business and Industry Profile
    A. Industry Analysis
        - Industry background and overview
        - Significant trends
        - Rate of growth
        - Essential success factors in the industry
    B. Outlook of the Future stages of growth
    C. Goals and objectives of the venture
        - Operational Goals
        - Financial Goals
        - Other Goals
5. Business Strategy
    A. Desired Image and Position in the Market
    B. SWOT Analysis
        - Strengths
        - Weaknesses
        - Opportunities
        - Threats
    C. Competitive Strategy
        - Cost Leadership
        - Differentiation
        - Focus
6. Company Products and Services
    A. Description
    B. Patent or Trademark Protection
    C. Description of Production Process
    D. Future Product Offerings
7. Marketing Strategy
    A. Target Market

B. Customers motivation to buy

C. Market Size and Trends

D. Advertising and Promotion

E. Pricing

F. Distribution Channel

8. Location and layout of the Plant (if applicable)

9. Analysis of the Competitor

10. Management Team Description

11. Plan of Operation

12. Financial Forecasts

13. Loan or Investment proposal

14. Appendices (supporting documents etc.)

LET US SUM UP

Virtually every business needs a business plan. Lack of proper planning is one of the most often cited reasons for business failures. Business plans help companies identify their goals and objectives and provide them with tactics and strategies to reach those goals.

Business plan is an outline of a business giving details of the finance, assets, staff, products or services and markets. It guides the entrepreneur, identifies possible problems and is also used in funding applications. The business plan sets out how the owner of a business intends to realize its objectives. Steps in a business plan include: Idea Generation, Environmental Scanning, Feasibility Analysis, Functional Plan (Marketing plan, financial plan, organizational plan and operational plan), Project Report Preparation, Evaluation, Control and Review.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Which of the following is not a benefit of planning?

a) Planning reduces overlapping and wasteful activities

b) Planning is a mental exercise

c) Planning provides directions

d) Planning reduces the risks of uncertainty

2. Which of the following statements is not true with reference to planning?

a) Planning is a pre-requisite for controlling.

b) Planning does not lead to rigidity.

c) Planning enables a manager to look ahead and anticipate changes.

d) Planning facilitates co-ordination among departments and individuals in the organisation.

3. Which of the following is not a feature of planning?

a) Planning is futuristic

b) Planning is pervasive

c) Planning establishes standards for controlling

d) Planning focuses on achieving objectives

4. Identify the correct sequence of steps involved in the planning process __________.

a) Evaluating alternative courses, Identifying alternative course of actions, Setting objectives, Developing premises

b) Setting objectives, Identifying alternative course of actions, Evaluating alternative courses, Developing premises

c) Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses

d) Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses

5. It is not always true that just because a plan has worked before it will work again. Identify the related limitation of planning__________.

a) Planning leads to rigidity

b) Planning reduces creativity

c) Planning may not work in a dynamic environment

d) Planning does not guarantee success

GLOSSARY

Blueprint	:	reproduction of a technical drawing.
Business Plan	:	roadmap for the organization.
Feasibility Analysis	:	It is done to find whether the proposed project would be feasible or not.
Roadmap	:	It is a detailed plan or explanation to guide you in setting standards or determining a course of action.

Stakeholder : He is a person, group, organization, member or system who affects or can be affected by an organization's actions.

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3. Business Plans - Part 1 (Business English) - YouTube
4. How To Prepare Business Plan In Tamil | Business Plan For Startup | Format, Template, Step By Step - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a) 2. c) 3. b) 4. b) 5. d)

Unit 7

BUSINESS MODEL

OVERVIEW

A business model is the plan your business has for making money. It's an explanation of how you deliver value to your customers at an appropriate cost. This includes descriptions of the products or services you plan to sell, who your target market is, and any required expenses.

The business model lets entrepreneurs experiment, test, and model different ways to structure costs and revenue streams. For those just starting out, exploring potential business models can help you determine if your business idea is viable, attract investors and guide your overall management strategy. For established businesses, it serves as the basis for developing financial forecasts, setting milestones, and setting a baseline for reviewing your business plan.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- define business model
- differentiate the business model vs. business plan
- discuss the benefit of building a business model

- describe the different types of business models
- explain the Pros and cons of different business models.

7.1 DEFINE BUSINESS MODEL

A business model is a high-level plan for how a business will earn and maximize profits.

Business models establish whether a company will offer a product or service, be online or brick and mortar, or sell to businesses vs directly to consumers, or a hybrid between several traditional business models.

For established enterprises, a business model is often a living document that is reviewed and adapted over the years. For companies launching products and services or entering new markets, a business model helps ensure that decisions are tied back to the overall business strategy. And for early-stage startups, a simple one-page business model enables founders to explore the mechanics of a business and how you anticipate it will be successful.

Defining and documenting a business model is an essential exercise. Whether you are starting a new venture, expanding into a new market, or shifting your go-to-market strategy, you can use a business model to capture fundamental assumptions about the opportunity ahead and tactics to addressing challenges.

7.2 BUSINESS MODEL VS. BUSINESS PLAN

Business models and business plans are both elements of your overall business strategy. But there are key differences between a business model and a business plan.

Business Model	Business Plan
A business model captures your hypothesis for how your business will generate revenue and reach profitability — charging a price for an offering you create at a sustainable cost.	A business plan drops down one level to show how you will implement the business model.
A business model will include a brief overview of what you offer and to whom.	It includes specifics such as operational practices, experience and structure of the management team, milestones to be reached on a set timeline, and comprehensive financial projections.

A business model is seen as foundational and will not usually be reworked in reaction to shorter-term shifts — whereas a business plan is more likely to be updated based on changes in the economy or market.

7.2 BENEFIT OF BUILDING A BUSINESS MODEL

Innovation is about more than the products or technologies that you build. The way that you operate your business is a critical factor in how you stand apart in a crowded marketplace. The benefit of building a business model is that you can use the exercise to expose and exploit what makes your company unique — why choosing your offering is better for customers than any alternatives and how you will grow the business over time.

Many people associate business models with lengthy documents that describe a company's problem, opportunity, and solution in the context of a two-to-five-year forecast. But business models do not need to be a long treatise.

A one-pager is just as effective for distilling and communicating the most important elements of your business strategy. The concise format is useful for sharing with broader teams so that everyone understands the high-level approach. Done right, a business model can become a touchstone for the team by outlining core differentiators to promote and defend in the market.

7.3 DIFFERENT TYPES OF BUSINESS MODELS

There are many different types of business models. Below are some of the most common business models with example companies for reference (take note of the companies that appear in several categories):

i) Advertising: Displays advertisements from other companies to a specific audience. Advertising business model examples: LinkedIn, Twitter, YouTube.

ii) Affiliate: Pays a small commission to others to promote goods. Affiliate business model examples: Amazon, ClickBank, Share-a-Sale.

iii) Bundling: Sells multiple products to a single customer for a fixed price. Bundling business model examples: AT&T, Allstate, Comcast.

iv) Fee-for-service: Sells labor (intellectual or physical) for a set price (hourly or by project). Fee-for-service business model examples: McKinsey & Company, MedExpress, Walmart.

v) Franchise: Builds on existing successful business and receives a percentage of earnings from franchises who invest in, operate, and promote new locations. Franchise business model examples: Ace Hardware Stores, McDonald's, The UPS Store.

vi) Freemium: Provides a limited free product with a more advanced option that users can pay to access. Freemium business model examples: LinkedIn, Slack, Zoom.

vii) Manufacturer: Sources raw materials to produce finished goods that are sold to retailers or directly to customers. Manufacturing business model examples: Apple, IKEA, Mercedes-Benz

ix) Pay-as-you-go: Charges customers based on actual usage of a product. Pay-as-you-go business model examples: Apple, Amazon Web Services, Mint Mobile.

x) Retailer: Procures and sells products manufactured by others — the last step of a supply chain. Retailer business model examples: Aldi, Amazon.com, Walmart.

xi) Subscription: Offers a product that requires ongoing payment for a fixed time period. Subscription business model examples: Apple, Amazon Prime, Netflix.

xii) Marketplace: Hosts a platform for other companies to do business in exchange for compensation. Marketplace business model examples: Apple, Ebay, Etsy.

7.4 FUNCTIONS OF A BUSINESS MODEL

The functions of a business model are to:

Articulate the value proposition, that is, the value created for users by the offering based on the technology;

Identify a market segment, that is, the users to whom the technology is useful and for what purpose;

Define the structure of the value chain within the firm required to create and distribute the offering;

Estimate the cost structure and profit potential of producing the offering, given the value proposition and the value chain structure chosen;

Describe the position of the firm with the value network linking suppliers and customers, including identification of potential partners and competitors; and

Formulate the competitive strategy by which the innovating firm will gain and hold competitive advantage over rivals.

Although this description does a great deal to aid our understanding of business models, it also poses a danger. By making more explicit the various elements of a business model, it begins to sound like a business plan. A business model and a business plan are two distinctly different entities. A business model is a conceptual description that may have been given a name like “aggregator.” A business plan is a detailed document that is prepared for strategic guidance and to aid in the acquisition of resources, either internal or external. Some similarity of content exists between the two, but they are not synonymous. Recognising this issue, Chesbrough and Rosenbloom go on to specify the differences between a business model and a strategy:

- A business model focuses on creating value for the customer and delivering that value to the customer.
- It focuses on creating business value that can be translated into value for the shareholder.
- It requires that managers use technical inputs to create economic results in a context of technological and market uncertainty.

Their final point puts the business model concept firmly in the arena of business innovation including Internet-based businesses. It also reinforces the focus on value creation by the firm as a key element of an Internet business model.

7.5 PROS AND CONS OF DIFFERENT BUSINESS MODELS

Some types of business models work better for certain industries than others. For example, software-as-a-service (SaaS) companies often rely on freemium business models. This makes it easy for potential users to experience the value of the product and incentivizes paid conversions via access to additional features.

Many social media platforms make money through advertising. By providing full access to the platform for free, these companies attract more users. In turn, this creates a more valuable audience for advertisers and increases revenue for the business.

Type	Pro	Con
Advertising business model	Simple and transactional	Customers expect return on investment
Affiliate business model	Low barrier to entry for customers	Lack of control over branding

Bundling business model	Sell more products at once	Reliance on discounting
Fee-for-service business model	Simple billing	Requires pipeline of new leads
Franchise business model	Low initial cost	Difficult to maintain quality
Freemium business model	Rapid user growth	Path to profit is uncertain
Manufacturer business model	Control and innovation opportunities	High capital investment
Pay-as-you-go business model	Low barrier of entry for customers	Challenges with customer retention
Retailer business model	More profit margin	High competition
Subscription business model	Continual revenue stream	High customer churn

7.6 COMPONENTS OF A BUSINESS MODEL

Although certain aspects of a business model can be tailored to a company's specific industry, here are 10 crucial components of a business model to consider:

1. A high-level vision: The first component of your business model is a basic description of your strategy. Your vision can be as short as a few sentences long and can ultimately be part of your company's mission statement. When creating a vision, be sure to clearly state the industry your business is in and use positive language.

2. Key objectives: Once you have established a vision for your company, determine what your top quantifiable goals are and how you plan to evaluate them. Your objectives can relate to your yearly sales revenue, operating costs, marketing strategies or staffing decisions. If your business is relatively new, it may be best to set modest goals. If your company is well-established, you can set more ambitious objectives, such as expanding customer reach to other states or countries.

3. Customer targets and challenges: When devising a business model, it’s important to identify the types of customers who would be interested in your organization’s products or services. This component also includes creating a list of challenges your target customers may face while consuming your company’s offerings. For example, if your business sells gardening equipment such as lawnmowers, it’s important to clearly explain to customers what steps to take if the product they bought is defective.

4. Solutions: A strong business model also includes a list of solutions for your customers’ issues. Try to ensure that these solutions are realistic by considering the resources you have at your disposal. For example, if your company sells high-tech fitness equipment and some customers experience issues with your products, you can prompt them to complete surveys to better understand why these problems are arising. You can also seek help from a business consultant to come up with solutions.

5. Value: Value, as it relates to business models, refers to the central aspects of your solutions that make them unique. For example, if your company is the first in your industry to manufacture a revolutionary technology—such as a watch that measures your body temperature in the electronics industry—you can become a pioneer in the field and set new standards for innovation. Value can also include treating your business’s employees and customers with respect by paying attention to their needs and concerns.

6. Pricing: Every business must establish a pricing model for its products or services. If your company is new, try initially setting prices that are low enough to attract customers but high enough to cover overhead expenses and operating costs. Other factors to consider when setting prices include the quality of your products or services and your profitability targets. Once you have reached your desired net profit margins, you can start offering discounts and other special deals.

7. Messaging: Your message must be clear and powerful in order to attract attention and convince customers that your business's products or services are worth purchasing. This message, which can be used in advertisements, must ideally reflect your company's unique characteristics and include a call to action, such as "contact us today to receive a quote for our comprehensive auto insurance policies." Your marketing department can help you create and communicate an interesting message and slogan.

8. Go-to-market: A go-to-market strategy involves choosing the channels you want to use to promote and sell your products or services. These vehicles can include social media platforms, mobile app stores and paid search. If you own a small local business such as a clothing store or other retail store, you can also use traditional promotion channels such as television, radio and flyers, especially if you know your target customers use these outlets.

9. Growth opportunity: This component of your business model involves searching for ways to help your company grow. Common examples of opportunities for growth include mergers and acquisitions with other companies and partnerships with nonprofit organizations for charity campaigns. The former opportunity can help improve the efficiency of your business operations due to an increase in staff, while the latter may lead to improved brand reputation.

10. Required investment: An investment is the resources (products or services) you need to use your solutions and how much they cost. Much like the price-setting process, it's always important to make investment-related decisions carefully to avoid costly losses. Before taking an investment opportunity, consider setting a budget and conducting a cost-benefit analysis. For example, if you own a local grocery store, you may wish to invest in one or more self-checkout machines. However, this investment may only yield great returns if your customers frequently use it.

LET US SUM UP

Business process modeling enables business analysts and business systems analysts to coherently map and thoroughly analyze business requirements and identify and specify the business systems requirements to support the business requirements.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The manner in which business is done to generate profit and create value is known as ____________.

a) Business model	b) B. Digital Enterprise
c) C. EC Mechanism	d) Digital Business

2. In digital business models, B2B stands for ____________.

a) Better for business	b) Business to business
c) Bill to business	d) Barrier to business

3. Collecting the information about a product or service, signing contracts with provider and selling it under own brand is known as ____________model.

a) Affiliate b) Influencer

c) Aggregator d) Advertising

4. Which of the following shows the process of creating something new?

a) Business model b) Modelling

c) Creative flexibility d) Innovation

5. Many entrepreneurs choose to start businesses by themselves because____________.

a) The want of uncontested control b) Coordination is less complicated

c) Profits will go only to the founder d) All of the above

GLOSSARY

Business model : plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

Infrastructure : all resources the entrepreneur will need in order to launch and sustain a business venture.

Innovation : Innovation means to improve or to replace something, for example, a process, a product, or a service. In the context of companies, however, the term needs a definition. In the complex context of business, a definition is needed.

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3. What is a Business Model? - YouTube
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5. The Business Model Canvas - 9 Steps to Creating a Successful Business Model - Startup Tips - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a)	2. b)	3. c)	4. d)	5. d)

BLOCK 3

Unit 8: Overview of Small Enterprises

Unit 9: Project Identification, Planning and Selection

Unit 10: Legal Formalities of Small Entrepreneurship

Unit 11: Bootstrapping and ownership structure

Unit 8

OVERVIEW OF SMALL ENTERPRISES

OVERVIEW

In the previous unit, we dealt with the concept of business plan and feasibility study and also discussed about the value and importance of a business plan. This unit will help you to understand the procedure of starting up a small business. The various sections and sub-sections of this unit will also summarize how to select the type of organization for startup of small business. Planning is the first and the most crucial step for setting up a business or venture.

Small business has played an important role in Indian history. It practically flourished in almost all corners: Calcutta, Surat, Madras, Bombay and penetrated into the roots of Indian soil. The standards of their products and services were in however, not often maintained. This directed efforts towards the need to protect the consumer. Gradually, small business became the source of spreading civilization to all four corners of the then known world. With highly specialized skills and opportunities, Indian products were the center of attraction at home as well as and ruled in some of its business activities till the 18th century. A country, which was known for its formidable industrial base till the late 18th century, suffered irretrievably, during the colonial rule.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the meaning of small enterprises
- describe the steps for starting a small enterprises
- discuss the importance of small enterprises in developing countries.

8.1 MEANING OF SMALL ENTERPRISES

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

Small Scale Enterprise manufactures, offers service, and produces goods with minimal manpower and fewer machines, i.e., they offer services on a small scale. Usually, these industries make a one-time investment of less than Rs.10 crore on equipment and plant. The annual turnover of these micro enterprises doesn’t cross Rs.50 crore. The one-time investment shouldn’t exceed Rs.1 crore with an annual turnover of less than Rs.50 crore for micro-scale industries.

Like many other fortune companies or larger enterprises, small scale enterprises or industries create numerous employment opportunities. Hence, it plays a vital role in the nation’s economy. These micro-enterprises take support from government tax policies and other business functionalities.

Some examples of the small scale industries include paper, toothpicks, pens, bakeries, candles, native or local chocolates, water bottles, toys, beauty parlors, photography, leather belts, bags, and a lot more.

8.1.1 Classification of Enterprises

The Micro, Small and Medium Enterprises (MSME) Development Act,2006 the central Government shall set up, for the purpose of the act, a Board known as the National Board for Micro, Small and Medium Enterprises are classified as below:

Manufacturing Sector	
Enterprise Category	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees

Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises rupees	More than five crore rupees but does not exceed ten crore
Service Sector	
Enterprise Category	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises rupees	More than ten lakh rupees but does not exceed two crore
Medium Enterprises core rupees	More than two crore rupees but does not exceed five

8.1.2 Ancillary Units

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

8.1.3 Export Oriented Unit (EOU)

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

8.2 STEPS FOR STARTING A SMALL ENTERPRISE

Who do establish small business enterprises? Broadly, there are two types of people who establish small enterprises. One people who want to take the advantages of opportunities available. Two, people who have no option for making a livelihood.

These two types of entrepreneurs are also termed as 'entrepreneurs by choice' and 'entrepreneurs by compulsions' respectively. Starting an enterprise is not so simple and cannot be set up just. In fact, there are several steps involved in setting up a small business enterprise.

(i) Information Collection

The first step involved is to decide which enterprise one wants to set up. This begins with collecting information about the units already working in that field of concern. This can be done by various ways such as going through the telephone directories or by visiting the registrar's office of the small-scale units.

This will enable the prospective entrepreneur to make an assessment of the present market situation in that business activity. Based on this information, they can weigh the pros and cons involved in entering into that business activity.

For example, they can come to know that the medical transcription and call centers have been doing very well in the service sector enterprises in the country. This is because of high labour cost in high income countries; the multinational companies have gradually started shifting their labor-intensive manufacturing activities to the developing countries.

In view of this, there is a great opportunity to tap those products which would be outsourced by the Multi-National Companies (MNCs) through quality vendors. Similarly, the rapid increase in the tourist influx in Jammu & Kashmir due to improvement and restoration of peaceful law and order situation indicates very good prospects for service providing enterprises like travel, tour, and hospitality industry in the region.

(ii) Information Organization

Having collected information about enterprise concern, the prospective entrepreneur needs to organize the same in an orderly and systematic manner to derive the meanings from them. This will help to make assessment about the minimum requirements to start an enterprise in a particular business line.

Here, one generally undertaken exercise is to prepare a checklist for ready reference of all required and available resources in terms of space, fund, training and development, and manpower requirements. Once this exercise is over, the step involved will be to prepare a summary of how the checklist will be transformed into the desired products and services. Here we are presenting you one exercise based on your above understanding.

(iii) Acquiring Required/Vocational Skills

The third step is to understand the need for upgrading one's vocational skills if it is a pre-requisite for your Small Enterprise Unit (SEU). The importance of acquisition of required skills is justified by the statement that "it is better to teach a man to fish than to provide him with fish everyday".

There is a need to build on one's strengths in order to gain and feel confident of implementing your project of setting an SEU. Awareness and training in required subject can remove structural barriers. You will feel sure of yourself in taking loans and as also taking risk. Risk is a part of setting up an SEU.

Once your clients have set up their SEU, updating themselves on the latest developments in the field should be a continuous process. They can also hire skilled workers and staff to carry out the major tasks at their SEU.

The following anecdote will exemplify how acquiring required skills on continuous basis is necessary for survival and growth of business.

Akshita Arora was a good tailor. She stitched clothes for her family and friends. She decided to open a boutique, as a SEU. She took a room on rent near her apartment in Patpaprganj (Delhi) and shifted all her tailoring material and her machine to it. She started receiving orders.

In the beginning she was satisfied with her work slowly her clients stopped coming to her as she had been cutting out clothes in the same design. Because she lacked creativity and never felt, the need to upgrade herself of the new trends in fashion. Added to these is her simple sewing machine. Her business has come almost to closure.

(iv) Financial Requirements

The fourth step involved is ascertaining the financial requirements for setting up a small business enterprise. This is particularly important because generally small entrepreneurs do not have their own funds. Hence, they depend upon borrowed funds from family members or relatives or friends or financial institutions.

While planning for finance, the prospective entrepreneur needs to consider issues like sources, availability, estimation and management of working capital. One should have the basic knowledge of preparing income and expenditure statements.

One should also go for insurance cover provided by the concerned financial institutions. Providing financial services in a commercial way is gaining a lot of credence these days. There are well-planned credit schemes for small enterprises available offered by the banks and co-operatives.

(v) Market Assessment

No business enterprise can be thought of without market. Enterprise exists, survives and thrives because of market. Production has no value or meaning if it is not sold /marketed. Therefore, while planning for establishing a small business enterprise, the prospective entrepreneur needs to know who will buy his/her product.

(vi) Provision for Crisis

The last but not the least step involved in setting up a business enterprise is the preparedness to manage crisis situations, if any. Yes, some may not consider it as a necessary step because foreseeing any crisis and its handling is simply an additional step.

Even many may view why to think in a negative way for the worst which may not happen at all. Admitting that optimism helps, there is no harm in being prepared for any eventuality, if it arises. It is always useful to remain prepared for something unexpected in terms of resources, policies, finances and natural calamities takes place. Seeking insurance cover is the best way to deal with these situations.

8.3 CHARACTERISTICS OF SMALL ENTERPRISES

1. Mostly, the Small scale Enterprises are under single ownership. In rare cases, it comprises partnership deals.
2. The micro-industry owner is actively involved in the various activities of the unit throughout the day.
3. The micro-enterprises use more laborers as they use minimal technical support. Hence, they support the nation's employment.
4. The micro-enterprises use nearby resources or readily available resources, ensuring minimal wastage. Also, these industries meet the regional requirements as they are confined to limited zones.
5. As the micro industries run on a small scale, they can adapt any amendment in the policies or laws. At the same time, the large business units struggle to change the working environment based on the amendments.

8.4 BENEFITS OF SMALL ENTERPRISES

1. Small Enterprises: Developing small enterprises helps to achieve sustainable growth as a centralized theme. Small Enterprises play a vital role in the country's overall production networks and they are core to the economic growth of developing countries. The contributions of formal small enterprises are 50% of total employment and 33% of the national income of emerging economies. While including informal small enterprises the percentages will be increased. Finance accession is the main constraint to small enterprises growth, without that many small enterprises are declined. There are many advantages for small enterprises which are described beneath.

2. Encourages Team Spirit: Big companies employees do work on different floors and buildings. Though many work for long years, meeting one-to-one would not be possible. Always department competitions and staffing will be pervading among the people. But in Small and Medium-sized companies, the owner recognizes every employee and understands their importance. Cross training will happen in the case of allotting one employee in another place in case of vacation, illness etc.,

3. Availed with easy loan: There are numerous loan programs available for small enterprises whereas the big companies don't qualify for such loans. The loans are backed up with Small Business Administration. Even a local bank accepts the loan application of small enterprises. The Small Business Associate guarantees the loan for small enterprises but they don't directly provide the loan.

4. Small Enterprises direct involvement: Small enterprises can well control over their output and customers interaction than the biggest companies. For instance, the owner can be in a position to scrutiny the product quality and rectify if any issue occurs thus the risk is minimized and crisis are prevented on the earlier stage itself. Small business can directly contact with potential customers to promote them freely. Out of the digital revolution, the cost of advertisement is cut down. Plenty of costs effective, professional solutions are available for start-ups and small enterprises to promote their catchy brands and other marketing materials.

5. Taking immediate decision: Small enterprises can quickly react according to the marketplace changes. It does not follow with an official hierarchy which might slow down the decision-making process. If the business owner tends to see there is a wide opportunity to challenge with his competitor, it can be done at a moment since he need not wait for others approval. An employee in an small enterprises is given the open opportunity to learn other department works, if and only if he is quite knowledgeable. But big companies have its own limitation for employees work description which is a great obstacle for an employee's growth.

6. Importance of small enterprises: Small enterprises establishment is considered to be important at present days. They involve in job creation in this modern-day economy. In recent times it would have been noticed that the unemployment reduction all over the world is due to the lots of emerged small enterprises. Out of the small enterprises contribution, there is a significant growth in GDP and proper money flow across the economy is noticed. Small enterprises charges lower rates to their clients by providing a quality business. When the state economy is in better condition, the small enterprises will flourish. If the economy is volatile, the small enterprises will face a risk of going down, as they survive within a small budget. Small enterprises boost the country economy by affording extra revenue and employment.

8.5 GOVERNMENT POLICY

This can broadly be classified into three categories. A) Policy initiative B) Institutional support and C) Credit dispersion.

A) Policy Initiative

1. Small industry policies and incentives: Central government announces its industrial policy resolutions. In all the industrial policy resolutions announced by central government starting form 1948 onwards, gave a thrust for promotion of small units. Central government announces financial, fiscal and infrastructure related initiatives for SSIs for its growth. Along with central government, state governments also announce suitable policy initiative. Some of the items are kept reserved solely to be manufactured by small scale units. A preferential purchase policy is also given in vogue. The director general of supplies and disposal (DGS&D) purchases goods / items from small scale units.

2. Liberalization and SSIs: India adopted policy of liberalization since 1991. Along with other sectors, this move has also facilitated the growth of SSIs. Under liberalization, foreign direct investment in SSIs sector allowed up to 24 persons. Such a policy improves the financial strength and leads to up gradation of technology.

3. Infrastructural facilities: Industrial estates programme, integrated infrastructure development scheme and growth center schemes are some of the schemes initiated by central government for the development of appropriate infrastructure conducive to SSIs. All state governments also implement such schemes in their states.

4. Small industry clusters: Clusters here means an area where similar kinds of industries are located. Such clusters gain advantage of obtaining different materials and services at lower cost from different suppliers. Government helps in development of clusters. e.g. Brass part unit in Jamnagar of Gujarat.

5. Marketing support: For any production organization, the main emphasis is on marketing of their products. This becomes very crucial for SSIs as marketing involves huge costs. To help SSIs in this competitive world, government does adopt suitable measures.

Government has established National small Industries Corporation (NSIC) to promote the marketing of SSIs products to government department under the preferential purchase policy. Government also organizes specific training programmes related to marketing and export. It also organizes exhibitions and international trade fair for SSIs and reimburses expenses for foreign visit for marketing purpose by SSIs delegates.

B) Institutional support

The various governmental Institutional Support provided to nurture entrepreneurship in India especially Small scale and cottage industry in villages., Type of Support provided by governmental agencies are Directorate of Industries, Industrial Development Corporation, State Financial Corporations, State Small industries Development Corporation (SSIDC), Khadi and Village Industries Commission (KVIC),National Small Industries Corporation (NSIC) and Small Industries Development Bank of India (SIDBI).

C) Credit support

Several financial institutions/banks etc have been established specifically to cater to the needs of SSIs. e.g. Small Industries Development bank of India etc.

LET US SUM UP

Essentially the small scale industries are generally comprised of those industries which manufacture, produce and render services with the help of small machines and less manpower. These enterprises must fall under the guidelines, set by the Government of India.

The small enterprises are the lifeline of the economy, especially in developing countries like India. These industries are generally labour-intensive, and hence they play an important role in the creation of employment. Small enterprises are a crucial sector of the economy both from a financial and social point of view, as they help with the per capita income and resource utilisation in the economy.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The small scale industry can enjoy the status of ____________unit if it exports more than 50% of its production.

a) Domestic unit b) Export Oriented units

c) Small scale unit d) Import oriented units

2. ____________ is defined as one in which the investment in fixed assets of plant and machinery does not exceed rupees one crore.

a) Limited Companies b) None of these

c) Small Scale Industry d) Large Scale industry

3. ____________ are also known as Rural industries or Traditional industries

a) Food industry b) Cottage Industries

c) None of these d) Agricultural industry

4. Small scale industries owned and managed by women entrepreneurs have share capital of not less than ____________.

a) 25 percent b) 50 percent

c) 51 percent d) 20 percent

5. Micro enterprises are those whose investment in plant and machinery does not exceed rupees____________.

a) 5 Lakh b) 3 Lakh

c) 1 Lakh d) 2 Lakh

GLOSSARY

Small Enterprise	:	Small enterprise are the type of industries that produces goods and services on a small scale.
Micro, Small and Medium Enterprises	:	Micro, Small and Medium Enterprises are better known by the acronym MSME. MSMEs are the backbone of the Indian economy. Silently operating in different areas across the country, more than 6 crore MSMEs have a crucial role to play in building a stronger and self-reliant India.
Export Oriented Unit (EOU)		The Export Oriented Unit (EOU) Scheme started in 1981 to promote exports and thus increase net foreign exchange earnings.
Liberalization	:	Liberalization in economic policy focuses on the reduction of government laws and restrictions in place to encourage greater participation by private entities.

Small Enterprise Unit (SEU)	**:**	Small Scale Enterprise manufactures, offers service, and produces goods with minimal manpower and fewer machines, i.e., they offer services on a small scale. Usually, these industries make a one-time investment of less than Rs.10 crore on equipment and plant.

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WEB RESOURCES

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2. UNIT 1 (egyankosh.ac.in)
3. Small Scale Industries (SSI) – Characteristics, Objectives, Registration of SSI (cleartax.in)
4. What is Small business? Explain Small business, Define Small business, Meaning of Small business - YouTube
5. Characteristics of small business enterprise - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. b) 2. c) 3. b) 4. c) 5. c)

Unit 9

PROJECT IDENTIFICATION, PLANNING AND SELECTION

STRUCTURE

OVERVIEW

Project preparation is the process of analysing and developing a project idea into a final project ready for implementation. The project is a fairly recent phenomenon in history. Earlier, most tasks in society were handled by designated permanent organizations – be it the construction of a bridge or a road, arranging a cultural or a sports event, developing a new industrial product, solving a research problem or testing a new drug.

The purpose of project identification is to develop a preliminary proposal for the most appropriate set of interventions and course of action, within specific time and budget frames, to address a specific development goal in a particular region or setting.

Society at large and various different strata of society (or groups) will also need to be assessed for obtaining a total comprehensive picture of the project. Project appraisal should include all the issues which have a bearing on the decision-making process and for giving green signal for the project implementation.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the meaning and definition of project
- list the features of project
- discuss the concept of project identification
- elaborate upon how to implement and manage the project
- outline the causes of project failure.

9.1 MEANING AND DEFINITION OF PROJECT

A project is a means to achieve a goal by applying a certain amount of resources. Somewhere along the line there might be a need to undertake an evaluation in order to ascertain whether the project will be or has been successful.

Project can be further defined as temporary rather than permanent social system or work system that are constituted by teams within or across organizations to accomplish particular task under time constraints.

The term “project” connotes programme of action. Project is always interwoven with all socio- economic and cultural activities the project involves a scheme and a speculative imagination. Planned set of interrelated tasks to be executed over a fixed period and within certain cost and other limitations.

9.2 FEATURES OF PROJECT

Projects are undertaken at all levels of the organization. They may involve a single person or many thousands. They may require less than 100 hours to complete or several million hours. Projects may involve a single unit of one organization or may cross organizational boundaries as in joint ventures and partnering. Projects are often critical components of the performing organization's business strategy. Examples of projects include:

- Developing a new product or service.
- Effecting a change in structure, staffing, or style of an organization.
- Designing a new transportation vehicle.
- Developing or acquiring a new or modified information system.
- Constructing a building or facility.
- Running a campaign for political office.
- Implementing a new business procedure or process.

Because projects are unique undertakings, they involve a degree of uncertainty. Uncertainty characterises situations where the actual outcome of a particular event or activity is likely to deviate from the estimate or forecast value. It follows that decision-making becomes more difficult as uncertainty grows. Further, that the availability of relevant information increases predictability and reduces uncertainty seen from the decision maker’s point of view.

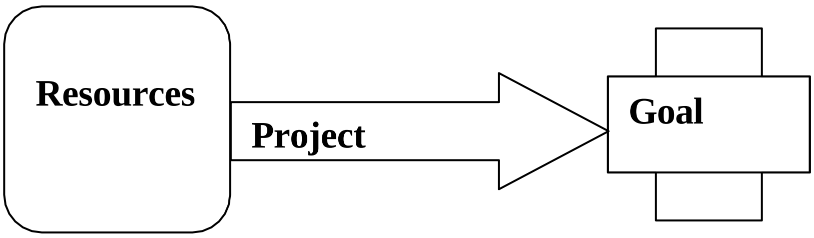

Fig. 5.1 a project is a means to achieve a goal

The tasks that projects are assigned to solve are defined in terms of more or less precise and realistic goals. Being a temporary arrangement, and also because the undertaking is more or less unique, uncertainty is often greater than what is common in permanent organisations. Because of the uncertainty associated with planning and implementation, the extent to which the project will attain its goal is also uncertain. This is one of the reasons why improved know-how and tools that can better the planning and management of projects are of great and increasing economic significance. It is also one of the reasons why there has been an increasing tendency to evaluate ongoing and completed projects.

These ten main characteristics of successful project teams are:

- Clearly defined goals.
- Clearly defined roles.

- Open and clear communication.
- Effective decision making.
- Balanced participation.
- Valued diversity.
- Managed conflict.
- Positive atmosphere.

There are numerous examples of projects that have caused high additional cost for the society both during and after they have been implemented. A comprehensive study of major projects, Morris and Hough (1991), concludes that the track records of projects are fundamentally poor, particularly for the larger and more difficult ones. Overruns are common. Many projects appear as failures, particularly in the public view. It seems therefore that there is a contradiction between the increasing use of projects and the fundamental problem of projects often overrunning their budgets and exceeding their set limits.

However, in reality, most projects attain their objectives in one way or another, even if too many are made too expensive or are delayed. There are several reasons for the increasing use of projects today. One answer is that many tasks in society are so enormous and complex that individual organisations lack the competence or capacity to carry them out alone. This is particularly the case in small countries.

Another answer is that the project focuses and visualises the task, and therefore has a motivating effect on all stakeholders. In projects, responsibilities are clarified and the different parties are made accountable. Moreover, the project is an expedient way of transferring risk from the financing to the implementing party. The project is also a conducive way of organisation, which allows participants to pool resources and co-operate towards a common goal.

9.3 PROJECT CLASSIFICATION

Every Project is different. Projects can be classified on several different points. The classification of projects in project management varies according to a number of different factors such as complexity, source of capital, its content, those involved and its purpose.

Classification of projects quantifiable and non- quantifiable projects.

- Quantifiable projects- quantitative assessment of benefits can be made. concerned with industrial development, power generation, and mineral development.

- Non- quantifiable projects- where quantitative assessment is not possible. Concerned with health, education, defense etc.

Sectoral projects

In India planning commission has accepted the sectoral basis as the criterion for classification:

- Agriculture & allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and communication
- Social service sector
- Miscellaneous

Techno- economic projects

Based on their techno- economic characteristics factor intensity-oriented classifications are

- Capital intensive
- Labour- intensive
- Demand based or,
- Raw materials based

Financial institution classification

All India and state financial institutions classify projects according to their age, experience and the purpose:

- New projects
- Expansion projects
- Modernization projects
- Diversification projects these projects are invariably are profit-oriented.

