KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

	Semester – IV			
	L	T	P	C
17CMP402 ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT	3	-	-	3

Scope

- ❖ The course include Entrepreneur and Entrepreneurship, Market and Technical Analysis, Diversification, Sub-contracting, Incentives and Subsidies

Objectives

- ❖ To develop adequate entrepreneurial traits among students.
- ❖ To initiate the required skills for entrepreneurial development.
- ❖ To help students understand the process of establishing and developing an enterprise

Unit – I

Small Business Enterprise - Small Business framework - Concept and Definition- Nature and Characteristics - Relationship between Small and Large Business - Scope and Types of Small Business - Rationale and Objectives - Small Business as seed bed of Entrepreneurship

Unit –II

Entrepreneurship - Entrepreneur and Entrepreneurship Concept - Distinction between Entrepreneur and Manager - Entrepreneurial Competency - Functions - Types (including women and rural).

Unit – III

Establishing a Small Enterprise - Learning the important steps for starting a Business - Project Identification and Selecting the Product - Generation and Screening the Project Ideas - Market Analysis - Technical Analysis, Financial Analysis (up to cost of production) Project

Formulation - Assessment of Project Feasibility - Preparation of Project Report - Dealing with basic startup problems.

Unit –IV

Growth Strategy - Growth strategy for Small Business - Need for Growth - Types of Growth Strategy - Expansion - Diversification-Sub contracting.

Unit-V

Institutional Support - Sources of Finance - Financial Support to Small Business- Various Incentives and Subsidies - Central and State Government Schemes.

SUGGESTED READINGS

Text Books

1. **Khanka, S. S, (2012)**. *Entrepreneurial Development.* New Delhi, Sultan Chand and Publications.
2. **Shaprio Alan, C. (2009).** *Multinational Financial Management.* New Delhi, Prentice Hall of India.

References

1. **Gupta, C.B., and Srinivasan, N.P. (2014)**. *Entrepreneurial Development.* New Delhi, Sultan Chand and Sons.
2. **Suresh Jayasree (2010).** *Entrepreneurial Development.* Chennai, Margham Publications.

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LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAMES:T.N.P.NALINI
SUBJECT NAME: ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT
SUB.CODE: 17CMP402
SEMESTER: IV
CLASS: II M.COM

UNIT-I

S. No.	Lecture Duration Period	Topics to be Covered	Support Material/Page Nos.
1	1	Small business enterprise: small business framework	W1
2	1	Concept and definition, nature and chartersticis	T1 59-62
3	1	Relationship between small and large business	T1 62-63
4	1	Scope and types of small business	T1 65-66
5	1	Rationale and objectives	T1 63-65
6	1	Small business as seed bed of entrepreneurship	W1
7	1	Recapitulation of important questions	
	Total No of Hours Planned For Unit I=7		

UNIT-II

S. No.	Lecture Duration Period	Topics to be Covered	Support Material/Page Nos.
1	1	Entrepreneurship: entrepreneur and entrepreneurship concept	T1 1-6
2	1	Distinction between entrepreneur and manager	T1 6-7
3	1	Entrepreneurial competency	T1 39-42
4	1	Functions, types (including women and rural)	W1,T1 45-50
5	1	Recapitulation of important questions	

	Total No of Hours Planned For Unit II=5		

UNIT-III

S. No.	Lecture Duration Period	Topics to be Covered	Support Material/Page Nos.
1	1	Establishing a small enterprise: learning the important steps for starting a business	W1
2	1	Project identification and selecting the product	R1 2.71
3	1	Generation and screening the project ideas	W1
4	1	Market analysis, technical analysis, financial analysis(up to cost of production)	W1
5	1	Market analysis, technical analysis, financial analysis(up to cost of production)	W1
6	1	Project formulation-assessment of project feasibility	R1 2.13-2.22
7	1	Preparation of project report	R1 3.12-3.13
8	1	Dealing with basic startup problems.	T1 68-70
9	1	Recapitulation of important questions	
	Total No of Hours Planned For Unit III=9		

UNIT-IV

S. No.	Lecture Duration Period	Topics to be Covered	Support Material/Page Nos.
1	1	Growth strategy-growth strategy for small business	W1,T1 280-282
2	1	Need for growth	W1
3	1	Types of growth strategy	T1 282-283
4	1	Expansion, diversification ,sub contracting	T1 283-288
5	1	Recapitulation of important questions	
	Total No of Hours Planned For Unit IV=5		

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UNIT-V

S. No.	Lecture Duration Period	Topics to be Covered	Support Material/Page Nos.
1	1	Institutional support	W1
2	1	Sources of finance	T1 98-100
3	1	Financial support to small business	W1
4	1	Various incentives and subsidies	R1 3.57-3.60
5	1	Central and state government schemes	W2
6	1	Central and state government schemes	W2
7	1	Recapitulation of important questions	
	Total No of Hours Planned For Unit V=7		

Text Books

1. **Khanka, S. S**, **(2012)**. *Entrepreneurial Development.* New Delhi, Sultan Chand and Publications.
2. **Shaprio Alan, C. (2009).** *Multinational Financial Management.* New Delhi, Prentice Hall of India.

References

1. **Gupta, C.B., and Srinivasan, N.P. (2014)**. *Entrepreneurial Development.* New Delhi, Sultan Chand and Sons.
2. **Suresh Jayasree (2010).** *Entrepreneurial Development.* Chennai, Margham Publications.

Website References

1. W1: http://www.NPTL.com

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2. W2: http://www .MBANOTES.EDU.IN

Unit – I
Syllabus

Small Business Enterprise - Small Business framework - Concept and Definition-Nature and Characteristics - Relationship between Small and Large Business - Scope and Types of Small Business - Rationale and Objectives - Small Business as seed bed of Entrepreneurship

SMALL SCALE ENTREPRENEURS

Small-Scale Business Owner

The owner of a small-scale business organizes business processes and incurs the risks of running an operation based on the opportunity to make a profit, similar to what the SBA states an entrepreneur does. The SBA provides the same services to small-scale business owners who qualify for financing. In fact, by virtue of the agency's name, its mission is to assist small business owners in attaining their goals. However, small business owners could be viewed as owner-operators, meaning they focus on sales rather than business development and they're concerned more about functional steps instead of strategic growth.

Small – Scale Industries of India (SSIs)

An industrial undertaking is graded as small-scale industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms, on lease or on hire purchase, does not exceed R.s 10 million.

As the economy improved, the Government of India raised the investment limit and thus redefined the SSI sector. For example, in the year 1970, the investment limit in SSI was only 7.5 lakh which was raised to 10 lakh in 1975, 20 lakh in 1980, 35 lakh in 1885, 60 lakh in 1991 and 300 lakh in 1997. It was brought down to 100 lakh in 1999, which continues till date. Likewise, investment limit in ‘tiny industrial unit’ in the year 1977 was 1 lakh which has risen to 25 lakh.

A small-scale industrial unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent has been treated by the government as a women’s enterprise. Women entrepreneurship enjoys special benefits from the government.

The small-scale industry sector has been India's engine of growth and continues to be so in the new millennium. By the end of March 2000, the SSI sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of total exports from the country. Through over 32 lakh units that exist, the sector provided employment to about 18 million people.

The office of the Development Commissioner (SSI) has till date conducted three censuses of registered SSI units. The first census was conducted in 1973-74 and found 2.58 lakh units registered up to 30 November, 1973.

The reference year for this census was the calendar year 1972. During this census, only 1.4 lakh units were found working. The second census was conducted during 1989-91and was found that 9.87 lakh units were registered up to 31 March, 1988.

The reference year for this census was 1987-88. During this census, only 5.82 lakh units were found working. The Third All-India Census was conducted during 2002-03 and it was found that 22.62 units were registered up to 31 March, 2001. The reference year for this census was 2001-02. During this census, only 13.75 lakh units were found working.

It is significant to note that the entrepreneurial supply to India, as is apparent from the above statistics, has been sluggish. In a period of forty years since independence, the country could produce only six lakh successful entrepreneurs. It is only after India adopted the New Economic Reforms in 1991 that the supply of entrepreneurs gathered momentum.

Definition

A small-scale enterprise is a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country.

The official definitions of a small scale unit are as follows:

(i) Small-Scale Industries:

These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

(ii) Ancillary Industries:

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

(iii) Tiny Units:

These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located m towns with population less than 50,000.

(iv) Small-Scale Service Establishments:

These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

(v) Household Industries:

These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

Characteristics of Small-Scale Industries:

(i) Ownership:

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

(ii) Management and control:

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is activity involved in all the decisions concerning business.

(iii) Area of operation:

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

(iv) Technology:

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.

(v) Gestation period:

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

(vi) Flexibility:

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions.

They are more flexible to adopt changes like new method of production, introduction of new products etc.

(vii) Resources:

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

(viii) Dispersal of units:

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

(ix)Small Management: Small business does not have complex or big management body in carrying out its management functions. The manger and perhaps a few assistants handle production, finance, personal, sales and all other aspects of the business. The manager and few others run the day-to-day activities. One manager may perform many functions.

(x)Small Capitalization: The capital used in starting the business is very small, which is as a result of the sources. According to Rebort C. A. (1994) he says that the capital is contributed from limited number of individuals and also lack of collateral security to obtain bank loan. This makes small business to suffer from low capitalization to start up a business.