Services projects:

- Welfare projects
- Research and development projects
- Educational projects

9.4 PROJECT IDENTIFICATION

With the clear idea of projects in mind, let's now see how the feasible projects can be identified. The prospective entrepreneur may have a number of fertile project ideas. He may come across several investment opportunities. However, after preliminary evaluation, he has to select the most feasible and promising project. The proper identification and selection of a project ensures success of an enterprise. Project identification is the first step of starting a new nature but it is a difficult task. In simple words project identification means a process of finding out the most appropriate project from among the several investment opportunities According to Dr. Vasant Desai the project identification is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment. In this context, it would be appropriate to refer to Peter Drucker who has explained three kinds of opportunities, as under.

i) Additive opportunities: These are concerned with utilization of existing resources without making any changes. There is least risk in additive opportunities

ii) Complementary opportunities: These are concerned with the introduction of new ideas, which lead to change in the existing structure. There is greater risk in complementary opportunities.

iii) Breakthrough opportunities: These are concerned with drastic and fundamental changes in the existing business. There is the greatest risk in breakthrough opportunities.

9.5 STEPS IN PROJECT IDENTIFICATION

For identifying the feasible projects, the prospective entrepreneur has to go through following steps.

Step 1: Conceiving Project Ideas

This is the first important stage in project identification. Profit making is the chief drive behind every business / enterprise. Therefore the prospective entrepreneur has to search for a sound business idea, which can generate reasonable profit for him. For that, he has to screen keenly the socio-economic, cultural, legal and market environments. After conceiving the business idea, he gives a practical shape to his idea. He didn’t have business background but he pioneered PanParag-PanMasala industry. Shahnaz Husain, an ordinary woman from conservative Muslim family successfully placed the Indian herbals on the world’s cosmetic map, pioneered the Harbal Cosmetics. Likewise, the idea of water proof band-aid and sanitary napkins (for women) were conceived by Johnson and Johnson. The Talwalkar’s and VLCC found sound business idea in physical fitness industry.

Conceiving the project idea is mental process supported by certain virtues like curiosity, initiative, vision and courage.The project idea could emerge from one or more of the following sources.

- Success stories of friends, relatives and other entrepreneurs.
- Increasing demand for certain products in home market and foreign markets where price advantage could be obtained.
- Experience of others in manufacture or sale of a product
- Chances of producing a substitute of an article imported for which there is a good demand in home country.
- Visit to trade fairs and exhibitions
- Study on demand supply imbalance
- Government's industrial, import-export policies and the policies for development of backward area
- Survey reports, books, periodicals, news papers
- Invention of new production prices or product development
- Availability of a particular raw material and skilled personnel
- Potential demand for ancillary products for well-established big industries
- Consultation with business advisor, district industrial center
- Study of potential for tourism to identify the prospects for hotels, motels houseboats and sightseeing facilities etc.
- Birth of novel product/technology.
- Survey of local skills based on which suitable industries can be identified
- Study of import statistics may reveal some commodities, which can be indigenously manufactured.
- Finding out solutions for our day-to-day problems e.g. door alarm, car alarm etc.

Step 2: Choosing the Right Line of Business

The second important step in project identification is choosing the right line of business. To ensure the success of business, the prospective entrepreneur has to spend considerable time and energy on choosing the right line of activities. While doing so he has to examine the business potential of his ideas. For that he has to:

- Study the environment / marketability of the product/service.
- Nature, extent, trend of demand for the product or service proposed to be manufactured/rendered
- Composition and pattern of potential users of the product or service
- Extent and intensity of competition in proposed area of business

- Procurement and uninterrupted availability of required raw materials and human resource
- Access to and affordability of technical know-how
- Access to the market
- Future prospects for growth in demand.
- Compliance of legal provisions relating to the manufacturing the product or rendering services. (some products or services are banned under law e.g. 'hashish' or 'dance-bars' etc.) At the same time the entrepreneur has to assess which legal liabilities would come to him in production and marketing a particular product or service. For example, if he wishes to be in pharmaceutical production, the legal liability regarding scheduled drugs, expiry dates etc. would inevitably come to him. If he undertakes the passenger travels (tours and travels business) the liability regarding safety of passengers would come to him.
- Whether proposed product belongs to license category or de-licensed category.
- Availability of government schemes, special incentives, concessions regarding proposed line of business
- Estimated size of market distinguishable features of the product or service to be manufactured or rendered. Likewise, a number Life Insurance schemes and Mutual Fund Schemes are marketed adding an unique distinguishable feature.

At this stage, the entrepreneur may consult the experts in various issues related to choosing the right line of business. On making an in-depth primary study, if the scheme looks attractive and the degree of calculated risk provides the entrepreneur with an adequate level of confidence, he may take next step to develop a detailed project report, obtaining technical know-how, raising funds etc.

Step 3: Opportunity Seeking

An entrepreneur is basically an opportunity seeker. A number business opportunity may be available; however, seeking the right business opportunity depends upon the entrepreneur's capabilities, his strengths and weaknesses and also on his preferences. Identification of appropriate business opportunity requires specialized skills. Before coming to the final decision, he has to explore and analyze all possible opportunities. For seeking the best business opportunity, the following explorations may be useful.

i) Environment exploration: This means the study of different environmental factors. The study of demographic environment includes the in-depth study of growth rate of population, age-composition, sex-composition, occupational- pattern, and income-composition etc. Low infant mortality rate and high birth rate ensures the increasing demand for baby-soap, baby hair oil, gripe-water, toys and kids wear etc. Socio-economic conditions, culture, basic features of resources etc are also studied.

ii) Present business exploration: This relates to the study of present pattern of business activities, the study of the consumption pattern, the study of emerging trends in the pattern of trading and consumption and the pattern of demand.

iii) Technology exploration: It is the study of new business opportunities created by change in technology For example, in case of printing industry, traditional system of printing has gone and computer based multi-colour printing opportunities have emerged It is also concerned with anticipation of new business opportunities likely to emerge as a result of impact of technological advancement.

iv) Idea exploration: Business ideas are related to different factors. The exploration of idea may relate to**;**

Growth related ideas – e.g. change in age-composition of population and life- styles gives an impetus to fashion-industry, mobile and bike industry etc.

Resource - related ideas – e. g. agro-based industry (i.e. pickle-making, ketch- up, sauce, jams, mineral based industry (i.e. water, pharma) marine-based industry (i.e. fishery) waste-based (i.e. low grade paper can be made by industry using cotton-waste, jute waste and wastage-paper etc.)

Import-export related ideas – i.e. export of mushrooms, strawberries, jewellery in foreign markets.

Service-sector related ideas – for example repairs, maintenance of cars and automobiles. Nowadays, housekeeping (i.e. cleaning the big premises) has been emerging as a multi-crore industry.

Step 4: Decision - Making Process

This final step in project identification involves making important decisions regarding the project to be undertaken. While taking decisions, the prospective entrepreneur has to go through following steps.

i) Selection of Broad Industry Group: First of all, the entrepreneur has to decide as to which industry he intends to enter in. i.e. textile industry, sugar industry, automobile industry, cement industry etc. Then he has to decide upon which product is to be manufactured e.g. consumer goods or capital goods etc. He has to take into account the present industrial climate for the product to be chosen by doing SWOT analysis and also assess the possibilities for diversification in future.

ii) Selection of Specific Project: After having finalized the industry group, the entrepreneur has to decide the size of the project, its capital investment, availability of possible financial assistance etc. He has to check the government policies, rules and regulation to be complied with for obtaining necessary license. At this stage, the entrepreneur has to assess his own strengths and weaknesses. Then he has to compare the relative merits and demerits of the proposed project with special reference to market potentiality, return on investment and technology.

iii) Final Decision: The entrepreneur takes the final decision as regards project after testing its commercial viability. For gauging the commercial viability of the project, the entrepreneur has to test its market feasibility, technical feasibility, financial feasibility and economic feasibility.

9.6 PROJECT FORMULATION

Project formulation is an important stage in the pre-investment phase. An entrepreneur cannot implement his all project ideas due to scarcity of resources. He has to make a comparative appraisal of all project ideas and choose a few project ideas to be taken up in preference to others. Project formulation techniques help the entrepreneur in making such choice. For project formulation, the entrepreneur seeks assistance of specialists or consultants. The chief aim of project formulation is to derive maximum benefits with minimum expenditure of resources.

In simple words, project formulation is a process whereby the entrepreneur makes an objective and independent assessment of the various aspects of an investment proposition of a project idea for determining its total impact and its liability too. Project formulation may be defined as taking a first look carefully and critically at the project idea by an entrepreneur and building up an objective project in its totality after carefully weighing its various components.

9.7 STEPS IN PROJECT FORMULATION

The project formulation has the following steps.

1. Defining the Objectives: Every project has certain objectives—social or economic or a both. The general objectives of a project state in broad terms the achievements expected. An operational objective specifically and clearly mentions the results expected from the implementation of the project. Clearly defined objectives help in quantifying the requirements of physical, financial and human resources.

2. Determination of Location of the Project: The project has to derive locational advantage. The availability of all required resources and infrastructure facilities (such as rail-road transport, electricity and other energy sources, municipal facilities etc.) should be near the project. This would save the cost of acquisition and utilization of these resources and also speed up all the activities.

3. Determination of Size of the Project: The entrepreneur has to determine the size of the project i.e. small-scale, medium-scale, large-scale or mega project. For determining the size of the project, the various factors have to be taken into consideration such as the types and levels of activities to be undertaken, the area of operation, the type and size of organization, the required investment size and the time required for completion of the activities contained in the project.

4. Feasibility Analysis: This is an important stage to determine whether or not to go in for making a detailed investment proposal. For that, the project idea is examined in the context of internal and external constraints. Further steps are taken only if the project idea is found feasible.

5. Market- Analysis: The project has to be viable to generate profit. It is, therefore, imperative to know the market for the goods or services to be produced. The prospects for future growth of the business are also analyzed.

6. Techno - Economic Analysis: The entrepreneur has to make a choice of technology, which is based on the demand potential and aid in project design. The satisfactory result of techno-economic analysis puts the entrepreneur into motion to make a detailed design of a project.

7. Project Design and Network Analysis: At this stage all the individual activities to be done under a project and their inter-relationship with each other are defined. This helps in identification and quantification of the project inputs. This clarifies the financial and cost benefit profile of the project. Under this stage, a detailed work plan of the project is prepared and the time in allotted for each activity and presented in a network drawing.

8. Input Analysis: Material resources such as land and building, machinery, electricity, energy sources and human resources are required for operating the project. The availability of such resources on regular basis at reasonable prices is the prime factor in determining the feasibility of the project. Input analysis considers the recurring (i.e. required repeatedly) and non-recurring (i.e. required once) resource requirements of the project. This helps in assessing the cost of the project and hence necessary for financial analysis.

9. Financial Analysis: Financial analysis of the project helps the entrepreneur to make a right decision. Financial analysis helps in comparing various project proposals. Under financial analysis, the project operating costs and project fund requirements are estimated. For that the analytical tools such as discounted cash flow, cost-volume-profit (CVP) relationship and ratio analysis are generally used. This analysis justifies the project from profitability point of view.

10. Cost - Benefit Analysis: A project has to be viable. The cost-benefit analysis determines the overall worth of the project. This analysis scientifically determines the cost that all entities connected with the project have to bear and the relative benefits which will be enjoyed by all such entities. Cost-benefit analysis is an integrated technique in assessing the viability of the project.

11. Pre - Investment Analysis: This stage guides the project sponsoring body, project implementing body and outside agencies as to whether to accept the proposal or not. Under this stage the total and final picture of the project is presented by consolidating all the results obtained in the above steps. Various conclusions arrived at are presented in this stage; which help the entrepreneur to take final decision.

9.8 PROJECT APPRAISAL

Project appraisal refers to critical examination and analytical evaluation of the project from different angles. Generally, financial institutions appraise project before extending financial support to the project. Vasant Desai defines project appraisal as “a process whereby a leading financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision”.

9.9 VARIOUS ASPECTS OF PROJECT APPRAISAL

In order to ascertain the viability of the project, the financial institutions make an in-depth analysis of the following aspects of the project.

1. Market Feasibility Analysis: Marketing is the important activity, which brings revenue. The lending financial institutions pay meticulous attention to the ability of the prospective enterprise to market its products or services. The potential of the market determines the fate of the business. Following methods can be adopted for estimating the market for the proposed product or services.

i) Opinion polling method: Under this method, the opinions of end users of the product/service are collected through sample market surveys and dealers' opinion about the customers' opinion.

ii) Life cycle segmentation analysis: A product has various stages of its life cycle namely introduction stage, growth stage, maturity stage, saturation stage and decline stage. Under these methods, sales of proposed product are estimated at each of these stages. Demand supply position of proposed product/service is estimated to explore the market opportunity. Long run prospects for the business are estimated by taking into account the nature and type of competition, potential demand for the product, quality, after-sales-service, price, design package, marketing channels etc.

2. Technical Feasibility Analysis: This refers to a careful examination and a thorough assessment of the various inputs of the project like land, labour, machineries; equipment's, transportation, energy sources and technical know-how etc. required producing the proposed product/ service. The entrepreneur may have technical collaboration with domestic or foreign firm for technological support. In order to select the most appropriate technology, various technological alternatives are assessed. Licensing policy of the government and legal provisions in respect of technology has also to be reviewed. Generally, technical analysis deals with the following components.

i) **Location of the project:** As the location of the project significantly influences the cost of production and distribution and thereby revenue, it is very important to carefully consider all the relevant factors while deciding about location of the project.

ii) **Site of the project:** A site for the project is selected considering the load bearing capacity of the site, flood and earthquake hazards, proximity of transport and other facilities, water and electricity supply, facilities for effluent discharge, ecological factors and so on. For example, the industries like tanneries, jute production, and rubber production need abundant supply of water; hence they have to be located near the deposits of water.

iii) Size of the project/plant capacity and scale of operations

iv) Manufacturing process or technology selected

v) Rapidity of obsolescence of technology

vi) Availability and cost of raw material components required

vii) Power and water facilities

viii) Technical viability in the application of the finished product

ix) Personnel/skilled or trained labour force

3. Financial Feasibility Analysis: The financial appraisal of the project relates to an investigation of the availability and cost of various inputs needed for production, and the prospects for marketing the product or service profitably. The appraisal of financial aspects primarily involves the scrutiny of the following:

i) Cost of the Project and Means of Financing

This includes the estimation of cost of the project and identification of sources of finance. While estimating the cost of the project, the financial requirements both for fixed and working capital should be accurately worked out. The cost of the project generally includes the cost of land and buildings, plant and machinery, fees to be paid for technical know-how, consulting and engineering fees, preliminary and pre-operative expenses, margin money for working capital, miscellaneous fixed assets, interest during construction etc.

- After having estimated the cost of the project, the sources of finance shall be identified. This includes the following
- Owned funds / equity: i.e. issue of equity share sand preference shares, reserves and surplus and retained earnings.
- Borrowed funds /debt finance: i.e. debentures, term loans and long-term borrowings, public deposits and deferred payment guarantees.
- In this regard, the debt-equity ratio of 2:1 should be generally adhered to.

CASH FLOW ESTIMATES

This refers to the projection of the future sources of cash and their application. Cash flow statement helps to ascertain the cash requirements for different purposes and to fix the repayment schedule on the basis of cash accruals. The financial institutions pay a special attention to the Debt Service Coverage Ratio (DSCR).DSCR establishes the relationship between 'net profits' and the 'repayment of term-loans and interest thereon' the debt service coverage ratio is preferred at 2:1 level and calculated with the help of the following formula.

Debt service Coverage Ratio = NP after tax + interest on term loan + depreciation + Term loan installment + Interest on term loan

PROJECTED BALANCE SHEET

This reflects the financial position of the firm in future years during the entire period of the term loan. The procedure adopted for the valuation of assets, the depreciation policy adopted and the impact of term loan on the assets and liabilities are paid special attention by the lending institutions. Simple Rate of Return Method and Pay-Back Period Method are important methods used to ascertain financial feasibility of the project.

4. Economic Feasibility Analysis: The project has to be economically feasible. The project has to generate sufficient profits. A project without adequate profits or which is likely to incur losses cannot be a commercially viable project. Therefore economic viability is assessed by projecting the profitability for a period ranging from 3 to 10 years. For economic feasibility analysis, the projected profitability statement is prepared which includes the following.

- Capacity utilization and all costs
- Calculation of certain ratio such as debt-coverage ratio, pay back period, average rate of return, net present value, break-even sales and internal rate of return.

5. Managerial Feasibility Analysis: Even a good project may fail due to incompetent management. Mismanagement of the promoters may bring disaster to the project. The competent managers may convert even a weak project into profitable one. Hence, the financial institutions very carefully appraise the managerial aspects before sanctioning financial assistance to a project. The managerial competence of promoters can be judged with special reference to their educational background, their experience in the field /business and industrial experience, their entrepreneurial talents, their honesty, integrity and past performance.

6. Social Feasibility Analysis: No business can function is isolation form society. A business is a mission with a social vision. Hence, every business is held socially responsible. While making profit, the business should derive larger benefits to the society. Social feasibility analysis includes the following;

- Generation of employment opportunities
- Development of backward and less developed areas
- Appropriate combination of resources

- Treatment to effluents in order to protect environmental balance
- Stimulation to small and ancillary industries and so on.

9.10 PROJECT PLANNING AND SELECTION

There may be a number of projects; however the entrepreneur has to select the project, which is most profitable and suitable to him under given circumstances. Project selection refers to rational choice of a project in the light of objectives and inherent constraints.

The prospective entrepreneur has to select those products or services, processes and system in an organization where the cost ratio is low and where there are increased benefits. The project selection is an important phase undertaken by the entrepreneur in the beginning.

Criteria for Selecting a Particular Project

The prospective entrepreneur should collect a large number of project profiles and make an appropriate choice by considering the following criteria:

1. Investment size: The investment size simply means the project cost. The entrepreneur should make a choice between small-scale, medium-sized or large –sized business in terms of investment. He should take into account his own contribution (i.e. proprietor’s contribution) and ability to raise funds from various sources including financial institutions.

2. Location: The project should derive the locational advantages. Hence the new entrepreneur should locate the project in and around a State headquarters or the backward areas around big cities. The appropriate location would attract the talented personnel and competent managers. The location of the proposed project should be such that will facilitate the liaison with State Industrial Development Corporation, Electricity Boards, Transport facilities and various other agencies.

3. Technology: The requirement and availability of technology for the proposed project should be taken into account while selecting the project. It is better for the new entrepreneur to select the project, which requires a proven and indigenously available technology.

4. Equipment: The entrepreneur should select the best equipment based on the advice of experienced technical consultants. The quality and cost of equipment’s to be used for the project should be reasonable.

5. Marketing: It is not advisable for a new entrepreneur to get into a project, which would have to face cutthroat competition. There should be an ample scope for the entrepreneur to break through the market and acquire a certain market share in the beginning.

6. Selection of the product: The entrepreneur should select the particular product that he hopes to market successfully at a reasonable profit. While selecting a product he should take into account the following.

- Whether the product to be selected is banned or are there any restrictions?
- Whether he has substantial amount of experience in the manufacture and marketing of certain products?
- What is the degree of profitability?
- What concessions/incentives are available from the government for manufacturing the product?
- What is the policy of the government relating the product to be selected?
- What is the present market size for the product?
- Whether the product belongs to an ancillary unit and serves as a major component for the parent industry?
- Are the machineries and raw materials required for the production of the proposed product available in domestic market or have to be imported?
- Will the skilled, semi-skilled and unskilled labour be available for the production of the proposed product/service?

9.11 PROJECT IMPLEMENTATION

For implementation of the project, it is necessary to prepare a network design. A network design includes the detailed work plan of the project and the time allotted for each activity under the project. A network is a graphical pattern, which is the result of compilation of activities occurring in a sequence of events. Under network analysis the project is broken down into simple activities and they are then arranged in a logical sequence. Time, costs and other resources are allocated to different activities.

In preparing the network design, the Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are widely used. This network design will actually be the work plan for implementation of the project. The network design is helpful not only in monitoring and controlling the project implementation but also in completing the project in time. The network design also helps in avoiding unnecessary expenditure of resources and ensures optimal utilization of resources. Generally, the project implementation includes the following stages.

i) Establishing a plan of action for implementation (i.e. preparing a network design)

ii) Obtaining approvals

iii) Performing all other actions necessary to put the proposal into effect.

9.12 VARIOUS ASPECTS OF PROJECT IMPLEMENTATION

In project implementation, the following aspects are primarily taken into account.

1. Organizational Aspect: The organization is the human mechanism built up to accomplish the pre- determined objectives. For successful implementation of the project, it is necessary to have sufficient technical, skilled or unskilled manpower.

2. Commercial Aspect: This involves making of arrangements for acquiring the necessary inputs viz components of raw material, labour, power and energy, water etc. required for the implementation of the project. Adequate, timely and regular supply of these factors influences the implementation of the project considerably.

3. Legal Aspect: Before implementation of the project, the laws/ Acts relating to acquisition of land and building, plant and machinery, hypothecation or mortgage of assets, provisions of MRTP Act and other business and industrial laws have to be looked into.

4. Risk and Uncertainty in Investment Decisions: A certain amount of risk and uncertainty is involved in every project. Future changes can be predicted only up to a certain extent. Uncertainties may be of two type’s viz. the uncertainties relating to the project itself and uncertainties relating to the environment in which the project operates. In project, the uncertainty may creep due to the following causes.

- Change in technology
- Length in construction and running in periods or say time overrun
- False estimation of the rated capacity
- Change in the input prices
- Changes in environmental factors such as changes in laws and government policies, changes in attitude or preferences of customers, or introduction of new substitute products in the market etc.

9.13 PROJECT MANAGEMENT

Traditional form of organization and techniques of management do not handle project work effectively. There is a need for a different form of organization, sharper tools of planning and control, and improved ways of coping with human problems caused in a project. The term 'project management' can be defined as the application of knowledge, skills and techniques towards organizing and managing project to meet the project objectives.

Effective and robust project management practices are critical to success of the project. The person who is entrusted with the responsibility of managing a project is known as project coordinator or project manager. Earlier a Project Management Institute (PMI) defined a project manager as one who is responsible for project management. However, based on changing environment, it defines the project management as the application of knowledge, tools and techniques to project activities.

9.14 VARIOUS ASPECTS OF PROJECT MANAGEMENT

The project manager typically oversees the following aspects of a project namely project scope, project schedule, project cost, project quality, project communication, project risk and project human resources management. Following are the broad areas of project management.

1. Establishing the Project Organization: First of all, there is a need to integrate the activities and functions of various departments and outside organizations involved in the project work. Depending on the size, the scope of activities varies; therefore, the appropriate form of organization should be established. Project organization may take one of the following three forms namely line and staff organization, divisional organization and matrix organization. Further, there should be effective communication of planning and other project information. This ensures effective decision-making and help to establish proper coordination.

2. Project Planning: Planning gives right direction instills a sense of urgency and time consciousness and also provides basis for monitoring and control. Comprehensive project planning covers the following:

- Planning the project work i.e. identifying, sequencing and scheduling the project activities.
- Planning the manpower and organization i.e. estimating the manpower (managers, technologists and manual labour) and assigning them the responsibilities of carrying out the project work.
- Planning the money i.e. budgeting the project activities in a time-phased manner.
- Planning the information system i.e. defining the information required for monitoring the project.

3. Project Control: Project control involves a regular comparison of performance against targets, a search for the causes of deviation and taking corrective action against adverse variances. The proper project control ensures the regular monitoring of performance and motivates project personnel to strive for achieving project objectives.

4. Managing Human Resources: Human resources are the most important component for the success of any project. The human resources management includes acquiring the project team, developing the team and managing the team. More precisely, the human resources management is concerned with inducting right kind of people to the project , motivating them to perform at optimum levels and ensuring that they continue to maintain their commitment.

5. Managing Project Risk: Failing to manage risk properly is one of the main causes for projects to fail irrespective of their size. The project manager has to identify the potential risks right at the beginning of the project, monitor them regularly and keep looking out for new risks etc. will minimize the failure of the projects.

9.15 REASONS FOR FAILURE OF PROJECT

It was observed that most of the projects (nearly 84%) fail or go over time and over budget. Truly speaking, nobody plans to fail, but due to following reasons the project may fail. Let’s see the reasons, which cause failure of a project.

1. Inadequate Provision for Contingencies: Change is the only static phenomena in the business world. The future can be predicted up to a certain limits. The unforeseen change in the socio- economic, technological or legal environment poses the contingencies before business. If the adequate provision is not made to face such contingencies in project report, the project is likely to fail.

2. Unrealistic Estimations: While appraising and selecting the project some unrealistic and exaggerated estimations are likely to be made. If a project report is so divested from reality, it may fail.

3. Wrong Location: In case of some industries location and site where the project is established plays vital role. Wrong location leads to cost overrun and reduction in profits. Therefore, if the wrong or inappropriate location is selected, it may lead to project failure.

4. Incompatible Form of Ownership: The entrepreneur has to choose the appropriate form of ownership viz. proprietorship, partnership and private or public limited/ unlimited company considering size of investment, diversity and scope of business, complexities and desired control over the business etc. However, if the unsuitable form of ownership is chosen, it may lead to mismanagement and ultimately to failure.

5. Wrong Estimation of Capacity Utilization: Capacity utilization forms the basis for calculation of many other important financial ratios. If capacity utilization is wrongfully estimated all other calculations would go wrong. Further, if the capacity is underutilized due to frequent power cuts and inability to go for alternatives, the project is likely to fail.

6. Overestimation of Future Earnings: Sometimes the entrepreneurs show higher future earnings in the project report with the intention to avail more financial assistance from the financial institutions and bankers. Moreover, the earnings of the firm are likely to be adversely affected by a number of factors. This may lead the project failure.

7. Underestimation of Expenses: The balanced cost-benefit ratio ensures the success of the business. For that the cost to be incurred on various inputs has to be accurately ascertained. If the expenses to be incurred on various inputs are underestimated, it may reduce the benefits and make the project commercially unviable. Insufficient budget allocations and poor commitment of resources also fail the project.

8. Based on Unreliable Information: If the project report is prepared on the basis of unreliable and/or exaggerated information collected from undependable sources , all the estimations and calculations made and all decisions taken would be misleading. The may cause the project failure.

7. Unscientific Feasibility Examination: For the study of technical and financial feasibility, there are scientific methods/ tools. If the technical and financial feasibilities are not examined scientifically, it may hamper the project.

8. Improper Co-Ordination: If due to improper co-ordination the tasks are not completed on time and on budget, the project is bound to fail. The project may not succeed if the management disciplines needed for successful project management are not followed.

LET US SUM UP

within specified period of time. The process of establishing a new venture begins with project identification, which is done by generating some project ideas. Then the proposed project is appraised from various angles such as technology, marketing, financial, economic, managerial and social etc. Examining the feasibility of the proposed project is known as 'project appraisal' The project appraisal helps the prospective entrepreneur in selecting the most appropriate and suitable project from among the alternative projects. The prospective entrepreneur prepares the project report, which is the blueprint of future project activities and very foundation of the enterprise. To complete the project on time and on budget, all activities involved in the project are scheduled in a sequential relationship called 'networking'. The operational efficiency, productivity and cost-effectiveness are directly linked with the efficient project management.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. _____________ is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment.

a) Project selection b) Project evaluation

c) Project identification d) Project segmentation

2. _____________ is an important element in the project planning cycle.

a) Project objective b) Project idea

c) Project identification d) Project selection

3. The asset created during the construction phase are utilised during the _____________.

a) The pre-investment phase b) The post-investment phase

c) The reconstruction phase d) The normalization phase

4. _____________ analysis is primarily concerned with the identification of the project demand potential and the selection of the optimal technology suitable for achieving the project objectives.

a) Feasibility b) Pre-feasibility

c) Techno-Economic d) Network

5. The purpose of financial analysis is to determine _____________ of the project.

a) Input feasibility b) Output feasibility

c) Financial feasibility d) Cost-benefit feasibility

GLOSSARY

Project Management : Project management as “the use of specific knowledge, skills, tools, and techniques to deliver something of value to people.”

Project formulation : Project formulation can be defined as the systematic. step-by-step development of a project idea for the eventual objective of arriving at an investment decision.

Feasibility Analysis : Feasibility analysis, also known as Feasibility Study, intends to equitably and logically examine the pros and cons of an existing or a proposed business, dangers related to the venture, required resources to carry out the operations, and eventually the probability of success.

Project Control : Project control is a specific aspect of project management, as they relate to the estimated costs of projects and their schedules. The primary reason for creating project controls is to track and manage a project in line with a pre-defined brief, schedule and budget.

Financial feasibility : Financial feasibility is the process of evaluating the financial aspects of a proposed project or business venture to determine its potential for success. It includes a cost / benefit analysis of the project, forecasts an expected return on investment (ROI), and outlines any financial risks.

SUGGESTED READINGS

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WEB RESOURCES

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2. Unit-3-Enterprise-Formation-Process.pdf (arsdcollege.ac.in)
3. Project Identification in Project Management Course - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. c) 2. a) 3. d) 4. c) 5. c)

Unit 10

LEGAL FORMALITIES OF SMALL ENTREPRENEURSHIP

STRUCTURE

OVERVIEW

The Articles of Incorporation mention in particular the name of the company, the address of its registered office, the amount and distribution of the share capital and the terms of management. Warning: under penalty of penalty, the articles of incorporation of a company must contain certain mandatory information. Incorporation is the legal process used to form a corporate entity or company. A corporation is the resulting legal entity that separates the firm's assets and income from its owners and investors. Incorporation of a company refers to the process of legally forming a company or a corporate entity. Advantages of incorporation of a company are limited liability, transferable shares, perpetual succession, separate property, the capacity to sue, flexibility and autonomy. The sole trader receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor, and all debts of the business are that of the proprietor; the business is not a separate legal entity.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- discuss the Legal and Regulation in Entrepreneurship

- explain the Clearance Approvals.

10.1 INTRODUCTION OF LEGAL ASPECTS OF ENTREPRENEURSHIP

Economic activity is daily increasing in complexity. Governmental legislation, awakening social conscience, economic necessities-all play their roles in the creation and existence of enterprises. Entrepreneurship has several dimensions and an entrepreneur is expected to know them thoroughly to be successful. One such dimension is a legal dimension. An entrepreneur is concerned with law from the very beginning. From the point of view of ownership, there are, in the private sector, four forms of organization to run a business unit. They are as follows:

a) Sole proprietorship

b) Partnership firm

c) Joint stock Company

d) Co-operative undertaking.

Hindu Joint Family Firm can be considered as the fifth form, although this is fast losing ground as a form of business organization. Thus, conforming to legal requirements will be the first thing for starting an enterprise. Then, of course, any enterprise has to be run within the legal framework doing business according to mercantile law, labour laws, tax laws, etc.

10.2 LEGAL ISSUES TO CONSIDER WHEN STARTING YOUR BUSINESS

From forming a founders' agreement to protecting intellectual property, entrepreneurs must be aware and updated about the latest laws governing their business and market. Some of these crucial legal formalities that entrepreneurs in India should be aware of before setting up a business venture are:

1. Deciding on a business name

Once you decide which business structure fulfils your purpose, you are then required to choose a business name that reflects your venture's ideology and make sure it is not already claimed by some other entity. For this, you will have to choose an entity name that safeguards your entity at the state level, a trademark that safeguards your entity at the national level and a domain name that gives life to your venture online.

2. Creation of a founder's agreement

A Founder's Agreement is a document that has important details about the founding members of a venture/business. The document thus acts as an agreement that legally establishes the rights, ownership, responsibilities, dispute resolution and other terms executed between the founders and the company.

Therefore, having a well-drafted Founders Agreement with all necessary details forms a solid foundation for the journey of a business. The agreement can also act as the go-to guide in the case of any disagreements arises.

3. Acquire all the legal licenses and registrations

Once the Founder's Agreement is drafted, the authorization to do business is what's required next. The authorizations come in the form of legal licenses and registrations. While some of them are general and are required for all kinds of businesses other are specialized and are additionally required for certain kinds of businesses. Example Include:

General registrations:

- GST registration
- Permanent Account Number
- Tax Account Number
- Bank Account
- Shop and Establishments license (License for physical premises to the commercial establishment)

Specialized registrations:

- IEC code (To do import and export business)
- FSSAI License (To start a food business)
- Kosher Registration (To deal with kosher goods)
- Halal Registration (To deal with Halal goods)
- Other licenses for other types of businesses

4. Be acquainted with the relevant tax regime and accounting norms

Taxes are an important part of every business. And when it comes to India, there are a wide variety of taxes, such as, central tax, state tax and even local taxes that may apply to some businesses. Since different business and operating sectors attract different taxes, knowing the relevant text regime well in advance can be quite useful.

There are also various schemes and initiatives such as the Central Government's 'Startup India' initiatives that aim to promote startups, via various exemptions and tax holidays.

Good knowledge of such initiatives and pro-startup regulations can also come in handy. A startup can also avail of income tax exemption for 3 years as well as tax exemptions from capital gains and investments above the Fair Market Value. Therefore, holistic knowledge of taxation can prove to be fruitful for growth and even expansion.

As far as business accounting is concerned, it is good practice for a business to maintain proper books of accounts and audit them from time to time ensuring that relevant accounting and taxation rules are being followed.

For this, having a sound payment and invoicing system can help ensure a clear accounting system.

5. Be acquaint with labour laws

Labour laws are part of every organization, small or big. When your venture is recognized as a company that hires people, your organization is subject to several labour laws regardless of its scale. These laws govern crucial issues such as minimum wages, gratuity, PF payment, weekly holidays, maternity benefits, sexual harassment, and payment of bonus among other key areas.

6. Safeguard Intellectual Property

Intellectual property is a vital part of most businesses today, especially for tech-centric ventures. Be it codes, algorithms or even research findings, all these are some of the common intellectual property owned by an organization.

The creation and the subsequent protection of these intellectual properties are central to the effective growth of every innovating venture. Therefore, legal know-how in relation to IPR laws can come in handy at every stage of a venture's journey.

Startups can also take the advantage of the Scheme for Startups Intellectual Property Protection (SIPP) under the Startup India initiative, that nurtures and mentor innovative and emerging technologies and help in its due protection and commercialization.

7. Creating a proper business policy

Creating a proper business policy is another step that can take a venture towards success. It is something that keeps the employees as well as the management focused. This way desired targeted growth can be easily achieved.

8. Get business insurance of your choice

Business insurance can safeguard your venture in cases where the personal liability protections of your venture aren't enough. Insurance can protect not just your individual assets, but your business's assets too. Some types of insurances such as unemployment and disability insurance are even compulsory by law.

It's also a wise decision to have avail insurance that protects your startup from other potential risks. Some of these include general liability insurance, product liability insurance, commercial property insurance etc.

9. Have a clear idea about the mode of winding up

Winding up a company is a difficult call to make. When a company decides to shut down, all the stakeholders, from vendors to investors are needed to be informed in advance making the entire procedure a task that needs to be thoroughly planned and executed.

From the legal standpoint, there are three ways to wind up:

- Court or Tribunal Route
- Voluntary Closure/ Fast Track Exit Mode

10.3 DOCUMENTS REQUIRED FOR STARTING A BUSINESS IN INDIA

The first step to establish a business in India is to make sure that the documents required for registration are complete. Any error in documentation can put all the efforts in vain.

There are a lot of legal formalities and documentation that are necessary for setting up a business in India. The following are the most crucial documents required:

- Digital Signature Certificate (DSC)
- Director Identification Number (DIN)
- Registration on the MCA Portal
- Certificate of Incorporation
- Commencement of Business Certificate

Along with these documents, you will also need documents that officially represent your business's company's office address, PAN number, GST registration, ROC registration, Professional Tax registration, Provident Fund registration, and ESIC registration.

Various startup documents are also required to be arranged before starting a startup in India. Below is the list of those documents:

1. Bylaws

Bylaws act as sets of rules. They make sure that every startup functions smoothly with correctness and gives voice to everyone involved in the working.

2. Memorandum of Understanding

It consists of all formal conversations you have made with suppliers, potential partners and others involved in the business. An MOU is a good way to lay the terms of a project or relationship between employees and employers in writing.

3. Licensing Agreement

A licensing agreement is entered by two parties basically in scenarios such as maintaining possession of a product or control over an asset and another company/ individual desiring to use the asset.

4. Non-Disclosure Agreement

It is the first thing that you are required to reach out for when dealing with any client or investor. It ensures that the privacy of your company, as well as that of the other party, remains protected.

Aside from aforesaid documents, other startup documents that may assist you in beginning a startup in India are the Intellectual Property agreement, Employment agreement, Non-compete agreement etc.

10.4 PRODUCT SPECIFIC CLEARANCES

i) Establishing a Printing Press - District Magistrate
ii) License for Cold Storage Construction - Designated Official in State
iii) Pesticides - Central/State Agricultural Department - Ministry of Agriculture
iv) Drugs and Pharmaceuticals - Drug license from State Drug Controller
v) Safety Matches/ Fireworks - License under Explosives Act from Directorate of Explosives, Nagpur
vi) Household Electrical Appliances - License from Bureau of Indian Standards
vii) Wood Working Industry within 8 km from forest - District Forest Officer
viii) Milk Processing & Milk products manufacturing units - Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

10.5 INTELLECTUAL PROPERTY RIGHTS

Intellectual property is a broad categorical description for the set of intangible assets owned and legally protected by a company or individual from outside use or implementation without consent. An intangible asset is a non-physical asset that a company or person owns.

The concept of intellectual property relates to the fact that certain products of human intellect should be afforded the same protective rights that apply to physical property, which are called tangible assets. Most developed economies have legal measures in place to protect both forms of property.

Types of Intellectual Property

Intellectual property can consist of many types of intangibles, and some of the most common are listed below.

1. Patent: A patent is an exclusive right granted for an invention. Generally speaking, a patent provides the patent owner with the right to decide how - or whether - the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document.

2. Copyright: Copyright is a legal term used to describe the rights that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

3. Trademark: A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when artisans used to put their signature or "mark" on their products.

4. Trade Secret: A trade secret is a company's process or practice that is not public information, which provides an economic benefit or advantage to the company or holder of the trade secret. Trade secrets must be actively protected by the company and are typically the result of a company's research and development (which is why some employers require the signing of non-disclosure agreements, or NDAs).

LET US SUM UP

In this unit you have learnt the Legal aspects of Entrepreneurship. You have also come to know about the Legal issues to consider while starting the business and enumerated about various aspects of business in Legal Regulatory and Statutory body.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The term 'body corporate' is applicable to which two types of business form?

a) Companies and sole proprietorships

b) Partnerships and limited liability partnerships

c) Companies and limited liability partnerships

d) Companies and partnerships

2. A company can be created in one of three ways. Which one of the following is NOT a valid method of creating a company?

a) A company can be created by the Chancery Division of the High Court.

b) A company can be created by registration.

c) A company can be created by an Act of Parliament.

d) A company can be created by royal charter.

3. A company can be created in one of three ways. Which one of the following is NOT a valid method of creating a company?

a) A company can be created by the Chancery Division of the High Court.

b) A company can be created by registration.

c) A company can be created by an Act of Parliament.

d) A company can be created by royal charter.

4. The case of Salomon v A Salomon & Co Ltd established a number of principles. Which one of the following was not a principle established in Salomon?

a) That a person who owns the vast majority of a company's shares is to be regarded as the principal of the company or that the company is a trustee for his benefit.

b) That a company's promoters, directors and members could legitimately use corporate personality to shield themselves from certain liabilities.

c) That the minimum member requirement does not require the members to be active

d) all the above

5. Regarding the statutory set of model articles, which one of the following statements is NOT true?

a) If a promoter does not register any articles, the model articles will act as the company's articles.

b) Only companies incorporated under the Companies Act 2006 may be governed by the new model articles.

c) The model articles do not cover unlimited companies and such companies must register their own articles.

d) Even if a promoter does register its own set of articles, the model articles will form part of the company's articles, unless the registered articles modify or exclude them.

GLOSSARY

Licensing	:	Licensing is defined as a business arrangement, wherein a company authorizes another company by issuing a license to temporarily access its intellectual property rights, i.e. manufacturing process, brand name, copyright, trademark, patent, technology, trade secret, etc. for adequate consideration and under specified conditions.
Non-Disclosure Agreement	:	A contract in which one or more parties promise to keep information confidential, and not disclose it to any other party without proper authorization.
Voluntary Closure	:	Voluntary closure refers to the procedure in which a company's directors can appoint a voluntary liquidator to close up the affairs of the company.
Intellectual property	:	Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.
Copyright	:	Copyright is a legal term describing ownership of control of the rights to the use and distribution of certain works of creative expression, including books, video, motion pictures, musical compositions and computer programs.

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2. contents-final.pmd (lpude.in)
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4. Intellectual property Rights//IPR// for UG student/அறிவுசார் சசாத்த ் உரிமை/explained in Tamil - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. c) 2. a) 3. b) 4. a) 5. b)

Unit 11

BOOTSTRAPPING AND OWNERSHIP STRUCTURE

STRUCTURE

OVERVIEW

Bootstrapping refers to the process of starting a company with only personal savings, including borrowed or invested funds from family or friends, as well as income from initial sales. Self-funded businesses do not rely on traditional financing methods, such as the support of investors, crowd funding or bank loans.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- discuss about the various stages of bootstrapping
- explain about the ownership structure.

11.1 INTRODUCTION OF BOOTSTRAPPING

Bootstrapping describes a situation in which an entrepreneur starts a company with little capital, relying on money other than outside investments. An individual is said to be bootstrapping when they attempt to found and build a company from personal finances or the operating revenues of the new company.

11.2 DEFINITION OF BOOTSTRAPPING

Bootstrapping means to get into or out of a situation using your own resources. A bootstrapped business is a company without outside investment funds.

Entrepreneurs refer to bootstrapping as the act of starting a business with no outside money — or, at least, very little investment. Bootstrapping means launching a business without the help of venture capital firms or even significant angel investment. Bootstrapped companies are not the kind that draws media attention from huge funding rounds. The founding entrepreneur, known as the boot strapper, is the one sole investor in the beginning. The founder's only investment capital might be personal savings – and of course the time he or she spends working for free to get the business up and running. Bootstrapping requires plowing the money earned from customers back into the business . In other words, the bootstrapping entrepreneur relies on cash flow to grow their business in the place of outside capital.

11.3 STAGES OF BOOTSTRAPPING

There are a few stages that a bootstrapped company goes through:

1. Beginner Stage: The beginner stage starts with some saved money or borrowed/invested money coming from friends. For example, the founder continues to work on their main job and, at the same time, starts a business.

2. Customer-Funded Stage: When money from customers/clients is used to keep the business operating and to fund its growth.

3. Credit Stage: The credit stage involves the entrepreneur focusing on funding specific activities, such as hiring staff, upgrading equipment, etc. At the credit stage, the business takes out loans or tries to find venture capital for expansion.

11.4 ADVANTAGE OF BOOTSTRAPPING

i) The entrepreneur gets a wealth of experience while risking his own money only. It means that if the business fails, he will not be forced to pay off loans or other borrowed funds. If the project is successful, the business owner will save capital and will be able to attract investors. So, the business will grow up to a new level.

ii) The "bootstrapper" reserves the right to all developments, as well as ideas that were used during the development of the business.

iii) The lack of initial funding makes entrepreneurs look for unusual ways to solve problems, create new offers on the market, and show creative thinking.

iv) Independence from investor opinions. An entrepreneur can make all the decisions independently, so he is able to create something unique, realize a dream, test strength, and be independent of the investors' instructions.

v) Attracting external funding is challenging and can be a very stressful and time-consuming task. Bootstrapping allows an entrepreneur to fully focus on the key aspects of the business, such as sales, product development, etc.

vi) Creating the financial foundations of business by an entrepreneur is a huge attraction for future investments. Investors, such as private individuals, special funds, or venture capital firms, are much more confident in financing businesses that are already secured and have demonstrated the promises and commitment of the owners.

vii) Providing value to people. Business is all about delivering a particular value through a product or service.

11.5 DISADVANTAGE OF BOOTSTRAPPING

i) Business growth can be difficult if demand exceeds the company's ability to offer or produce services or products.

ii) The entrepreneur takes on almost all financial risks instead of sharing them with investors who invest in supporting the company's growth.

iii) Limited capital and lack of investment: In the context of the specifics of bootstrapping, the attraction of large investments and fully implementing one's ideas can be extremely hard.

iv) Stress problems: The ability to handle stressful situations is regularly checked when unexpected problems arise.

11.6 INTRODUCTION OF OWNERSHIP STRUCTURE

Business structure refers to the legal structure of an organization that is recognized in a given jurisdiction. An organization's legal structure is a key determinant of the activities that it can undertake, such as raising capital. An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities. The organizational structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization. Having an organizational structure in place allows companies to remain efficient and focused

- An organizational structure outlines how certain activities are directed to achieve the goals of an organization.
- Successful organizational structures define each employee's job and how it fits within the overall system.
- A centralized structure has a defined chain of command, while decentralized structures give almost every employee receiving a high level of personal agency.
- Types of organizational structures include functional, divisional, flatarchy, and matrix structures.
- Senior leaders should consider a variety of factors before deciding which type of organization is best for their business, including the business goals, industry, and culture of the company.

11.7 TYPES OF ORGANIZATIONAL STRUCTURE

1. Functional Structure: Four types of common organizational structures are implemented in the real world. The first and most common is a functional structure. This is also referred to as a bureaucratic organizational structure and breaks up a company based on the specialization of its workforce. Most small-to-medium-sized businesses implement a functional structure. Dividing the firm into departments consisting of marketing, sales, and operations is the act of using a bureaucratic organizational structure.

2. Divisional or Multidivisional Structure: The second type is common among large companies with many business units. Called the divisional or multidivisional structure, a company that uses this method structures its leadership team based on the products, projects, or subsidiaries they operate. A good example of this structure is Johnson & Johnson. With thousands of products and lines of business, the company structures itself so each business unit operates as its own company with its own president.

3. Flatarchy Structure: Flatarchy, a newer structure, is the third type and is used among many startups. As the name alludes, it flattens the hierarchy and chain of command and gives its employees a lot of autonomy. Companies that use this type of structure have a high speed of implementation.

4. Matrix Structure: The fourth and final organizational structure is a matrix structure. It is also the most confusing and the least used. These structure matrixes employees across different superiors, divisions, or departments. An employee working for a matrixes company, for example, may have duties in both sales and customer service.

11.8 BENEFITS OF ORGANIZATIONAL STRUCTURE

Putting an organizational structure in place can be very beneficial to a company. The structure not only defines a company's hierarchy but also allows the firm to layout the pay structure for its employees. The structure also makes operations more efficient and much more effective. By separating employees and functions into different departments, the company can perform different operations at once seamlessly.

In addition, a very clear organizational structure informs employees how best to get their jobs done. For example, in a hierarchical organization, employees will have to work harder at buying favor or courting those with decision-making power. In a decentralized organization, employees must take on more initiative and bring creative problem solving to the table. This can also help set expectations for how employees can track their own growth within a company and emphasize a certain set of skills—as well as for potential employees to gauge if such a company would be a good fit with their own interests and work styles.

11.9 FORMS OF BUSINESS ORGANIZATIONAL STRUCTURE

Business means the state of being busy. In technical words it is the commercial and industrial activities i.e. the production and distribution of good and services to people and earn profit. The business activities are usually divided into commerce and industry.

The different types of business ownership are;

- Sole Proprietorship
- Partnership
- Joint Stock Company

- Cooperative Organisation (Or Societies)
- Public Sector
- Private Sector

11.9.1 Sole Proprietorship

The firm owned by an individual forms a sole proprietorship. A person who enters into business on his own account, manages that business and is solely responsible for providing the capital and making the critical decisions is known as the sole proprietor. His reward is the profit that the business makes and the satisfaction of being his own boss, but in return, he must accept the risk of loss if the business fails. Examples are small farmers, hairdressers, grocers, butchers, consultants, craftsmen and mechanics.

Characteristics of Individual Ownership

- Owned by signal individual.
- Being a small in size it is easy and manage and control.
- The owner is unlimited liability.
- As per the legal status the owner and the business are considered as one.
- No legal formalities in setup a business and easy to dissolve it.

Advantages of Sole Proprietor

- It is the easiest and least expensive form of business organization.
- Personal decision making.
- All profits belong to the owner.
- Personal satisfaction.
- Business affairs are kept very private.

Disadvantages of Sole Proprietor

- Unlimited liability.
- Expansion problems due to lack of capital.
- Lack of continuity.
- Cannot take advantage of large scale buying.

11.9.2 Partnership

A Partnership is defined as two or more, but not exceeding a legally defined number of people (twenty in Pakistan) who agree to provide capital and work together in a business with a purpose of making profit.

Advantages of Partnership

- Easy to set-up.
- Provides a larger capital base and hence more growth prospects.
- Work load is shared.
- Responsibility and control is also shared.
- Provides a diversified pool of expertise resulting in efficient management.

Disadvantages of Partnership

- Unlimited liability
- Disagreement among the partners may cause delays in decision making
- Lack of continuity.

Legal Requirements of Partnership

- The maximum number of partners is defined
- Partners have to sign a partnership deed according to the articles of partnership for that particular country
- All partners participate in management but the right of a junior partner may be restricted by articles
- There may be “sleeping” partners who do not participate in day-to-day management affairs.
- The sharing of profits and losses according to the partnership deed or in the absence of any such clause according to the law of the country.
- A partnership doesn’t possess a corporate status and each partner is severally and jointly liable. Each partner incurs unlimited personal liability for not only himself but for all other partners for any debts incurred by the partnership.

11.9.3 Joint Stock Company

According to Prof. Haney,"Joint Stock Company is a voluntary association of individuals for profit, having their capital divided into transferable shares, the ownership of which is the condition for membership". Thus, a joint stock company is an incorporated association of persons having a separate legal existence, with a perpetual succession and common seal.

Characteristics of a Joint Stock Company

- Separate legal existence.
- Perpetual succession:

- Limited liability.
- Transferability of shares.
- Common seal.

Advantages of a Joint Stock Company

- Large capital resources.
- Limited liability.
- Continuity of existence.
- Efficient management.
- Economies of scale.
- Goodwill.

Disadvantage of a Joint Stock Company

- Legal formalities.
- Lack of motivation.
- Delay in decisions.
- Economic oligarchy.
- Corrupt management.
- Excessive government control.
- Unhealthy speculations.
- Conflict of interests.

11.9.4 Cooperative Organisation

Cooperative organizations are those organizations, which are different from the rest, as they are formed not for the purpose of making profit but to provide its members goods and services at reasonable rates. This form of organization primarily protects and safeguards the economic interests of its members. Thus, cooperatives are voluntary associations, formed with a service motive; the primary source of income being the members' shares, they get dividend on trading surplus, if any. The organization functions as a separate legal entity in a democratic way and is governed by the state regulation.

Types of Cooperative Organisation

- Consumers' cooperatives
- Producers' cooperatives
- Marketing cooperatives
- Housing cooperatives
- Credit cooperatives

- Farming cooperatives, etc.

Characteristics of Cooperative Organization

The structure of a cooperative organization ensures:

- All members have an equal say (one vote per member, regardless of the number of shares held).
- Open and voluntary membership.
- Limited interest on share capital.
- Surplus is returned to the members according to amount of patronage.

Advantages of a Cooperative Organization

- A cooperative organization is owned and controlled by members.
- It has a democratic control: one member, one vote.
- This type of organization has a limited liability.
- Profit distribution (surplus earnings) to members is carried on in proportion to the use of service; surplus may be allocated in shares or cash.

Disadvantages of a Cooperative Organization

- A cooperative organization entails longer decision-making process.
- It requires members to participate for success.
- Extensive record keeping is necessary in this form of organization.
- It has less incentive, and there's also a possibility of development of conflict between members.

LET US SUM UP

Bootstrapping is building a business without the help of outside capital. The main reasons for taking bootstrapping as a business model are a lack of experience in formulating business plans, as well as a lack of skills for product promotion and relationships with suppliers.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Businesses in the United States exhibit different forms of business organization because ___________.

a) Diversification leads to lower risks

b) Each form has unique advantages that satisfy particular firms

c) Common stockholders vote to have different types of business organization in different firms

d) Establishing a corporation is complicated so few proprietorships and partnerships ever try

2. A sole proprietorship is a business where all of the following are true except that ___________.

a) the owner has complete control over decision making

b) profits are only taxed once as the proprietor's income

c) the proprietor is liable for losses to the extent of his or her personal assets

d) the proprietor can sell stock to increase its capital resources

3. Unlimited liability for sole proprietors means that ___________.

a) they can lose everything they own if their businesses fail

b) they should form corporations instead

c) Proprietors are liable for all the value of all the shares they own in a business

d) a partnership appears relatively more attractive

4. In a partnership, the owners ___________.

a) are sheltered somewhat from unlimited liability

b) always split profits and losses 50-50

c) may have access to more venture capital, but each loses some independence in decision making

d) enjoy limited liability

5. The limited liability associated with the corporate form of ownership results from ___________.

a) Corporations existing as legal entities, separate and apart from their owners

b) Corporations being much less likely to experience losses

c) Banks that offer loans to corporations at low interest rates

d) Lower taxes on dividends

GLOSSARY

Sole proprietorship : A firmed owned by two or more people with unlimited liability.

Unlimited liability : Personal responsibility of the owners for all the firms debts.

Stocks : Shares of a corporation that are claims in the firms assets.

Corporate bond : A corporate bond is a type of debt security that is issued by a firm and sold to investors.

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3. Kinds of Ownership: Corporeal Ownership , Incorporeal Ownership (toppr.com)
4. Startup Bootstrapping: Definition, Process, Pros and Cons - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. b) 2. d) 3. a) 4. c) 5.a)

BLOCK 4

Unit 12: Institutional Finance to Entrepreneurs

Unit 13: Lease Financing and Hire Purchase Financing for Entrepreneurs

Unit 14: Small Scale Industries Taxation benefits and Government Policies

Unit 12

INSTITUTIONAL FINANCE TO ENTREPRENEURS

STRUCTURE

OVERVIEW

Over a period of six decades of transition, growth and development, different financial institutions have been providing financial supports to the entrepreneurial development in which the NSIC has proved its strength within the country and abroad by promoting modernization, up gradation of technology, quality consciousness, strengthening linkages with large and medium enterprises and enhancing export projects and products from small-scale enterprises. In this lesson, you will be taught about various functions of NSIC, besides this, we will also discuss STEP, STED, Nationalised Banks, EXIM Bank and its Functions. Not only this, but also, we will see new generation banks in a brief manner, after this discussion, you will learn some financial institutions such as SIDBI, NABARD, IDBI and Finally we will have the discussion on Special Economic Zone in detail.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the significance and the schemes of NSIC, STEP, STED, Nationalised Banks and New Generation Banks in India
- discuss the functions and contribution of NABARD, SIDBI, IDBI towards to development of entrepreneurship in India
- evaluate the Functions, objectives of Financial Institutions and Special Economic Zones and their Contribution for Economic Development.

12.1 FINANCIAL INSTITUTIONS

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development.

The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well developed structure of financial institutions in the country. These financial institutions can be broadly categorised into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though, the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they provide the same type of financial assistance as the national level institutions.

National Level Institutions

A wide variety of financial institutions have been set up at the national level. They cater to the diverse financial requirements of the entrepreneurs. They include all India development banks like IDBI, SIDBI, IFCI Ltd, IIBI; specialised financial institutions like IVCF, ICICIVenture Funds Ltd, TFCI ; investment institutions like LIC, GIC, UTI; etc

12.2 NATIONAL SMALL INDUSTRIES CORPORATION

NSIC (National Small Industries Corporation) is an ISO certified Indian Government Enterprise under Micro, Small and Medium Enterprises. National Small Industries Corporation is working to aid, foster and promote the growth of MSMEs (micro, small and medium enterprises) all across the country. NSIC operates all across the nation through a network of Technical Centres and offices.NSIC operates performs its administration from Johannesburg, South Africa. Apart from this, NSIChas set up Training cum Incubation Centres managed by highly trained professional manpower.

12.2.1 Schemes of NSIC

NSIC facilitates MSMEs with specially tailored scheme to build and improve their competitiveness. NSIC provides complete integrated services under Finance, Marketing, Technology and another allied Support service.

12.2.2 Marketing Support

Marketing support has been considered as one of the most important tools for the development of any business. It is crucial for the survival and growth of Micro, Small and Medium Enterprises in today’s intensely competitive market. NSIC devised numerous of schemes to support enterprises (both domestic and foreign markets) in their marketing efforts.

12.2.3 Consortia and Tender Marketing

Micro and Small Enterprises in their individual capacity encounter several issues in order to procure & deliver large orders, which negate them a level playing field vis-a’-vis large enterprises. NSIC forms consortia of MSEs manufacturing the same or similar product or products, thereby combining in their capacity.

NSI Capplies the tenders on behalf of single Micro and Small Enterprise/Consortia of Micro and Small Enterprise for securing orders for them. Finally, these orders are dispersed amongst Micro and Small Enterprises in tune with their capacity of production.

12.2.4 Marketing Intelligence Schemes

Disseminate and collect both international as well as domestic marketing intelligence for the benefit of Micro and Small Enterprises. This Marketing Intelligence cell, apart from to spreading awareness about several schemes for MSMEs, will maintain a database in detail and distribute information.

12.2.5 Exhibitions and Technology Fairs

To showcase the core competencies of Micro and Small Enterprises in India and to capitalize market opportunities, National Small Industries Corporation participates in National and International Trade Fairs and Exhibitions every year. NSIC facilitates the participation of the MSEs by offering concessions in rental etc. Participation in these national and international events exposes Micro and Small Enterprises units to international practices and improves their business competencies and prowess.

12.2.6 Technology Support

NSIC offers small enterprises the following support services through its Technical Services Centres.

1. Material testing facilities through accredited laboratories
2. Advise on application of new techniques
3. Common facility support in machining, EDM, CNC, etc.
4. Product design including CAD
5. Energy and environment services at selected centres
6. Classroom and practical training for skill upgrading.

12.3 SUPPORTS TO TRAINING AND EMPLOYMENT PROGRAMME FOR WOMEN (STEP)

The Ministry has been administering 'Support to Training and Employment Programme for Women (STEP) Scheme' since 1986-87 as a 'Central Sector Scheme'. The STEP Scheme aims to provide skills that give employability to women and to provide competencies and skill that enable women to become self-employed/entrepreneurs. The Scheme is intended to benefit women who are in the age group of 16 years and above across the country. The grant under the Scheme is given to an institution/ organisation including NGOs directly and not the States/ UTs. The assistance under STEP Scheme will be available in any sector for imparting skills related to employability and entrepreneurship, including but not limited to the Agriculture, Horticulture, Food Processing, Handlooms, Tailoring, Stitching, Embroidery, Zarietc, Handicrafts, Computer & IT enable services along with soft skills and skills for the work place such as spoken English, Gems & Jewellery, Travel & Tourism, Hospitality.

The programme of STEP advocates the objective of extending training for up gradation of skills and sustainable employment for women through a variety of action oriented projects which employ women in large numbers. The Scheme covers 8 traditional sectors of employment, viz., Agriculture, Small Animal Husbandry, Dairying and Fisheries, Handlooms, Handicrafts, Khadi and village industries and sericulture.

12.3.1 Concept of STEP

The programme of STEP aims to make a significant impact on women by upgrading skills for self and wage employment. The sequence of activities is envisaged as mobilizing women in viable groups, improving their skills, arranging for productive assets/ access to wage employment, creating backward and forward linkage, improving/arranging for support services, providing access to credit, awareness generation, gender sensitization, nutrition education, sensitization of project functionaries etc.

12.3.2 Objectives of STEP

i) To mobilise women in small viable groups and make facilities available through training and access to credit.

ii) To provide training for skill up gradation.

iii) To enable groups of women to take up employment-cum-income generation programmes by providing backward and forward linkages.

iv) To provide support services for further improving training and employment conditions of women.

12.3.3 Target Group/ Beneficiaries

The target group to be covered under the STEP Programme includes marginalised, asset less rural women and the urban poor. This includes wage labourers, unpaid daily workers, female headed households, migrant labourers, tribal and other dispossessed groups, with special focus on SC/ST households and families below the poverty line.

12.3.4 Pattern of Assistance

(i) 100 Per cent assistance

- Project staff and administrative cost.
- Training-stipend, training of trainers, skill upgradation reinforcement, training-cum-production centres and raw material for training

- Support to members for formation of co-operative societies, producers, workers co-operatives leading to formal legal organisation.
- Support services-education, general awareness, health-care, sanitation, nutrition/creche facilities for dependent children, wherever convergence of these services are not available will be provided as part of the project cost.
- Marketing support - marketing/sales personnel, stock provision and buyers credit godowns, marketing outlets, quality control and managerial support**.**

(ii) 50 per cent assistance

Construction of individual work sheds and production centres not related with training 50 percent of the total cost on this complement will be borne by the Government of India and 50 per cent will have to be borne by the implementing agency.

(iii) Working capital/raw material requirements

Financial assistance will be provided for working capital and raw material in a phased manner starting with 100 per cent during the first year, 50 per cent in the second year and 30 per cent in the third year of the project.

12.4 NATIONALISED BANKS

On July 19, 1969 Bank Nationalised Day came into existence, where 14 banks are nationalised by the government of India. Most of the nationalised banks in India are also referred to 'public sector banks'. According to the IMF (International Monetary Fund), Nationalisation is a process by which the government takes over private assets and brings them under public ownership Nationalisation of banks means to take the banks under government undertaking. Banks after nationalisation comes directly under banking regulation Act 1949. RBI (Reserve bank of India), India's Central bank become the first nationalised banks in India after the Indian independence. RBI later becomes the regulatory authority for banking in India. At that time most of the banks are private control, but later it pulled few of the banks under its control to finance India's growing financial needs. At Present there are exactly 19 nationalised banks in India as per the RBI official website.

The importance of entrepreneurship has magnified in today’s economic climate. It introduces a crucial element of dynamism, particularly into an economic system. Entrepreneurs are often regarded as national assets who are motivated and rewarded to the greatest possible extent mainly because they contribute in terms of innovation, jobs and improve the conditions for a prosperous society.

The Indian government is also pushing and encouraging young Indian to start their own business or undertake ventures which have increased the role of a financial institution. Now the banks have to meet the need of financial assistance to a new start-up company.

There is no denying that activities of banks reflect their unique role as the kick-starter of growth in any economy. Commercial and specialized banks always play an important role in the growth and development of entrepreneurship. Apart from providing financial assistance, banks also give valuable inputs to support and promote their enterprise.

We shall now examine their role in developing entrepreneurship and for the purpose of convenience and proper understanding, the roles can be divided in the following category.

12.4.1 Statute laws

It's is one of the main reason why banks were created in the first place. The roles such as accepting of deposit, safekeeping assets but more importantly giving of loans and advances make them a key element in the growth. Commercial banks will be providing security for the customer's money and at the same time giving entrepreneurs the opportunity to use their deposits to borrow more fund in order to run their enterprises without any hassle. A good payment system is essential for the efficient functioning of an economy. And with the advancement of technology, the speed of service has greatly improved.

The growth of digital banking has reduced the cost of starting/doing business tremendously. This has greatly helped entrepreneurs in modern days. It is also very helpful for those involved with businesses on foreign soil.

For instance, most international businesses are conducted on credit, with payment later. Commercial Banks offer quick foreign exchange – a service where money is transferred to any part of the world on behalf of the banks' clients. With banks playing this crucial role, they have now become a very important part of promoting entrepreneurial development.

12.4.2 Financing roles

Not all entrepreneurs are from a sound financial background. Most will need initial loans on reasonable interest rate in order to generate capital to start their venture or enterprise. It is self-explanatory but without funds, entrepreneurs cannot grow, and this is where banks, particularly commercial banks play a significant role in the lives of entrepreneurs. Once an enterprise or business is set-up, then comes the important part, funding the cash cycle.

12.4.3 Counselling

Since banks have professional and specialized status, they are in a strong position to advise entrepreneurs on sustainable lines of investment by analyzing the pro and cons of each investment as well as management of investment of customers. This is one of the key roles of banks in the development of entrepreneurs as many enterprises/businesses fail to succeed because of faulty investment decisions, mismanagement of funds, inefficient capital and poor planning.

Banks will always remain crucial to the growth and advancement, plus their operations offer a rock-hard backing which is capable of entrepreneurs in profitable and viable ventures. Commercial and specialized banks contribute significantly and positively in advising and providing loans for the development of entrepreneur in India. They are essential for the survival and growth of entrepreneurship in the country.

12.4.4 Pradhan Mantri MUDRA Yojana (PMMY)

Pradhanmantri MUDRA Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister on April 8, 2015 for providing loans up to 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY. These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs. The borrower can approach any of the lending institutions mentioned above or can apply online through this portal. Under the aegis of PMMY, MUDRA has created three products namely 'Shishu', 'Kishore' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth.

For implementing the Scheme, government has set up a new institution named, MUDRA (Micro Units Development & Refinance Agency Ltd.), for development and refinancing activities relating to micro units, in addition to acting as a regulator for the micro finance sector, in general. MUDRA provides refinance to all banks seeking refinancing of small business loans given under PMMY. Thus, MUDRA refinances all Last Mile Financiers - Non-Banking Finance Companies of various types engaged in financing of small business, Societies, Trusts, Section 8 Companies [formerly section 25], Co-operative Societies, Small Banks, Scheduled Commercial Banks and Regional Rural Banks - which are in the business of lending to Micro/Small business entities engaged in manufacturing, trading and services activities.

PMMY was announced through Union Budget 2015-16, which proposed to create MUDRA bank with a corpus of Rs. 20,000 crore made available from the shortfalls of priority sector lending, to refinance Micro-Finance Institutions through PradhanMantri Mudra Yojana. Further, budget supported a credit guarantee corpus of Rs.3,000crore for guaranteeing loans being provided to the micro enterprises.

12.5 EXIM BANK

The Export-Import Bank of India, commonly known as the EXIM bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers to promote India's foreign trade. It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

12.5.1 Objectives of EXIM Bank

i) Financing of export and import of goods and services both of India and of the outside of India.

ii) Providing finance for joint ventures in foreign countries.

iii) Undertaking merchant banking functions of companies engaged in foreign trade.

iv) Providing technical and administrative assistance to the parties engaged in export and import business.

v) Offering buyers' credit and lines of credit to the foreign governments and banks.

vi) Providing advance information and business advisory services to Indian exports in respect of multilaterally funded projects overseas.

12.5.2 Need for EXIM Bank

Besides, the change in the world market and the creation of World Trade Organization (WTO) compelled India to give a fillip to its export finance. All along, it was felt that the Indian exporter needs only rupee finance. But it is only due to a change in the export policy of promoting more value added export.

12.5.3 Functions of EXIM Bank

The following are the functions of Export Import bank:

i) Corporate banking group: Corporate banking group handles various financing programs for exporters, importers and overseas investment by Indian companies.

ii) Project finance/trade finance: Project finance group deals with the services related to export credit such as pre-shipment credit, suppliers credit. The projects related to the financing of export transactions of the agricultural sector are also handled by this group.

iii) Export services group: Export services group provides services such as value-added information for promoting investments and advisory services.

iv) Export marketing group: Export marketing group provides loans/assistance for exporters (example Indian company) to perform export operations to overseas markets.

v) Support services group: Support services group render services which include areas of planning, research, corporate finance, loan recovery, etc.

vi) Small and medium enterprises: Various lending/ financial assistant programs are formed to handle credit proposals from small and medium enterprises (SME).

12.6 NEW GENERATION BANKS

Today, banks claim themselves as new generation banks on the basis of certain services they render or the time period they have being formed or bought into existence. But, it should not be done so because, it totally depends on how they function, in terms of implementing strategies, creating and initiating new investment plans managing funds and non-performing assets, looking on to the way how their work force is recruited and retained by analyzing their true calibre and so on. "New generation banks are not just banks who are involved in the implementing a new strategy for the sake of survival. But, banks who are involved in the process of creating a paradigm shift to overcome the ever-changing market requirements and customer preferences by the way they organize the internal and external activities, and initiatives by considering traditional human values and using modern technology.

That may result in creating larger revenues by properly investing and managing the funds to create optimum profit and goodwill for the long run of the business can be considered and proved as sustainable".

Similarly, ages pass on and so does time, thus organizations who are involved in creating change and surviving the change by implementing innovative and effective strategies to serve the future generations to come can be considered.

12.7 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

Small Industries Development Bank of India (SIDBI) is a development financial institution in India, headquartered at Lucknow and having its offices all over the country. Its purpose is to provide refinance facilities and short term lending to industries, and serves as the principal financial institution in the Micro, Small and Medium Enterprises (MSME) sector. SIDBI also coordinates the functions of institutions engaged in similar activities. SIDBI operates under the Department of Financial Services, Government of India.

SIDBI is one of the four All India Financial Institutions regulated and supervised by the Reserve Bank; other three are EXIM Bank, NABARD and NHB. They play a salutary role in the financial markets through credit extension and refinancing operation activities and cater to the long-term financing needs of the industrial sector.

SIDBI is active in the development of Micro Finance Institutions through SIDBI Foundation for Micro Credit, and assists in extending microfinance through the Micro Finance Institution (MFI) route. Its promotion & development program focuses on rural enterprises promotion and entrepreneurship development.

12.7.1 Origin of SIDBI

In order to promote small scale industries in the country, a special Act was passed in Parliament in April 1990 for starting of Small Industries Development Bank of India. SIDBI is a wholly owned subsidiary of IDBI. It is providing assistance to all those institutions which are promoting small scale industries.

12.7.2 Objectives of SIDBI

i) To promote marketing of products of small scale sector.

ii) To upgrade technology and also undertaking modernization of small scale units.

iii) To provide more financial assistance to small scale ancillary and tiny sector.

iv) To encourage employment oriented industries.

v) To coordinate all the other institutions involved in the promotion of small scale industries.

12.8 TAMILNADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED (TANSIDCO)

Tamilnadu Small Industries Development Corporation Limited (TANSIDCO), an undertaking of Government of Tamilnadu, functions with the specific objective of playing catalytic role in the promotion and development of Small Scale Industries and hastening the industrial dispersal throughout Tamilnadu.

The key areas of TANSIDCO's activities are as follows:

- Development of industrial estates with infrastructure facilities and provision of work sheds & developed plots.
- Raw Materials Supply Scheme
- Marketing Assistance Scheme
- Guidance to Entrepreneurs

12.9 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Set up with an initial capital of Rs.100 crore, its' paid up capital stood at Rs.10,580crore as on 31 March 2018. Consequent to the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India.

12.9.1 Skill Development

Promoting an entrepreneurial culture among the rural youth and encouraging them to start enterprises in the rural off-farm sector has been our strategy for over three decades. The capacity development measures initiated by NABARD have covered 32355 skill and entrepreneurship development programmes in association with our partner agencies with grant assistance of ` 121.41 crore. These measures have cumulatively covered over 8.37 lakh unemployed rural youth in the country as on 31 March 2018.

12.9.2 Setting up of Incubation Centres

NABARD believes start-ups and enterprises endeavouring to commercialise innovations should be encouraged in order to shape agri entrepreneurship in the country. As an attempt in the right direction, we extended support to ChaudharyCharan Singh Haryana Agricultural

University, Hisar and Tamil Nadu Agricultural University, Madurai for establishing Agri Incubation Centres with a total financial commitment of 23.99 crore.

12.9.3 Dairy Entrepreneurship Development Scheme

The Department of Animal Husbandry, Dairying and Fisheries (DAHD&F), GoI launched a pilot scheme titled “Venture Capital Scheme for Dairy and Poultry” in the year 2005-06. The main objective of the scheme was to extend assistance for setting up small dairy farms and other components to bring structural changes in the dairy sector.

During a mid-term evaluation of the scheme, certain recommendations were made to accelerate the pace of implementation of the scheme. Taking into account the recommendations of the evaluation study and the representations received from various quarters including the farmers, State Governments and banks, DAHD&F decided to make some key changes to the scheme, including changing its name to Dairy Entrepreneurship Development Scheme (DEDS).The revised scheme has come into operation with effect from 1 September 2010.

12.10 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

Till 1976, IDBI was a subsidiary bank of RBI. In 1976 it was separated from RBI and the ownership was transferred to Government of India. IDBI is the tenth largest bank in the world in terms of development. The National Stock Exchange (NSE), the National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the Institutions which has been built by IDBI.