(xi)Small Market: According to Agu (2005) and Robort C. A (1994) they established that, small business has relatively small market share and not be dominant in its field of operation respectively. This small market share limits the business presence in the market and establishes them as a follower in the market. In turn we have low productivity, which is characterized by poor profitability.

(xii)Employ Small Number of People: Small business employ relatively low number of employee to carry out the production process and the number varies from countries to countries.

(xiii) Ownership And Control Are Fused: In small business the owners of the business are those that sit as the management body expect in a few situation. Given the decree of the fusion which is very high the employed management staff cannot freely take business decisions based on their business experience. According to Osige (1986) he said that small business is managed by the owner(s) and family influence also affect decision making of the management body.

Importance (or) Role of Small Scale Industries

They provide immediate large scale employment: they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilised'.

The second five year plan while recognizing the importance of small scale industries states the following 5 points.

i) Generation of employment opportunities,

ii) An equitable distribution of national income,

iii) Mobilization of capital,

iv) Mobilization of entrepreneurial skills,

v) Regional dispersal of industries.

It is evident from the above points small scale enterprises play an important role in employment generation, resource mobilization and utilization, income generation and in helping to promote change in a gradual and phase manner.

The importance of small scale industries can be judged from the following points;

1) Employment generation:

Small scale industries employ labour intensive technology and hence generate more employment opportunities. Small scale industries generate opportunities for self employment of technically qualified persons, artisans and professionals. A major problem confronting our country is of increasing pressure of population on land and the need to generate more employment avenues. A given amount of capital invested in a small scale industry provide more employment than the same amount of capital invested in a large scale industry. in a country like india confronted with the twin problems of unemployment and scarcity of capital, it is only the small scale industry which can solve these problems. Small scale industries can be located anywhere and hence can provide employment to workers near their homes, more work for the under employed and additional work for the formers when they are idle.

2) Self Employment:

Small scale sector provides numerous opportunities for self employment and hence is more suited for out country faced with the major problem of unemployment. A self employed entrepreneur is the master of his own show and he thus gets opportunity for doing something creative, new and different. He instead of seeking job for himself, provides employment to others working for himself creates personal interest and successful accomplishment of the task generates job satisfaction and sense of attainment.

3) Optimum use of capital:

Small scale enterprises require relatively lesser amount of capital as compared with large scale enterprises. In the context of india economy where capital is scarce, small scale sector can act as a stabilizing force by providing high output capital ratio as wall as high employment capital ratio. Moreover due to shorter gestation period small scale units provide early returns to the entrepreneurs. Small scale units help in capital formation by mobilizing idle and small scattered saving of the people and put these into productive use by investment in small scale units P.C. mahalanobis has rightly observed 'in view of the meagerness of capital resources there is no possibility in the short run for creating much employment through the factory industries (large scale). Now consider the household (or) cottage industries. They require very little capital. About 6 (or) 7 hundred rupees would get an artisan family started. With any given investment, employment possibilities would be 10 (or) 15 times greater in comparison with corresponding factory industries'.

4) Facilitate entrepreneurial development:

Small scale sector helps in entrepreneurial development. The unit provide self employment to educated unemployed and reduce their overdependence on the government. It also generates feeling of self reliance amongst the people. This sector generates more employment opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities to a large number of entrepreneurs, who are scattered over a wide territory. Small scale industries on the other hand mobilize such entrepreneurial skills more effectively and put these into productive use.

5) Use of local resources:

Small scale enterprises employ local resources like raw material, saving, entrepreneurial skill more effectively. In the absence of these enterprises these resources are likely to remain unutilized. Thus on one hand small scale sector ensures better use of the local resources and on the other generate employment opportunities and income for the local population.

6) Balanced regional development:

Large scale units are normally concentrated at selected places and this results in generation of employment opportunity, income and development of only these places. Whereas small scale industries utilize local resources and promote decentralized development of industries. It is only through dispersal of industries in rural and backward areas that the objective of balanced regional development can be achieved. Small scale by providing employment to people in rural & backward areas help in solving the problems of industries slums, congestion and pollution in industrial towns. Small scale sector by generating employment and income in backward areas help in raising standard of living of people.

7) Conservation of foreign exchange:

Small scale industries help in saving precious foreign exchange. Firstly small scale unit utilize local resources like raw material and available machinery and they are not dependent on costly imports. These units also produce those products which were earlier being imported. Secondly there has been considerable increase in exports from the small scale sector over years and presently this sector contributes about 35 % to india's total exports, thus earning precious foreign exchange for the country.

8) Equitable spread of income and wealth:

Small scale industries help in the development of socialistic pattern of society by ensuring equitable distribution of income and wealth. This sector inculcates the spirit of entrepreneurship amongst people thereby providing them self employment with limited means. Ownership of small scale industries is widespread and offer more employment potential as compared with large scale industries. Large scale industries result in concentration of income and wealth in a few hands and that too at selected places whereas small scale industries ensure equitable spread of income & wealth amongst all and that too at all places. Small scale industries thus promote the objective of social justice.

9) Supporting large scale industries:

Small scale industries can facilitate growth and development of large scale industries by providing various parts, components and accessories to large scale industries. Small scale units serve as ancillaries to large units by playing a complementary role.

10) Contribution towards national economy:

Small scale industries have made rapid strides over years and can produce wide range of products having mass consumption. More than 5000 different products are being manufactured in the small scale sector. This sector is helping in realization of the objective (or) export promotion and import substitution. Nearly 50% of the output of the manufacturing sector in our country is produced by small scale sector. The small scale sector thus plays a very important role in the economic development of our country.

CHARACTERISTICS OF SMALL BUSINESS

The characteristics of small business from the definitions given above can be noted to be:

1. Small management body
2. Small capitalization
3. Small Market share
4. Employ Small number of people
5. Ownership and Control are fused

Relationship between Small and Large Scale Entrepreneurs

The small scale industries can have the following types of relationship with large industries:

(1) Competitive:

Small scale industry can out compete with large industry in certain circumstances and in selected products only.

(2) Supplementary:

Small industry can fill in gaps between large scale production and standard output caused by large scale units. This is due to this supplementary role of small units.

(3) Complementary:

Small industry has been a complementary to its large counterparts. In the real world many small units produce intermediate products for large units.

(4) Initiative:

Small units can also take initiative to produce the particular product attracted by the high profits of large units.

(5) Servicing:

Small industries do also install servicing and repairing shops for the products of large units. Many small firms have been assigned the job of repair and maintenance of products manufactured by large units.

(6) Jobbing:

In some cases, large enterprises provide materials and components to small units. The small units process these materials and components into finished parts or sub-assemblies.

(7) Merchandising:

Some small scale industries distribute and sell their products through large scale units.

(8) Anciliarisation:

Many large scale firms purchase components, parts and accessories from small scale industries.

Features of Small Business:

It is not correct to say that the days of small industries are gone. Eugene Staley has mentioned five distinct ways in which small industries successfully coexist with large industry.

1. Competition:

Small industry can out-compete large industry in certain circumstances and in selected products. Some of these industries are bricks and tiles, fresh baked goods, condiments and preserved fruits, goods requiring small engineering skill, items requiring artistry and craftsmanship.

2. Supplementary:

Small industry can **"fill the cracks"** between the big volume and standardised outputs of large factory. Staley mentions a Madras case where a small tricycle factory flourished alongside a large cycle factory.

3. Components:

A small industry can produce components for a large industry. This is the most common example of the small manufacturing sector and many of them function under the protection of big industries. Very often they also derive the advantage of a protected market with assured supply of their output to one or more selected large manufactories.

4. Initiation:

Small industry can initiate new products and subsequently grow large with the growth of the product. Staley mentions that many of the automobile factories started this way in USA. In India, the electronics industry looks like taking to this pattern of development.

5. Servicing:

Small industry can install service, and repair the products of large industry. In India these industries are growing in respect of major industries like refrigerators, radio and TV sets, watches, and clocks, cycles and motor cycles and motor vehicles in respect of repair, servicing and maintenance.

It is thus obvious that growth of large scale industries does not necessarily bring about the end of cottage or small scale industries. Electricity has revolutionised large-scale industry; at the same time small units based on electricity can also be cheaply and conveniently started with limited infrastructure.

Besides, many artistic goods, products of craftsmanship, and luxury goods do not lend them-selves to standardisation of large scale manufacturing and are largely reserved to the cottage, rural and small industrial sectors.Finally new ventures, so long as they are in an experimental or formative stage are first tried on a small scale and it is only when their success is demonstrated and their profitability and capital base established that they are organised on a large scale.Small business always plays an important role in the development of any country. As already mentioned, most of the industrial and business activities starts small. With market opportunities and vision of the entrepreneur, it grows into a large industry.

There are a number of reasons why small businesses are important to our economy:

1. They are important source of competition and challenge the economic power of large firms.

2. They offer wide range of choice to the consumer. Large businesses are more oriented towards the mass market, but smaller firms can serve specialised needs.