12.10.1 Functions of IDBI

i) To provide financial assistance to industrial enterprises.

ii) To promote institutions engaged in industrial development.

iii) To provide technical and administrative assistance for promotion management or expansion of industry.

iv) To undertake market and investment research and surveys in connection with development of industry.

12.10.2 Developmental Activities of IDBI

(i) Promotional Activities: In fulfilment of its developmental role, the bank continues to perform a wide range of promotional activities relating to developmental programmes for new entrepreneurs, consultancy services for small and medium enterprises and programmes designed for accredited voluntary agencies for the economic upliftment of the underprivileged.

These include entrepreneurship development, self-employment and wage employment in the industrial sector for the weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs' Parks, Energy Conservation, Common Quality Testing Centers for small industries.

(ii) Technical Consultancy Organisations: With a view to making available at a reasonable cost, consultancy and advisory services to entrepreneurs, particularly to new and small entrepreneurs, IDBI, in collaboration with other All-India Financial Institutions, has set up a network of Technical Consultancy Organisations (TCOs) covering the entire country. TCOs offer diversified services to small and medium enterprises in the selection, formulation and appraisal of projects, their implementation and review.

(iii) Entrepreneurship Development Institute: Realising that entrepreneurship development is the key to industrial development; IDBI played a prime role in setting up of the Entrepreneurship Development Institute of India for fostering entrepreneurship in the country. It has also established similar institutes in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh. IDBI also extends financial support to various organisations in conducting studies or surveys of relevance to industrial development.

12.11 SPECIAL ECONOMIC ZONE (SEZ)

Special Economic Zone (SEZ) is a special geographical region which has different laws when compared to other regions. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services.Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. In order words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia. Any private/public/joint sector or state government or its agencies can set up an SEZ, a foreign agency can set up SEZs in India. Special Economic Zones (SEZ) are growth engines that can boost manufacturing, augment exports and generate employment. Business units that set up establishments in an SEZ would be entitled for a package of incentives and a simplified operating environment. Special Economic Zone (SEZ) is a special geographical region which has different laws when compared to other regions. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services.

SEZ's enjoys tax breaks, simplified procedures, less regulations and restrictions, exemption from customs and duties, all of which is done to;

- Generate additional Economic activity
- Promote exports of goods and services
- Promote Investment from domestic and foreign sources
- Create employment opportunities
- Develop Infrastructure facilities

12.11.1 Performance of SEZs in India

The employment opportunities and investments in the SEZs are projected on full scale development basis and there could be a lag in their performances due to various external environmental issues like global economy, investor interests, shifting trends in the consumption patterns, social interests, cost factors etc. Another important factor is that SEZs have an export orientation for a net foreign exchange before a given time frame period. The connectivity to the nearest seaports and other outbound facilities improve as a hinterland reinforcement area improving the cascading effect on the economy. They also provide the implicit benefit of competition in the economic structure of the country. The investments accumulated into the SEZs for the period from 2005 to 2017 (as on Sep 2016) amount to Rs. 4,06,690 crores with a accumulated foreign exchange earnings of Rs. 32,62,082 crores. The SEZs in the country already housed 4,218 numbers of units. They have also provided employment to over 16, 88,337 individuals as on 10thSep 2016.

12.11.2 Facilities and Incentives

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export

profit for next 5 years. (Sunset Clause for Units will become effective from 01.04.2020)

- Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
- Other levies as imposed by the respective State Governments.
- Single window clearance for Central and State level approvals.

The major incentives and facilities available to SEZ developers include:

- Exemption from GST for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from General Sales Tax (GST).
- Exemption from Service Tax.

12.12 THE MSME ACT, 2006

The micro, small, and medium enterprise sector offers the most chances for both employment and self-employment in the nation, second only to agriculture. There is significant room for future expansion and growth in the Indian small business sector. In actuality, no other economic sector can compare to the sector’s employment potential. This is where the Micro, Small, and Medium Enterprises Development (MSME) Act, 2006, comes into play.

Definition of MSME

The following two types of micro, small, and medium enterprises are used to classify them in compliance with the provisions of the Micro, Small, and Medium Enterprises Development Act, 2006.

Manufacturing enterprises

These are the industries that produce goods for any of the sectors listed in the first schedule of the Industries (Development and Regulation) Act, 1951, or that use machinery and plants to add value to the finished product so that it has a unique identity, character, or use. Investment in plant and machinery is used to characterise manufacturing corporations, as mentioned below:

1. Micro enterprise’s investment does not exceed 25 Lakh Rupees;
2. The investments of small enterprises are more than 25 Lakh Rupees but do not exceed five crores;
3. The investment for medium enterprises is more than Five crores but does not exceed ten crores.

Service enterprises

Companies that provide or deliver services are referred to as service enterprises and are identified by their equipment investment.

1. In micro-enterprises, the investment does not exceed ten lakh rupees.
2. In small enterprises, the investment is more than ten lakh rupees but does not exceed two crore rupees.
3. In medium enterprises, the investment is more than two crores but does not exceed five crores.

Highlights of new MSMEs

‘Atma Nirbhar Bharat Abhiyan’ or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs.

Following are a few highlighting features of new MSMEs:

1. A provision of Collateral Free Loans to MSMEs
2. An arrangement of loans to MSMEs worth of Rs. 3 lac crores
3. An offer for MSMEs to get a Moratorium period of 12 months
4. Consideration of Manufacturing and Service MSMEs as the same entities
5. MSM is a granted a repayment Tenure of 48 months
6. MSMEs are assured a 100% Credit Guarantee
7. Reclassification of MSMEs will benefit approximately 45 Lac units.

Features of MSMEs

Following are some of the essential elements of MSMEs:

1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
2. MSMEs provide credit limit or funding support to banks.

3. They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.
4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.
6. They also offer modern testing facilities and quality certification services.
7. Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

Role of MSMEs in Indian Economy

Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas.

MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development.

MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.

With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

The below-mentioned data, represented in a tabular format, is by the Central Statistics Office (CSO) and Ministry of Statistics & Program Implementation.

Importance of MSMEs for the Indian Economy

Across the globe, MSMEs are accepted as a means of economic growth and for promoting equitable development. They are known to generate the highest rate of growth in the economy. MSMEs have driven India to new heights through requirements of low investment, flexible operations, and the capacity to develop appropriate native technology.

1. MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.
2. With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.
3. MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy
4. Contributing around 45% of overall Indian exports
5. MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.
6. MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.
7. MSMEs promote innovation by providing an opportunity to budding entrepreneurs to help them build creative products hey and thereby boost competition in business and fuel the growth.

The Indian MSME sector provides silent support to the national economy and acts as a defense against global economic shock and adversities. Hence, we can say that India is propelling towards a robust global economy through a silent revolution powered by MSMEs.

LET US SUM UP

This unit would have given you knowledge on various things such as The NSICLtd. (NSIC), ‘Support to Training and Employment Programme for Women (STEP), Skills for Trade and Economic Diversification (STED), contribution of nationalised bank and new generation banks in India and institutions towards financially supporting new breed entrepreneurs.

The Export Import Bank (EXIM Bank), Small Industries Development Bank of India (SIDBI), Industrial Development Bank of India (IDBI) which are taking part of business life of an entrepreneurs in India so that boosting up the GDP and get rid of unemployment problems. Finally, A Special Economic Zone (SEZ) is a geographically bound zone where the economic laws in matters related to export and import are more broadminded and liberal as compared to rest parts of the country.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. To provide financial assistance to entrepreneurs the government has set up a number of ___________.

a) financial advisors b) financial intermediaries

c) Industrial estates d) financial institutions

2. State Industrial corporations engage in the development of __________.

a) industrial estates b) institutional estates

c) individual investors d) agricultural entrepreneurs

3. ___________is the first development bank of the country.

a) ICICI b) IDBI

c) SFC d) IFCI

4. IFCI stands for___________.

a) Industrial finance corporation of India

b) Institutional finance corporation of India

c) Industrial funding corporation of India

d) Indian finance corporation and institution

5. Which of the following is a function of SIDBI?

a) Extension of seed capital b) Discounting of bills

c) Providing factoring services d) All of the above

GLOSSARY

Reserve bank of India : The Reserve Bank of India, abbreviated as RBI, is India's central bank and regulatory body responsible for regulation of the Indian banking system.

National Small Industries Corporation (NSIC)	:	The National Small Industries Corporation was constituted in 1955 as part of the central government undertaking with the primary objective of fulfilling the machinery and equipment requirements for the development of small entrepreneurs.
Small Industries Development Bank of India (SIDBI)	:	Small Industries Development Bank of India (SIDBI) is an independent financial institution aimed at aiding the growth and development of Micro, Small and Medium Enterprises (MSMEs) which contribute significantly to the national economy in terms of production, employment and exports.
Industrial Development Bank of India (IDBI)	:	It is a Development Financial Institution constituted in 1964, as a wholly-owned subsidiary of the Reserve bank of India, for providing financial aid to industries and assisting the development institutions (like NSE, NSDSL, SIDBI, etc.) in India post-Independence.
Special Economic Zone (SEZ)	:	Special Economic Zone (SEZ) are developed to promote the economic growth of a country by attracting investment, creating employment, and offering tax incentives and other benefits.

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WEB RESOURCES

1. Lesson-12.pdf (dei.ac.in)
2. Unit 5 - Lecture notes 5 - CHAPTER 5 INSTITUTIONAL ASSISTANCE TO SMALL SCALE ENTERPRISES - Studocu
3. UNIT 8 - 01 - ROLE OF DIC, SISI, SIDCO ETC., PART 1 - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. d)	2. a)	3. d)	4. a)	5. d)

Unit 13

LEASE FINANCING AND HIRE PURCHASE FINANCING FOR ENTREPRENEURS

STRUCTURE

OVERVIEW

Leasing is a way of renting an asset that the business requires, such as a coffee machine. Monthly payments are made, and the leasing company is responsible for the provision and upkeep of the leased item. Hire purchase is used to purchase an asset, such as a delivery van or piece of equipment. A deposit is paid and the remaining amount for the asset is paid in monthly instalments over a set period of time. The business does not own the item until all payments are made.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- state the meaning of lease financing
- explain the various of types of leasing

- describe the advantages and disadvantages of leasing
- discuss the role of hire purchase financing for the entrepreneurs
- explain about the statutory limit in hire purchase charges
- state the rules of termination of the agreement.

13.1 INTRODUCTION OF LEASE FINANCING

Lease contracts have long been an important alternative to direct ownership of an asset. One may opt to take a building on a lease or rent a car, rather than owning them outright. Thus assets can easily be acquired with lease finance and while the owner (Lessor) enjoying the tax benefits which are passed on to the tenant (Lessee) in the form of lower rent. Lease companies play a role of financial intermediaries who encourage investments by making funds available in an easy way. Leasing is now being considered as another alternative to financial instrument. Of late there has been a remarkable growth in the leasing business. The rapid growth of leasing business has resulted in competition which in turn has reduced the lease rentals significantly. In the changing economic and financial environment with global competitors, the lease financing has assumed a significant role as an alternative source of financing or a close substitute for debt financing.

13.2 MEANING OF LEASE

A lease is contract between a lessor who is the owner of the asset and a lessee who is a user of the asset whereby the lessor (owner) gives the right to use the asset to the lessee (user) over an agreed period of time for a consideration called the lease rental either on monthly, quarterly, half- yearly or yearly basis. And some cases it may be weekly, daily or hourly basis.

According to AS-19, “A lease is an agreement whereby the lessor conveys (transfers) to the lessee the right to use an asset for an agreed period of time in consideration for a payment or series of payments.” The lessor as a legal owner is entitled to claim depreciation on the leased asset. The lease contract may be a short term lease contract which provides recovery of the cost of the asset and profit through lease rentals during a period of less than five years whereas under long term lease contact (called perpetual lease) the lessee is generally given an option to buy or renew the lease on a nominal lease rentals.

13.3 CLASSIFICATION OF LEASE

According to AS-19 the lease may be of two types:

1. Operating Lease

2. Financial Lease

1. Operating Lease: A lease is classified as an operating lease if the lessor does not transfer all risks and rewards incidental to ownership of the asset. The lessee acquires rights to use the assets on a period to period basis. In other words, operating lease covers the period which is much shorter than the economic life of the asset. The lessor may lease the asset to different lessees one after another throughout its useful life. The rent payable by any one lessee during the lease period is not sufficient to cover cost of the asset fully. At the expiry of term of lease, the asset reverts back to the lessor. Hence, such leases are called short term leases. An operating lease is also termed as „Service Lease‟ because lessor also provides necessary services relating to insurance, repairs and maintenance of the leased asset. Therefore, the lease rentals of an operating lease also include for such services in respect of leased asset.

The operating lease is generally cancelled by either party. Because of provisions of services along with the risk of obsolescence, the operating lease is more expensive as compared to other form of lease as the lessee has to compensate to the lessor for both- the instant services and the risk of obsolescence.

Salient features of an operating lease are:-

- It is a short term and cancellable lease.
- The period covered by any one lease agreement is much shorter than the economic life of the leased asset. The lease period may vary from an hour to five years.
- There are series of lease agreements one after another throughout the useful life of the leased asset.
- Operating lease usually contains a maintenance clause.
- Convenience and prompt service is the very basis of operating lease.
- Rentals are usually higher as compared to other lease.

Some examples of operating lease are:

- Renting a car, truck or a hotel room including the provision for petrol, diesel, driver or services of waiters in case of hotel rooms.
- Hiring of a marriage hall including provision for food, drinks and bearers.
- Chartering a plane or ship including provision of crew and other staff.
- Hiring computers and office equipments with operators including provision for repairs and maintenance.

- Hiring crane services with operators.

2. Finance Lease: According to AS-19, a finance lease is a lease that transfers substantially all the risks and wards incidental to ownership of an asset. It usually covers the full useful life of the asset or a period which is closer to its economic life. Such lease is termed as long-term or non cancellable lease contract during which the lessor receives rental that covers not only the cost of the asset but a reasonable return on the funds invested to acquire the asset. The repairs and maintenance of the leased asset is undertaken by the lessee. Hence, such leases are also known as capital or full pay out leases. At the end of lease term, the asset may be returned to owner (lessor) or handled as per lease terms.

Salient features of finance lease are:

- The lessor transfers ownership of the asset to the lessee by the end of lease term.
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value of the asset.
- The lease term is for the major part of the economic life of the asset even if the asset is not transferred.
- The leased asset is of a specialized nature such that only the lessee can use it without major modification being made.
- In the event of cancellation of lease by lessee, lessor‟s losses due to cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual value fall on to the lessee.
- The lessee can continue the lease for a second term at a rent which is substantially lower than the market rent.
- The risk of obsolescence, repairs, maintenance and insurance rests with the lessee.

13.4 ADVANTAGES OF LEASING

The following are the main advantages of leasing for the entrepreneurs:

i) No Sunk Cost: Lease finance makes huge sum available for land and building, plant & machinery and other fixed assets thus averting a large sum to be blocked in fixed assets. One may start business with necessary amount of working capital. Thus it serves as an additional source of long term finance for the lessees.

ii) No Cost of Raising Capital: The cost of raising long term finances through issue of shares & debentures is totally avoided. The underwriter‟s commission, the cost of issue of prospectus and other incidental charges has not to be incurred.

iii) Simplicity, Convenience and Flexibility: Lease finance arrangements are easy and simple to make and flexible & convenient to operate as far as compliance of formalities are concerned. If an asset is required for short period, buying an asset and resale thereof may be time consuming, inconvenient and costly affair.

iv) No Obsolescence Risk: The lessee is always free to replace the outdated asset with new one whenever there is a technological change is brought about. Computers are usually subject to rapid and unpredictable changes, hence lessee will always prefer for short-term cancellable lease.

v) Tax Shield: The lease rentals can be adjusted so as to provide maximum tax benefits. The lease rentals may be enhanced to avail tax concessions by lowering the taxable income and on the contrary, lease rentals may be lowered to pass on the tax benefits for future if current income is already low.

vi) Maintenance and Specialized Service: The lessor is always better equipped to provide best possible maintenance and specialized services at low cost which cannot be provided by any other agency.

13.5 LIMITATIONS OF LEASE FINANCING

The following are the limitations of lease financing for the entrepreneurs:

i) Restricted Use: An asset taken on lease has to be used in accordance with terms of agreement. Alteration or modification to suit the lessee‟s requirements cannot be made. Further, any other condition, such as of compulsory insurance, may be of the terms of the lease contract.

ii) Default: In case of default, the lessee usually losses the right to use asset in case of finance lease, whereas he is required to pay damages in case of an operating lease.

13.6 HIRE PURCHASE FINANCING FOR THE ENTREPRENEURS

Hire Purchase is a system of selling goods whereby risk involved in transaction is kept to the minimum. It has the advantage of credit sale and ensures regular and periodical recovery of money through installments while keeping the title of goods safe.

According to Pickles, "Hire Purchase is a system under which the property is acquired by payments made in installments, during the period of which the title in the property remains with the Hire Vendor. The payments prior to the final are regarded as being purely in respect of hire an title of the property does not pass to the hire purchaser until such final payment or some other consideration provided for in the contract has been fulfilled."

Hire Purchase Act 1972 Section 2 (C) States:

"Hire Purchase Agreement means an agreement under which goods are let on hire and the hirer has an option to purchase them in accordance with the terms of agreement." It includes an agreement under which:

- Possession of goods is given by the owner to a person on a condition that such person will pay the agreed amount in periodical installments,
- The property in goods is to pass such person on the payment of the last of such installments and
- Such person has the right to terminate the agreement at any time before the property in goods so passes.

Section 4 of Hire Purchase Act 1972 states t.0hat Hire Purchase Agreement contains:

- The hire purchase price of goods to which agreement relates.
- The cash price of goods.
- The date on which the agreement shall be deemed to have commenced.
- Number of installments by which the hire purchase price is to be paid, the amount of each of these installments, and the date, upon which it is payable and the person to whom and the place where it is payable.
- The goods to which agreement relates.
- Where any part of hire purchase price is to be paid otherwise than by cash or cheque, the hire purchase agreement shall contain a description of that part of price.

13.7 STATUTORY LIMIT ON HIRE PURCHASE CHARGES

The difference between hire purchase price and the cash price represents hire purchase charges. It is, in fact, the total amount of interest to be paid by hire purchaser to hire vendor. To avoid higher rate of interest charged by hire vendor section 7 puts the maximum limit of 30 per cent of such instalment or the charges as may be ascertained with the help of following formula:

$$SC = \frac{\text{CI x R x T}}{100}$$

Where,

SC = Stands for statutory charges

CI = The amount of cash price installment

R = Rate as determined by Central Govt. in consultation with RBI

T = Time Period

13.8 RIGHT OF HIRE PURCHASER TO PURCHASE GOODS TAKEN ON HIRE

In case a hire purchaser intends to make outright purchase of the goods taken on hire after the agreement has been signed and delivery taken he can do so by giving 14 days prior notice to the hire vendor as required under the Hire Purchase Act u/s 7. He shall be required to pay the amount due to hire vendor after deducting the rebate under the act. The rebate can be worked out as under:

$$\text{Rebate} = \frac{2\ (\,ire\ Purchase\ Chares\ x\ No.of\ Installments\ due)}{3\ (Total\ No.of\ Installments)}$$

13.9 HIRE-PURCHASE INSTALMENT SALE AND LEASE

Under Hire-Purchase system the property in goods (ownership) is transferred from hire vendor to hire-purchaser only when last instalments are paid. Every installment paid by the hire purchaser is treated as hire and the hire vendor has the right to repossess goods in case of any default. The hire-purchaser cannot temper or transfer the goods until the payment of final installment. However, he has right to terminate the agreement at any time before the transfer of ownership. The hire-purchase is entitled to claim depreciation and how the hired asset in the Balance Sheet along with the amount due to hire vendor. The interest is charged to P & L A/c.

Whereas, an installment is a credit sale and the property in goods is transferred immediately on the signing of agreement. Every installment paid is treated as part of price. The vendor has no right to repossess the goods, but can sue for the amount due. The buyer has the right to sell, transfer or dispose of the goods at any time but cannot terminate the agreement and return the goods to the vendor. The balance due is shown as secured loan on which interest is payable.

13.10 TERMINATION OF AGREEMENT

The Hire Purchase Act gives the hire purchaser the right to terminate agreement at any time by giving 14 days notice to the hire vendor. However, he shall be required to pay a sum as stipulated in the agreement or as per the provisions of the Act, whichever is less. The Hire Purchase Act provides that:

- Where total sum paid and due in respect of hire purchase price immediately before termination exceeds one half of the hire purchase price the hire purchaser is not required to pay any amount on termination.
- Where total sum paid and due in respect of hire purchase price immediately before termination does not exceed half of the hire purchase price, the hire purchaser shall be liable to pay the difference between half of the hire purchase price and amount already paid or the amount so stipulated in the agreement whichever is less.

LET US SUM UP

Although leasing business has been growing very fast, recently there has been a shift to hire purchase as a popular means of financing assets to the entrepreneurs. Many entrepreneurs prefer hire purchase because of flexibility in terminating a hire purchase contact as compared to a leasing contract. In this module lease financing has been discussed in detail. This shows the clear difference between the lease financing and hire purchase financing with particular examples in each case. For the growth and expansion of the business activities, the entrepreneurs try to raise the finance from these two sources.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. One difference between a financial lease and operating lease is that ___________.

a) There is a often a call option in a financial lease

b) There is often an option to buy in an operating lease

c) An operating lease is often cancellable by the lessee

d) A financial lease is often cancellable by the lessee

2. The principal reason for the existence of leasing is that ___________.

a) intermediate-term loans are difficult to obtain

b) this is a type of financing unaffected by changes in tax law

c) companies, financial institutions, and individuals derive different benefits from owning assets

d) leasing is a renewable source of intermediate-term funds

3. A way to analyse whether debt or lease financing would be preferable is to ___________.

a) Compare the net present values under each alternative, using the cost of capital as the discount rate

b) Compare the net present values under each alternative, using the after-tax cost of borrowing as the discount rate

c) Compare the payback periods for each alternative

d) compare the effective interest costs involved for each alternative

4. A conventional revolving credit agreement allows a firm ___________.

a) to borrow a fixed amount for the entire commitment period

b) to borrow for a short-period with a right to renew the loan during the commitment period

c) to possibly include a provision to convert the credit agreement into a term loan contract at maturity

d) to do all of the above

5. The type of lease that includes a third party, a lender, is called a(n) ___________.

a) sale and leaseback

b) direct leasing arrangement

c) leveraged lease

d) operating lease

GLOSSARY

Cash Price : It is the actual price of goods charged under normal cash sale or the amount paid for outright purchase.

Hire Purchase Price : The total amount payable under the terms of hire purchase agreement in the form of down payment and instalments. It consists of cash price plus interest.

Down Payment : It is the amount paid by hire purchaser to

		hire vendor at the time of signing of agreement or at the time of delivery of good.
Hire Purchaser	:	Also known as hirer, the one who purchases goods under hire purchase agreement.
Hire Vendor	:	The person who sells goods under hire purchase agreement.

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WEB RESOURCES

1. Lease Financing: Meaning, Features, Types, Advantages and Disadvantages (commercemates.com)
2. Hire Purchase (efinancemanagement.com)
3. M-20.Lease Financing and Hire Purchase Financing for Entrepreneurs - YouTube
4. Hire Purchase Financing vs Leasing I Difference I தமிழில் - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. c) 2. c) 3. b) 4. d) 5. c)

Unit 14

SMALL SCALE INDUSTRIES TAXATION BENEFITS AND GOVERNMENT POLICIES

STRUCTURE

OVERVIEW

India is a developing country, the importance and role of small-scale enterprises is very significant towards employment generation, poverty eradication, rural development and creating regional balance in the promotion and growth of various development activities. The government schemes available for the industrial development of a state may be categorized as making available infrastructure at concessional or reduced rates and providing cash subsidy and incentives which amounts financial gains to the entrepreneur. Particularly, the new industrial policy 1991 has given many incentives, concessions and relaxation to boost up small scale enterprises. Among such concessions one of the significant concessions is that of exemption from Excise Duty.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the taxation benefits to small scale entrepreneurs
- discuss about exemption schemes available to SSI units
- describe the schemes of CENVAT
- explain the benefits available under Income Tax Act
- list out the procedure to claim the deductions
- state the documents required for claiming the concessions.

14.1 INTRODUCTION OF SMALL-SCALE INDUSTRIES

Small Scale Industries (SSI) are those industries in which manufacturing, providing services, productions are done on a small scale or micro scale. After agriculture, small businesses are the second largest employment provider in the Indian economy. In comparison to big corporations, small businesses generate the most number of employment opportunities per unit of capital invested. Therefore, they are the second largest generators of employment in human resource. Small scale industries are important because it helps in increasing employment and economic development of India. It improves the growth of the country by increasing urban and rural growth.

14.2 INCOME TAX BENEFITS UNDER INCOME TAX ACT 1961

Some of the tax benefits available to small-scale industries in India are as follows:

1. Tax holiday
2. Depreciation
3. Rehabilitation allowance
4. Investment allowance
5. Expenditure on scientific research

14.2.1 Tax holiday

Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.

The Following two conditions available for this tax exemption facility:

- The unit should not formed by the splitting or reconstruction for an existing unit.
- The unit should be 10 or more workers in a manufacturing process with the power or at least 20 workers without power.

14.2.2 Depreciation

Under Section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed subject to a maximum of Rs. 20 lakh deduction for depreciation on plant and machinery on the diminishing balance method. For plant and machinery that are used in manufacturing in double or triple shift, an additional allowance called 'Extra Shift Allowance' is also available.

Following conditions should be met for eligibility of deduction in depreciation:

- The assets must be owned by the assesse
- The assets must actually be used for the purpose of assesses business or profession.

- Depreciations allowance or deduction is allowed only on fixed assets, i.e. building machinery, plant and furniture.

14.2.3 Rehabilitation allowance

A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of the following reasons:

- Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;
- Riot or civil disturbance;
- Accidental fire or explosion; and
- Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for business purposes within three years of unit's re-establishment, reconstruction, or revival. The rehabilitation allowance is allowed to the unit equivalent of 60 per cent of the amount of the deduction allowable to the unit.

14.2.4 Investment allowance

The investment allowance under Section 31 A of the Income Tax Act, 1961 is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year failing which the benefit will be forfeited.

14.2.5 Expenditure on scientific research

Under Section 35 of the Income Tax Act, 1961, the following deductions in respect of expenditure on scientific research are allowed:

- Any revenue expenditure incurred on scientific research related to the business of the assesse in the previous year
- Any sum paid to a scientific research association or a university, college, institution or to a public company which has its object, the undertaking of a scientific research.
- Any capital expenditure incurred on scientific research related to the business of the assesse subject to the provision of Section 35(2) of the Income Tax Act, 1961.

Expenditure on Scientific Research

On Research carried on by assessee himself	On Research carried on by outsiders
1. Revenue Expenditure	**1. Approved research association, university, college or other institutions**
2. Capital Expenditure	**2. Contribution to National Laboratory**
3. Expenditure on in-house research and Development	**3. Contribution to Indian company**

Figure 14.1 Expenditure on Scientific Research

1. EXPENSES ON RESEARCH ACTIVITIES CARRIED ON BY THE ASSESSEE HIMSELF

When the assesse carries on research in his own premises, he has to incur various types of expenses. Such expenses can further be divided into two parts:

i) Revenue Expenditure Incurred By Assesse Himself: When an assess sets up a research laboratory of his own to carry on research which may be helpful in his business, he has to incur various types of revenue expenses and all such expenses incurred by the assesse are allowed as a deduction. Such expenses are usually on the purchase of raw material required for research, salary etc. given to workers engaged in research and such other expenses which are incidental to research activities related to assessee's business. In case assessee is engaged in a business of textiles, so research expenses related to textiles business only are allowed.

ii) Capital Expenditure Incurred By Assessee Himself: Any capital expenditure incurred within three years immediately proceeding the commencement of business shall be deemed to have been incurred in the previous year in which business is concerned.

iii) Expenditure In In-House Research: Under section 35 (2AB), a weighted deduction @ 200 per cent of the expenditure incurred on in-house research and development shall be allowed as under:

- Deduction is allowed only to company assessee.
- Deduction is allowed to a company engaged in bio-technology or in any business of manufacture specified in Eleventh Schedule of Income Tax Act.

- Expenditure should be on in-house research
- Deduction is not allowed for expenditure in the nature of cost of any land and building.

2. CONTRIBUTION TO APPROVED INSTITUTIONS

i) Research Carried On By Any Other Agency, Body, University, College Etc. And Financed By The Assessee: A weighed deduction @ 175 per cent of actual expenditure shall be allowed if amount is given for research to an approved association the objective of which is to undertake research in the field of social sciences or statistical research.

ii) Contribution to National Laboratory: A higher weighted deduction @ 200 per cent of actual amount given shall be allowed if amount is given to an approved institution for undertaking scientific research programme approved by the prescribed authority.

iii) Weighted deduction for a sum of money given to a company for scientific research: In case any assessee provides money to an Indian company engaged in the scientific research and approved for this purpose, a weighted deduction @ 125 per cent of the amount paid shall be allowed. The research carried on by the company may or may not be related to donor assessee's business.

14.3 TAXATION BENEFITS AVAILABLE TO SMALL SCALE ENTREPRENEURS

The main benefits available to Small Scale Industrial Units can be divided into two parts as shown in the following figure below:

1. Exemption Scheme Available to SSI
2. Procedural Concession to SSI

14.3.1 Exemption scheme available to small scale industry

SSI units have been given two types of exemptions:

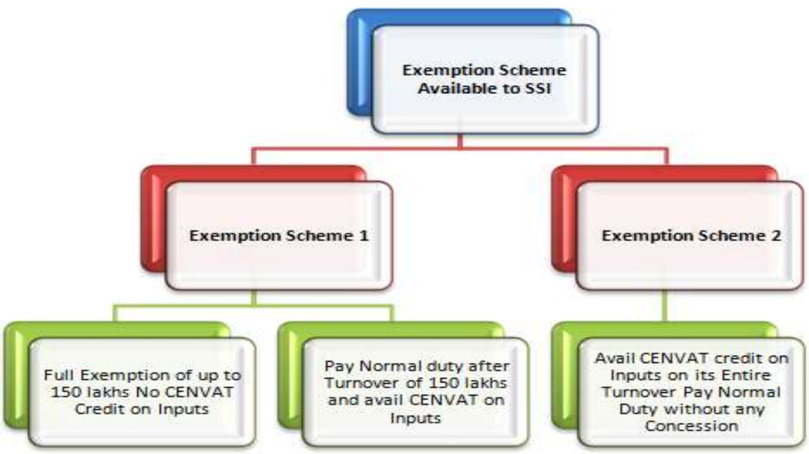

Figure 14.2 Exemption Scheme Available To SSI

Exemption Scheme 1: A unit can avail full exemption up to 150 lakhs and pay normal duty thereafter. Such units can avail CENVAT credit on inputs only after reaching a turnover of 150 lakhs in the financial year. This concession is given by Notification No. 8/2003, dated March 1, 2003 (this Notification is popularly known as SSI exemption Notification). All industries irrespective of their investment or the number of employees are eligible for concession. In fact even a large industry will be eligible for the concession of its annual turnover is less 4 crores.

Exemption Schemes 2: A unit intending to avail CENVAT credit on inputs on its entire turnover has to pay normal duty without any concession.

14.3.2 Procedural concession to small scale industry

Following are some procedural concessions to SSI:

i) Quarterly Return: The SSI units availing SSI concession need not submit monthly ER-I return. They have to submit a quarterly ER-1 return.

ii) Payment of Duty: SSI units have option to pay duty quarterly.

iii) Export Procedure for SSI: The SSI units are not covered under excise provisions and have to follow simplified export procedures.

iv) Sending Material for Job Work by Exempt SSI Unit: SSI units can send its raw materials or semi-finished material to another unit for job work. Such another unit can carry out job work and return to small enterprise without payment of duty. Further processing can be done by small enterprises on these inputs and automatically clear its final product without the payment of duty when its total turnover is below 150 lakhs.

v) Exempted Small Units from Registration: Exempted small units, having turnover below 150 lakhs, which are exempt from duty, are also exempted from provisions of registering their units with excise authorities.

vi) Visit of Officers only with Prior Approval: With the specific permission of Assistant Commissioner the audit parties, excise inspectors and preventive parties can visit small scale enterprises and for a specific purpose. The entrepreneurs have to enter relevant particulars in visitors' book maintained by registered person.

vii) Audit: Audit of SSI units is done in two to five years. Even small units may be audited only once in five years.

14.4 AMORTIZATION OF CERTAIN PRELIMINARY EXPENSES

The Indian companies and resident persons, under Section 35D of the Income Tax Act 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit. The examples of preliminary expenses are:

- Expenses incurred in connection with the preparation of a feasibility report necessary for their business;
- Engineering expenses related to the business; and
- Legal charges, if any, for drafting agreements.

The writing off of the preliminary expenses is allowed against subject to a maximum of ten annual installments beginning with the previous year in which the new unit commences its production or expansion of an existing unit is completed. The aggregate amount of expenditure allowed be deducted is limited to 2.5 per cent of the total cost of the project.

14.5 SMALL SCALE UNIT IN BACKWARD AREA

The following are the various small-scale unit established in a backward area, under Section 80-HH, is allowed a deduction of 20 per cent on its profits and gains provided the unit satisfies the following conditions:

- The unit began its production after 31st December 1970 in any backward area of the country;
- It is a newly established unit in a backward area. It is neither split nor reconstituted out of a business already in existence in any backward area;
- It has not been formed by the transfer to a new business plant or machinery which was previously used for any purpose in any backward area; and
- It employs 10 or more workers in a manufacturing process with power or 20 or more workers without power.

14.6 TAX CONCESSION TO SMALL - SCALE INDUSTRIES IN RURAL AREA

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas. The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30th September 1977. For this purpose, the expression rural area means any area as defined under the Explanation to Section 35 CC (I) of the Income Tax Act, 1961. However, this tax deduction benefit is not allowed to the small-scale units engaged in mining activity.

The small-scale industry can avail of this tax deduction only after fulfilling the following conditions:

- The small-scale unit is not formed by splitting or reconstruction of a business already in existence.
- It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.
- The accounts of the unit are audited by a chartered accountant.
- It employs 10 or more workers in manufacturing process carried on without the aid of power.

14.7 TAX CONCESSION TO SMALL SCALE INDUSTRIES IN BACKWARD AREA

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish industries in these backward areas. The newly established small-scale industries in these areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income. This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. A small-scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

1. The unit has to satisfy the following conditions to be eligible to avail of this tax benefit

- It is established on or after 31th December, 1970.
- It employs at least 10 workers in a manufacturing process carried on with the aid of power or at least 20 workers manufacturing process carried on without the aid of power.

2. In addition, deductions are also available in respect of:

- Royalties from any company in India (Under Section 80 M)
- Royalties from any certain foreign companies (Under Section 800)
- Inter-corporate Dividends (Under Section 80 M)
- Income of Co-operative Societies (Under Section SOP)
- Carry forward and set -off business losses (Under Section 72)

14.8 GOODS NOT ELIGIBLE FOR SMALL SCALE INDUSTRY CONCESSION

Many of goods manufactured by SSI are eligible for the concession. However, some items are not eligible are.

1. Goods specifically excluded from SSI concessions: Some of the manufacturers are given below on which SSI exemptions are not applicable to even when these can be manufactured by SSI:

- Tobacco products,
- Pan Masala,
- Matches,
- Watches,
- Automobiles,
- Primary iron and steel, etc. are not eligible.

2. Goods with other brand names: Goods manufactured by an SSI unit with the brand name of others are not eligible for SSI concession, unless goods are manufacture in a rural area.

14.9 CLUBBING TURNOVER

In the following cases turnovers are clubbed together for calculating the SSI exemption limits of 150 or 400 lakhs:

1. Manufacturer has more than one factory: If the manufacturer has more than one3 factory, even at different places, the turnover of all factories belonging to the same manufacturer have to be clubbed together for calculating the SSI exemption limit of 150 or 400 lakhs.

2. More than one manufacturer may clear the goods from the one factory: It is also possible that more than one manufacturer may clear the goods from the same factory e.g., part of factory may be used by one manufacturer and another part of same factory may be used by another manufacturer. In such cases, all clearances from the factory have to be considered even if the clearance is of different manufacturers for calculating the SSI exemption limits of 150 or 400 lakhs.

3. Manufacturer may use the factory for part of the year: Sometimes, a manufacturer may use the factory for one part of the year and then another manufacturer may use the same factory for remaining part of the year. In such cases, the turnover of different manufacturers has to be clubbed for calculating the SSI exemption limits of 150 or 400 lakhs, if it is from the same factory.

4. No clubbing of units belonging to Government, Khadi and Village Commission, etc.: Central Government, State Government, State Industries Corporation, State Khadi and Village Industries Board, National Small Industries Corporation, State Small Industries Development Corporation or Khadi and Village Industries Commission may hold more than one factory. However, their turnover will not be clubbed and turnover of each factory will be considered separately for calculating the limit of 150/400 lakhs.

Table 14.1 Clubbing of Turnover

Situation	Requirement of Clubbing
Situation 1: Manufacturer has more than onefactory	Clubbing is required for calculating the SSI exemption limits of 150 or 400 lakhs, if it isfrom the same factory.
Situation 11: More than one manufacturermay clear the goods from the one factory	Clubbing is required for calculating the SSI exemption limits of 150 or 400 lakhs, if it isfrom the same factory.
Situation 111: Manufacturer may use thefactory for part of the year	Clubbing is required for calculating the SSIexemption limits of 150 or 400 lakhs, if it is from the same factory.
Situation 1V: Units belonging to Government, Khadi and Village Commission, etc.	No clubbing is required.

14.10 SMALL SCALE UNIT AND CLUBBING TURNOVER

While presenting his budget proposals for 2011-12 on 28th February 2011 the Finance Minister Shri Pranab Mukherjee proposed certain changes in the Central Excise rate structure to prepare the ground for the transition to GST, beginning with a reduction in the number of exemptions. He accordingly withdrew the exemption on 130 of these items and levied a nominal Central Excise duty of 1 per cent on these 130 items that entered the tax net. The manufacturers of these items were granted the benefit of the SSI exemption. The scheme of SSI exemption is governed by notification 8/2003 the salient features of which are discussed hereunder.

Small Scale Industry (SSI) – Exemption Notification 8/2003 Ce W.E.F. 01-03-2003

The salient features of this notification in brief, are as under:

a. The exemption contained in this notification shall not apply to goods which are chargeable to nil rate of duty or are exempt from the whole of the duty of excise liveable thereon.

b. There is no excise duty (subject to some conditions) on the specified goods on the first clearances up to an aggregate value not exceeding Rs. 150 Lakhs made on or after the 1st day of April in any financial year.

c. There is no excise duty on all clearances of the specified goods which are used as captive consumption for further manufacture of any specified goods within the factory of production of the specified goods.

d. The turnover of Rs. 150 Lakhs shall not include the following:-

1. Clearances, which are exempt from the whole of the excise duty liveable thereon (other than an exemption based on quantity or value of clearances) under any other notification or on which no excise duty is payable for any other reason;
2. Clearances bearing the brand name or trade name of another person, which are ineligible for the grant of this exemption.
3. Clearances of the specified goods which are used as inputs for further manufacture of any specified goods within the factory of production of the specified goods;

e. However the above exemption is subject to the following conditions

1. This exemption is OPTIONAL. It is upto the manufacturer to decide whether to avail the benefit of this notification or not. However Such option shall be exercised before effecting his first clearances at the normal rate of duty. Such option shall not be withdrawn during the remaining part of the financial year;
2. If a manufacturer decides TO AVAIL the benefit of this notification then he shall not avail the cenvat credit of duty on inputs used in the manufacture of the specified goods cleared for home consumption till the aggregate value of first clearances of which does not exceed Rs. 150 Lakhs II
3. The manufacturer shall also not utilise the cenvat credit of duty on capital goods for payment of duty, if any, till the aggregate value of first clearances of which does not exceed Rs. 150 Lakhs. However there is no bar on accumulation of Cenvat credit of capital goods during the exemption period.
4. If a manufacturer decides NOT TO AVAIL the benefit of this notification and instead pay the normal rate of duty on the goods

cleared by him, then he shall be entitled to avail the cenvat credit of duty on inputs and capital goods used in the manufacture of the specified goods right from the first transaction.

5. The benefit of this notification is NOT AVAILABLE to the inputs used in the manufacture of specified goods bearing the Brand Name Or Trade Name Of Another person, which are not ineligible for the grant of this exemption due to restriction provided in terms of this notification itself. In such a case full credit of cenvat duty on inputs and capital goods will be available.

6. The aggregate value of clearances of all excisable goods for home consumption by a manufacturer from one or more factories, or from a factory by one or more manufacturers, does not exceed Rs. 400 Lakhs in the preceding financial year. For this calculation, the following clearances shall not be taken into account, namely:

   i) Clearances of excisable goods without payment of duty to notified area, undertakings and projects.

   ii) Clearances bearing the brand name or trade name of another person, which are ineligible for the grant of this exemption under other provisions of this notification.

   iii) Clearances of the specified goods which are used as inputs for further manufacture of any specified goods within the factory of production of the specified goods;

   iv) Clearances, which are exempt from the whole of the excise duty legible thereon on removal for Job Work.

7. The exemption contained in this notification shall not apply to specified goods bearing a brand name or trade name, whether registered or not, of another person, except in the following cases: –

   i) Components of specified machinery removed under Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2001.

   ii) The Brand name is of a government sponsored industry or a factory located in a rural area etc.

   iii) Where the specified goods are account books, registers, writing pads and file folders.

   iv) Where the specified goods are in the nature of packing materials and are meant for use as packing material by or on behalf of the person whose brand name they bear. However in case of plastic containers and plastic bottles this exemption shall be allowed only when they are used as packing materials by the owner of the brand name.

14.11 BENEFITS OF SMALL-SCALE INDUSTRIES EXEMPTION IN CLUBBING TURNOVER

All the SSI exemption notifications are mired with innumerable controversies about the scope and application of these exemptions because what is given as an incentive is misused as a tool of tax planning such that those SSI who are not eligible for concession also avail the same by resorting to creation of front or dummy Units, which, by themselves, have no proprietary interest in production and sale of excisable commodities. In order to bar such unfair practices provisions have been made for CLUBBING of turnover in cases where the turnover appears to have been fragmented or distributed in order to avail the benefit of SSI exemption. Such clubbing of turnover is the subject matter of this article.

a) Where a manufacturer clears the specified goods from one or more factories, the exemption in his case shall apply to the aggregate value of clearances mentioned against each of the serial numbers in the said Table and not separately for each factory;

Table 14.2 Manufacturer company "A"

Financial Year 31st March 2011	**Factory "A"**	**Factory "B"**	**Factory "C"**	**Factory "D"**
Manufacturer "A"	Rs. 50 Lakhs	Rs. 40 Lakhs	Rs. 30 Lakhs	Maximum upto Rs. 30 Lakhs

b) where the specified goods are cleared by one or more manufacturers from a factory, the exemption shall apply to the aggregate value of clearances mentioned against each of the serial numbers in the said Table and not separately for each manufacturer;

Table 14.3 Manufacturer company "X"

Financial Year 31st March 2011	**Turnover by Manufacturer "A"**	**Turnover by Manufacturer "B"**	**Turnover by Manufacturer "C"**	**Turnover by Manufacturer "D"**
Factory "A"	Rs. 50 Lakhs	Rs. 40 Lakhs	Rs. 30 Lakhs	Maximum upto Rs. 30 Lakhs

Thus for manufacturer "D" who wants to take on rent factory "D" for his excisable activities, it is very necessary for him to know the previous turnover from the same factory and if he finds that the previous turnover by different manufacturers has already reached 120 Lakhs then he will get SSI exemption only for the balance amount i.e. Rs. 30 Lakhs and not for the whole amount of Rs. 150 Lakhs. c) The aggregate value of clearances of all excisable goods for home consumption by a manufacturer from one or more factories, or from a factory by one or more manufacturers, does not exceed Rs. 400 Lakhs in the preceding financial year.

14.12 BRANDED GOODS AND SMALL SCALE INDUSTRIES

Brand name or trade name means any name or mark such as symbol, monogram, label, signature or invented word or writing which is used in relation to the goods for the purpose of indicating, or so as to indicate a connection between such goods and some person using such name or mark.

Provisions related to brand name under SSI exemption scheme are

- **Goods bearing own brand name of SSI units:** If the small manufacturers goods under his own brand name, SSI exemption is available to such type of SSI unit.
- **Goods bearing brand name of other:** if the manufactured goods bear brand name of any other person then, there can be two types of situations:
  - ✓ **Goods bearing brand name of other not eligible for exemption:** If the manufactured goods bearing brand name of any other person, SSI exemption is not available. Some large units get their goods manufactured from small units under their brand name or trade mark.
  - ✓ **Goods bearing brand name of other but eligible for exemption:** Generally goods bearing brand name of other not eligible for exemption but there are some exceptions and in the following cases, the goods even bearing the brand name/trade name of others will be eligible for SSI exemption.

14.13 GOVERNMENT POLICIES FOR SMALL SCALE INDUSTRIES IN INDIA

Under the latest policy measures adopted by the Government during 2000-01, the exemption limit for excise duty for small sector has been raised from Rs. 50 lakh to Rs. 1crore, to improve the competitiveness of the small scale sector. (v) 800 items have been reserved for exclusive production by the small scale sector. The government of India defines the small-scale industries as per their investment in plant and machinery. In India the capital is scarce and labour is abundant this measure asks to keep in view the socio-economic environment.

In India, Small-scale enterprises have been given an important place for both ideological and economic reasons. It is well documented that the small scale industries have an important role in the development of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. Government's approach and intention towards industries in general and SSIs in particular are revealed in Industrial policy Resolutions. There are many Government Policies for development and promotion of Small-Scale Industries in India. These are mentioned as below:

1. Industrial Policy Resolution (IPR) 1948,
2. Industrial Policy Resolution (IPR) 1956,
3. Industrial Policy Resolution (IPR) 1977,
4. Industrial Policy Resolution (IPR) 1980, and
5. Industrial Policy Resolution (IPR) 1990.

14.13.1 Industry policy resolution 1949

i) The IPR, 1948 for the first time, accepted the importance of small-scale industries in the overall industrial development of the country. It was well realized that small-scale industries are particularly suited for the utilization of local resources and for creation of employment opportunities.

ii) However, they have to face acute problems of raw materials, capital, skilled labor, 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 the cooperation of the State Governments. In nutshell, the main thrust of IPR 1948, as far as small-scale enterprises were concerned, was 'protection.'

14.13.2 Industry policy resolution 1956

i) The main contribution of the IPR 1948 was that it set in the nature and pattern of industrial development in the country. The post-IPR 1948 period was marked by significant developments taken place in the country. For example, planning has proceeded on an organized manner and the First Five Year Plan 1951-56 had been completed. Industries (Development and Regulation) Act, 1951 was also introduced to regulate and control industries in the country.

ii) 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.

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

iv) Besides, the Small-Scale Industries Board (SSIB) constituted a working group in 1959 to examine and formulate a development plan for small-scale industries during the, Third Five Year Plan, 1961-66. In the Third Five Year Plan period, specific developmental projects like 'Rural Industries Projects' and 'Industrial Estates Projects' were started to strengthen the small-scale sector in the country. Thus, to the earlier emphasis of 'protection' was added 'development.' The IPR 1956 for small-scale industries aimed at "Protection plus Development." In a way, the IPR 1956 initiated the modem SSI in India.

14.13.3 Industry policy resolution 1977

During the two decades after the IPR 1956, the economy witnessed lopsided industrial development skewed in favour of large and medium sector, on the one hand, and increase in unemployment, on the other. This situation led to a renewed emphasis on industrial policy. This gave emergence to IPR 1977. The IPR 1977 accordingly classified small sector into three broad categories:

i) Cottage and Household Industries which provide self-employment on a large scale.

ii) Tiny sector incorporating investment in industrial units in plant and machinery up to Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 Census

iii) Small-scale industries comprising of industrial units with an investment of up to Rs. 10 lakhs and in case of ancillary units with an investment up to Rs. 15 lakhs.

The measures suggested for the promotion of small-scale and cottage industries included:

- Reservation of 504 items for exclusive production in small-scale sector.
- Proposal to set up in each district an agency called 'District Industry Centre' (DIC) to serve as a focal point of development for small-scale and cottage industries. The scheme of DIC was introduced in May 1978. The main objective of setting up DICs was to promote under a

single roof all the services and support required by small and village entrepreneurs.

- What follows from above is that to the earlier thrust of protection (IPR 1948) and development (IPR 1956), the IPR 1977 added 'promotion'. As per this resolution, the small sector was, thus, to be 'protected, developed, and promoted.

14.13.4 Industry policy resolution 1980

The Government of India adopted a new Industrial Policy Resolution (IPR) on July 23, 1980. The main objective of IPR 1980 was defined as facilitating an increase in industrial production through optimum utilization of installed capacity and expansion of industries.

i) Increase in investment ceilings from Rs. 1 lakh to Rs. 2 lakhs in case of tiny units, from Rs. 10 lakhs to Rs. 20 lakhs in case of small-scale units and from Rs. 15 lakhs to Rs. 25 lakhs in case of ancillaries.

ii) Introduction of the concept of nucleus plants to replace the earlier scheme of the District Industry Centers in each industrially backward district to promote the maximum small-scale industries there.

iii) Promotion of village and rural industries to generate economic viability in the villages well compatible with the environment.

Thus, the IPR 1980 reemphasized the spirit of the IPR 1956. The small-scale sector still remained the best sector for generating wage and self-employment based opportunities in the country.

14.13.5 Industry policy resolution 1990

The IPR 1990 was announced during June 1990. As to the small-scale 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:

i) The investment ceiling in plant and machinery for small-scale industries (fixed in 1985) was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs.

ii) Investment ceiling for tiny units had been increased from Rs. 2 lakhs to Rs. 5 lakhs provided the unit is located in an area having a population of 50,000 as per 1981 Census.

iii) As many as 836 items were reserved for exclusive manufacture in small- scale sector.

iv) A new scheme of Central 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.

v) With a view, to improve the competitiveness of the products manufactured in the small-scale sector; programmers of technology up gradation will be implemented under the umbrella of an apex Technology Development Centre in Small Industries Development Organization (SIDO).

vi) To ensure both adequate and timely flow of credit facilities for the small- scale industries, a new apex bank known as 'Small Industries Development Bank of India (SIDBI)' was established in 1990.

vii) Greater emphasis on training of women and youth under Entrepreneurship Development Program (EDP) and to establish a special cell in SIDO for this purpose.

viii) Implementation of deliquescing of all new units with investment of Rs. 25 cores in fixed assets in non-backward areas and Rs. 75 cores in centrally notified backward areas. Similarly, deliquescing shall be implemented in the case of 100% Export Oriented Units (EOU) set up in Export Processing Zones (EPZ) up to an investment ceiling of Rs. 75 lakhs.

14.14 GOVERNMENT LOAN SCHEME FOR SMALL BUSINESS IN INDIA

India has been noted as the country with the highest number of SMEs in the world. The government policies for small scale industries are pretty diversified according to the needs of entrepreneurs. Let's have a look at some of the government policies for SMEs in India:

i) MSME Business Loans in 59 Minutes- Announced in September 2018, under which you get financial assistance for MSME growth. This process takes 8-12 days for completion where public sector banks grant the funds.

ii) Credit Link Capital Subsidy Scheme for Technology Upgradation- It is also known as CLCSS this aims for lowering the production cost of goods and services for small and medium enterprises. This scheme is authorised and monitored by the Ministry of Small-Scale Industries.

iii) MUDRA Loans- This program was launched with the single motive of 'paying the unfunded'. Their structure is divided into 3 categories- Sishu Loans, Tarun Loans, and Kishor Loans.

iv) National Small Industries Corporation Subsidy- Also known as NSIC, it offers financial benefits for Raw Material Assistance and Marketing Assistance.

v) Credit Guarantee Fund Scheme for Micro and Small Enterprises- Launched in the year 2000 it's a financial support scheme for all

MSMEs in India. It offers working capital loans of around 10 Lakh Rupees for both new and existing businesses.

14.15 GOVERNMENT POLICIES FOR BUSINESS IN INDIA

The country is filled with new business enthusiasts every other day and the governing parties curates policies helping them grow. Let us check out the top government policies for business in India:

- Incentives and Subsidies for Home Industries
- Conducting Routine Quality Inspections
- Commercial Technology Transfer
- Developmental Assistance to Small Scale Industries
- Timely Information Supply
- Basic Infrastructure Provision
- Balancing Regional Growth & Development
- Rendering Monetary System
- Sustaining Law and Order
- Establishing & Implementing Laws.

LET US SUM UP

India is a developing country, the importance and role of small-scale enterprises is very significant towards employment generation, poverty eradication, rural development and creating regional balance in the promotion and growth of various development activities. There is no definition of small scale industrial unit is provided under Central Excise Law. Some concessions or benefits are given by central government through no to faction (Notification No. 8/2003) and based on this, small scale industrial unit is a unit whose turnover during immediately preceding financial year was 4 crore or less. Benefits available to SSI units can be divided in to two parts i.e. exemption schemes available to SSIs and procedural concession to SSIs.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The small industry can enjoy the status of ___________ if it supplies not less than 50% of its production to another industry referred to as the parent unit.

a) Micro business industry b) Export oriented industry

c) Ancillary small industry d) Village industry

2. Exemption from paying tax for 5 to 10 years in known as __________.

a) Tax deduction b) TDS

c) Value added tax d) Tax holiday

3. Expand RSBDC____________.

a) Rural small bank development corporation

b) Rashtriya small bank development corporation

c) Rural small business development centre

d) None of the above

4. Expand KVIC____________.

a) Khadi and village industries commission

b) Khadi and village industries core

c) King of village industries commission

d) King of village investment culture

5. The small industries contribute ___________of gross industrial value.

a) 49 percent b) 45 percent

c) 48 percent d) 40 percent

GLOSSARY

Small Scale Industries	**:**	Small scale industries (SSI) are those industries in which manufacturing, providing services, productions are done on a small scale or micro scale.
Clubbing of Turnover	**:**	Clubbing of turnover in cases where the turnover appears to have been fragmented or distributed in order to avail the benefit of SSI exemption.
Industrial Policy Resolution	**:**	Industrial Policy Resolution is a set of policies and actions of the government that impact the industrial development of a country
SME	**:**	Small and midsize enterprises (SMEs) are businesses that maintain revenues, assets, or a number of employees below a certain threshold.

SUGGESTED READINGS

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WEB RESOURCES

1. 10 Tax Benefits available to Small-Scale Industries in India (yourarticlelibrary.com)
2. Indian Industrial Policy: Definition, Policies Over Years, Videos, Examples (toppr.com)
3. ENTPV 26 TAX INCENTIVES TO SMALL SCALE INDUSTRIES - YouTube
4. Government Policy Towards Small scale industries - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. c) 2. d) 3. c) 4. a) 5. d)

BLOCK 5

Unit 15: Accounting for Enterprises – Elements of Financial Statement

Unit 16: Growth Strategies and Intellectual Property Unit 17: Innovation in Enterprise

Unit 18: Knowledge Management and Leadership & Governance of Enterprise

Unit 19: Sickness and Rehabilitation - Board for Industrial and Financial Reconstruction (BIFR) - Application of Electronic Commerce

Unit 15

ACCOUNTING FOR ENTERPRISES – ELEMENTS OF FINANCIAL STATEMENT

STRUCTURE

OVERVIEW

It requires the capitalization of expenditures on the acquisition of all capital assets and the depreciation of those assets as their service potential is consumed. The elements of the financial statements will be assets, liabilities, net assets/equity, revenues and expenses. Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Non profit entities use a similar but different set of financial statements.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the financial statements and it's advantages and disadvantages.
- describe the balance sheet, statement of comprehensive income and non-profit financial statement.

15.1 MEANING OF FINANCIAL STATEMENTS

The fiscal summaries of an organisation mirror a genuine image of its monetary presentation. They portray profits and losses, yet additionally assets and liabilities. It is just toward the finish of all bookkeeping processes that we can create these assertions.

The financial statements give a depiction of an enterprise's monetary wellbeing at a specific point on schedule, giving knowledge into its presentation, activities, income, and generally speaking conditions. Investors need them to settle on informed choices about their value speculations, particularly when it comes time to decide on corporate issues.

Financial statements or budget summaries are fundamentally reports that portray monetary and bookkeeping data identifying with organisations. An organisation's administration utilises it to speak with external partners, which incorporate tax authorities, regulatory bodies, investors, creditors, shareholders, and so on. The financial statements essentially incorporate the accompanying reports:

- Balance sheet
- Profit and Loss statement
- Statement of cash flow
- Income sheet

15.2 TYPES OF FINANCIAL STATEMENTS ANALYSIS

The different types of preparing financial statements are as follows:

- Internal Analysis

- External Analysis
- Vertical Analysis
- Horizontal Analysis
- Short-term Analysis
- Long-term Analysis.

15.3 ADVANTAGES OF FINANCIAL STATEMENT ANALYSIS

The advantages of preparing financial statements are as follows:

- Credit Analysis
- Debt Analysis
- Dividend Decision
- General Business Analysis
- Security Analysis.

15.4 DISADVANTAGES OF FINANCIAL STATEMENT ANALYSIS

The limitations of preparing financial statement analysis are as follows:

- Financial statements are historical in nature.
- Financial statement analysis does not show price level charges; therefore, it affects the analysis too.
- The results derived from the analysis of financial statements can be misleading due to fudging or window dressing of the financial statements.
- Financial statements are affected by the personal ability and bias of the analyst.
- Financial statements analysis disregards qualitative aspects of the financial statements like labour force, quality of management, and public relations.

15.5 NATURE OF FINANCIAL STATEMENTS

Fiscal reports are arranged to utilise facts identifying with occasions and events that are recorded sequentially. Subsequently, we need to first record this multitude of facts in fiscal terms. Then, at that point, we need to deal with them utilising every single material guideline and methodology. At long last, we would now be able to utilise this information to create budget summaries. In view of this arrangement, the idea of budget summaries or financial statements relies upon the accompanying focuses.

15.5.1 Recorded Realities

We really want to initially record facts in a money-related structure to make the assertions. For this, we want to represent figures of records like fixed resources, cash, exchange receivables, and so on.

15.5.2 Accounting Conventions

Accounting Standards recommend specific conventions and concepts appropriate during the time spent bookkeeping. We need to apply these conventions while setting up these assertions or statements. For instance, the valuation of stock at cost or market cost, contingent upon whichever is lower.

15.5.3 Postulates

Apart from accounting conventions, even hypothesis assumes a major part in the readiness of these assertions. Hypotheses are essentially assumptions that one should make in bookkeeping. For instance, the going concern concept assumes a business will exist for quite a while. Subsequently, we need to treat resources on an authentic expense premise.

15.5.4 Individual decisions

Even private beliefs and decisions assume a major part in the readiness of these assertions or statements. Consequently, one needs to depend on their own evaluations while computing things like devaluation, amortisation, and depreciation.

15.6 SIGNIFICANCE OF FINANCIAL STATEMENT

The significance of fiscal reports lies in their utility to fulfil the changed interest of various classifications of groups like administration, lenders, the general population, and so on.

1. Significance to Management

i) An increment in size and intricacies of elements influencing the business tasks require a logical and insightful methodology in the administration of current business undertakings.

ii) The supervisor or the management crew needs state-of-the-art, exact, and methodical monetary data for these reasons. Fiscal reports assist the administration with understanding the position, progress, and prospects of business opposite the business.

iii) By giving the administration the reasons for business results, they empower them to define fitting strategies and game plans for what's to come. The administration imparts just through these budget summaries, their exhibition to different gatherings, and legitimises their exercises and subsequently their reality.

2. Significance to the Shareholders

i) The board is a separate entity from proprietorship on account of organisations. Investors can't, straightforwardly, participate in the everyday exercises of the business. Be that as it may, the aftereffects of these exercises ought to be accounted for to investors at the yearly broad body meeting as fiscal reports.

ii) By breaking down the budget summaries, the imminent investors could find out the benefit procuring limit, present position, and future possibilities of the organisation and choose about making their interests in this organisation.

iii) Distributed budget summaries are the primary sources of data for imminent financial backers.

3. Significance to Lenders / Creditors

i) The fiscal reports fill in as a helpful aid for the present and future providers and plausible banks of an organisation.

ii) It is through a basic assessment of the financial reports that these groups can come to be familiar with the liquidity, productivity, and long haul dissolvability position of an organisation. This would assist them with choices about their future game-plan.

4. Significance to Labour

i) Labourers are qualified for rewards relying on the size of profit as unveiled by the evaluated profit and loss account. Hence, P and L A/c become significantly essential to the labourers in compensation exchanges. Additionally, the size of profits and productivity accomplished is incredibly important.

5. Significance to the Public

i) Business is a social substance. Different groups of society, however straightforwardly not associated with the business, are keen on knowing the position, progress, and prospects of a business endeavour.

ii) They are monetary examiners, attorneys, exchange affiliations, worker's trade unions, monetary press, researchers and instructors, and so forth. It is just through these distributed fiscal reports these individuals can break down, judge, and remark upon the business venture.

6. Significance to National Economy

i) The ascent and development of the corporate area generally impact the monetary advancement of a country. Corrupt and false corporate administrations break the certainty of the overall population in business entities, which is fundamental for financial advancement and retard the monetary development of the country.

15.7 ELEMENTS OF FINANCIAL STATEMENT

The elements of financial statements are the general groupings of line items contained within the statements. These groupings will vary, depending on the structure of the business. Thus, the elements of the financial statements of a for-profit business vary somewhat from those incorporated into a non-profit business (which has no equity accounts). The main elements of financial statements are as follows:

i) Assets: These are items of economic benefit that are expected to yield benefits in future periods. Examples are accounts receivable, inventory, and fixed assets.

ii) Liabilities: These are legally binding obligations payable to another entity or individual. Examples are accounts payable, taxes payable, and wages payable.

iii) Equity: This is the amount invested in a business by its owners, plus any remaining retained earnings.

iv) Revenue: This is an increase in assets or decrease in liabilities caused by the provision of services or products to customers. It is a quantification of the gross activity generated by a business. Examples are product sales and service sales.

v) Expenses: This is the reduction in value of an asset as it is used to generate revenue. Revenues and expenses are included in the income statement. Changes in these elements are noted in the statement of cash flows.

15.8 PURPOSE OF FINANCIAL STATEMENT OF BUSINESS ENTITIES

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position. Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently." Financial statements may be used by users for different purposes:

i) Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.

ii) Employees also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.

iii) Prospective investors make use of financial statements to assess the viability of investing in a business. Financial analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions.

iv) Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures.

v) Government entities (tax authorities) need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company.

15.9 USES AND IMPORTANCE OF FINANCIAL STATEMENT

The users of financial statements include management, investors, shareholders, creditors, government, bankers, employees and public at large. Financial statements provide the necessary information about the performance of the management to these parties interested in the organisation and help in taking appropriate economic decisions. It may be noted that the financial statements constitute an integral part of the annual report of the company in addition to the directors report, auditors report, corporate governance report, and management discussion and analysis.

The various uses and importance of financial statements are as follows:

1. Report on stewardship function: Financial statements report the performance of the management to the shareholders. The gaps between the management performance and ownership expectations can be understood with the help of financial statements.

2. Basis for fiscal policies: The fiscal policies, particularly taxation policies of the government, are related with the financial performance of corporate undertakings. The financial statements provide basic input for industrial, taxation and other economic policies of the government.

3. Basis for granting of credit: Corporate undertakings have to borrow funds from banks and other financial institutions for different purposes. Credit granting institutions take decisions based on the financial performance of the undertakings. Thus, financial statements form the basis for granting of credit.

4. Basis for prospective investors: The investors include both short-term and long-term investors. Their prime considerations in their investment decisions are security and liquidity of their investment with reasonable profitability. Financial statements help the investors to assess long term and short-term solvency as well as the profitability of the concern.

5. Guide to the value of the investment already made: Shareholders of companies are interested in knowing the status, safety and return on their investment. They may also need information to take decision about continuation or discontinuation of their investment in the business. Financial statements provide information to the shareholders in taking such important decisions.

6. Aids trade associations in helping their members: Trade associations may analyse the financial statements for the purpose of providing service and protection to their members. They may develop standard ratios and design uniform system of accounts.

7. Helps stock exchanges: Financial statements help the stock exchanges to understand the extent of transparency in reporting on financial performance and enables them to call for required information to protect the interest of investors.

15.10 UNDERSTANDING FINANCIAL STATEMENT

Investors and financial analysts rely on financial data to analyse the performance of a company and make predictions about the future direction of the company's stock price. One of the most important resources of reliable and audited financial data is the annual report, which contains the firm's financial statements. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

15.10.1 Balance sheet

The balance sheet provides an overview of a company's assets, liabilities, and shareholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the reporting period. Below is a breakdown of the items in a balance sheet.

1. Assets

i) Cash and cash equivalents are liquid assets, which may include Treasury bills and certificates of deposit.

ii) Accounts receivables are the amount of money owed to the company by its customers for the sale of its product and service.

iii) Inventory is the goods a company on hand it intends to sell as a course of business. Inventory may include finished goods, work in progress that are not yet finished, or raw materials on hand that have yet to be worked.

iv) Prepaid expenses are costs that have been paid in advance of when they are due. These expenses are recorded as an asset because the value of them has not yet been recognized; should the benefit not be recognized, the company would theoretically be due a refund.

v) Property, plant, and equipment are capital assets owned by a company for its long-term benefit. This includes buildings used for manufacturing for heavy machinery used for processing raw materials.

vi) Investments are assets held for speculative future growth. These aren't used in operations; they are simply held for capital appreciation.

vii) Trademarks, patents, goodwill, and other intangible assets can't be physically be touched but have future economic (and often long-term benefits) for the company.

2. Liabilities

i) Accounts payable are the bills due as part of the normal course of operations of a business. This includes the utility bills, rent invoices, and obligations to buy raw materials.

ii) Wages payable are payments due to staff for time worked.

iii) Notes payable are recorded debt instruments that record official debt agreements including the payment schedule and amount.

iv) Dividends payable are dividends that have been declared to be awarded to shareholders but have not yet been paid.

v) Long-term debt can include a variety of obligations including sinking bond funds, mortgages, or other loans that are due in their entirety in longer than one year. Note that the short-term portion of this debt is recorded as a current liability.

3. Shareholders' Equity

Shareholders' equity is a company's total assets minus its total liabilities. Shareholders' equity (also known as stockholders' equity) represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off. Retained earnings are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

15.10.2 Income statement

Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income, and earnings per share.

1. Revenue

Operating revenue is the revenue earned by selling a company's products or services. The operating revenue for an auto manufacturer would be realized through the production and sale of autos. Operating revenue is generated from the core business activities of a company.

Non-operating revenue is the income earned from non-core business activities. These revenues fall outside the primary function of the business. Some non-operating revenue examples include:

- Interest earned on cash in the bank
- Rental income from a property
- Income from strategic partnerships like royalty payment receipts
- Income from an advertisement display located on the company's property

Other income is the revenue earned from other activities. Other income could include gains from the sale of long-term assets such as land, vehicles, or a subsidiary.

2. Expenses

Primary expenses are incurred during the process of earning revenue from the primary activity of the business. Expenses include the cost of goods sold (COGS), selling, general and administrative expenses (SG&A), depreciation or amortization, and research and development (R&D).

The main purpose of the income statement is to convey details of profitability and the financial results of business activities; however, it can be very effective in showing whether sales or revenue is increasing when compared over multiple periods.

Investors can also see how well a company's management is controlling expenses to determine whether a company's efforts in reducing the cost of sales might boost profits over time.

15.10.3 Cash flow statement

The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments. The cash flow statement complements the balance sheet and income statement. The CFS allows investors to understand how a company's operations are running, where its money is coming from, and how money is being spent. The CFS also provides insight as to whether a company is on a solid financial footing.

There is no formula, per se, for calculating a cash flow statement. Instead, it contains three sections that report cash flow for the various activities for which a company uses its cash. Those three components of the CFS are listed below.

1. Operating Activities: The operating activities on the CFS include any sources and uses of cash from running the business and selling its products or services. Cash from operations includes any changes made in cash accounts receivable, depreciation, inventory, and accounts payable. These transactions also include wages, income tax payments, interest payments, rent, and cash receipts from the sale of a product or service.

2. Investing Activities: Investing activities include any sources and uses of cash from a company's investments in the long-term future of the company. A purchase or sale of an asset, loans made to vendors or received from customers, or any payments related to a merger or acquisition is included in this category.

3. Financing Activities: Cash from financing activities includes the sources of cash from investors or banks, as well as the uses of cash paid to shareholders. Financing activities include debt issuance, equity issuance, stock repurchases, loans, dividends paid, and repayments of debt. The cash flow statement reconciles the income statement with the balance sheet in three major business activities.

4. Statement of Changes in Shareholder Equity: The statement of changes in equity tracks total equity over time. This information ties back to a balance sheet for a same period; the ending balance on the change of equity statement is equal to the total equity reported on the balance sheet. The formula for changes to shareholder equity will vary from company to company; in general, there are a couple of components:

i) Beginning equity: this is the equity at the end of the last period that simply rolls to the start of the next period.

ii) (+) Net income: this is the amount of income the company earned in a given period. The proceeds from operations are automatically recognized as equity in the company, and this income is rolled into retained earnings at year-end.

iii) (-) Dividends: this is the amount of money that is paid out to shareholders from profits. Instead of keeping all of a company's profits, the company may choose to give some profits away to investors.

iv) (+/-) Other comprehensive income: this is the period-over-period change in other comprehensive income. Depending on transactions, this figure may be an addition or subtraction from equity.

5. Statement of Comprehensive Income: An often less utilized financial statement, a statement of comprehensive income summarizes standard net income while also incorporating changes in other comprehensive income (OCI). Other comprehensive income includes all unrealized gains and losses that are not reported on the income statement. This financial statement shows a company's total change income, even gains and losses that have yet to be recorded in accordance to accounting rules. Examples of transactions that are reporting on the statement of comprehensive income include:

- Net income (from the statement of income).
- Unrealized gains or losses from debt securities
- Unrealized gains or losses from derivative instruments
- Unrealized translation adjustments due to foreign currency
- Unrealized gains or losses from retirement programs

6. Non-Profit Financial Statements: Non-profit organizations record financial transactions across a similar set of financial statements. However, due to the differences between a for-profit entity and a purely philanthropic entity, there are differences in the financial statements used. The standard sets of financial statements used for a non-profit entity include:

i) Statement of Financial Position: This is the equivalent of a for-profit entity's balance sheet. The largest difference is non-profit entities do not have equity positions; any residual balances after all assets have been liquidated and liabilities have been satisfied is called 'net assets'.

ii) Statement of Activities: This is the equivalent of a for-profit entity's statement of income. This report tracks the changes in operation over time including the reporting of donations, grants, event revenue, and expenses to make everything happen.

iii) Statement of Functional Expenses: This is specific to non-profit entities. The statement of functional expenses reports expenses by entity function (often broken into administrative, program, or fundraising expenses). This information is distributed to the public to explain what proportion of company-wide expenses are related directly to the mission.

iv) Statement of Cash Flow: This is the equivalent of a for-profit entity's statement of cash flow. Though the accounts listed may vary due to the different nature of a non-profit organization, the statement is still divided into operating, investing, and financing activities.

15.11 BASIS OF COMPARISON

Comparison of financial statements forms the basis for much financial analysis. Four main types of comparison are made:

- Comparison of statements for the enterprise between successive years
- Comparison of a firm's statements with those of a specific competitor
- Comparison of a firm against an industry standard and
- Comparison with a target, such as a company's budget.

Comparisons between different organizations may be difficult or even meaningless because of differences in

- Size of the organization
- Type of organization and
- Accounting methods used by the organization.

Often, both the size and type of organization will dictate the kind of accounting methods used. Financial statement analysis is used to identify the trends and relationships between financial statement items. Both internal management and external users (such as analysts, creditors, and investors) of the financial statements need to evaluate a company's profitability, liquidity, and solvency. The most common methods used for financial statement analysis are trend analysis, common-size statements, and ratio analysis. These methods include calculations and comparisons of the results to historical company data, competitors, or industry averages to determine the relative strength and performance of the company being analyzed.