3. They broaden the distribution of economic and political power.

4. In many areas, they bring the development and provide local leaders with strong local roots.

5. They are sources of innovation and creativity.

6. They are providing large scale employment scattered all over the country.

7. They provide the ancillary support to large industries.

Types of Small Business:

Small business includes a variety of companies.

They may operate in any of the following areas:

(a) Manufacturing,

(b) Trading,

(c) Services and

(d) Others.

The definition of small business is given in relation to the investment made in plant and machinery not exceeding Rs. 60 lakhs and Rs. 75 lakhs in case of ancillary industry and Rs. 5 lakhs for tiny industry.

Rationale of Small Business:

In selecting industries for development in a new country attention should be given to those industries which create conditions favourable for the growth of other industries since this method will lead to the simultaneous development of many industries. Rosenstein Rodan advocates this line of development. India followed this path by constructing multipurpose river-valley projects and by developing small scale industries.

An underdeveloped economy should produce and export commodities that use relatively less capital per unit of output and to import items requiring more capital. Prof. Amartya Sen has come to the conclusion that the case for choosing relatively labour-intensive techniques in the under developed economies is not bad in many sectors of production.

Small industries are capital-light, skill-light, labour-intensive and dispersed. They are of quick investment type, and by carrying the job to the worker they can overcome the difficulties of geo-graphical immobility. In the conditions prevailing in many underdeveloped countries the development of small industry may be the most economic form of industrialisation; it may be more economic than either large scale organised industry or cottage industry.

Moreover small industry represents much less of a break with previously established modes of living and therefore represents less of strain than industrialisation in the form of large units.

In relation to cottage and small scale industries the Industrial Policy Resolution, 1956, states that they provide immediate large scale employment; they offer a method of ensuring a more equi-table distribution of the national income and they facilitate an effective mobilisation of resources, of capital and skill which might otherwise remain unutilized.

Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country. The Industrial Policy Resolution puts forth four main roles of small industries in the Indian economy.

1. Employment Argument:

The most important economic task before the country is the solution of unemployment problem. The scope for creation of **"wage employment"** is limited as it depends on industrial growth. But there is a large scope for the creation of **"self-employment"** and here the small scale industries can play a significant role.

The development of the Indian economy over the last four decades has been characterised by a high incidence of unemployment and under-employment, resulting in 30 p.c. of the population living below the poverty line. Another feature is that the growth of the non-agricultural sector during the last 40 years has failed to make any impact on the work force, 62% people continue to depend on agriculture.

These aspects of the economy have prompted the policy makers to turn to small industry for absorption of the additions to the labour force primarily because these are labour-intensive in character. The small businesses are labour-intensive and create more employment per unit of capital employed.

A more sophisticated form of this argument is that small industries should be developed because the capital-output ratio for such enterprises is lower vis-a-vis large scale industries. Prof. P. C. Mahalanabis supports small scale industries on the ground that capital-output ratio for such enterprises is lower than that for large scale enterprises.

2. Equality Argument:

Large-scale industries generally lead to inequalities of income and concentration of economic power. On the other hand, an SSI leads to a more equitable distribution of produce of industry. In other words, the income generated in a large number of small enterprises is dispersed more widely in a community than income generated in a few large enterprises.

The income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution.

However, it is a fact that there is a common tendency in all countries wages to be lower in small factories than in large factories; but it is also equally true that in underdeveloped economy workers have a choice not between a high paid job and a low paid job but between a low paid job and no job at all.

So the low paid job is accepted by the force of circumstances. In the absence of small enterprises, the workers have to lose even small wage which they hope to get. A policy of supporting cottage and small industries is really a policy of social insurance for a group which would otherwise be threatened by unemployment.

3. Latent Resources Argument:

Small scale industries are capable of mopping up latent and unutilized resources. This argument justifies the cause of SSIs on three grounds: First, it presupposes that there are a large number of small and potential entrepreneurs who are capable of running industrial units efficiently if proper help is extended to them.

Second, there are a large number of potential enterprises whose full capacities have not been used so far. Third, SSIs will be helpful in putting idle savings in productive use.

4. Decentralisation Argument:

Decentralisation of industrial activity has also been advanced as another reason for promoting SSIs.

There are two aspects of this argument; first, there is the need to prevent congestion in large cities through prevention of growth of industries there; second, this negative measure has to be reinforced by promoting industrial growth in semi-urban and rural areas so that the local people can stay on their areas without emigrating to the nearby cities.

The primary objective of developing small industries in rural areas is to extend work opportunities, raise incomes and standard of living and to bring about a more balanced and integrated rural economy. In India, the method adopted for developing cottage and small scale industry is the construction of industrial estates, usually in towns.

These estates provide factory space, electricity, sheds and common facilities. At present there are 346 such industrial estates in India.

Large industries are mostly concentrated in metropolitan cities. The smaller towns and the countryside in order to benefit from modern industrialisation must encourage small enterprises.

Industrialisation of the country can become complete only if it penetrated into the remote corners of the country. Small industries by carrying the job to the workers overcome the difficulties of territorial immobility.

An important reason for developing small industries lies in the prevention of a lopsided industrial growth. A pyramid like structure of industrial development with a few large scale industries at the top and a mass of small enterprises at the base would obviously make the industrial economy ill balanced.

There should be layers of industrial enterprises in between the largest and the smallest categories. An integrated development of large scale and small scale industries complementing each other is the most important aspect of economic planning which should not be lost sight of.

The larger units should be a source of most of the critical raw materials which the smaller units need for processing them into finished goods.

The smaller units in their turn should be acting as auxiliaries engaged in the manufacture of components, parts and accessories required by the bigger units which should have sub contracted with the former. The economic and technical possibility of such complementary relationship should be explored and realised.

Small Business under Five Year Plans:

Our Five-year Plans gave an important place to the development of small business units in order to provide greater employment opportunities, to mobilise local latents and skills, to exploit local resources and to bring about decentralisation of industries as well as equitable distribution of income.

Allotment of finance to the small scale sector was: First Plan Rs. 49 crores, Second Plan Rs. 200 crores, Third Plan Rs. 246 crores, Fourth Plan Rs. 293 crores, Fifth Plan Rs. 610 crores, Sixth Plan Rs. 1945 crores, Seventh Plan Rs. 3249, Eighth Plan Rs. 6334 crores.

Under planned development programmes small business has made good progress and achieved self-sustained growth. By 1990, small scale industries have entered highly sophisticated areas of production.

New Policy for Small Industries, 1991:

Along with the new industrial policy, a joint package of policy measures for small, tiny, handloom, handicraft and village industries was announced on 6 August, 1991.

The features of the new small industry policy are as follows:

(i) To allow equity participation by other industrial undertakings in the SSI, not exceeding 24% of the total shareholding. This is being done to provide small units access to the capital market and to encourage modernisation, technical upgradation, ancillarisation and sub-contracting.

(ii) To widen the scope of the National Equity Fund, to enlarge the Single Window Scheme and to associate commercial banks with provision of composite loans.

(iii) To introduce a limited partnership Act. This would limit the financial liability of the new entrepreneurs to the capital invested.

(iv) To introduce factoring services. This would help solve the problems of delayed payments to smaller sector.

(v) To accord priority to the tiny sector in the Govt. purchase programme.

(vi) Market promotion of small sector products to be undertaken by cooperatives, public sector institutions and other professional agencies by adopting a consortium approach.

(vii) To accord priority to small and tiny sector in allocation of indigenous raw materials.

(viii) To encourage complementarily in production programmes of large, medium and small sectors.

(ix) To encourage and support industry associations to establish quality counseling and common testing facilities.

(x) To facilitate location of industries in rural and backward areas.

(xi) To improve the quality and marketability of the products of the handloom and handicrafts sector.

(xii) The Small Industry Development Organisation to be recognised as the nodal agency to support SSI in export promotion.

Evaluation:

The policy shows a reorientation on crucial issues. In conceptual terms, the Govt. has done well to emphasize a shift from cheap finance to adequate and timely finance and from general promotional activity to specific target-oriented schemes. The specific attention devoted to the tiny sector is welcome because most of the benefits currently enjoyed by the small scale units go to the bigger and more modern units.

In fact, the policy exclusively states that while the bigger units will get benefits on a one time basis in the form of power connection or land allotment, the tiny units will get support on a continuing basis in Govt. purchase programme.

It is too early to pass any final judgment on the merits of this policy. The most important change for the modern small scale sector is the provision of additional finance by permitting limited liability for new non- active partners and by permitting them up-to 24% of equity investment by other industrial undertakings. This could encourage indirect ownership of small units by larger corporate units.

This already exists to a substantial degree as companies trying to cut cost of production also defeat the reservation policy with regard to small units. In-fact, the new policy legitimizes this kind of activity and is therefore questionable. There is a great deal of merit encouraging ancillarisation as it promotes the greater use of labour-intensive techniques of production and also broad bases entrepreneurship.

The encouraging feature of the new policy is that it recognises the fact that small units require timely credit and financial arrangements rather than cheap credit. The point is to ensure that units once set up are allowed to function smoothly by the timely provision of additional credit.

But it is not clear how this will be ensured. The setting up of a special monitoring agency is of little help unless it has the power to force commercial banks to lend the additional credit required.

The Govt. has quietly bid a good bye to the policy of reserving items for small industries. There are over 800 items exclusively reserved for manufacture in the small scale sector. Now big industry can float small units, legitimately hold 24% share in them and get these units manufacture any of the reserved items. It is a sharp dilution in the Govt's stated policy of reservation for small industry.

Secondly, the policy should have done away with existing cumbersome policy of registration for small scale units more so when the Govt. has totally deregulated medium and large enterprises sector by abolishing system of registration.

Recent Measures:

Govt. has taken a number of steps for the promotion of small scale industries pursuant to the policy measures announced on 6th August, 1991.

There were restrictions on registering new SSI units for the manufacturing of certain products although the products are reserved for the small scale sector. The list of such restricted products was disbanded.

Industry-related service and business enterprises with investment up-to Rs. 5 lakh in fixed assets (excluding land and building) irrespective of their location are now treated on per with small scale industries.

Steps have been taken to alleviate the credit bottlenecks of this sector. The eligibility limit of projects under the National Equity Scheme has been doubled from Rs. 5 lakhs to Rs. 10 lakhs.

The Single Window Scheme was extended to be operated by scheduled banks also in addition to State Financial Institutions.

An Ordinance was promulgated on 23rd Sept, 1992, making payment of interest obligatory on delayed payments to small scale and ancillary industrial undertakings. It has been re-promulgated in January, 1993.

SCOPE

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are: Manufacturing activities Servicing/repairing activities Retailing activities Financial activities Whole-sale business Construction activities Infrastructural activities like transportation, communication etc. In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country. In 1967 only 47 items were reserved for exclusive manufacture in small scale sector. In 1983 the reserved list included 836 items. Later Abid Hussain committee dereserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, foot wares, plastic and rubber products, chemical and chemical products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc. It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However the main objective of reservation policy has been insulated small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

SMALL BUSINESS AS A SEEDBED OF ENTREPRENEURSHIP

Seedbed refers to preparation of soil for the sowing of seeds for a good crop. As small-scale industries provide conductive and favourable conditions for the emergence and growth of entrepreneurship hence it is treated as a Seedbed for entrepreneurship. Small scale industries play an important role in industrial development of a country like India. The socio-economic transformation of India cannot be achieved without the development of Small-scale industries. It has been estimated that the small-scale industries contributes about 47 percent of gross value of output manufactured in the country. Their importance can be further highlighted by nothing that this sector provided nearly five times the employment as compared to the large scale sector.

The Government of India has also given an important place to small business in the framework of Indian Economic of Indian Economic Planning for ideologically and economic reasons since after independence. As a result.small scale industries have achieved an impressive growth in the number of units over the period time . increasingnumber of small industrial units means that increasing number of small industrial units means that increasing number of persons are adopting entrepreneurial career preferably. Small industrial units need low capital investment and are labourintensive. These units utilize two local resources to meet the local needs of public. Therefore, the emergence and growth of entrepreneurship in India. Directly or indirectly, depends upon the growth and survival of small business unit.

Problems faced by the Small Scale Industries of India

Major problems faced by the small scale industries are

Small scale industries play a vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

(1) Finance:

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function proper y in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nov are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

(2) Raw Material:

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect t e functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

(3) Idle Capacity:

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(4) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

(5) Marketing:

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small

Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(6) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

(7) Under Utilisation of Capacity:

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

(8) Project Planning:

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

(9) Skilled Manpower:

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

(10) Managerial:

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

KARPAGAM ACADEMY OF HIGHER EDUCATION

PART A

ONLINE QUESTIONS

S.No.	Questions	Option 1	Option 2	Option 3	Option 4	Answers
	UNIT - II					
1	____________ is essential to any enterprise.	Finance	loan	docoument	credit	Finance
2	Government provides Financial assistancefor the _________ Entrepreneurs.	very large scale	high	small scale	very few	small scale
3	IIC denotes ________	Indian Investment Centre	Indian Invest Centre	Indian Instalment Centre	Indian Industry Centre	Indian Investment Centre
4	The IFCI concentrates mainly to___________Industries.	small scale	Large Scale	medium	tiny	Large Scale
5	The main functions of SFC S is to cater small____________.	people	company	industries	concern	industries
6	______________ assistance is given to small Entrepreneurs.	Local	high level	small level	Financial	Financial
7	In 1948____________ was set up.	IFCI	ICFI	TIC	CIT	IFCI
8	The IFCI concentrates mainly to_____________Industries.	small scale	Large Scale	medium	tiny	Large Scale
9	The main functions of _____ is to cater small industries	people	company	SFC	concern	SFC
10	A______________________________ gives assistance to small Entrepreneurs.	large	high	small	Commercial banks	Commercial banks

11	SIDBI Commences its operation in the year _______.	1936	1950	1990	1948	1990
12	______________ provide training to small entrepreneurs.	failure	SIDBI	economic	IIC	SIDBI
13	SIDBI Commences its operation With___________________.	251 crores	256 crores	255 crores	250 crores	250 crores
14	__________ gives assistance to small Entrepreneurs.	Companies	Industries	Corporates	SIDBI	SIDBI
15	SIDBI gives important assistance for___________.	leasing	large	high	Small	leasing
16	IN 1978________was started	large	high	DIC	Commercial Banks	DIC
17	DIC Is promoted for industries To cater all_________.	medium	needssmall	large	needs large	needssmall
18	TIIC s role is to promote________ the enterprises .	development	data	catching	Enhancement	development
19	TIIC s funds are provided by_______government.	state	small	central	Self	central
20	Co-ordinate Policies_________ the programmes.	Assist	small	central	Attend	Assist
21	_________ industries need assistance to do the marketting	Steel	small	large	tiny level	small
22	SIDO s provide more assistance on ____________.	knowledge	lateral	consultancy	Groupisim	consultancy

23	SIPCOT s provide________to small entrepreneurs.	failure	training	economic	Food	training
24	SIDC's set up in the year _________Government	state	small	central	local self	central
25	Preparation of Project___________ is a function of SISI.	report	profile	directoions	both b and c	report
26	_________ was started by central Government	DIC	SIDBI	NSIC	SFC	NSIC
27	NSIC Promotes central _________	state	small	industries.	shops	industries.
28	A_________ is essential to any enterprise.	Finance	loan	docoument	loan and document	Finance
29	Financial assistance is given to__________ Entrepreneurs.	large	high	small	tiny	small
30	The TIIC, sponsored by the Government of ________	Tamilnadu	Kerala	Andra	Karnataka	Tamilnadu
31	Small Industries service Institutes established in the year _______	1936	1946	1956	1966	1956
32	The main __________of TIIC is to cater small industries	people	company	functions	concern	functions
33	Finance is essential to any________.	enterprise.	loan	docoument	project	enterprise.
34	_______________ assistance is given to small Entrepreneurs.	large	high	small	Technical	Technical
35	In 1948_________________________ was set up.	IFCI	training	EDP	CIT	IFCI

36	The SIPCOT concentrates mainly to______________Industries.	small scale	Large Scale	medium	tiny level	Large Scale
37	The main functions of _________ is to cater small industries	EDP	CIT	SIPCOT	IFCI	SIPCOT
38	IIC Is promoted for________________industries.	medium	small	large	tiny	small
39	______________main role is to promote development	DIC	CIT	SIPCOT	IFCI	DIC
40	The commercuial banks started to cater__________________.	medium	industries	large	tiny Institutions	industries
41	DIC Is promoted for_________industries.	medium	small	large	tiny	small
42	Dividends can be derived from the shaes of __________	Sale	Profit	loss	No loss and no profit	profit
43	DIC s funds is provided by__________________government.	state	small	central	local self	central
44	Project managers provide_________service.	people	company	company	technical	technical
45	Small industries register in___________.	district	optimistic	thinking	urban	district
46	Programmes develop__________estates.	people	work	person	estates.	estates.
47	Industrial estates promote____________	people	industralisation	person	estates.	industralisation

48	SIDO isone of the _________ like.	people	company	office	Corporation	office
49	Function of SIDO is______________.	co-ordination	data mining	catching	planning	co-ordination
50	A______________is an apex body.	SIOD	SIDO	DIOC	SFC	SIDO
51	SIDO Is assisted by its ___________.	district	optimistic	directors	officers	directors
52	Policies__________ the programmes.	co-ordinate	small	central	create	co-ordinate
53	Small industries assist to __________________.	market	small	large	planning	market
54	SISI s provide____________ also.	knowledge	lateral	consultancy	Work	consultancy
55	SISI s provide__________to small entrepreneurs.	failure	training	economic	success	training
56	SISI S set up by ________capital.	state	small	central	local self	central
57	___________profile is the main function of SISI.	district	Project	irectors	innovators	Project
58	_______ was started by central government	people	company	NSIC	SFC	NSIC
59	NSIC Promotes_________industries.	state	small	central	urban	central
60	SIDO is made for ________of SSI	organize	development	control	staffing	development

Unit –II

Syllabus

Entrepreneurship - Entrepreneur and Entrepreneurship Concept - Distinction between Entrepreneur and Manager - Entrepreneurial Competency - Functions - Types (including women and rural).

According to S. S. kanaka:

Entrepreneurship is a process involving various actions to be taken to establish an enterprise.