LET US SUM UP

Financial Statements are statements that serve as a means of communication between the organization and different users of financial statements regarding the financial position and profitability of the business at the end of a financial year. Financial statements are a set of documents that show your company's financial status at a specific point in time. They include key data on what your company owns and owes and how much money it has made and spent.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. According to the prescribed order of assets in a Company's Balance Sheet which the asset should be shown first of all?

a) Non-current Assets	b) Current Assets
c) Current Investments	d) Loans and Advances

2. Financial statements are summarised statements of accounting data that provide information of the business about ___________.

a) Current Assets and Quick Assets

b) Debt and Equity

c) Profitability and Financial Position

d) Operating and Non-operating Income

3. Which of the following items is shown under the head 'Non-Current Assets', while preparing the Balance sheet of a company?

a) Underwriting Commission	b) Current Investment
c) Inventory	d) Patents

4. 'Interest accrued but not due on loans, is shown in the companies balance sheet under the sub-head ___________.

a) Reserves and Surplus	b) other Current Liabilities
c) Contingent Liabilities	d) Shareholders Funds

5. Identify the item which is not a part of Shareholders Funds __________.

a) Share Application Money Pending Allotment

b) Share Capital

c) Reserves and Surplus

d) Money Received against Share Warrants

GLOSSARY

Accounts Receivable	:	Money owed to you by clients or other payers for services you have performed. Accounts Receivable is a current asset that can be found on your Balance Sheet.
Long-term Liabilities	:	Amounts owed for debts that will not become due for at least one year. Long-term Liabilities can be found on your Balance Sheet.

Marketable Securities : Stocks, bonds, and other investments that have enough demand to be converted to cash or sold quickly. Information about marketable securities can be found on your Balance Sheet.

Operating Revenue : Revenue generated from the day-to-day operations of your practice. Operating Revenue can be found on your Income Statement.

Revenue : Money collected or that you expect to collect for providing services. Revenues can be found on your Income Statement.

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WEB RESOURCES

1. Financial Statement Analysis Notes: Meaning, Importance, Formats (testbook.com)
2. Five Elements of Financial Statements - Accountinguide
3. Definition of Elements of Financial Statements - YouTube
4. Financial statements Meaning & Features in Tamil || Part 1 - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a)   2. c)   3. d)   4. b)   5. a)

Unit 16

GROWTH STRATEGIES AND INTELLECTUAL PROPERTY

STRUCTURE

OVERVIEW

A growth strategy allows companies to expand their business. Growth can be achieved by practices like adding new locations, investing in customer acquisition, or expanding a product line. A company's industry and target market influence which growth strategies it will choose. Small companies or businesses always look for ways to grow their business and increase sales and profits. There are probable techniques that companies must use for executing a growth strategy. The technique used by a company to expand business is highly dependent upon its financial situation, the competition and even government regulations and policies.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- list out the growth strategies in business
- discuss the challenges of developing a business growth strategy
- state the advantages and disadvantages of business growth
- explain the various types of business growth
- describe the intellectual property and it’s types.

16.1 GROWTH STRATEGIES IN BUSINESS

A growth strategy is an organization's plan for overcoming current and future challenges to realize its goals for expansion. Examples of growth strategy goals include increasing market share and revenue, acquiring assets, and improving the organization's products or services.

Some common growth strategies marked in small scale business are;

i) Market Penetration: One of the growth strategies reported in business is market penetration. A small company uses a market penetration strategy when it agrees to market existing products within the same market. Increasing market share is the only way of growing through existing products and markets.

Market share is the share of unit and dollar sales a company acquires within a certain market when compared to all other competitors. The best way to increase the market share is by lowering the prices of the commodities.

ii) Market Expansion: Market expansion is another remarkable growth strategy, which is often referred to as market development that involves selling current products in a new market. There are different reasons explaining why a company needs to consider a market expansion strategy.

Competition may be such that there is no scope for growth within the current market. If an entrepreneur is unable to search for new markets, then it is not possible to increase sales or profits. A small company considers using market expansion strategy if it successfully finds use of its product in a new market.

iii) Product Expansion: A small scale company can expand its line of products or add new features to increase sales and profits. When small companies use a product expansion technique, it is also referred as product development.

The selling continues within the current market. A product expansion growth strategy basically works well when there is a change in technology. Companies may also be compelled to add new products as older ones become outdated.

iv) Diversification: Growth strategies in business involve diversification. By diversification, we mean a company selling new products in new markets. This type of strategy is highly prone to risk and losses. A small company acknowledges the plan carefully while utilizing a diversification growth strategy. Marketing research is important to identify if consumers in the new market will potentially like as well as buy the new products.

v) Acquisition: Growth strategies or method to expand business also engages acquisition of other businesses. In acquisition, a company purchases another company to expand its functions. A small company uses this type of strategy to bolster its product line and enter new markets. An acquisition growth strategy is very risky, but not as risky as a diversification strategy, as in this case the products and market are already authorized. A company must have complete knowledge of exactly what it wants to achieve when using an acquisition strategy, mainly due to the significant investment required to execute it.

16.2 IMPORTANCE OF GROWTH STRATEGIES IN BUSINESS

Developing a growth strategy demands coordination among a cross-functional group of stakeholders; it can't be just a few people in a room with a whiteboard. Everyone involved should understand what they're working towards and why, as well as what they're expected to bring to the process.

1. Value propositions and business growth steps: For a company to expand, it needs to increase its reach with existing target customers and acquire new ones. To do this, the company must design a value proposition that clearly states what it does and why customers need it. Then it must create a growth strategy that provides the steps (i.e. growth moves) the company is going to make to take new things to market.

2. Brand relevance and customer experience: Even the most recognized brands in the world started from scratch at some point. So how did they become some of the biggest names in the market? By building relevance with customers and delivering a distinctive and integrated customer experience. Building a brand is much more than a logo and a color palette (although those things are important for brand recognition). Your brand should be recognized by its values and by how customers experience you – both of which should be highlighted in your growth strategy.

3. Thinking long term business growth: Being focused solely on the present and making snap decisions about the future is never a good idea. Your organization needs to invest time and energy in thinking about where the world is going and what it means for your customers, partners, employees, etc. Your growth strategy will help you make good decisions for the future of your business, even though it might seem uncomfortable to place bets when even the present seems uncertain.

4. Expanding into the new – markets, categories, customer segments: Your company's core business needs to be solid before you make big expansion moves. However, outlining longer-term goals will help you to determine the steps you need to take and measure your progress along the way. Think of it like a road map. Quick wins and small successes can be mile markers guiding you toward the long-term goal of expanding into other markets, categories and/or segments.

16.3 CHALLENGES OF DEVELOPING A BUSINESS GROWTH STRATEGY

Developing a growth strategy is demanding and time-consuming because it is a bespoke process. That said, some of the most common challenges in developing a growth strategy are:

16.3.1 Opportunity and Impact

i) Defining your target customer segment(s), their needs and their pain points

ii) Evaluating the projected impact of the strategic growth moves you want to make

iii) Understanding the feasibility of the business growth moves (i.e. time, capabilities, resources)

16.3.2 Alignment and Prioritization

i) Aligning leadership around a narrow set of well-defined goals

ii) Involving the right people and managing stakeholder expectations

iii) Setting priorities and sequencing growth moves in a timeframe that makes sense

iv) Not approaching it as a one-time task, instead of a continuous journey.

16.4 ADVANTAGES AND DISADVANTAGES OF GROWING YOUR BUSINESS

For many businesses, growth signals success. It creates new opportunities, brings in more customers and generates greater profits. However, expanding your business isn't without risks.

16.4.1 Advantages of Business Growth

Possibly the greatest competitive advantage of business growth is the ability to capitalise on the economies of scale. As you increase your production output, you can bring down costs per unit and achieve savings across:

- Purchasing - By Getting Discounts For Buying In Bulk
- Marketing - By Spreading The Cost Of Promotion Over Larger Sales
- Overheads - By Spreading The Staff Or Administrative Costs Across A Greater Output

Business growth can also enable you to:

- Increase Your Resources And Stock
- Generate More Sales And Profits
- Reach New Customers Or Markets
- Put More Money Back Into Your Business
- Influence Market Price
- Reduce External Risks (eg from competition, market or technology changes)

Expansion can also give an impression of greater financial viability of the business. Financial institutions often see larger businesses as more credible and stable than their smaller competitors. Diversifying into new markets, products and services means that if one part of your business is exposed to market changes, you can rely on other income streams.

16.4.2 Disadvantages of Business Growth

Larger businesses tend to be more complex than smaller businesses. Some of the common disadvantages of business expansions are:

- Shortage of cash - you may need to borrow money to meet expansion costs, eg buy new premises or equipment
- Compromised quality - increasing your production output may lead to a decline in quality, which can lead to loss of customers or sales

- Loss of control - as your business grows, you may need to delegate management duties or divide the workloads between different locations
- Increased capital requirements - a larger business means a larger workforce, more facilities or equipment, and more investment
- Increased staff turnover - for example, if staff are given extra work, their morale could drop, their productivity could decrease or they could leave your business

16.5 TYPES OF BUSINESS GROWTH

Determining the best way to grow your business requires a strategic plan and a good understanding of the different ways a business can grow. Slow, organic business growth is basic, but arguably the most effective means of growth. Rapid business growth, on the other hand, may be more profitable but often involves significant risks. It is worth considering all types of business growth when assessing the best route for expansion.

1. Organic Business Growth

Organic growth typically takes longer than other growth strategies but tends to be safer. This is because you are growing by doing more of what you are already good at. You also have more time to develop the right capabilities to support and manage your expansion.

- You can follow several paths to achieving organic growth. You can grow organically by selling:
- your existing product range to new customers
- your products in new geographical areas
- via additional distribution channels - eg the internet or a wholesaler

In order to sell your existing product range to new customers or in new territories, you may simply need to launch an advertising campaign or expand your sales team. See more on market research and market reports. The enterprise decide to use new distribution channels, make sure that this generates new sales rather than simply takes sales from your existing distribution channels. Find out how to increase your market share.

2. Rapid Business Growth

Rapid growth occurs within a short time, often in response to an unexpected opportunity or a successful growth strategy. In this period, your staff, production levels or customers may greatly increase at speed. This can lead to certain risks and challenges, such as:

- Cashflow Shortfalls
- Operational Inefficiencies
- Customer Service Issues
- Outgrown Premises.

16.6 PROBLEMS DURING BUSINESS GROWTH

There are many reasons why a growth strategy can cause problems for a business. Common challenges of growth include:

- Poor Market Research
- Insufficient Planning
- Drop in Customer Service Levels
- Lack of Control
- Inadequate Management Systems
- Staff Morale Affected by Increased Workloads.

1. Plan Your Business Growth: Poor planning is one of the main obstacles to growing a business. You should research the market you intend to break into thoroughly and don't set your sights too high. Financial planning is also vital. You have to invest money up front during the growth phase and the return on that investment can take a while to be realised. See more on financing growth and how to prepare a business plan for growth.

2. Maintain Business Relationships: It is also important that you don't forget to look after your existing customers while you are looking for new ones. Your competitors won't stop trying to take business away from you. Make sure you maintain your customer service levels and communicate with your customers regularly if it's appropriate to do so. Another common problem during business growth is poor control, especially in the supply chain. The relationship with your suppliers is likely to be under strain during the growth phase. You may require increased stock, raw materials and other assets, so you need to ensure you have systems in place to manage all of these.

3. Manage and Motivate Staff: Employees are important in any business, but during the growth phase, you may need to hire additional staff. It is vital that you get the right people, so allocate enough time and resources to select skilled staff and train your new recruits. They will also need to manage your existing staff carefully to ensure that your growth strategy doesn't lower their morale. To lead your staff through growth, communicate with them regularly, be clear on what you are trying to achieve and what you expect from them.

4. Manage Your Own Workload: Finally, when a small business grows, the owner's workload increases. The larger the business, the more time it takes to manage it. Consider which of your tasks you can delegate to other members of your staff in order to free up your time to concentrate on key issues.

16.7 INTRODUCTION OF INTELLECTUAL PROPERTY

The ownership of ideas. Unlike tangible assets to your business such as computers or your office, intellectual property is a collection of ideas and concepts. There are only three ways to protect intellectual property in the United States: through the use patents, trademarks or copyrights. A patent applies to a specific product design; a trademark to a name, phrase or symbol; and a copyright to a written document. All three methods have limitations--there's no one perfect way to protect an idea.

The legal rights provided to the creator or inventors of intellectual property are known as intellectual property rights. Every creator enjoys certain privileges provided by the law that protects the creators from infringement or misuse of their work without their explicit permission. Intellectual property rights also aid creators in putting their work to use for the general public by allowing for commercial licencing.

16.8 INDIAN LAWS TO PROTECT INTELLECTUAL PROPERTY

In India, intellectual property rights are protected by a host of laws and rules issued by the government from time to time. Primarily, intellectual property rights are protected by the following legislation and rules:

i) Trade Marks Act, 1999 and Trade Marks Rules of 2002 and 2017. Your beloved mango drink Maaza was embroiled in a trademark controversy when Coca Cola claimed infringement of trademark over Bisleri. Originally a drink by Bisleri, the trademarks for the drink was sold to Coca Cola by Bisleri. However, in 2008, Bisleri filed for registering the trademark for Maaza in Turkey, which was then contested by Coca Cola

ii) The Patents Act, 1970 (as amended in 2005), 2003 Patent Rules and 2016 Patent Amendment Rules

iii) The Copyright Act, 1957. The most notable case under this Act was the Tips vs Wink music fallout. Tips Industries and streaming platform Wink had entered an agreement where the latter was granted a licence to access the large music database of Tips. At the end of this agreement, amid negotiations for extending the agreement, Tips alleged that Wink was infringing on its IP. The judgement was in favour of Tips Industries.

iv) The Designs Act, 2000, and Designs Rules, 2001

v) The Geographical Indications of Goods (Registration and Protection) Act, 1999

vi) The Semiconductor Integrated Circuits Layout Design Act, 2000

vii) The Protection of Plant Varieties and Farmers' Right Act, 2001

While these laws provide domestic protection to intellectual property rights, India has also signed agreements with various countries for safeguarding intellectual property.

16.9 ADVANTAGES OF INTELLECTUAL PROPERTY RIGHTS

i) Ownership: In a competitive world, entrepreneurs, businesses and researchers are constantly trying to outdo each other. A determining factor to win in this competition is ownership of the creation. Intellectual property rights ensure that the creator holds the sole authority over their creation.

ii) Infringement: With intellectual property rights, creators are protected against any competitor illegally contravening on the creation. For example, an entrepreneur's scientific invention is their own. They are the sole owner of the creation and can choose to do what they wish with it. Anybody using the scientific invention for any purpose without paying due credit or royalty to the creator is liable to face legal action.

iii) Commercialisation: Intellectual property rights are of great importance when a creator wishes to commercialise their product. It paves the way for the creator to issue a licence for mass production of the product in exchange for monetary benefits and royalty.

iv) Learning: While registering a new intellectual property, the creator has to reveal details of the product to the general public. This practice encourages a culture of sharing of information that can be used for further development by contemporaries in the field.

16.10 TYPES OF INTELLECTUAL PROPERTY

Intellectual property can consist of many types of intangibles, and some of the most common are listed below.

1. Patents: A patent is a property right for an investor that's typically granted by a government agency, such as the U.S. Patent and

Trademark Office. The patent allows the inventor exclusive rights to the invention, which could be a design, process, an improvement, or physical invention such as a machine. Technology and software companies often have patents for their designs. For example, the patent for the personal computer was filed in 1980 by Steve Jobs and three other colleagues at Apple Inc.

2. **Copyrights:** Copyrights provide authors and creators of original material the exclusive right to use, copy, or duplicate their material. Authors of books have their works copyrighted as do musical artists. A copyright also states that the original creators can grant anyone authorization through a licensing agreement to use the work.

3. **Trademarks:** A trademark is a symbol, phrase, or insignia that is recognizable and represents a product that legally separates it from other products. A trademark is exclusively assigned to a company, meaning the company owns the trademark so that no others may use or copy it. A trademark is often associated with a company's brand. For example, the logo and brand name of "Coca-Cola," is owned by the Coca-Cola Company (KO).

4. **Franchises:** A franchise is a license that a company, individual, or party–called the franchisee–purchases allowing them to use a company's–the franchisor–name, trademark, proprietary knowledge, and processes.

The franchisee is typically a small business owner or entrepreneur who operates the store or franchise. The license allows the franchisee to sell a product or provide a service under the company's name. In return, the franchisor is paid a start-up fee and ongoing licensing fees by the franchisee. Examples of companies that use the franchise business model include United Parcel Service (UPS) and McDonald's Corporation (MCD).

5. **Trade Secrets:** A trade secret is a company's process or practice that is not public information, which provides an economic benefit or advantage to the company or holder of the trade secret. Trade secrets must be actively protected by the company and are typically the result of a company's research and development (which is why some employers require the signing of non-disclosure agreements or NDAs). Examples of trade secrets could be a design, pattern, recipe, formula, or proprietary process. Trade secrets are used to create a business model that differentiates the company's offerings to its customers by providing a competitive advantage.

LET US SUM UP

There are four main organic growth strategies. They are known as market development, market penetration, diversification, and product development. Growth strategies are important because they keep your company working towards goals that go beyond what's happening in the market today. They keep both leaders and employees focused and aligned, and they compel you to think long-term. Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The agreement that is enforceable by law is known as ___________.

a) Valid agreement b) Void agreement

c) Illegal agreement d) Unenforceable agreement

2. In ‘quid-pro-quo’, quo stands for ___________.

a) knowledge disclosed to the public

b) monopoly granted for the term of the patent

c) exclusive privilege of making, selling and using the invention

d) None of the above

3. The term ‘Intellectual Property Rights’ covers ___________.

a) Copyrights b) Know-how

c) Trade dress d) All of the above

4. Element affecting growth rate is___________.

a) Competition b) Change in technology

c) Creativity d) All of these

5. At decline stage of growth ___________.

a) The enterprise finds it difficult to survive

b) The enterprise starts incurring losses at an increase- in rate

c) The enterprise prefers to close its shutters

d) All of the above

GLOSSARY

Franchise	**:**	Arrangement through which one party (the franchisor) grants another party (the franchisee) the right to use their trade mark or trade name, as well as certain business systems and processes to produce and market a good or service according to certain specifications.
Industrial design	**:**	Intellectual Property modality that protects the external appearance of a product.
Trade Dress	**:**	The visual appearance of a product or its packaging. It might be protected by trademarks, designs and in certain jurisdictions, unfair competition regulation.
Technical Protection Measures (TPM)	**:**	Devices or software that allow the right holder to control or limit the use of their protected work (also known as digital rights management systems).
Variation (design):	**:**	A design that shares the same purpose and dominant distinctive characteristics as the main design.

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WEB RESOURCES

1. Intellectual-Property-Rights-UPSC-Notes-GS-III.pdf (byjus.com)
2. Concept of Intellectual Property Right - YouTube
3. Intellectual property Rights//IPR// for UG student/அறிவுசார் சசாத்த ு உரிமை/explained in Tamil - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1.a) 2.b) 3.d) 4.d) 5.d)

Unit 17

INNOVATION IN ENTERPRISE

STRUCTURE

OVERVIEW

Innovation enhances the nature, creativity, and design thinking process of a brand. A new business can attain the height of success by learning the steps of creativeness. Innovation in Entrepreneurship can open the doors of various opportunities by helping the business to keep up with the current trends. It helps organizations differentiate themselves from the rest by implementing different innovative marketing, production, and sales strategies. It helps companies fight uncertainties and stay relevant in times of adversities. It helps organizations grow in complex situations such as the COVID-19 pandemic. Organizations, both large and small, create marketplace opportunities by jumpstarting and accelerating innovation.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- explain the concept of innovation
- list out the sources of innovation
- describe the elements of innovation and importance of innovation
- explain the various types of innovation
- state the entrepreneurship and innovation
- discuss the role of innovation in entrepreneurship
- describe risks of the innovation process and their solutions.

17.1 CONCEPT OF INNOVATIONS

Innovations create bigger opportunities and are critical for the survival, economic growth, and success of a company. Innovation means developing original concepts and is a driver of reimaging business. Companies that innovate are able to set the organisation in a different paradigm in order to identify new opportunities and the best methods to solve current problems.

Innovation is often misunderstood as mere ideation. Most companies have some systematic processes for ideation, but do not fully utilise the opportunity of the collective brain power of smart people. What most companies struggle with is converting ideas into value propositions and taking them to market, in other words, innovation in their go-to-market products or customer offerings. Also, innovation is not always getting the biggest idea out of the door. It could be a process of tactical 'tinkering', i.e. continuous process of identifying problems and solving them at an operational and delivery level.

It boils down to how prepared we are to listen and watch our customers and stakeholders, understand their behaviours, their innate and unexpressed needs and satisfy them. One way to do this is to leverage modern technology and prepare prototypes and data analytics to get insights. However, in this case technology is only as good as the insights it provides. More importantly, there needs to be a culture of continuous improvement and experimentation, based on the insights we derive, to provide better experiences for internal and external customers.

Innovation Leadership and Culture

To realise innovation, leaders should be open-minded and collaborative. Feeling comfortable with uncertainty and managing changes are behaviours supporting innovation. Innovative leaders are curious and are optimistic since they dare to take risks.

Any idea or innovation may be valid for the company's business. Therefore, it is important to create an organisational culture which embraces creativity and openness when suggesting new ideas. At the same time, there should be a process which examines whether the idea has a business case or not. Those ideas which do not have the required business potential need to be terminated quickly and those with commercial potential should be immediately put forward to the next development phase.

Concept

During the innovation process, the term 'concept' refers to an outcome examining the realisation of the business potential of an innovative idea. The aim of concept design is to illustrate how to turn an idea into scalable and pragmatic business opportunities. A concept defines, from a business perspective, how the idea can be realised by considering technical solutions, organisational and business changes and ecosystem implications. When properly conducted, concept design provides valuable and business-driven specifications to source, develop and deliver new services.

Even if the concept design goal is to ensure that an idea is realistic and worthy of being developed further, it is equally essential to ensure that the innovation process remains creative and leaves room for the free flow of ideas throughout the process. Therefore, concept design follows the design thinking principles by first enriching the idea during brainstorming sessions and then rooting to reality during proofing sessions.

17.2 SEVEN SOURCES OF INNOVATION

Innovation. We all know how important innovating new ideas are for the growth and future of the any business. But where does "innovation" come from? Do you just wake up in the middle of the night screaming, "Eureka!" or is it more nuanced than that. One of the most prolific management thought leaders, Peter Drucker, defined seven sources of innovation in his book, Innovation and Entrepreneurship (1985):

1. The Unexpected: This is indeed the Eureka moment where something unexpected happens that leads to a new product or service. You weren't looking for it; the surprise found you! It is by far, the easiest and simplest source of innovation.

2. Incongruities: When there is a discrepancy between what is and what should be, you have an innovation opportunity. It's that weird feeling, an incongruity, between expectations and results. It's a disruption in the logic or rhythm of a process. It just doesn't feel right.

3. Process Needs: Perhaps there is a bottleneck or a weak link in a critical process. A substantial (not just a tweak) improvement to the process leads to innovation. The process innovator is always searching and saying, "There has to be a better way!"

4. Industry and Market Structure: Industry and markets are always in a continual state of flux. Regulations change, product lines expand, and others shrink. Those that watch these changes may recognize untapped opportunities for new types of products and services.

5. Demographics: The changing demographics (age, education, disposable income, etc.) and moving populations are rich sources of ideas for creating new products and services.

6. Changes in Perception: Meaning and Mood. Over time, populations and people change. The way they view life changes, where they take their meaning from and how they feel about things changes over time. Savvy innovators detect these shifts and leverage them.

7. New Knowledge: New technologies, knowledge and discoveries can completely change an industry. These types of innovations are usually what people mean when they talk about innovation, yet these sources have the longest lead times to commercial development.

17.3 ELEMENTS OF INNOVATION

Innovation requires collaboration, ideation, implementation and value creation. Community developers actively engaged in innovation illustrated each of these elements during breakout sessions. They shared replicable concepts, programs and initiatives that are showing real results. The following is a sampling of those presentations.

1. Collaboration

Teamwork is essential to getting things done. In today's global and digital 24/7 world, challenges are more complex; it's becoming increasingly important to bring more, diverse minds to the table and to break down silos. Collaboration is one type of group activity familiar to community development. There is no shortage of initiatives intended to be collaborative. Collaboration has never been easy, mostly because conflict and competition within and among groups dominates the landscape. As everyone tends to avoid tension, what we actually may be left with in communities is peaceful (or less than peaceful) coexistence, and not collaboration. It may be a good time for re-thinking collaboration.

The conference encouraged re-thinking approaches to strategy. How could new approaches to collaboration influence economic transformation of a community, state or nation? To begin, collaboration involves three basic aspects: relationships, process and outcomes. Collaboration means to work together (relationships) toward (process) something in common (outcomes).

There is a good chance that what community development needs may not be found within existing relationships. It is often repeated that collaborative relationships are important because it takes more than one person, group or organization to address challenges. Now, relationships developed across sectors, disciplines and areas of study and practice may yield greater returns. Interdisciplinary networks, especially those that include younger professionals and ethnic groups, can reveal answers to persistent challenges and new intersections where none were easily apparent.

Collaborative process is more than working together. It means the ability to think together and to act on complex projects. The traditional strategic planning process is not a model for the disciplines required to transform our economies. Rather, strategic "doing" offers a framework to achieve results. Thinking together is open innovation. Strategic doing guides open innovation. Strategic doing means:

Listen and explore—What can we do together?

Learn and adjust—How will we learn together?

Focus and align—What should we do together?

Link and leverage—What will we do together?

Strategic doing is based on important design elements. Design requires us to become more aware and intentional about creating spaces for important conversations on topics that matter to the community. Physical locations in the community can be created to model and mirror new collaborative behaviors. The place and space must be hospitable and intentional. This means conversations are open-sourced and carefully managed. Productive conversations require good listening skills. How much do we listen to another person only with the thought of what we want to say next? Good listening means inquisitiveness and curiosity drive conversation and not power, authority and political influence.

2. Ideation

Fresh, new ideas help your organization stand out. With intense competition for resources, organizations must differentiate in order to survive. Mark Lange, executive director of the Edward Lowe Foundation, was the presenter for the breakout session "Accelerating Entrepreneurship and Its Impact on Community and Economic Development."

The Edward Lowe Foundation is using ideation to make the case for entrepreneurship as an economic development strategy. Lange says:

- Local businesses have much more influence on job creation than companies headquartered out of the state.
- Second-stage businesses are critically important to job growth and need to be nurtured more effectively.
- Business expansion has a much larger impact on job creation compared to business relocation.

The traditional approach to economic development, economic hunting, emphasizes recruitment and retention, Lange says. It's all about movement. Expansion is secondary and related to industry clusters. Services are focused on infrastructure and incentives. The culture serves big businesses and small businesses. Business assistance is focused on business plans and operations succession.

Lange demonstrated YourEconomy.org, a new idea and tool that he hopes will make his organization stand out. More importantly, this tool will help community leaders and business-support organizations illustrate the case for entrepreneurship as an economic development strategy.

The Edward Lowe Foundation developed this free, interactive research tool that allows users to explore business activity in their local communities and across the United States. It provides detailed, up-to-date information about the performance of businesses from a national to a local perspective. YourEconomy.org uses Dun and Bradstreet National Establishment Time Series (NETS) data to take a closer look at business activity through time. The NETS database is large, with 34 million records for the United States.

Statistics are first sorted by employer categories (non-commercial, non-resident and resident establishments). Then, resident establishments are subdivided into four stages that reflect different issues companies face as they grow. Detailed information is provided from a variety of views, including composition, which shows how establishments and jobs are distributed by the three employer categories and four growth stages; growth, which includes openings, closings, expansions, contractions, move-ins and move-outs; industry, where establishments are ranked and compared based on information found in the composition and growth section by industry; and rankings, where establishments in the 50 states and all metropolitan statistical areas are ranked by category and growth factors.

Organizations that support entrepreneurship can use YourEconomy.org to help com-munities see the value of shifting from economic hunting to economic gardening. Lange listed the following ways to develop a climate for entrepreneurship:

- inventory and understand policies and programs that affect entrepreneurs in the community;
- recognize the contribution of second-stage businesses;
- make sure peer learning is plentiful;
- serve businesses at all stages with expansion services;
- build and enhance entrepreneurship support organizations; and
- balance "hunting" and "gardening" resources.

3. Implementation

What good are new ideas if they are not put to use? Organizations must engage the best people to champion their ideas and keep those great ideas moving forward.

There is no shortage of conversations on how technology is changing lives and how technological innovations are being implemented at lightning speed. In the world of community development, one example is the work being done at Social Compact.

Technology and innovation are the fundamental underpinnings of John Talmage's projects at Social Compact. Talmage is president of the non profit organization, which is working to bring private investment to inner-city neighbourhoods.

Under his leadership, Social Compact uses technology and innovation to document market strengths of communities throughout the United States. Collaborating with local leaders, community-based organizations and financial institutions, Social Compact uses new tools and innovation to conduct market analytics that "drill down" and extract important data often lost by high-level data-collection processes. To date, Social

Compact has used this technology in 20 cities and 350 underserved neighbourhoods to find 1.2 million additional residents with additional buying power of $36 billion. Communities can use the data to:

- prove that a neighborhoods can sustain a grocery store and draw private investment to provide one;
- identify small business and private investment opportunities that cannot be justified using traditional data sources;
- determine the optimal location for a bank branch or product mix needed at an existing bank branch; and
- conduct "what ifs" to help communities determine their best community and economic development strategies.

During the current economic crisis, Social Compact has helped communities identify and map pre-foreclosure, foreclosed and REO properties. Communities use this data to implement intervention strategies that help stem neighbourhood decline. This data has been beneficial to communities experiencing a high number of foreclosures. They were able to document need and were prepared when funding sources, such as the Neighbourhood Stabilization Program and the National Community Stabilization Trust, issued calls for proposals.

4. Value Creation

Organizations must implement ideas and programs identified as most effective in delivering valueto stakeholders. The failure rate of established companies has skyrocketed during the past year. However, there are companies still experiencing monumental success despite the economic downturn. These companies are thriving because they effectively deliver products valued by consumers.

The purpose of innovation is to create business value. Value can be defined in many ways, such as incremental improvements to existing products, the creation of entirely new products and services, or reducing cost. Businesses seek to create value because their survival, growth and ability to compete in a rapidly changing market depend on whether they innovate effectively.

Many companies develop experimentation brands, joint ventures or co-brands. This gives them the freedom to test new ideas and create value without the risk of damaging an established brand. Toyota's Scion brand is an example of an experimentation brand. During the "Creating a Culture of Innovation in Community Development Organizations" workshop at the conference, Innovation Lab's Langdon Morris presented

Toyota's Scion as a case study. Need-finding is a process of looking for new opportunities. To understand the customer's experience, researchers look for gaps in customer service because they may represent opportunities.

Toyota used an effective need-finding method that made a distinction between searching for the core and the edge. Core refers to markets, services, products and customers that are typical and well understood. Edge refers to those who are nonusers or whose needs are outside of what is considered typical.

The Scion brand was developed to appeal to rebellious members of Gen-Y instead of Toyota's typical mainstream baby boomers. Before launching the brand, the development team studied these new consumers in their own edge environment, like tattoo parlors. After introducing the Scion, the company reinforced its rebel positioning by becoming the only official sponsor of a major American tattoo festival, among many other promotional efforts.

In these times of rapid change, companies cannot afford to remain focused only on the core because the core can quickly disappear. The edge represents an opportunity for a company to target an innovation at an emerging market. The process of creative combination happens when concepts are gathered together and the focus turns to developing the best options for meeting the needs identified by customers. At this stage, individual effort must expand to encompass a diversity of viewpoints.

17.4 STEPS OF INNOVATION PROCESS

Step 1: Idea Generation and Mobilization – New ideas are created during idea generation. Successful idea generation should involve the pressure to compete and the freedom to explore. Mobilization occurs when the idea is moved to a different logical or physical location. For instance, how Apple waited three years after MP3 players were introduced to create the iPod, which was attractive, intuitive, and offered capacity for up to 1,000 songs.

Step 2: Advocacy And Screening – Advocacy and screening help to evaluate the feasibility of a business idea with its potential problems and benefits. Hence, a decision can be made about an idea’s future. Companies looking to develop a culture can establish a few best practices. For instance, Employees should have plenty of avenues to receive advocacy and feedback. Also, organizations must understand the difficulties involved in evaluating truly innovative ideas. Also, organizations need to build transparent evaluation and screening protocols.

Step 3: Experimentation – The experimentation stage tests the sustainability of ideas for an organization at a specific time. Experimentation generates new ideas with the information that is gathered on the results and feasibility of the original idea. For instance, when Amazon tested its grocery delivery service in certain Seattle suburbs. After this, Amazon Fresh expanded to Los Angeles, San Diego, and New York City.

Step 4: Commercialization –Commercialization develops market value for an idea by focusing on its impact. An important part is establishing the specifications of any given idea. Commercialization is the stage that involves the change of focus developments to persuasion. After the idea is clarified and a business plan is developed, it will be ready for diffusion and implementation.

Step 5: Diffusion and Implementation – Diffusion is the company-wide acceptance of an innovative idea, and implementation sets up everything needed to develop the innovation. Diffusion and implementation allow the organization to determine the next set of needs for customers. Receiving feedback, indicators for success metrics, and other benchmarks enable the organization to stimulate the innovation process.

17.5 TYPES OF INNOVATION

1. Product Innovation: Product innovation is either the development of a new product, such as the Fitbit or Amazon's Kindle, or an improved version of the existing product, such as an increase in the digital camera resolution of the iPhone. It could also be a new feature to an existing product, such as power windows to a car.

Examples of product innovations: The first electric vehicles introduced in the car's market were also innovative, and new batteries with longer ranges that keep coming out are also an example of innovation. Lego has been changing the materials of its bricks to biodegradable oil-based plastics.

2. Process Innovation: The process involves a combination of skills, facilities, and technologies used to produce, support, and deliver a product or service.

Examples of Process innovations: Henry Ford's invention of the world's first vehicle assembly line. This process changed the vehicle assembly and shortened the time necessary to produce a single vehicle from 12 hours to 90 minutes. The Differential company built a mobile sales dashboard for the leading Grupo Bimbo. Having a mobile sales dashboard gives the team quick access to the sales information and other KPI's for each country.

3. Business Model Innovation: In a Business model innovation capabilities, or processes optimized to make a company successful and profitable will become the targets for transformation.

Examples of Business Model innovations: Amazon found a new channel through technology by eliminating the traditional retail distribution channel and developing direct relationships. IBM has managed changes in customer offers from mainframes to personal computers to technology services.

4. Organizational Innovation: Organizational innovation refers to the development of a new organizational strategy. This involves changes in the company's business practices, organization of work, and relationship with external stakeholders.

Examples of organizational innovations: The companies adopted a four-day week working schedule. The companies that started to use the power of digital and allowing employees to skip the office and work from home.

5. Marketing Innovation: Marketing innovation means developing a new marketing strategy that produces changes. For instance, designing, packing, and other decisions regarding the price or promotion of a product.

Example of marketing innovation: Touch Packaging Design has partnered with Nestlé Ice Cream to create a reusable, durable container for its Häagen - Dazs brand that can be used in the new Loop circular shopping platform.

17.6 INTRODUCTION OF ENTREPRENEURSHIP AND INNOVATION

Entrepreneurship is making great ideas into a business opportunity by taking a risk. Entrepreneurship understands the business opportunity for the great ideas innovated and adds a tangible value to the innovation. Entrepreneurs always search for innovation sources and they do not restrict themselves for one type of innovation. Entrepreneurs set up business on the opportunity identified and run it profitably. They need skills like planning, decision making, managing, leading, motivating and risk taking. Successful entrepreneurship is always a result of hardworking, commitment, and risk taking.

Innovation means introducing something new. This can be an idea, product, model, process, or a service. For example, introducing a new equipment that can reduce the electricity consumption by some percentage is an innovation. Innovations need creativity and new thinking. Innovation always does not mean invention. Innovation can create change and add values to the existing product or a service.

17.7 ROLE OF INNOVATION IN ENTREPRENEURSHIP

With the rising competition, many entrepreneurs have started discussing innovation. But what is the meaning of innovation, and why is it important for entrepreneurs? So, innovation is basically the replacement or improvement of something. Innovation is the particular instrument of entrepreneurs with the help of which an individual exploits the changes as a chance for a different business. An Innovative Entrepreneur is one who has the ability to tackle to produce innovative products to meet the market's demands and trends. Innovation in Entrepreneur plays a role in many ways like in:

1. Creative Development: Innovation enhances the nature, creativity, and design thinking process of a brand. A new business can attain the height of success by learning the steps of creativeness. Innovation in Entrepreneurship can open the doors of various opportunities by helping the business to keep up with the current trends.

2. Persistent Improvement: Innovation gives organizational durability when you are making continual improvements. A good entrepreneur will realize the importance of innovation, which will help in increasing the creativity of business.

3. Reinforcing Brand: The process of development branding discloses the details, which helps the HR innovation leaders to learn different ways of being more innovative. This thing is highly crucial because it is among the main drivers for triumph.

4. Making the Best of Existing Products: They identify that for an entrepreneur, it is important to introduce new products but more than that, to maintain the innovation culture making the best of old products is more important. Improvement of existing products can help a company in increasing their efficiency, profits, etc. With the help of enhancing the design thinking process and with continuous innovative improvements, a company can attract better staff, improving a business's health.

5. Responding to Trends and Competition: HR innovation responds to the current success and current needs and focuses on predicting future trends. With the help of innovation in entrepreneurship, responding to future trends can help an entrepreneur's business to come with solutions to make their business grow more.

6. Having a Unique Selling Point: Consumers generally consider innovation culture as something that adds some interesting values to its products. Innovation in entrepreneurship can add advantages that can help the company in getting positive exposure.

7. The Use of Social Media: With social media's help in an organization's innovation campaign, one can attract a wide range of ideas using social media. Social can be proved great for motivating, managing, and getting focused on your business. Social media can help a business to know what the basic needs of customers are, and we can improve our products to fulfill their demands to make our business grow progressively.

Many companies have started arriving with various unique ideas to attract customers and meet their demands. With this thing, competition is also getting a new height, and in this era, it is not easy for an entrepreneur to survive. For an entrepreneur, it can get difficult to survive without any innovative idea, a good team, and various attractive deals.

17.8 IMPORTANT BENEFITS OF INNOVATION IN BUSINESS

Business leaders are focusing on factors that can help them sustain and stay relevant in the current business milieu that is riddled with uncertainties and complexity. Moreover, deal with the side effects of the COVID-19 pandemic. In addition, established business models are under attack, and to stay ahead in the disruptive age, it is imperative to create operating models that incite innovation and productivity. This article will assess the growing importance of innovation in business. Furthermore, discuss the characteristics and benefits of innovation in business and more. But, before that, let's understand the meaning of innovation.

1. It Solves Complex Business Problems: Knowing the answer to what product management life cycle is cannot help managers or executives solve complex business problems. Moreover, the uncertainties and complex business situations fuelled by the COVID-19 pandemic can make things worse for them. Therefore, to judiciously and effectively solve complex business problems, it is imperative to use innovative ideas. Leaders must use external (online data, literary works, etc.) and internal sources to develop innovative ideas to solve complex business problems. At first, it might seem like a difficult task, but it is considered to steer your business in the right direction.

2. It Increases Productivity: One of the benefits of innovation in business is the increase in productivity of individuals, processes, and business models, among others. Simply put, innovation presents new ideas to business leaders to increase efficiency with minimum resources. Furthermore, reducing business and other risks.

3. Brings Uniqueness and Novelty to Business Process: Business processes have been the same for more than a few decades. However, with the introduction of innovation in business, there has been a disruption that is believed to be caused due to novelty, creativity, and uniqueness. That is also helping in making the business stand out from the rest and vicariously contributing to increased revenue and market share.

4. It Gives a Competitive Advantage: Thinking innovatively or creatively can help managers and executives develop unique marketing campaigns to help them stand out. Also, formulate promotional and advertising strategies that will help in increasing market share and revenue, giving the company a competitive advantage.

5. It Reduces Cost and Increases Revenue: As mentioned above, one of the biggest advantages of innovation is that it helps increase revenue and market shares. Subsequently, leading to a reduction in cost. Meanwhile, innovation has many advantages in business, but the points mentioned above will help business leaders, managers, and executives understand the importance of using innovative ideas actively. If not, then in the next part, we will discuss how innovation helps achieve business success.

17.9 PLANNING FOR INNOVATION IN YOUR BUSINESS

While it is true that some innovative ideas come unexpectedly, continuous innovation usually requires thorough planning. You should ideally have:

- innovation as part of your business strategy and business plan
- a clear, strategic vision of how you want your business to develop.

Innovation will not only improve the chances of your business surviving, but also help it to thrive and drive increased profits.

1. Plan For Innovation

To successfully plan for innovation, you have to first determine if your ideas have profit potential. You can:

Assess the competition - find out who your competitors are and where they operate. Learn about their products, prices, operating culture, their selling points, as well as any areas you might be able to exploit. For example, if the competition is focused on value for money, you might want to emphasise the quality of your product or service.

Study market or industry trends - awareness of the climate in which your business is operating will help you to plan. You can find a lot of information about your industry on the internet. Business and trade magazines will also feature useful articles. Find out more about market research and market reports.

Build a relationship with your customers - it's not enough simply to know who your customer base is. You need to communicate effectively with them as well. Listen to their needs and observe their behaviour in relation to current products and services. This may help you generate ideas on how you can make improvements.

Involve your suppliers and other business partners - pooling your resources may help to produce and develop creative ideas. Potential partnerships can also be developed through business networking opportunities. See how to learn and develop through networking. Next, consider what taking a particular innovative step could mean for your business. Ask yourself:

- what impact it will have on your business processes and practices
- what extra training your staff may require
- what extra resources you may need
- how you'll finance the work
- whether you'll be creating any intellectual property that will need protecting

Finally, you should include your vision in your business plan by:

- putting down your goals, both long and short term and detailing how you intend to achieve them
- linking goals to financial targets, such as achieving a specific turnover by a set date and reviewing your plan regularly.
- service innovation

Securing the right kind of finance to fund your innovation project can be key to its success. There are many ways to fund innovation, depending on whether you are:

- starting up
- growing your business
- using your own funds
- seeking external funding, such as loans or equity finance

2. Bank Finance for Innovation

Businesses often turn to their banks for overdrafts or loans for additional finance, depending on their borrowing needs. But banks are often reluctant to lend money to innovation start-up businesses - especially if you have no significant tangible assets such as premises and equipment. Read more about bank finance.

3. Equity Finance for Innovation

If you're willing to relinquish some control of your business to external investors, such as business angels or venture capital firms, you could consider using equity finance. Investors in start-up ventures will usually expect a return on their investment after between five to seven years after investment. This is usually achieved by selling either the entire business or just the investors' shares in it so that they can realise the value of their investment. See exit strategies for innovation start-ups. They may also consider seed venture funds - locally based funds, often linked with regional strategies - or unsecured loans, for example from family or friends. See more on financing from friends and family.

4. Innovation Grants

There is a wide range of grants available to support innovation, backed by a variety of sources, including the government, district councils and academic institutions.

5. Innovation Vouchers

If they need external expertise to help with an innovation project, you may want to consider applying for Invest Northern Ireland Innovation Vouchers. The vouchers are worth up to £5000 and allow you to access skills and expertise from one of the 39 registered knowledge providers (eg universities and colleges) through the island of Ireland.

17.10 RISKS AND REWARDS OF INNOVATION

Innovation is a complex process with many different stages and inherent risks. It will often require an investment of time and money before any positive effects become visible.

Risks of Innovation

To face several types of innovation risks in your business. Risks can be:

- operational - eg failing to meet your quality, cost or scheduling requirements
- commercial - eg failing to attract enough customers
- financial - eg investing in unsuccessful innovation projects

As part of any innovation process, you should strive to understand, evaluate and manage risk. To reduce the risks, you can consider the following:

Professional advice - consultants, industry professionals or contacts in business networks can provide valuable insight into your related markets.

Joint ventures - sharing the development process with a business partner spreads the risk, and means you can benefit from their expertise and resources. See joint ventures and business partnerships.

Licensing - allowing somebody else to bear the risks of developing your idea in return for a fee and royalties.

Grants - these could help to spread financial risk and allow you to develop your system to a higher quality, reducing operational risk. See innovation, research and development grants.

Incremental innovations - looking for ways to enhance your existing offering. New ideas for low-cost opportunities may come from customer feedback, employees, or networking with other businesses.

Ongoing research - keep up to date with market research and technological developments that may influence your business.

17.11 RISKS OF THE INNOVATION PROCESS AND THEIR SOLUTIONS

1. Technological Failure of the Innovation: The biggest risk any company takes in the innovation process is whether or not the new product or idea will work once it is launched. To manage this risk, the company may carry out trials on a small scale to test its effectiveness. So, if this is done, the necessary adjustments may be made to avert any huge losses once the product is mass-produced.

2. Financial Strain: The innovation process is faced with the challenge of draining out the company resources. This is because of the returns that are usually long-term as opposed to immediate. So, if this is done, averting the necessary adjustments may be made to avert any huge losses once the product is mass-produced.

3. Market Failure: Failure in the introduction of new products or technology to the market means that demand would be low and therefore the innovation is not viable commercially. Hence, you should undertake extensive and in-depth market research before committing limited resources to its development and production.

4. Redundancy: With trends in the market, a profitable innovation today may be redundant shortly. Therefore, there must be constant research on how to improve the existing systems, and the factors influencing them to stay a step ahead.

5. Lack of Capacity for Implementation: Lacking the structural and financial capacity to roll out the innovation is always risky. You may choose to look for partners who will assist in your area of lack and thus overcome the challenge.

6. Organizational Risks: These risks involve the structuring and running of the business. So, following proper planning and allocation of resources helps to ensure this does not happen.

7. Unprecedented Risks: They may involve changes in policies or political instability whose ripple effect spills over hindering the effectiveness of the innovation. Therefore, the business needs to keep a contingency plan to buffer it against such unseen events.

LET US SUM UP

Innovation takes birth in sync with the evolution of customer's expectations and demands or vice versa. Either way, organizations around the world have to continually innovate themselves and keep up with the people's wants. The failure to do so or being indifferent to your customer's needs will make your competitors win. And then, customers become indifferent to you with a high-risk gamble to play at.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. __________ actions by an entrepreneur is most likely to contribute to creative destruction.

a) Development of a new product   b) Take-over of a competitor

c) Issuing shares

d) Development of a new product

2. The resistance of employees in an organization against flexibility, growth, and diversification can be overcome by developing _________.

a) Entrepreneurship

b) Managerial domain

c) Intrapreneurship

d) Administrative domain

3. _________shows the process of creating something new.

a) Innovation

b) Business model

c) Modeling

d) Creative flexibility

4. Which one of the following is an advantage of the small firm in the innovation process?

a) Ability of the entrepreneur to carry out multiple tasks

b) Ability to raise finance

c) Ability to carry out R&D

d) Ability of the entrepreneur to act on new ideas or product development

5. The goals should be _________for the success of business plan.

a) Generalized

b) Specific

c) Limitless

d) Imaginary

GLOSSARY

Business Incubation : A business incubator is a company that helps new businesses to develop and grow by providing various forms of support.

Innovation : The process of bringing about new ideas, methods, products, services, or solutions that have a significant positive impact and value.

Opportunities : Opportunities in a business are favorable external factors that could give an organization a competitive advantage.

Affordable : If something is affordable, its price is reasonable, it is inexpensive, most people can afford it. An affordable product or service is one that is within most people's budget.

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ANSWERS TO CHECK YOUR PROGRESS

1. d)	2. c)	3. a)	4. d)	5. b)

Unit 18

KNOWLEDGE MANANAGEMENT AND LEADERSHIP & GOVERNANCE OF ENTERPRISE

STRUCTURE

OVERVIEW

Knowledge Management is a systematically process which includes collecting, organizing, clarifying, disseminating and reusing the information and knowledge throughout an organization. KM deals with explicit knowledge and tacit knowledge and should possess maturity attribute, dynamic attribute and self-growth attribute. Leadership in governance is the willingness and ability to take ownership in a part of an organization and to continually do what is best for the organization. Effective corporate leaders stand on a foundation of solid governance principles. Governance is about the time you dedicate to working 'on' your business, rather than 'in' it. This includes all the checks and balances you put in place to ensure your business runs smoothly, meets its objectives, and stays out of trouble. Leadership skills are essential for entrepreneurs as they need to be able to motivate and inspire their team members in order to achieve success. Problem-solving skills are also important as entrepreneurs often face challenges that need to be overcome.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- state the introduction of knowledge management
- identify the of knowledge management and its purpose
- explain the leadership is more important to an entrepreneurship
- discuss the government can promote entrepreneurship.

18.1 INTRODUCTION OF KNOWLEDGE MANAGEMENT

Knowledge management (KM) is the process of identifying, organizing, storing and disseminating information within an organization. When knowledge is not easily accessible within an organization, it can be incredibly costly to a business as valuable time is spent seeking out relevant information versus completing outcome-focused tasks.

A knowledge management system (KMS) harnesses the collective knowledge of the organization, leading to better operational efficiencies. These systems are supported by the use of a knowledge base. They are usually critical to successful knowledge management, providing a centralized place to store information and access it readily.

Companies with a knowledge management strategy achieve business outcomes more quickly as increased organizational learning and collaboration among team members facilitates faster decision-making across the business. It also streamlines more organizational processes, such as training and on-boarding, leading to reports of higher employee satisfaction and retention.

18.2 TYPES OF KNOWLEDGE MANAGEMENT

The definition of knowledge management also includes three types of knowledge—tacit, implicit, and explicit knowledge. These types of knowledge are largely distinguished by the codification of the information.

1. Tacit knowledge: This type of knowledge is typically acquired through experience, and it is intuitively understood. As a result, it is challenging to articulate and codify, making it difficult to transfer this information to other individuals. Examples of tacit knowledge can include language, facial recognition, or leadership skills.

2. Implicit knowledge: While some literature equivocates implicit knowledge to tacit knowledge, some academics break out this type separately, expressing that the definition of tactic knowledge is more nuanced. While tacit knowledge is difficult to codify, implicit knowledge does not necessarily have this problem. Instead, implicit information has yet to be documented. It tends to exist within processes, and it can be referred to as "know-how" knowledge.

3. Explicit knowledge: Explicit knowledge is captured within various document types such as manuals, reports, and guides, allowing organizations to easily share knowledge across teams. This type of knowledge is perhaps the most well-known and examples of it include knowledge assets such as databases, white papers, and case studies.

18.3 KNOWLEDGE MANAGEMENT PROCESS AND TOOLS

18.3.1 Knowledge Management Process

While some academics summarize the knowledge management process as involving knowledge acquisition, creation, refinement, storage, transfer, sharing and utilization. This process can be synthesized this a little further. Effective knowledge management system typically goes through three main steps:

i) Knowledge Creation: During this step, organizations identify and document any existing or new knowledge that they want to circulate across the company.

ii) Knowledge Storage: During this stage, an information technology system is typically used to host organizational knowledge for distribution. Information may need to be formatted in a particular way to meet the requirements of that repository.

iii) Knowledge Sharing: In this final stage, processes to share knowledge are communicated broadly across the organization. The rate in which information spreads will vary depending on organizational culture. Companies that encourage and reward this behaviour will certainly have a competitive advantage over other ones in their industry.

18.3.2 Knowledge Management Tools

There are number tools that organizations utilize to reap the benefits of knowledge management. Examples of knowledge management systems can include:

i) Document management systems act as a centralized storage system for digital documents, such as PDFs, images, and word processing files. These systems enhance employee workflows by enabling easy retrieval of documents, such as lessons learned.

ii) Content management systems (CMS) are applications which manage web content where end users can edit and publish content. These are commonly confused with document management systems, but CMSs can support other media types, such as audio and video.

iii) Intranets are private networks that exist solely within an organization, which enable the sharing of enablement, tools, and processes within internal stakeholders. While they can be time-consuming and costly to maintain, they provide a number of groupware services, such as internal directories and search, which facilitate collaboration.

iv) Wikis can be a popular knowledge management tool given its ease of use. They make it easy to upload and edit information, but this ease can lead to concerns about misinformation as workers may update them with incorrect or outdated information.

v) Data warehouses aggregate data from different sources into a single, central, consistent data store to support data analysis, data mining, artificial intelligence (AI), and machine learning. Data is extracted from these repositories so that companies can derive insights, empowering employees to make data-driven decisions.

18.4 STRATEGIES TO ACCELERATE KNOWLEDGE MANAGEMENT

While knowledge management solutions can be helpful in facilitating knowledge transfer across teams and individuals, they also depend on user adoption to generate positive outcomes. As a result, organizations should not minimize the value of human elements that enable success around knowledge management.

i) Organizational Culture: Management practices will affect the type of organization that executives lead. Managers can build learning organizations by rewarding and encouraging knowledge sharing behaviours across their teams. This type of leadership sets the groundwork for teams to trust each other and communicate more openly to achieve business outcomes.

ii) Communities of practice: Centers of excellence in specific disciplines provide employees with a forum to ask questions, facilitating learning and knowledge transfer. In this way, organizations increase the number of subject matter experts in a given area of the company, reducing dependencies on specific individuals to execute certain tasks.

18.5 KNOWLEDGE MANAGEMENT USES IN CASES

Armed with the right tools and strategies, knowledge management practices have seen success in specific applications, such as:

i) On boarding employees: Knowledge management systems help to address the huge learning curve for new hires. Instead of overwhelming new hires with a 'data dump' in their first weeks, continually support them with knowledge tools that will give them useful information at any time.

ii) Day-to-day employee tasks: Enable every employee to have access to accurate answers and critical information. Access to highly relevant answers at the right time, for the right person, allows workforces to spend less time looking for information and more time on activities that drive business.

iii) Self-serve customer service: Customers repeatedly say they'd prefer to find an answer themselves, rather than pick up the phone to call support. When done well, a knowledge management system helps businesses decrease customer support costs and increase customer satisfaction.

18.6 BENEFITS OF KNOWLEDGE MANAGEMENT

Companies experience a number of benefits when they embrace knowledge management strategies. Some key advantages include:

i) Identification of skill gaps: When teams create relevant documentation around implicit or tacit knowledge or consolidate explicit knowledge, it can highlight gaps in core competencies across teams. This provides valuable information to management to form new organizational structures or hire additional resources.

ii) Make better informed decisions: Knowledge management systems arm individuals and departments with knowledge. By improving accessibility to current and historical enterprise knowledge, your teams can upskill and make more information-driven decisions that support business goals.

iii) Maintains enterprise knowledge: If your most knowledgeable employees left tomorrow, what would your business do? Practicing internal knowledge management enables businesses to create an organizational memory. Knowledge held by your long-term employees and other experts then make it accessible to your wider team.

iv) Operational efficiencies: Knowledge management systems create a go-to place that enables knowledge workers to find relevant information more quickly. This, in turn, reduces the amount of time on research, leading to faster decision-making and cost-savings through operational efficiencies. Increase productivity not only saves time, but also reduces costs.

v) Increased collaboration and communication: Knowledge management systems and organizational cultures work together to build trust among team members. These information systems provide more transparency among workers, creating more understanding and alignment around common goals. Engaged leadership and open communication create an environment for teams to embrace innovation and feedback.

vi) Data Security: Knowledge management systems enable organizations to customize permission control, viewership control and the level of document-security to ensure that information is shared only in the correct channels or with selected individuals. Give your employees the autonomy access knowledge safely and with confidence.

18.7 CHALLENGES OF KNOWLEDGE MANAGEMENT

The key to any successful knowledge management system is knowing its limitations. Some of the common challenges include:

- Finding ways to efficiently capture and record business knowledge.
- making information and resources easier to find
- motivating people to share, reuse and apply knowledge consistently
- aligning knowledge management with the overall goals and business strategy
- choosing and implementing knowledge management technology
- integrating knowledge management into existing processes and information systems.

To overcome these challenges, you should:

- develop clear processes to capture, record and share business knowledge

- define the scope and objectives of any knowledge management initiatives
- create a corporate culture of knowledge sharing between employees and management
- set clear goals and strategies to help you utilise the collective knowledge (otherwise, it will be of no use to your business)
- consider budget, strategy and training needs for any new knowledge management system
- consider change management strategies for introducing new knowledge management practices.

18.8 IMPORTANCE OF LEADERSHIP IN GOVERNANCE

Leadership in governance is the willingness and ability to take ownership in a part of an organization and to continually do what is best for the organization. Effective corporate leaders stand on a foundation of solid governance principles. They have a clear mission and vision for the future and align their decisions with them. Leaders in governance follow a specific strategy and help to create a corporate culture that's conducive to success. Employees who embrace these concepts will naturally develop leadership skills.

Leaders tend to have certain essential attributes. They practice excellent two-way communication. Also, they have strong emotional intelligence and team-building skills. They understand the competitive landscape well and are forthcoming with suggestions and solutions. Strong leaders also have empathy for others and know how to express it appropriately.

18.9 IMPORTANCE OF RECOGNIZING GOVERNANCE LEADERS

Research supports the idea that recognizing governance leaders offers benefits to companies. According to one study, employees who received recognition from one of their superiors for a job well done at work felt happier both at work and at home. The study showed that happy employees were 12% more productive than their peers. Unhappy workers were 10% less productive than their fellow workers.

Many people in leadership positions find it difficult to trust their employees. What they may not realize is that the foundation of trust begins with showing appreciation for their workers. The simple act of thanking them for the good work they do every day helps to foster an environment of trust.

A Gallup Workplace survey reports that 28% of employees said that the most meaningful and memorable recognition came from their manager and 24% were happy to report that they had received recognition from a

CEO or other high-level leader. About 90% of employees said that they had a higher level of trust in their leader when they received recognition or thanks from that leader. Only 48% of employees who never received recognition said they trusted their senior leaders.

Alexander Kjerulf is the founder and chief happiness officer of the Denmark-based company Woohoo Inc. He touts happiness as the 'ultimate productivity booster.' Kjerulf says that happy people work better with others, fix problems without complaining, have more energy, and are more creative, optimistic, motivated and healthy. They don't worry about making mistakes and make fewer of them because of it. Also, they learn faster and make better decisions.

18.10 STRONG LEADERSHIP IS IMPORTANT IN A BUSINESS

The leadership of a business is felt throughout an organisation and can be the difference between a company's success or failings.

1. Implements Vision and Values: Most businesses have a vision of where they would like to be in the future and how they would like to be perceived by clients, stakeholders and the wider community. Sometimes both of these can get lost in the day to day activities of keeping a business running, but a strong leader will ensure staff are reminded of an organisation's vision and values and remind them to implement it into their daily actions.

2. Boosts Morale: Businesses are nothing without their staff. Constantly recruiting is time consuming and expensive, so boosting morale to help retain staff is important to a business's success. A happy, contented workforce who feel appreciated and involved in a company's journey will be more likely to stay loyal to a business, whilst achieving productivity targets – something which a strong leader will ensure happens. A winning combination for any organisation.

3. Ensures Effective Communication: When big business decisions are made, such as a new strategy or a change in direction, it is important to ensure that everyone in the company is informed, to reduce the risk of miscommunication. A strong leader will ensure effective communication reaches everyone via emails or staff meetings,and hearing it from a point of authority will diffuse any doubt as to whether the news is true or not.

4. Motivates Employees: Strong business leaders will motivate employees, whether this is in monetary form via salaries and bonuses, or the implementation of schemes and reward systems that can benefit all staff. They should also recognise hard work and achievement where necessary, so staffs feels appreciated for what they do and motivated to continue the good work.

5. Provides Appropriate Resources: Having the right tools to do a job effectively is important for every member of staff and a strong leader will make sure these are available for the whole organisation.

18.11 DIMENSIONS OF LEADERSHIP CHARACTER

Enterprise defines character as an amalgam of traits, values and virtues. Traits, such as open-mindedness or extroversion, may be either inherited or acquired; they predispose people to behave in certain ways, if not overridden by other forces such as values, or situational variables such as organizational culture and rewards. Values, such as loyalty and honesty, are deep-seated beliefs that people hold about what is morally right or wrong or, alternatively, what makes the most sense to do, or not do, in running a business. Virtues, such as courage or accountability, refer to patterns of situational appropriate behaviours that are generally considered to be emblematic of "good" leaders.

In Figure 18.1, enterprise posits character as consisting of 11 dimensions: integrity, humility, courage, humanity, drive, accountability, temperance, justice, collaboration, transcendence and judgment. If we were to take just one of these dimensions – accountability, for example – we could say that it is defined by traits such as self-confidence and internal locus of control, values such as a deeply-held belief that good leaders should take ownership for their actions, and the near-universal view that good leaders readily hold themselves accountable for results. Each of these 11 dimensions has a similar underlying structure of traits-values-virtues, and each could be extensively deconstructed and discussed in greater depth.

The following set of dimensions, together with an illustrative set of elements that describe each dimension, is unique in that it attempts to integrate age-old concepts from philosophy with more contemporary thinking from the fields of psychology, sociology, anthropology, evolutionary biology, management and leadership. The wording of these dimensions is heavily influenced by the language used by the executive- and board-level participants in our "Leadership on Trial" research, subsequent qualitative and quantitative work with leaders, managers and students to ensure that we had identified relevant dimensions, as well as endless debate within our own research group. This analysis differs from many other discussions of character in that it extends the definition of character to embrace other aspects of personality traits, values and virtues, rather than focusing exclusively or primarily on its moral dimensions.

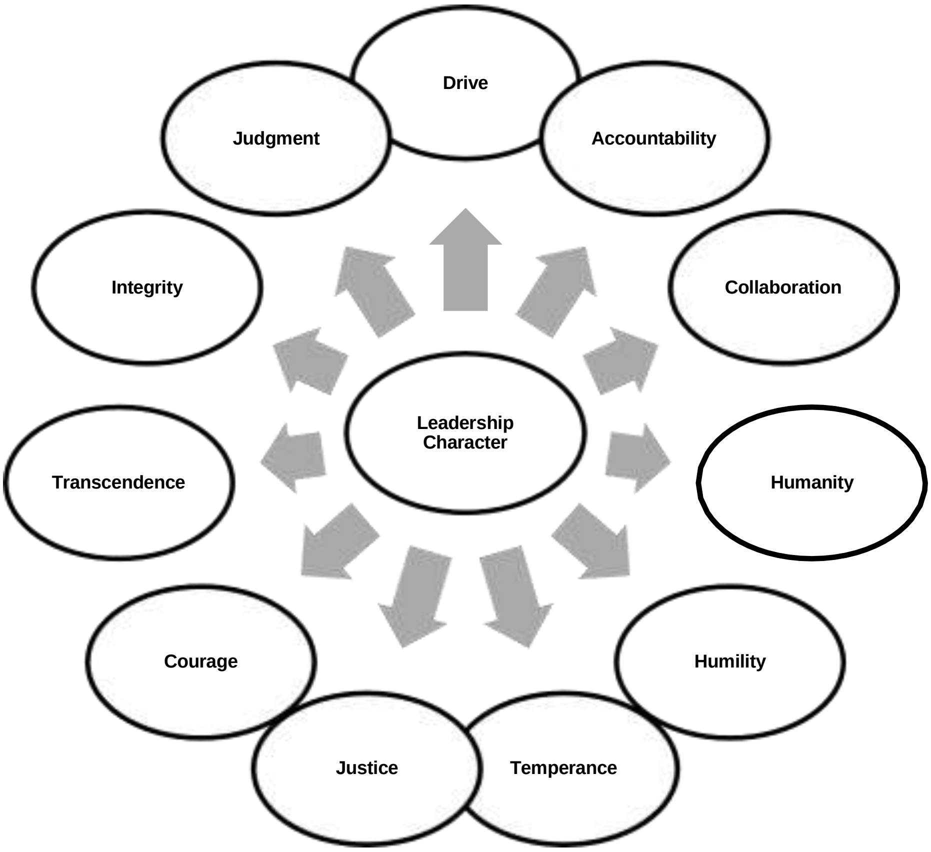

Figure 18.1 Dimensions of Leadership Character

1. Drive: Drive is essential in leaders so that they will establish stretch goals and the plans to achieve them, behaviors highly valued by boards. Leaders with drive demonstrate a passion to achieve results, the vigor to motivate others; they demonstrate initiative and a desire to excel. We prefer to think of good leaders as having drive that comes from within, rather than “being driven,” which suggests some external force. Drive should not be confused with hyper-competitiveness, destructive excess that can impede required collaboration, or with complacency, a dysfunctional deficiency that can lead to underperformance.

2. Accountability: Accountability includes a sense of ownership, being conscientious in the discharge of leadership mandates, and accepting of the consequences of one’s actions. Good boards demand this of their executives; shareholders require boards and individual directors to demonstrate high levels of accountability for results and the ways in which they are achieved. However, taking the whole world on one’s shoulders is an excess that can result in burn-out or paralyze someone from taking action. On the other hand, ducking legitimate responsibility results in negligent and reckless conduct that will lose leaders or directors the respect of their peers, those whom they report to, and those who work for them.

3. Collaboration: Collaboration is highly prized as a dimension of leadership character. It is essential for leaders to form effective teams, to cooperate with others, and to work collegially. They have to be open-minded, and be flexible so that they can cooperate with those in their own organizations as well as in external groups. However, collaboration for its own sake may result in endless deferral of decisions until consensus is reached, while lone-wolf decision-making squanders the opportunities to benefit from a diversity of views, better-quality ideas and smoother implementation of decisions.

4. Humanity: Humanity, which we describe as consideration for others, empathy, compassion, magnanimity and the capacity for forgiveness, is essential to developing followership. Without it, a person can be an effective boss, but never a good leader. We do not view humanity as a soft or weak dimension of leadership character but, rather, as a fundamental strength that is often at the core of fostering quality, candid conversations, and is essential in supporting other dimensions of character.

5. Humility: Humility has long been regarded as an essential quality for leaders; without humility, it's impossible to learn from others or from one's own mistakes. This dimension embraces a degree of self-awareness, the capacity for reflection, and a sense of gratitude toward those who have helped one learn or achieve success. Boards eventually lose patience with CEOs or fellow directors who don't have an open mind, or who are arrogant and contemptuous of others. However, as with the other dimensions, it is important to guard against excessive humility, such as might lead to self-abnegation. This is actually a failure to recognize personal strengths that can undermine the self-confidence that leaders must have.

6. Temperance: Temperance allows leaders to be calm when others around them panic, to think things through, and to act in the best long-term interests of the organization. It helps them avoid over-reacting to short-term success or failure, and to assess both the risks and the rewards of alternative courses of action. Temperance as a dimension is one that is often not top-of-mind for directors, until some risk blows up in the board's face – then it becomes highly prized! However, boards must be concerned when temperance is so strong that it contributes to undesirable temerity. Boards actually want leaders to take risks, provided that the leaders understand these risks and know how to manage them.

7. Justice: Justice is a dimension of a leader that is central to followers' decisions to accept an individual's leadership. This construct incorporates fairness and even-handedness in both procedures and outcomes, such as the allocation of work and dispensation of rewards. It includes a sense of proportionality with respect to praise or censure and – in a broader sense – recognition of the requirement of a leader to contribute to the growth and development of the societies within which they operate. Boards sometimes struggle with this dimension of character, recognizing its importance but wondering about its role in a profit-maximizing context. But leaders who act unjustly soon find themselves violating societal expectations; they court reactions such as over-regulation and excessive controls that will likely undermine long-term performance.

8. Courage: Courage, both mental and sometimes physical, is a requisite character dimension for leaders. It includes preparedness to take risks, to challenge the status quo, to test uncharted waters, to speak out against perceived wrongdoing, and to be prepared to admit to concepts such as "I don't know," or "I screwed up." Sometimes it requires courage to adopt a lower-risk strategy, forgoing the immediate returns of a higher-risk route. It may include a degree of resilience as leaders fail in their first efforts to accomplish something. Boards appreciate courage in their CEOs and fellow directors, although they want to avoid the extreme of recklessness. They realize that absence of courage results in compliance with authority, a moral muteness that allows wrongdoing to go unchallenged and unreported, and average or even mediocre returns.

9. Transcendence: Transcendence is the dimension that allows leaders to see the big picture and take the long view. It means doing what's right for their organizations rather than pursuing the expedient or momentarily satisfying route, climbing above petty rivalries or personal feelings. It often requires creativity. Transcendent leaders are optimistic: they focus on the future and inspire others to do the same. Boards look for transcendent leaders who keep their feet on the ground while looking over the horizon. Transcendence is not a detached other-worldliness, which may detract from focus on the here and now. Nor is it the pursuit of perfection to the point where the organization fails to achieve acceptable results in the shorter term.

10. Integrity: Integrity is essentially about wholeness, completeness, and soundness of leadership character. It is most readily apparent in principles such as honesty, authenticity, transparency, candor, and consistency, but it is also used to describe high moral standards. It's knowing who you truly are, being true to yourself, and ultimately being complete, together, and morally sound. It's both saying what you think and doing what you say. Still, there are times when people with high integrity display rigidity of thinking and lack of good judgment when required to make decisions or take actions in complex and ambiguous circumstances that require the reconciliation of opposing principles.

11. Judgement: Judgment has a central place in defining an individual's character. Each of the other dimensions of character represents reservoirs of varying depth – people may have lots of courage or a little, or great integrity or not so much. How an individual's character influences their actual behaviour in a particular context depends on their judgment. It serves to moderate and mediate the way that the other dimensions determine individuals' behaviours in different situations. It acts like the air traffic controller, determining when courage should be shown and when it is better suppressed; when collaboration is appropriate and when a leader should go it alone; when it's appropriate to demonstrate humility and when to demonstrate great confidence; when to be temperate and when to be bold; and so on.

18.12 TYPES OF GOVERNANCE

Governance is the concept of recent exposure to designate the efficiency, quality, and good guidance of the intervention of the State. It defines a "new form of government" in globalization. I have defined some of the Important types of governance which are as below.

1. Democratic Governance

Democratic governance beyond the issues of institutions and forms of government. It covers the social coordination mechanisms involved in political action and therefore relies on two assumptions. On the one hand, governance is not a set of rules or activities but a process. It refers to the decision-making process within all groups in the social, political, economic, or private.

Governance aims, secondly, to facilitate participation in the definition of public policies, their implementation by multiple players who have neither the same interests nor the same modes of regulation: States, devolved administrations, enterprises, associations of people. Democratic governance is conceived as the art of government by articulating the business at different spatial scales, from local to global, regulating relationships within society, and coordinating the involvement of multiple actors. It is not only helping to reform states but also to help their companies to rethink their management practices and to define themselves as a model for regulating pro-active, best suited to their own challenges. This approach to democratic governance is a proposal to rebuild the state and its relations with society.

2. Economic and Financial Governance

Economic and financial governance is an essential prerequisite for promoting economic growth and reduce poverty.

The main objectives of economic and financial governance are:

- Promote macroeconomic policies that contribute to sustainable development;
- Implement economic policies that are transparent, predictable, and credible;
- Promote sound financial management;
- Fight against corruption and money laundering;
- Accelerate regional integration by promoting the harmonization of monetary, trade, and investment between states.

3. E-Governance Services

The e-governance and e-governance services is a holistic concept that defines and assesses the impact that information technology and communication have on government practices and relations between government and society as a whole. The e-governance not only supports improved access to information and political processes but also an approach called participatory fundamentally changes the relationship between government and society. The concept of e-governance can be understood in a broad sense as a kind of superstructure, which covers the use of electronic technologies in three key areas of public action:

- Relations between government and civil society;
- The functioning of public authorities at all levels of planning;
- The provision of public services.

E-governance has an indirect influence on relations between governments and their citizens, strengthening the participation and involvement of citizens in political choices so that their rights and duties are better understood and respected.

4. Corporate Governance

Corporate governance relates to moral principles, values, and practices that facilitate the balance between economic and social goals and between individual and common goals. It aims to coordinate the interests of individuals, businesses, and society as a governance structure emphasizing the common interest as much as possible.