From the functional view point entrepreneurship is defined as the combination of activities such as perception of market opportunities gaining command over scarce resources purchasing input producing and marketing of product responding to competition and maintaining relation with political administration and public bureaucracy for concession licenses and taxes etc.

Nature and Characteristics of Entrepreneurship

- Features of entrepreneurship are summarized as follows:
- It is a function of innovation.
- It is a function of leadership.
- It is an organization building function.
- It is a function of high achievement.
- It involves creation and operation of an enterprise. 6) It is concerned with unique combinations of resources that make existing methods or products obsolete.
- It is concerned with employing, managing, and developing the factors of production.
- It is a process of creating value for customers by exploiting untapped opportunities.
- It is a strong and positive orientation towards growth in sales, income, assets, and Employment.

Importance of Entrepreneurship:

Benefits of Entrepreneurship to an Organisation:

1. Development of managerial capabilities:

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Functions of an Entrepreneur:

The important functions performed by an entrepreneur are listed below:

1. Innovation:

An entrepreneur is basically an innovator who tries to develop new technology, products, markets, etc. Innovation may involve doing new things or doing existing things differently. An entrepreneur uses his creative faculties to do new things and exploit opportunities in the market. He does not believe in status quo and is always in search of change.

2. Assumption of Risk:

An entrepreneur, by definition, is risk taker and not risk shirker. He is always prepared for assuming losses that may arise on account of new ideas and projects undertaken by him. This willingness to take risks allows an entrepreneur to take initiatives in doing new things and marching ahead in his efforts.

3. Research:

An entrepreneur is a practical dreamer and does a lot of ground-work before taking a leap in his ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analyzing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then choosing the best alternative. It is then that he applies his ideas in practice. The selection of an idea, thus, involves the application of research methodology by an entrepreneur.

4. Development of Management Skills:

The work of an entrepreneur involves the use of managerial skills which he develops while planning, organizing, staffing, directing, controlling and coordinating the activities of business. His managerial skills get further strengthened when he engages himself in establishing equilibrium between his organization and its environment.

However, when the size of business grows considerably, an entrepreneur can employ professional managers for the effective management of business operations.

5. Overcoming Resistance to Change:

New innovations are generally opposed by people because it makes them change their existing behavior patterns. An entrepreneur always first tries new ideas at his level.

It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. In this manner, an entrepreneur paves the way for the acceptance of his ideas by others. This is a reflection of his will power, enthusiasm and energy which helps him in overcoming the society's resistance to change.

6. Catalyst of Economic Development:

An entrepreneur plays an important role in accelerating the pace of economic development of a country by discovering new uses of available resources and maximizing their utilization.

To better appreciate the concept of an entrepreneur, it is desirable to distinguish him from an entrepreneur and promoter. Table 4.1 outlines the distinction between an entrepreneur and entrepreneurs, and Table 4.2 portrays basic points of distinction between an entrepreneur and promoter.

Different types of entrepreneurs:

On the basis of nature **Clarence Danhof** classified entrepreneurs into four categories.

These are

1. **Innovative entrepreneurs:**

An innovative entrepreneur in one, who introduces new goods, inaugurates new method of production, discovers new market and recognizes the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved and people look forward to change and improvement.

2. **Imitative entrepreneurs:**

These types of entrepreneurs creatively imitate the innovative technical achievement made by another firm. Imitative entrepreneurs are suitable for underdeveloped countries as it is hard for them to bear the high cost of innovation.

3. **Fabian entrepreneurs:**

Fabian entrepreneurs are characterized by very great caution and skepticism to experiment any change in their enterprises. They usually do not take any new challenge. They imitate only when it becomes perfectly clear that failure to do not so would result in a loss of the relative position in the enterprise.

4. **Drone entrepreneurs:**

They are characterized by a refusal to adopt any change even at cost of severely reduction of profit. The dictionary meaning of the term 'drone' is 'a person who lives on the labor of others'. Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination in gaining market leadership. In other words, drone entrepreneurs are die-hard conservatives and even ready to suffer the loss of business.

5. Social Entrepreneur:

Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

They undertake poverty alleviation objectives with the zeal of an entrepreneur, business practices and dare to overcome traditional practices and to innovate. Dr Mohammed Yunus of Bangladesh who started Gramin Bank is a case of social entrepreneur.

Some other types of entrepreneurs:

(i) Solo operators: These are the entrepreneurs who essentially work alone and if needed at all employ a few employees. In the beginning most of the entrepreneurs start their enterprises like them.

(ii) Active partners: Active partners are those entrepreneurs who start or carry on an enterprise as a joint venture. It is important that all of them actively participate in the operations of the business.

(iii) Innovators: Such entrepreneurs with their competence and creativity innovate new products. Their basic interest lies in research and innovative activities.

(iv) Buyers' entrepreneurs: These are the entrepreneurs who do not like to bear much risk. They do not take the risk of production but take the risk of marketing a product i.e. wholesaler and retailer.

(v) Life timers: These entrepreneurs believe business as an integral part of their life. These entrepreneurs actually inherit their family business i.e. goldsmith, potter etc.

(vi) Challengers: These are the entrepreneurs who initiate business because of the challenges it presents. They believe that 'No risk, No gain'. When one challenge seems to be met, they begin to look for new challenges. Beside these, there are Govt. and Non-govt. entrepreneurs.

Qualities of successful entrepreneur:

To become a successful as an entrepreneur in its business life, a businessman should possess a quite a number of essential qualities. Those are noted below:

- **Moderate risk taking:** an entrepreneur always takes calculated risk to operate the organization
- **Hard work:** an entrepreneur is very much hard worker, he or she always busy with various types work.
- **Accountability:** a successful entrepreneur is accountable well as his associates always accountable to him.
- **Educated in real sense:** successful entrepreneur is educated In real sense .he tries to implement his organizational objectives through his education.
- **Analytical mind:** a successful entrepreneur is analytical minded. he scrutinizes every activity on the organization.
- **Dynamic leadership:** a successful entrepreneur is always dynamic to operate the organization
- **Presence of mind:** a successful entrepreneur is always at present of mind he is always aware of activities that to happening in the organization and around him
- **Accommodative**: a good entrepreneur has the capacity to make his own place at every sector
- **Courageous and tactful:** Corsages and techniques is very much essential for a successful entrepreneur
- **Maker of right decision**: A successful entrepreneur makes right decision in right time in right place
- **Foresighted:** a successful entrepreneur foresights the future and take decision accordingly
- **Right perception of things:** A successful entrepreneur things in a right way
- **Enjoy simple life:** A successful entrepreneur always deals a simple life a general people of the society
- **Strong desired to success:** A successful entrepreneur have a strong desire to success. he is driven by the desire to success

- **Innovation:** innovation is the process of making new something. A successful entrepreneur is innovative
- **Self confidence:** A successful entrepreneur is self confidence. does not really on other for decision or fate
- **Goal setting:** a successful entrepreneur set the goal
- **Keen observation:** A successful entrepreneur always observes the origination
- **Sociable:** A successful entrepreneur is sociable person
- **Loves to work;** A successful entrepreneur is very much addicted to work
- **Loves new ideas:** A successful entrepreneur loves new ides of the organization
- **Team builder:** A successful entrepreneur builds a suitable team
- **Clean understanding:** A successful entrepreneur clearly understands every thing
- **Ability to conceptualize:** A successful entrepreneur is able to conceptualize the reality
- **Other:** the other qualities are patience, optimistic ,strategist, etc

CLASSIFICATION OF ENTREPRENEURS

I. According to the Type of Business

Entrepreneurs are found in various types of business coronations of varying size. We may broadly classify them as follows:

Business Entrepreneur:

Business entrepreneurs are individuals who conceive an idea for a new product or service and-then creates a business to materialize their idea into reality. They tap both production and marketing' resources in their search to develop a new business opportunity. They may set up a .big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertising agency; readymade garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

Trading Entrepreneur:

Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade. Britain, due to geographical limitations, has developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing many ideas ahead to promote their business.

Industrial Entrepreneur:

Industrial entrepreneur is essentially a manufacturer, who identifies the potential needs of customers and tailors a product or service to meet the marketing needs. He is a product-oriented man who starts in an industrial unit because of the possibility of making some new product. The entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in industrial units as the electronic industry, textile units, machine tools or videocassette tape factory and the like.

Corporate Entrepreneur: Corporate entrepreneur is a person .who demonstrates his innovative skill in organizing and managing corporate undertaking. A corporate undertaking is a form of business' organization, which is registered under some statute or Act, which gives it a separate legal entity. A trust registered under the Trust Act, or companies registered under the Companies Act are example of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.

Agricultural Entrepreneur:

Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilisers and other inputs of agriculture. They are motivated to raise agriculture through mechanization, irrigation and application of technologies for dry land agriculture products. They cover a broad spectrum of the agricultural sector and include its allied occupations.

II. According to the Technology use

The application of new technology in various succors of the national economy is essential for the future growth of business. We may broadly classify these. entrepreneurs on the basis of the use of technology as follows:

Technical Entrepreneur:

A technical entrepreneur is essentially compared to a “craftsman.” He develops improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. On not much sales generation by and does not do various sales promotional techniques. He demonstrates his innovative capabilities in matter of production of goods and rendering of services. The greatest strength, which the technical entrepreneur has, is his skill in production techniques.