Corporate governance aims to:

- Provide a regulatory framework and an environment conducive to effective economic activities;
- Ensure that businesses are citizens in human rights, social responsibility, and environmental protection;
- Promote the adoption of codes of ethics in business in achieving the objectives of enterprises;
- Ensure that corporations treat all their stakeholders (shareholders, employees, suppliers, customers, …) in a fair and transparent;
- Provide for the responsibility of management and directors.

5. Environmental Governance and Natural Resources

Environmental governance refers to all processes, rules, practices, and institutions that contribute to the protection, management, conservation, and exploitation of biodiversity, ecosystem, and mineral resources in their various modalities in perspective reconciling sustainable development and poverty reduction. It also refers to the mechanisms and institutions, both formal and informal, encompassing the norms and values, behaviours and conditions around which organizing citizens, organizations, social movements, and the various interest groups defending their differences and exercise their rights to access and exploit natural resources. The environmental initiative identifies five objectives (or domains) in environmental governance and natural resources:

- The fight against land degradation, drought, and desertification;
- Conservation of wetlands;
- Prevention and control of invasive species;
- The conservation and sustainable use of coastal and marine resources;
- The fight against climate change;
- Conservation and management of natural resources (freshwater, biodiversity, forests, and plant resources).
- With these objectives, it is important to add management and ethical use of mineral resources and mining.

18.13 PRINCIPLES OF GOOD GOVERNANCE

- Participation, Representation, Fair Conduct of Elections
- Responsiveness
- Efficiency and Effectiveness
- Openness and Transparency
- Rule of Law
- Ethical Conduct
- Competence and Capacity
- Innovation and Openness to Change
- Sustainability and Long-term Orientation
- Sound Financial Management
- Human rights, Cultural Diversity and Social Cohesion
- Accountability

LET US SUM UP

Knowledge management is a systematic approach to capturing and making use of a business' collective expertise to create value. Effective knowledge management makes it possible to create, transfer and apply knowledge at different levels in a coherent and productive way. Your understanding of what customers want, combined with your workers' know-how, can be regarded as your knowledge base. Using this knowledge in the right way can help you run your business more efficiently, decrease business risks and exploit opportunities to the full. This is known as the knowledge advantage.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The stored learning from an organization's history that can be used for decision making and other purposes best describes ___________.

a) Organizational learning b) Tacit knowledge

c) Knowledge warehouse d) Best practices

2. Needs, setting standards and maintaining discipline, and appointing sub-leaders according to Adair's approach, called as___________.

a) Work functions b) Task functions

c) Individual functions d) Team functions

3. ___________ used the terms "employee-centred" and "production-centred" to describe leader behaviour:

a) Blake and McCanse

b) Fiedler

c) McGregor

d) Likert

4. Identify the four main styles of leadership displayed by the manager which identified in Tannenbaum and Schmidt's continuum of possible leadership behaviour___________.

a) Tells, help, joins and leads

b) Commands, sells, consults and resists

c) Tells, sells, consults and joins

d) Commands, help, joins and leads

5. The effectiveness of a leader is dependent upon meeting ___________ areas of need within the workgroup.

a) One

b) Three

c) Five

d) None of the above

GLOSSARY

Active Listening	:	Transmitting the message from the sender, and taking action to help someone say what she or he actually means.
Brainstorming	:	The generating of a variety of solutions or possible outcomes for an effective decision.
Business Ethics	:	An applied ethic that focuses on real-world situations in the environment where transactions occur.
Corporate Governance	:	The different relationships a manager will have within an organization.
Decision-Making	:	The different relationships a manager will have within an organization.

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WEB RESOURCES

1. BCA Introduction to Knowledge Management Notes Study Material (gurujistudy.com)
2. leadership and governance (slideshare.net)
3. What is Knowledge Management? - YouTube
4. Introduction to Leadership and Governance - YouTube
5. Introduction to Knowledge Management in Tamil - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a) 2. d) 3. d) 4. c) 5. b)

Unit 19

SICKNESS AND REHABILITATION - BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION (BIFR) - APPLICATION OF ELECTRONIC COMMERCE

STRUCTURE

OVERVIEW

Industrial sickness can be defined as a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit. A sick unit is one which is unable to support itself through the operation of internal resources. These include email, online catalogues and shopping carts, Electronic Data Interchange (EDI), file transfer protocol, web services and mobile applications. These approaches are used in B2C and B2B activities, as well as other types of outreach.

LEARNING OBJECTIVES

After learning this unit, you will be able to;

- describe meaning and definition of industrial sickness
- identify the symptoms and causes of sickness
- list out the major causes of sickness in small scale industries
- explain the revival and rehabilitation of sick companies
- discuss the stages of rehabilitation
- describe the role and objectives of Board for Industrial and Financial Reconstruction
- explain the term E-Commerce and discuss it's advantages and disadvantages.

19.1 INTRODUCTION OF INDUSTRIAL SICKNESS

Industrial sickness can be defined as a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit. A sick unit is one which is unable to support itself through the operation of internal resources. Once the sick units continue to operate below the break-even point (at which total revenue = total cost), industries are forced to depend on the external sources for funds of their long-term survival. According to the criteria accepted by the Reserve Bank of India, "a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year.

Definition of Industrial Sickness

Industrial Sickness, as the name suggests is the state of industrial weakness or illness, i.e. the company fails to earn a reasonable profit. It is the continuous disproportion in the debt-equity ratio and falsification of the financial status of the industrial unit. Industrial Sickness represents a stage wherein the firm is not in a position to generate a surplus on a regular basis and requires external credit, to survive in the market. When a unit is sick, it is not able to finance itself by way of regular operations.

Basically, industrial sickness is a hurdle in the process of industrial growth and development. When a unit is sick it shows signs of financial distress in the form of short term liquidity issues, revenue and operating losses, overuse of external funds until it gets to a position where the company is overburdened with indebtedness and is not able to make enough money to discharge obligations.

19.2 INDUSTRIAL SICKNESS – SPECIAL PROVISIONS ACT, 1985

The government defined industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985. According to this Act, a medium or large (i.e. non-SSI) company was defined as sick if:

i) it was registered for at least 7 years (later reduced to 5 years).

ii) it incurred cash losses in the current year and the preceding year.

iii) its entire net worth (i.e. paid-up capital and reserves) was eroded.

A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of the preceding five financial years. Industrial sickness has been redefined in the Companies (Second Amendment) Act, 2002.

19.3 SYMPTOMS OF INDUSTRIAL SICKNESS

Some of the common symptoms of industrial sickness are listed here under:

i) Little to no movement of inventory

ii) Decrease in the company's sales

iii) Decline in capacity utilization

iv) Shortage of cash to meet the day-to-day obligations

v) Frequent proposals to extend the credit limit

vi) Deteriorating financial ratio

vii) Continuous fall in the prices of shares

viii) Non-payment or delay in the payment of dues like taxes, interest, dividends, salaries, etc.

ix) Delay in the audit of accounts.

x) Disparities among various levels of management.

xi) Decline in technological innovations

xii) Irregularity in the maintenance of books of accounts.

xiii) Overdependence on external funds

xiv) Continuous losses.

19.4 CAUSES OF INDUSTRIAL SICKNESS

When we talk about industrial sickness, it is not caused by a single factor, rather the collective impact of multiple factors results in industrial sickness. The factors causing industrial sickness are classified into two groups – Internal Causes and External Causes, which are discussed below:

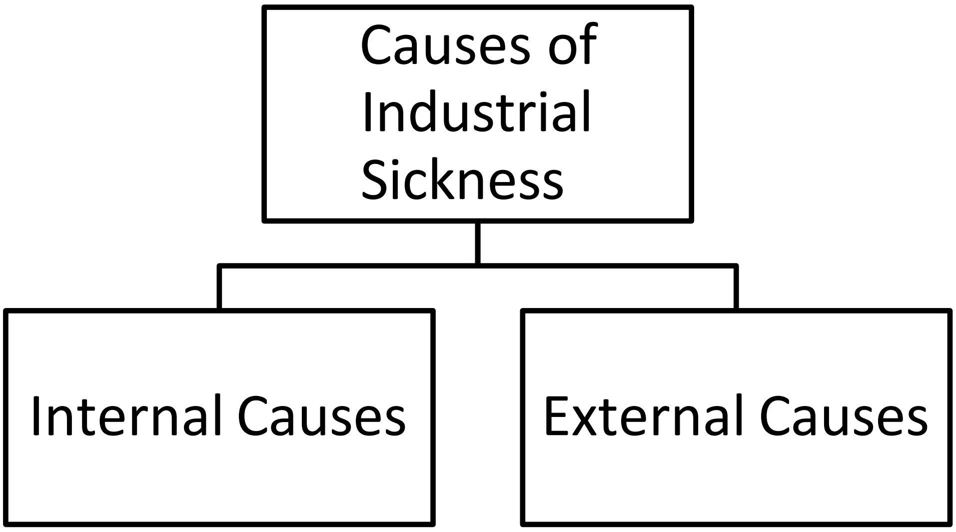

Figure 19.1 Causes of Industrial Sickness

19.4.1 Internal Causes

The causes which are under the control of the enterprise are regarded as internal causes. It may be a result of some internal insufficiency or shortcoming, in different areas of business. Some of these causes are listed below:

1. Technical Feasibility

- Inadequate Technical Knowhow
- Inappropriate choice of technology
- Obsolete production process

- Poor information system
- Wrong or defective idea of industry

2. Economic Viability

- High cost of inputs
- High break-even point
- Excessive investment in fixed assets
- Non-flexibility of fixed assets
- Underestimation of financial requirements

3. Production Management

- Underutilization of production capacity
- Huge wastage of raw materials and supplies
- Poor maintenance and replacement of plant and machinery
- Wrong location or layout
- Poor quality maintenance

4. Labour Management

- Poor performance and productivity of labour
- Huge workforce, than required.
- Lack of skilled labour
- Unreasonably high wage structure.
- Poor handling of labour
- Inadequate training

5. Marketing Management

- Lack of market research and feedback
- Unsound pricing policy
- Inappropriate product mix
- Improper demand forecast
- Small customer base
- Poor marketing strategies
- Absence of horizontal and vertical integration

6. Financial Management

- Shortage of working capital
- Lack of funds
- Defective Capital structure

7. Administrative Management

- Huge expenditure on Research and Development
- Incompetent Management
- Lack of timely diversification

19.4.2 External Causes

The causes which are beyond the control of the enterprise comes under external causes, which affects the industry as a whole.

1. General Issues

- Improper supply or non-availability of important raw material, or availability at higher prices
- Improper supply of critical inputs like power, water and transportation
- Chronic Power storage
- High production cost
- Ignorance of potential market

2. Government Controls and Policies

- Sudden unfavourable change in the policies of the government
- Taxes and duties
- Price control
- Market Constraints
- Innovative technological changes, due to which products turn out as obsolete.
- Recessionary trend in the entire economy, affecting the performance of the firms

3. Extraneous Factors

- Natural Calamities, like an earthquake, floods, etc
- Political Situation
- Industrial Strikes
- War between countries

19.5 TYPES OF SICK COMPANIES

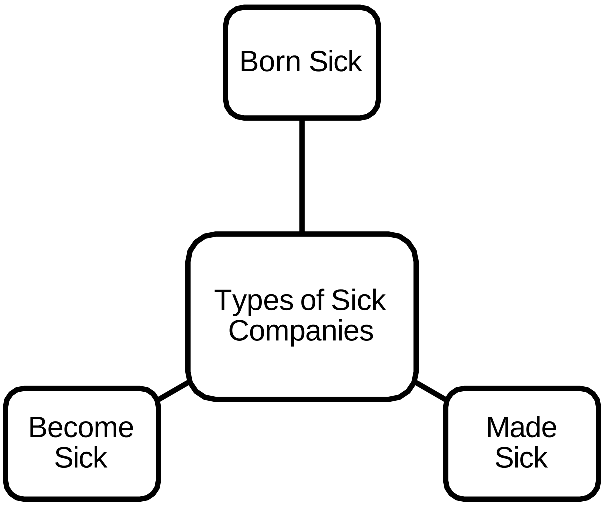

Figure 19.2 Types of Sick Companies

1. Born Sick: Industrial Sickness is not necessarily an after-birth characteristic. This means that some industrial projects are sick right from their inception on account of poorly-conceived projects, the wrong idea of industry, wrong choice of location, inexperienced promoters, long gestation period, unproductive capital assets, inadequate market surveys, wrong selection of product, etc.

2. Become Sick: There are some projects which are not sick by birth, rather they turn out to be sick, in their later stages, due to internal causes like poor management or mismanagement, faulty management policies, deliberate diversion of funds, etc.

3. Made Sick: Some industrial projects are neither sick by birth nor they turn out as sick, rather sickness is thrust upon them due to various external causes which are not in the control of the company's management. This may include abrupt changes in the policies of the government, change in trend or technology, etc.

19.6 MAJOR CAUSES OF SICKNESS IN SMALL SCALE INDUSTRIES

Small Scale Industries (SSIs) play vital role in the economic development of a country. Some SSIs turn out to be sick due to various reasons. Some of the major causes for sickness in small scale industries are dealt in brief.

1. Inadequacy of Working Capital: Some units turn out sick due to inadequacy of working capital. There may exists delay in sanction of working capital by financial institutions. Industrial units find it difficult to meet out day to day operations due to the time gap between sanction of term loan and working capital needs. Shortage of Working Capital is one of the main reasons for sickness.

2. Non-Availability of Credit: Sickness in SSI sector may be attributed to non-availability of credit. Delay in getting loans may result in stoppage of work or lead to production loss. Low production may lead to reduced sales which in turn may lead to financial loss.

3. Poor and Obsolete Technology: Some industrial units use technology which is outdated. Outdated technology may affect the quantity and quality of production. This results in production loss and reduces demand for the goods.

4. Non-Availability of Raw Material: Some units may require raw material which are scarcely available. Sometimes, the raw material required by the unit may not be available in abundance. Hence, this affects the production and the sales of the goods. If the raw material is not abundantly available, then the industrial units have to spend a large amount of money to buy them. This may result in financial loss.

5. Marketing Problems: Sometimes, the industrial units may not know as to how to create demand for the products. Lack of marketing knowledge may result in less demand for the goods. Similarly, there may be less demand for the goods produced by the SSI due to competition or change in the taste of the buyers.

6. Erratic Power Supply: Shortage in power supply affects the industries. This results in delay in production of goods and leads to financial losses.

7. Labour Problems: The relationship between the employer and the employees may not be cordial. Some of the labour problems such as strike, lay off, lock out may lead to industrial sickness.

8. Poor Management: The entrepreneur must be a good planner, organizer and a manager. If the Industrial Unit promoters lack managerial skills, then it may lead to several problems.

9. Inadequate Attention to R&D: Industries have to allocate a part of money in research and development to survive and compete with competitors. Failure to focus on the above may lead to industrial sickness

10. Diversion of Resources: If the employer utilizes the funds obtained for the business for any personal purposes, then diversion of funds will lead to industrial sickness. The funds used for personal purposes cannot be regenerated and hence it may result in delay in payment of loans or financial crisis for the borrower of the loan.

11. Globalization: Small scale industrial units may find it very difficult to compete with large scale industries and foreign competitors. Inability of the units to face growing competition due to liberalization and globalization may lead to industrial sickness.

12. Dispute among Partners: There may arise dispute between the partners or family members running the unit. This results in stoppage of work and leads to industrial sickness.

13. Overambitious Projects: The project may not be technically feasible, such an overambitious project is one of the reasons for industrial sickness.

19.7 REVIVAL AND REHABILITATION OF SICK COMPANIES

The Ministry of Corporate Affairs has formulated the framework for Revival and Rehabilitation of Sick Companies under the Companies Act. This framework intends to timely detect the sickness and take appropriate measures for revival of sick companies. In this article, we look at the Revival and Rehabilitation of Sick Companies in detail.

19.8 OVERVIEW OF THE PROCESS OF REHABILITATION OF SICK COMPANIES

Once the company is determined to be a sick company, the application can be filed by the creditors to the tribunal in the prescribed format. The tribunal would make decisions within 60 days from the date of submission of application. Once the tribunal is satisfied on that a company has turned a sick company, and it is in the state to repay its debts, within a specified time, then the order from the tribunal to the company is made to repay its debts.

19.9 APPLICATION FOR REVIVAL AND REHABILITATION

Any companies determined as the sick company can make an application in the prescribed format to the tribunal in order to take necessary steps to be taken for its revival and rehabilitation and the application has to be accompanied by the following documents:

- Audited financial statements of the sick company relating to the immediately preceding financial year.
- The draft of the scheme for revival and rehabilitation of the company in the prescribed format.

- The above-mentioned documents and particulars have to be duly authenticated in such manner, along with such fees as prescribed.

19.10 APPOINTMENT OF INTERIM ADMINISTRATOR

Upon submission of application, the tribunal would fix a date of hearing and appoint an interim administrator who should appoint a meeting with creditors of the company within 45 days and prepare a draft of the scheme for revival and present it before the tribunal within sixty days from the meeting. In case of no draft, the scheme is provided, then the tribunal would assist the interim administrator in taking over the management of the business. The full assistance in coordinating the interim administrator would be provided by the Director or Management of the company.

1. Committee of Creditors: The interim administrator will appoint a committee of creditors such number of creditors would not exceed seven, and these members should be present in all the meetings, and the interim administrator would direct all the directors, promoters, key managerial personnel of the company to attend the meeting and furnish the information whichever is required and necessary.

2. Order of Tribunal: If the tribunal has approved the report passed by the interim administrator stating that it is not likely to revive and rehabilitate the sick company, then the tribunal would take the following steps:

- In case of the revival and rehabilitation of the sick company is not possible, the tribunal would order that the proceedings for the winding up of the company to initiate.
- In case of revival and rehabilitation of the sick company is possible, the tribunal would appoint a company administrator for the company to prepare a scheme for revival and rehabilitation of a company by adopting certain measures.

3. Scheme of Revival and Rehabilitation: A revival and rehabilitation of sick industries scheme will be prepared by the company administrator which includes measures like proper management of the sick company, financial reconstruction of the sick company, lease or sale of a part of any assets, amalgamation of the sick company with another company or another company with the sick company, takeover of the sick company by solvent company, rationalization of managerial personnel.

4. Sanction of the scheme: The scheme prepared by the management of the company should be placed before the creditors of the sick company in a meeting for their approval within the period of 60 days. If the scheme is approved by the secured creditors and then it would be examined by the tribunal and copy of the scheme draft with modifications made by the tribunal would be forwarded to the sick company for the suggestion. Then the tribunal would pass the order within 60 days sanctioning the scheme on receipt of the scheme.

5. Winding up of a company: If the revival and rehabilitation scheme is not sanctioned by the secured creditors and the administrator has to present the report within 15 days stating the same, and the tribunal would order for the winding up of the company.

6. Rehabilitation and Insolvency Fund: A fund which is known as the Rehabilitation and Insolvency Fund will be allocated for the purposes of revival, rehabilitation, and liquidation of the sick companies.

7. Penalty: In case of providing a false statement or violating any order made the tribunal or the appellate tribunal would be punishable with imprisonment for a term of seven-year or more along with a fine of Rs.1 lakh.

19.11 STAGES OF REHABILITATION

The length of time needed to rehabilitate an injury depends on how severe the injury is – a mild sprain or strain may only take a week while a complete ligament tear can take months to fully recover. Compliance in rehabilitation is also a huge factor. If you do not attend all of the prescribed treatment sessions or do not complete the home exercise program you are given, you can greatly increase the amount of time it takes to return to your sport. Other factors that can influence recovery time include pain tolerance, amount of swelling, and how in shape you were prior to your injury. In any event, the stages involved in rehabilitating an injury remain the same. The goals for each stage are as follows:

- Phase 1 - Control Pain and Swelling
- Phase 2 - Improve Range of Motion and/or Flexibility
- Phase 3 - Improve Strength & Begin Proprioception/Balance Training
- Phase 4 - Proprioception/Balance Training & Sport-Specific Training
- Phase 5 - Gradual Return to Full Activity

Phase 1 of the rehabilitative process focuses on controlling pain and swelling (if present). The general rule in this phase is Rest, Ice, Compression and Elevation (RICE). Other modalities, such as electrical stimulation or ultrasound, may also be used by licensed medical professionals (such as athletic trainers or physical therapists) to assist with this process. If necessary, physicians may choose to prescribe medication.

Phase 2 concentrates on increasing range of motion of a joint or flexibility of a muscle. Athletes are given specific stretching exercises to do on their own or may be manually stretched by an athletic trainer or physical therapist. In this phase, stretches should ideally be held up to 30 seconds.

The goal of the 3rd phase of rehabilitation is to increase strength. Isometrics (pushing against an immovable object) may be used first, followed by the use of elastic bands of varying resistances, free weights, cuff weights, or weight equipment.

Phase 4 focuses on proprioception, balance, and sport-specific training. Proprioception is defined as the body's ability to know its position in space at all times without looking. Simply put, it is balance. When an athlete sustains an injury, the ability to balance is weakened. Improving one’s proprioception is a great way to help prevent an injury from reoccurring.

This leads to Phase 5 of the rehabilitation process, which gradually returns the athlete to full activity. Sport-specific training implements exercise, skills, or drills that athletes perform during games or practices. At this point, the athletic trainer or physical therapist carefully progresses the injured athlete from basic exercises to those requiring higher skill level as they heal and have the muscle control to tolerate them without risking further injury.

19.12 INTRODUCTION OF BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION

As a consequence, SICA came into existence in 1985, and BIFR was formed under SICA in January 1987. The AAIFR (Appellate Authority for Industrial & Financial Reconstruction) was founded in April 1987. In 1991, under the authority of SICA, government companies were adopted.

19.13 ROLE OF BIFR (BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION) IN INDIA

An industry proves a great economic booster for any country. Industries that have gone sick have far-reaching consequences on the economy of the nation. The effects of industrial sickness are many but some are its key effects.

The entrepreneurship level declines. In economics land, labour and capital are referred to as the factors of production. It is only entrepreneurship of project promoters that brings together the factors of production for accomplishing the task of nation building. Increase in industrial sickness discourages entrepreneurship.

The investor confidence reaches a lower ebb. Thus, capital is not put to productive use and Industrial sickness results in large scale unemployment and industrial unrest.

The Profitability of banks and financial institutions gets affected since they don't get back their funds invested in projects that have gone sick. Nor do they earn interest on their invested funds. Thus prevention of sickness and rehabilitating sick projects assume greater importance. BIFR (Board of industrial and Financial Reconstruction) was established by the Central Government, under section 3 of the Sick Industrial Companies (Special provisions) Act, 1985 and it became operational in May, 1987. BIFR deals with issues like revival and rehabilitation on sick companies, winding up of sick companies, institutional finance to sick companies, amalgamation of companies etc. Basically BIFR is a quasi judicial body. BIFR have a very wide powers as conferred in the SICA (Sick Industrial Companies Act). These are stated as below.

i) Securing the timely detection of sick and potentially sick companies

ii) Speedy determination by a group of experts of the various measures to be taken in respect of the sick company

iii) Expeditious enforcement of such measures

BIFR has a chairman and may have a maximum of 14 members, drawn from various fields including banking, labor, accountancy, economics etc. It functions like a court and has constituted four benches spread all over the country.

19.14 OBJECTIVES OF BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION

- The BIFR consisted of a chairperson and two to fourteen other representatives.
- Elected High Court judges or having a professional experience of at least 15 years was the prerequisite to be a member.

- The Board would oversee only large or medium-sized sick industrial enterprises where a large sum of money was lost.

19.15 INTRODUCTION OF E-COMMERCE

E-commerce (electronic commerce) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer or consumer-to-business. The terms e-commerce and e-business are often used interchangeably. The term e-tail is also sometimes used in reference to the transactional processes that make up online retail shopping.

In the last two decades, widespread use of e-commerce platforms such as Amazon and eBay has contributed to substantial growth in online retail. In 2011, e-commerce accounted for 5% of total retail sales, according to the U.S. Census Bureau. By 2020, with the start of the COVID-19 pandemic, it had risen to over 16% of retail sales.

19.16 TYPES OF E-COMMERCE

1. Business-to-business (B2B) e-commerce refers to the electronic exchange of products, services or information between businesses rather than between businesses and consumers. Examples include online directories and product and supply exchange websites that let businesses search for products, services and information and initiate transactions through e-procurement interfaces. A Forrester report published in 2018 predicted that by 2023, B2B e-commerce will reach $1.8 trillion dollars and account for 17% of U.S. B2B sales.

2. Business-to-consumer (B2C) is the retail part of e-commerce on the internet. It is when businesses sell products, services or information directly to consumers. The term was popular during the dot-com boom of the late 1990s, when online retailers and sellers of goods were a novelty. Today, there are innumerable virtual stores and malls on the internet selling all types of consumer goods. Amazon is the most recognized example of these sites. It dominates the B2C market.

3. Consumer-to-consumer (C2C) is a type of e-commerce in which consumers trade products, services and information with each other online. These transactions are generally conducted through a third party that provides an online platform on which the transactions are carried out. Online auctions and classified advertisements are two examples of C2C platforms. EBay and Craigslist are two well-known examples of these platforms. Because eBay is a business, this form of e-commerce could also be called C2B2C -- consumer-to-business-to-consumer. Platforms like Facebook marketplace and Depop -- a fashion reselling platform -- also enable C2C transactions.

4. Consumer-to-business (C2B) is a type of e-commerce in which consumers make their products and services available online for companies to bid on and purchase. This is the opposite of the traditional commerce model of B2C. A popular example of a C2B platform is a market that sells royalty-free photographs, images, media and design elements, such as iStock. Another example would be a job board.

5. Business-to-administration (B2A) refers to transactions conducted online between companies and public administration or government bodies. Many branches of government are dependent on various types of e-services or products. These products and services often pertain to legal documents, registers, social security, fiscal data and employment. Businesses can supply these electronically. B2A services have grown considerably in recent years as investments have been made in e-government capabilities.

6. Consumer-to-administration (C2A) refers to transactions conducted online between consumers and public administration or government bodies. The government rarely buys products or services from individuals, but individuals frequently use electronic means in the following areas:

- Social security. Distributing information and making payments.
- Taxes. Filing tax returns and making payments.
- Health. Making appointments, providing test results and information about health conditions, and making health services payments.

19.17 ADVANTAGES OF E-COMMERCE

Benefits of e-commerce include its around-the-clock availability, the speed of access, the wide availability of goods and services, easy accessibility and international reach.

i) Availability: Aside from outages and scheduled maintenance, e-commerce sites are available 24/7, enabling visitors to browse and shop at any time. Brick-and-mortar businesses tend to open for a fixed number of hours and may even close entirely on certain days.

ii) Speed of access: While shoppers in a physical store can be slowed by crowds, e-commerce sites run quickly, which is determined by compute and bandwidth considerations on both the consumer device and the e-commerce site. Product and shopping cart pages load in a few seconds or less. An e-commerce transaction can comprise a few clicks and take less than five minutes.

iii) Wide availability: Amazon's first slogan was "Earth's Biggest Bookstore." It could make this claim because it was an e-commerce site and not a physical store that had to stock each book on its shelves. E-commerce enables brands to make a wide array of products available, which are then shipped from a warehouse or various warehouses after a purchase is made. Customers will likely have more success finding what they want.

iv) Easy accessibility: Customers shopping a physical store may have difficulty locating a particular product. Website visitors can browse product category pages in real time and use the site's search feature to find the product immediately.

v) International reach: Brick-and-mortar businesses sell to customers who physically visit their stores. With e-commerce, businesses can sell to anyone who can access the web. E-commerce has the potential to extend a business's customer base.

vi) Lower cost: Pure play e-commerce businesses avoid the costs of running physical stores, such as rent, inventory and cashiers. They may incur shipping and warehouse costs, however.

vii) Personalization and product recommendations: E-commerce sites can track a visitor's browse, search and purchase history. They can use this data to present personalized product recommendations and obtain insights about target markets. Examples include the sections of Amazon product pages labeled "Frequently bought together" and "Customers who viewed this item also viewed."

19.18 DISADVANTAGES OF E-COMMERCE

The perceived disadvantages of e-commerce include sometimes limited customer service, consumers not being able to see or touch a product prior to purchase and the wait time for product shipping.

i) Limited customer service: If customers have a question or issue in a physical store, they can see a clerk, cashier or store manager for help. In an e-commerce store, customer service can be limited: The site may only provide support during certain hours, and its online service options may be difficult to navigate or not answer a specific question.

ii) Limited product experience: Viewing images on a webpage can provide a good sense about a product, but it's different from experiencing the product directly, such as playing a guitar, assessing the picture quality of a television or trying on a shirt or dress. E-commerce consumers can end up buying products that differ from their expectations and have to be returned. In some cases, the customer must pay to ship a returned item back to the retailer. Augmented reality technology is expected to improve customers' ability to examine and test e-commerce products.

iii) Wait time: In a store, customers pay for a product and go home with it. With e-commerce, customers must wait for the product to be shipped to them. Although shipping windows are decreasing as next-day and even same-day delivery becomes common, it's not instantaneous.

iv) Security: Skilled hackers can create authentic-looking websites that claim to sell well-known products. Instead, the site sends customers fake or imitation versions of those products -- or simply steals credit card information. Legitimate e-commerce sites also carry risk, especially when customers store their credit card information with the retailer to make future purchases easier. If the retailer's site is hacked, threat actors may steal that credit card information. A data breach can also lead to a damaged retailer reputation.

19.19 BENEFITS OF ECOMMERCE FOR SMALL BUSINESSES

1. Increased Business Reach: One of the most significant advantages of eCommerce is that it takes your business to people where it’s not possible for you to be present physically. By having an online store, you can sell your products/services to different locations from a single location. Moreover, if you opt for shipping solutions like Shiprocket, you will be able to ship across 29000+ pin codes in the country. So, while operating at a single location, you can serve customers all across the country. And not just country but the globe as well, as with Shiprocket, you can ship your products to 220* countries as well.

2. Increased Business Revenue: As your business reach widens, your customer base would grow, which will directly impact the number of sales. Thus, it will boost your revenue. With increased revenue, you can increase your product line, or invest more in marketing to capture more audience.

3. Search Engine Traffic: Reaching out to an audience by sending emails, contacting via phone, or pushing marketing messages can be a tiresome task. But, thanks to the search engine traffic, attracting people to the store has become much more comfortable. Through the means of an eCommerce business, you can land well in the search engines and start receiving recurring traffic to your store. Slowly, with the best eCommerce practices, you can convert these to a steady flow of customers for your business. You just need to make the website SEO-friendly to appear in the searches and attract more traffic.

4. Low Operational Cost: One of the benefits of having an online store is that you don't have to build physical stores at all the locations where you want to sell your products/services, a single eStore would do that for you. This will keep your business operational cost on the lower side. So, while you have access to customers from all across the country, your operational cost is kept at a minimum.

5. Online Reputation Building: As a small offline business, when your customers appreciate your products/services, it's tough for you to take advantage of those appreciations to influence new customers. But, with an online presence of your business, your customers can share their appreciation over social media profiles of your business. These reviews are publically available for everyone to see and this helps you to influence your new users to get converted to customers. However, for this to happen, you need to have your business accounts on Facebook, Instagram, Twitter, and other such social media platforms.

6. Flexible Timings: As you would be running your business online, you can remain open for new orders and your customers 24×7, which is not feasible in the case of an offline brick and mortar store. So, by going online, you can receive orders 24X7 and never let any opportunity slip away from you.

7. Reviews: Word of mouth is still one of the most popular marketing methods that can help any brand go viral overnight. While in a retail environment it is difficult to get customer reviews, it is much comfortable and hassle-free online. You can ask customers for reviews online and build credibility by publishing these on social media platforms and other sales channels.

8. Ease of Product Tracking: Tracking a product online can be one of the most significant advantages of an eCommerce business. You can quickly know the status of your inventory especially when you hand it over to the fulfillment company.

9. Automated Product Delivery Solutions Available: One of the concerns of an online business could be about managing and handling the delivery of the products to their customers who are living in different parts of the world. For them, the good news is that there are various eCommerce logistics and shipping platforms available today that can deliver any product in any part of the world from anywhere as per the requirement.

LET US SUM UP

Industrial sickness can be defined as a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit. A sick unit is one which is unable to support itself through the operation of internal resources. E-commerce began in the 1960s, when businesses started using EDI to share business documents with other companies. In 1979, the American National Standards Institute developed ASC X12 as a universal standard for businesses to share documents through electronic networks. Ecommerce development companies keep various points into consideration to deliver the best ecommerce web or app to suit your business requirements.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Industrial sickness contributes to __________cost economy.

a) High b) medium

c) Average d) Low

2. __________ amongst the following is an internal cause of industrial sickness.

a) recession b) ineffective sales promotion

c) changes in customer's demand d) changes in government policies

3. Which of the following is not an internal factors of industrial sickness?

a) Shortage of power b) Mismanagement

c) Diversion of funds d) Excessive overheads

4. Which of these are reasons attributed to Industrial Sickness?

a) Cost Escalations b) Financial Mismanagement

c) Uneconomic size d) All of the above

5. Sick industries refers to those units __________.

a) which perform poorly

b) incur cash losses for consecutive years

c) gradually erode the entire net worth

d) all of these

GLOSSARY

Business-to-Business (B2B)	**:**	B2B brands are businesses that sell products or services to other businesses. Some B2B business examples include accounting software companies, automobile manufacturers and electrical supply wholesalers.
Business-to-Consumer (B2C)	**:**	B2C brands get products in the hands of everyday customers. This includes retail stores, car dealerships and subscription services like Netflix.
Blog	**:**	A blog is nothing but an informal conversational style of information or a discussion which is updated regularly on a website or a webpage and is run by an individual or a small group.
Bundling	**:**	It is a marketing strategy wherein several similar products or services are combined together and sold as one package solution. Businesses often sell these bundled products at a reduced price so as to attract more customers.

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WEB RESOURCES

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2. E-Commerce and E-Governance: Notes - Simply Coding
3. What is eCommerce? - YouTube
4. Industrial Sickness : Meaning, Definition, Causes, Signals, Remedies, Revival, Indian Economy b.com - YouTube
5. Sickness in small scale industries - YouTube
6. Introduction to e commerce, types,advantages, disadvantages - YouTube

ANSWERS TO CHECK YOUR PROGRESS

1. a) 2. b) 3. a) 4. d) 5. d)

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Entire Document

INTRODUCTION TO ENTREPRENEURSHIP Unit 1: Overview of Entrepreneurship
Unit 2: Women Entrepreneurship & Rural Entrepreneurship Unit 3: Factors Affecting Entrepreneurship Unit 4: Entrepreneurship Development Programme
Causes of Industrial Sickness Internal Causes External Causes
Leadership Character
Drive
Accountability
Collaboration
Humanity
Humility
Temperance
Justice
Courage
Transcendence
Integrity
Judgment
Assesement Internal Environment External Environment
Types of Sick Companies Born Sick Made Sick Become Sick
BLOCK 1
Unit 1
OVERVIEW OF ENTREPRENEURSHIP
1.1 MEANING OF ENTREPRENEUR

The term 'entrepreneur' is derived from the French verb 'enterprendre'. The meaning of this verb is to undertake. The term 'entrepreneur' was applied to the leaders of military expeditions in the early 16th century. Later on it was used to cover the contractors undertaking the civil contracts of construction of bridges, dams, roads, etc. In the beginning of the 18th century the term was used to refer to the economic activities. In France the farmers doing the farming activity on commercial basis were also considered as entrepreneur. Thus we find that the meaning of the term 'entrepreneur' has changed over a period of time from the leader of military expeditions to individuals doing business by bearing the risk. An entrepreneur is ordinarily called a businessman.

1.2 DEFINITION OF ENTREPRENEUR
According to

યુનિવર્સિટી ગીત

સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ

શિક્ષણ, સંસ્કૃતિ, સદ્‌ભાવ, દિવ્યબોધનું ધામ
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેંકે;
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેંકે, મન મંદિરને ધામે
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,
આવો કરીયે આપણ સૌ
ભવ્ય રાષ્ટ્ર નિર્માણ...
દિવ્ય રાષ્ટ્ર નિર્માણ...
ભવ્ય રાષ્ટ્ર નિર્માણ

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