Non-technical Entrepreneur:

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

Professional Entrepreneur:

Professional entrepreneur is a person who is interested in establishing a business, but does not have interest in managing or operating it once it is established. A professional entrepreneur sells out the running business and starts another venture with the sales proceeds. Such an entrepreneur is dynamic and he conceives new ideas to develop alternative projects.

III. According to the Entrepreneur and Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his business acumen.

Pure Entrepreneur

A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

Induced Entrepreneur

Induced entrepreneur is one who is induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, Incentives, concessions and necessary overhead, facilities to start a venture. Most of the induced entrepreneurs enter business due to financial, technical and several other facilities provided to them by the state agencies to promote entrepreneurship. A person with a sound project is provided package assistance to his project. Today, import restriction and allocation to production quotas to mall units have induced many people to start a small-scale industry.

Motivated Entrepreneur

New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit.

Spontaneous Entrepreneur

These entrepreneurs start their business their by Entrepreneur. They are persons with initiative, boldness and confidence in their_- ability, which activate, them, underage entrepreneurial activity. Such entrepreneurs have a strong conviction and confidence in their inborn ability.

IV. According to the Growth and Entrepreneurs

The development of a new venture has a greater chance of success. The entrepreneurs a new and open field of business. The customer’s approval to the new product gives them psychological satisfaction and enormous profit. The industrial units are identified as units of high growth, medium growth and low growth industries and as such we have “Growth Entrepreneur” and “Super-Growth Entrepreneur.”

Growth Entrepreneur:

Growth entrepreneurs are those who necessarily take up a high growth industry, which has substantial growth prospects.

Super-Growth Entrepreneur:

Super-growth entrepreneurs are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

V. According to the Entrepreneur and Stages of Development

Entrepreneurs may also be classified as the first generation entrepreneur, modern entrepreneur and classical entrepreneur depending upon the stage of development.

They are explained below:

First-Generation Entrepreneur: A first-generation entrepreneur is one who starts an. industrial unit by innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service. .

Modern Entrepreneur:

A modern entrepreneur is one who undertakes those ventures, which go well along with the changing demand in the market. They undertake those ventures, which suit the current marketing needs.

Classical Entrepreneur:

A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximise his economic returns at a level consistent with the survival of the firm with or without an element of growth.

VI. Others

Innovating entrepreneurship is characterized by aggressive assemblage in information and analysis of results, deriving from a novel combination of factors. Men / women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services by changing their utility, their value, and their economic characteristics into something new, attractive and utilitarian. Therein lies the key to their phenomenal success.

Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even the reorganization of an existing enterprise.

Factors of Entrepreneurship development:

Internal Environment (Micro Environment)

A) PRODUCT:

The business has to produce a product that people want to buy. They have to decide which 'market segment' they are aiming at – age, income, geographical location etc. They then have to differentiate their product so that it is slightly different from what is on offer at present so that people can be persuaded to 'give them a try'. In other words product is a bundle of satisfaction that a costumer buys. It represent solution to a customer's problem .It is in this context that marketing definition of a product is more than just what the manufacturer understand it.

B) PRICE:

To a manufacturer, price represent quantity of money received by the firm or seller .To customer, it represent sacrifice and hence his perception of the value of product. The price must be high enough to cover costs and make a profit but low enough to attract customers. There are a number of possible pricing strategies.

The most commonly used are:

- PENETRATION PRICING – charging a low price, possibly not quite covering costs, to gain a position in the market. This is quite popular with new businesses trying to get a 'toehold'.
- CREAMING – the opposite to penetration pricing, this involves charging a deliberately high price to persuade people that the product is of high quality. Luxury car makers often use this strategy
- COST PLUS PRICING – this is the most common form of pricing. Costs are totaled and a margin is added on for profit to make the total price.

C) PLACE:

The business must have a location that it can afford, and that is convenient and suitable for customers and any supplier.

D) PROMOTION:

Promotion means moving from one end to another. Promotion means all those tools that a marketer uses to take his product from the factory to the customer and hence involves advertising, sales promotion, personal selling, public relations publicity and merchandising. Customers have to be made aware of the product. The two main considerations are target market and cost. A new business will not be able to afford to advertise on national television, for instance and would not wish to because its market will be local to start with.

Leaflets, billboards, advertisements in local newspapers, Yellow Pages and 'word of mouth' would be more appropriate.

External Environment (Macro Environment)
External Environment:

Also known as Macro Environment, are the "uncontrollable factors" which a company must monitor and respond to. They consist of economic, political, technological, social-cultural and legal.

Economic Environment:

It consists of factors that affect consumer purchasing power and spending patterns. Markets require purchasing power as well as people. Economic conditions, economic policies and economic systems are the important external factors that constitute the economic environment of a business. For example, the economic conditions of a country, the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets etc. are among very important determinants of business strategies.

Technological Environment:

Technology is the most dramatic force shaping people's lives. Factors such as technological development, stages of development, change and rate of change in technology and research and development affect marketing strategies. Also the cost of technology acquisition, impact of technology on human beings and the environmental effects of technology affect marketing decisions.

Political environment:

Political environment is composed of laws, government agencies and pressure groups that influence and limit various organizations and individuals in a society. The main political trends are:

(a) Substantial amount of legislation regulating business.
(b) Growth of public interest groups and
(c) Changing government agency enforcement.

Socio-cultural environment:

The basic beliefs, values and norms shape the society and its people. Even when people of different cultures use the same basic product, the mode of consumption, condition of use, purpose of use or the perception of the product attributes may vary so much so that the product attributes, method of promoting the product may have to be varied to suit the characteristics of different markets. Even the value and beliefs associated with colour vary significantly between different cultures.

Legal environment:

Government all over the world are an important aspects of their economy and even in the so called free economy, viz. US, government intervention in industry is a reality. The extent of intervention varies .while in US this is relatively low; in developing countries this is quite high. India ,for example ,has had a history of a controlled economy with the government deciding the rules of the game ,be it the extent of foreign private investment ,or goods to be exported or imported or even whether a unit can be allowed to produce a product Regulation in advertising ,like ban on advertising a specific product like cigarettes, pan masala, liquor and distribution of goods as in the case of kerosene and earlier in case of food product too, is the reality of Indian scenario.

FUNCTIONS OF ENTREPRENURESHIP

An entrepreneur performs a series of functions necessary right from the genesis of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. He recognizes the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organizational structure. He is thus a nucleus of high growth of the enterprise.

According some economists, the functions of an entrepreneur is classified into five broad categories:

1. Risk-bearing function,
2. Organisational function,
3. Innovative function,
4. Managerial function, and
5. Decision making function.

1. Risk-bearing function:

The functions of an entrepreneur as risk bearer is specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks are not insurable and incalculable. In simple terms such risks are known as uncertainty concerning a loss.

The entrepreneur, according to Kinght, "is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured or capitalized or salaried too."

Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price.

Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimise by his initiative, skill and good judgement. J.B. Say and other have stressed risk taking as the specific function of the entrepreneur.

2. Organisational Function:

Entrepreneur as an organiser and his organising function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organisation and supervision. According to him, an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. In this way, he describes an entrepreneur as an organiser who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

Marshall also advocated the significance of organisation among the services of special class of business undertakers.

3. Innovative Function:

The basic function an entrepreneur performs is to innovate new products, services, ideas and informations for the enterprise. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things. According to Peter Drucker, "Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth". Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application.

J.A. Schumpeter considered economic development as a descrete dynamic change brought by entrepreneurs by instituting new combinations of production, *i.e.* innovation. According to him innovation may occur in any one of the following five forms.

The introduction of a new product in the market with which the customers are not get familiar with.Introduction of a new method of production technology which is not yet tested by experience in the branch of manufacture concerned.The opening of a new market into which the specific product has not previously entered. The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.The carrying out of the new form of oranisation of any industry by creating of a monopoly position or the breaking up of it.

4. Managerial Function:

Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organization of sales procuring machine and material, recruitment of men and undertaking, of business operations. He also undertakes the basic managerial functions of planning, organizing, co-ordinating, staffing, directing, motivating and controlling in the enterprise. He provides a logical and scientific basis to the above functions for the smooth operation of the enterprise thereby avoids chaos in the field of production, marketing, purchasing, recruiting and selection, etc. In large establishments, these managerial functions of the entrepreneur are delegated to the paid managers for more effective and efficient execution.

5. Decision Making Function:

The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities of the enterprise. A. H. Cole described an entrepreneur as a decision maker and attributed the following functions to him.

- He determines the business objectives suitable for the enterprise.
- He develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization.
- He decides in securing adequate financial resources for the organisation and maintains good relations with the existing and potential investors and financiers.
- He decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process.

- He decides the development of a market for his product develops new product or modify the existing product in accordance with the changing consumer's fashion, taste and preference.
- He also decides to maintain good relations with the public authorities as well as with the society at large for improving the firms' image before others.

Women Entrepreneurs

According to the general concept, women entrepreneur may be defined as a women or a group of women who initiate, organize and operate a business enterprise. The Government of India

has defined a women entrepreneurship as "an enterprise owned and controlled by a women having

a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women".

Problems of Women Entrepreneurs

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

1) Shortage of Finance: Women and small entrepreneurs always suffer from inadequate fixed and working capital. Owing to lack of confidence in women's ability, male members in the family do not like to risk their capital in ventures run by women. Banks have also taken negative attitude while lending to women entrepreneurs. Thus women entrepreneurs rely often on personal saving and loans from family and friends.

2) Shortage of Raw Material: Women entrepreneurs find it difficult to procure material

and other necessary inputs. The prices of many raw materials are quite high.

3) Inadequate Marketing Facilities: Most of the women entrepreneurs depend on intermediaries for marketing their products. It is very difficult for the women entrepreneurs to explore the market and to make their product popular. For women, market is a 'chakravyuh'.

4) Keen Competition: Women entrepreneurs face tough competition from male entrepreneurs and also from organized industries. They cannot afford to spend large sums of advertisement.

5) High Cost of Production: High prices of material, low productivity. Under utilization of capacity etc. account for high cost of production. The government assistance and subsidies would not be sufficient for the survival.

6) Family Responsibilities: Management of family may be more complicated than the management of the business. Hence she cannot
put her full involvement in the business .Occupational backgrounds of the family and education level of husband has a direct impact on the development of women entrepreneurship.

7) Low Mobility: One of the biggest handicaps for women entrepreneur is her inability to travel from one place to another for business purposes. A single women asking for room is looked upon with suspicion. Sometimes licensing authorities, labour officials and sales tax officials may harass them.

8) Lack of Education: About 60% of women are still illiterate in India. There exists a belief that investing in woman's education is a liability, not an asset. Lack of knowledge and experience creates further problems in the setting up and operation of business.

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

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

11) Low Need for Achievement: Generally, a woman will not have strong need for achievement. Every women suffers from the painful feeling that she is forced to depend on others

in her life. Her pre-conceived notions about her role in life inhibit achievement and independence.

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

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

Women Entrepreneurs: Concept and Functions of Women Entrepreneurs

Concept:

Women entrepreneur may be defined as a woman or group of women who initiate, organize, and run a business enterprise. In terms of Schumpeterian concept of innovative entrepreneurs, women who innovate, imitate or adopt a business activity are called “women entrepreneurs”.

Kamal Singh who is a woman entrepreneur from Rajasthan, has defined woman entrepreneur as “a confident, innovative and creative woman capable of achieving self-economic independence individually or in collaboration, generates employment opportunities for others through initiating, establishing and running the enterprise by keeping pace with her personal, family and social life.”

The Government of India has defined women entrepreneurs based on women participation in equity and employment of a business enterprise. Accordingly, the Government of India (GOI2006) has defined women entrepreneur as “an enterprise owned and controlled by a women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated in the enterprise to women.” However, this definition is subject to criticism mainly on the condition of employing more than 50 per cent women workers in the enterprises owned and run by the women.

In nutshell, women entrepreneurs are those women who think of a business enterprise, initiate it, organize and combine the factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running a business enterprise.

Functions of Women Entrepreneurs:

As an entrepreneur, a woman entrepreneur has also to perform all the functions involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis, and determination of forms of business organization, completion of promotional formalities, raising funds, procuring men, machine and materials, and operation of business.

Women entrepreneur performs all the functions an entrepreneur performs while establishing an enterprise which are already discussed under the heading functions of an entrepreneur. However, Federick Harbison has enumerated five entrepreneurial function of women entrepreneur as follows:

1. Exploration of the prospects of starting a new business enterprise,

2. Undertaking of risks and handling of economic uncertainties involved in the business.

3. Introduction of innovations or imitation of innovations.

4. Co-ordination, administration and control.

5. Supervision and leadership.

The fact remains that, like the definition of the term ‘entrepreneur’, different scholars have identified different sets of functions performed by an entrepreneur whether man or women.

All these entrepreneurial functions can be classified broadly into three categories:

(i) Risk-bearing

(ii) Organisation

(iii) Innovations

Problems faced by Women Entrepreneur in India

Women entrepreneurs face a series of problems right from the beginning till the the enterprise functions. Being a woman itself poses various problems to a woman entrepreneur, The problems of Indian women pertains to her responsibility towards family, society and lion work.

The tradition, customs, socio cultural values, ethics, motherhood subordinates to ling husband and men, physically weak, hard work areas, feeling of insecurity, cannot be tough etc are some peculiar problems that the Indian women are coming across while they jump into entrepreneurship.

Women in rural areas have to suffer still further. They face tough resistance from men. They are considered as helpers. The attitude of society towards her and constraints in which she has to live and work are not very conducive.

Besides the above basic problems the other problems faced by women entrepreneurs are as follows:

1. Family ties:

Women in India are very emotionally attached to their families. They are supposed to attend to all the domestic work, to look after the children and other members of the family. They are over burden with family responsibilities like extra attention to husband, children and in laws which take away a lots of their time and energy. In such situation, it will be very difficult to concentrate and run the enterprise successfully.

2. Male dominated society:

Even though our constitution speaks of equality between sexes, male chauvinism is still the order of the day. Women are not treated equal to men. Their entry to business requires the approval of the head of the family. Entrepreneurship has traditionally been seen as a male preserve. All these puts a break in the growth of women entrepreneurs.

3. Lack of education:

Women in India are lagging far behind in the field of education. Most of the women (around sixty per cent of total women) are illiterate. Those who are educated are provided either less or inadequate education than their male counterpart partly due to early marriage, partly due to son's higher education and partly due to poverty. Due to lack of proper education, women entrepreneurs remain in dark about the development of new technology, new methods of production, marketing and other governmental support which will encourage them to flourish.

4. Social barriers:

The traditions and customs prevailed in Indian societies towards women sometimes stand as an obstacle before them to grow and prosper. Castes and religions dominate with one another and hinders women entrepreneurs too. In rural areas, they face more social barriers. They are always seen with suspicious eyes.

5. Shortage of raw materials:

The scarcity of raw materials, sometimes nor, availability of proper and adequate raw materials sounds the death-knell of the enterprises run by women entrepreneurs. Women entrepreneurs really face a tough task in getting the required raw material and other necessary inputs for the enterprises when the prices are very high.

6. Problem of finance:

Women entrepreneurs stiffer a lot in raising and meeting the financial needs of the business. Bankers, creditors and financial institutes are not coming forward to provide financial assistance to women borrowers on the ground of their less credit worthiness and more chances of business failure. They also face financial problem due to blockage of funds in raw materials, work-in-progress finished goods and non-receipt of payment from customers in time.

7. Tough competition:

Usually women entrepreneurs employ low technology in the process of production. In a market where the competition is too high, they have to fight hard to survive in the market against the organised sector and their male counterpart who have vast experience and capacity to adopt advanced technology in managing enterprises

8. High cost of production:

Several factors including inefficient management contribute to the high cost of production which stands as a stumbling block before women entrepreneurs. Women entrepreneurs face technology obsolescence due to non-adoption or slow adoption to changing technology which is a major factor of high cost of production.

9.Low risk-bearing capacity:

Women in India are by nature weak, shy and mild. They cannot bear the amount risk which is essential for running an enterprise. Lack of education, training and financial support from outsides also reduce their ability to bear the risk involved in an enterprises.

10 Limited mobility:

Women mobility in India is highly limited and has become a problem due to traditional values and inability to drive vehicles. Moving alone and asking for a room to stay out in the night for business purposes are still looked upon with suspicious eyes. Sometimes, younger women feel uncomfortable in dealing with men who show extra interest in them than work related aspects.

11. Lack of entrepreneurial aptitude:

Lack of entrepreneurial aptitude is a matter of concern for women entrepreneurs. They have no entrepreneurial bent of mind. Even after attending various training programmes on entrepreneur ship women entrepreneurs fail to tide over the risks and troubles that may come up in an organisational working.

12. Limited managerial ability:

Management has become a specialised job which only efficient managers perform. Women entrepreneurs are not efficient in managerial functions like planning, organising, controlling, coordinating, staffing, directing, motivating etc. of an enterprise. Therefore, less and limited managerial ability of women has become a problem for them to run the enterprise successfully.

13. Legal formalities:

Fulfilling the legal formalities required for running an enterprise becomes an upheaval task on the part of an women entrepreneur because of the prevalence of corrupt practices in government offices and procedural delays for various licenses, electricity, water and shed allotments. In such situations women entrepreneurs find it hard to concentrate on the smooth working of the enterprise.

14. Exploitation by middle men:

Since women cannot run around for marketing, distribution and money collection, they have to depend on middle men for the above activities. Middle men tend to exploit them in the guise of helping. They add their own profit margin which result in less sales and lesser profit.

15. Lack of self confidence:

Women entrepreneurs because of their inherent nature, lack of self-confidence which is essentially a motivating factor in running an enterprise successfully. They have to strive hard to strike a balance between managing a family and managing an enterprise. Sometimes she has to sacrifice her entrepreneurial urge in order to strike a balance between the two.

Policies and Schemes for Women Entrepreneurs in India

In India, the Micro, Small & Medium Enterprises development organisations, various State Small Industries Development Corporations, the Nationalised banks and even NGOs are conducting various programmes including Entrepreneurship Development Programmes (EDPs) to cater to the needs of potential women entrepreneurs, who may not have adequate educational background and skills. The Office of DC (MSME) has also opened a Women Cell to provide coordination and assistance to women entrepreneurs facing specific problems.

There are also several other schemes of the government at central and state level, which provide assistance for setting up training-cum-income generating activities for needy women to make them economically independent. Small Industries Development Bank of India (SIDBI) has also been implementing special schemes for women entrepreneurs.

In addition to the special schemes for women entrepreneurs, various government schemes for MSMEs also provide certain special incentives and concessions for women entrepreneurs. For instance, under Prime Minister's Rozgar Yojana (PMRY), preference is given to women beneficiaries. The government has also made several relaxations for women to facilitate the participation of women beneficiaries in this scheme. Similarly, under the MSE Cluster Development Programme by Ministry of MSME, the contribution from the Ministry of MSME varies between 30-80% of the total project in case of hard intervention, but in the case of clusters owned and managed by women entrepreneurs, contribution of the M/o MSME could be upto 90% of the project cost. Similarly, under the Credit Guarantee Fund Scheme for Micro and Small Enterprises, the guarantee cover is generally available upto 75% of the loans extended; however the extent of guarantee cover is 80% for MSEs operated and/ or owned by women.

Some of the special schemes for women entrepreneurs implemented by the government bodies and allied institutions are provided below.

- Schemes of Ministry of MSME
    - Trade related entrepreneurship assistance and development (TREAD) scheme for women
    - Mahila Coir Yojana

  To read more on activities of Ministry of MSMEs for women development, click here.

- Schemes of Ministry of Women and Child Development
    - Support to Training and Employment Programme for Women (STEP)

- Swayam Siddha
- Schemes of Kerala State Women's Development Corporation
  - Self employment loan programmes
  - Educational loan schemes
  - Single women benefit schemes
  - Job oriented training programmes
  - Marketing support for women entrepreneurs
  - Autorickshaw / school van's driver scheme
- Kerala Government's Women Industries Programme
- Delhi Government's Stree Shakti Project
- Schemes of Delhi Commission for Women (Related to Skill development and training)
- Incentives to Women Entrepreneurs Scheme, 2008, Government of Goa
- Magalir Udavi Scheme, Pudhucherry Government
- Financing Schemes by Banks/ Financial Institution's

Rural Entrepreneurship

Meaning

Rural entrepreneurship have different meanings 2 different people. It can be simply defined as entrepreneurship emerging in rural areas is rural entrepreneurship. In other words rural entrepreneurship refers to establishment of industrial units in the rural areas. Rural Industries are generally associated with agriculture. According to the Khadi and village Industries Commission (KVIC),"village industry or rural industries means industries located in rural area whose population does not exceed 10000 or any such figure that provides goods or renders any services with or without use of power and in which the fixed capital of an artisan or a worker does not exceed a thousand rupees."

This definition of village industry has been recently modified by the government so as to enlarge its scope. Therefore any industry which is located in rural area , village or town having a population of 20000 and below and an investment of Rs. 3 crores is termed as village industry.

All the village industries have been grouped into seven major categories which are as follows:

1) Mineral based industry ,
2) Forest based industry ,
3) Agro based industry ,
4) Polymer and chemical based industry ,
5) Engineering and non conventional industry ,
6) Textile industry (including Khadi) , and
7) Service industry

Need for Rural Entrepreneurship

A) **Labour intensive**: Rural Industries have high potential Employment generation. Thus they serve as an antidote to the widespread problems of unemployment.

B) **Income generation** rural Industries have high potential of income generation in rural areas. Thus it helps in reducing disparities and income between rural and urban areas.

C) **Balanced regional development** these industries encourage dispersal of economic activities in rural areas which helps in promoting balanced regional development.

D) **Village republics** Development of industries in the rural areas also helps in building up village Republic.

E) **Art and creativity** rural industries also helps in protecting and promoting the art and creativity i.e. the age old rich heritage of the country.

F) **Environment friendly** rural Industries being eco friendly lead to development without destruction.

Problems of Rural Entrepreneurship

1. Lack of awareness about the importance of developing industries in rural areas.

2. Disinterest of rural people towards assuming the career as an entrepreneur.
3. Rural people general you want to take-up salaried employment because of assured income. Use of obsolete Technology, machine, and equipment.
4. Unawareness of rural people about entrepreneurial opportunities available.

How to Develop Rural Entrepreneurship?

The following are some of the measures suggested for developing entrepreneurship in the rural areas in the country :

1. **Raw material**: the availability of raw material is a must for any industry. It is clear from the past experience that rural Industries having employment potential cannot be sustained for long unless a strong raw material base is created in rural areas itself.
2. **Finance**: it is considered as lubricant for setting up and running an industry. Therefore finance need to be available on time for those who really need it.
3. **Entrepreneurial education**: it is one of the effective ways to inculcate the entrepreneurial Acumen and attitude impart entrepreneurial education in schools, colleges, and Universities.
4. **Unawareness**: of facilities the main problem in setting up industries is not the unavailability of facilities but non Awareness of facilities whatever are available. Therefore there is a need to disseminate information about all that is available to provide to the entrepreneurs to facilitate them in setting up of the industries.
5. **Set up modern infrastructure**: Solve the problem of marketing for rural industries there is a need to set up common production-cum-marketing centres and developed with modern infrastructural facilities in the areas having good production and growth potential that helps in promoting export business.

NGOs and Rural Entrepreneurship

The NGOs involved in entrepreneurship development can be categorised into three main types:

1. **Primary level NGOs**: the NGOs who mobilise their own resources, operates at international level and execute developmental activities themselves or through any immediate fall in this category.
2. **Intermediate NGOs**: these NGOs procure Finance from different Agencies and then imparts training, and conduct workshops for the target workforce.
3. **Grass root level NGOs**: these NGOs conduct field activities establishing a direct contact with the needy (Grass root) people.

The training imparted by the NGOs to the needy can be categorised into three broad types:

1. **Stimulation:** conduction of EDP s and training programs for the target people to stimulate the enterprising attitude among them.
2. **Counselling**: Providing Consultancy Services and counselling to the needy about how to prepare a project, purchase of plant and machinery, feasibility report, and performing are the procedural activities.
3. **Assistance:** providing assistance to the target group about marketing the product and servicing Finance from Financial Institutions

Possible Questions:

1. Write a short note entrepreneurial competency.
2. Explain the functions of entrepreneurship.
3. Discuss the various types of an entrepreneur.
4. Explain the characteristics of entrepreneurship.
5. Define women entrepreneur. What are the various problem faced by women entrepreneur.
6. Explain the classifications of entrepreneur.
7. What is rural entrepreneur? Explain the
8. Explain the characteristics of entrepreneurship.
9. What are the major entrepreneurial competencies?
10. Explain the needs for rural entrepreneur.

PART A

ONLINE QUESTIONS

S.No.	Questions	Option 1	Option 2	Option 3	Option 4	Answers
	UNIT - II					
1	___________ is essential to any enterprise.	Finance	loan	docoument	credit	Finance
2	Government provides Financial assistancefor the _________ Entrepreneurs.	very large scale	high	small scale	very few	small scale
3	IIC denotes ________	Indian Investment Centre	Indian Invest Centre	Indian Instalment Centre	Indian Industry Centre	Indian Investment Centre
4	The IFCI concentrates mainly to___________Industries.	small scale	Large Scale	medium	tiny	Large Scale
5	The main functions of SFC S is to cater small____________.	people	company	industries	concern	industries
6	_____________ assistance is given to small Entrepreneurs.	Local	high level	small level	Financial	Financial
7	In 1948___________ was set up.	IFCI	ICFI	TIC	CIT	IFCI
8	The IFCI concentrates mainly to____________Industries.	small scale	Large Scale	medium	tiny	Large Scale
9	The main functions of _____ is to cater small industries	people	company	SFC	concern	SFC
10	A____________________________ gives assistance to small Entrepreneurs.	large	high	small	Commercial banks	Commercial banks

11	SIDBI Commences its operation in the year _______.	1936	1950	1990	1948	1990
12	______________ provide training to small entrepreneurs.	failure	SIDBI	economic	IIC	SIDBI
13	SIDBI Commences its operation With___________________.	251 crores	256 crores	255 crores	250 crores	250 crores
14	__________ gives assistance to small Entrepreneurs.	Companies	Industries	Corporates	SIDBI	SIDBI
15	SIDBI gives important assistance for___________.	leasing	large	high	Small	leasing
16	IN 1978________was started	large	high	DIC	Commercial Banks	DIC
17	DIC Is promoted for industries To cater all_________.	medium	needssmall	large	needs large	needssmall
18	TIIC s role is to promote________ the enterprises .	development	data	catching	Enhancement	development
19	TIIC s funds are provided by_______government.	state	small	central	Self	central
20	Co-ordinate Policies_________ the programmes.	Assist	small	central	Attend	Assist
21	_________ industries need assistance to do the marketting	Steel	small	large	tiny level	small
22	SIDO s provide more assistance on ____________.	knowledge	lateral	consultancy	Groupisim	consultancy

23	SIPCOT s provide________to small entrepreneurs.	failure	training	economic	Food	training
24	SIDC's set up in the year _________Government	state	small	central	local self	central
25	Preparation of Project___________ is a function of SISI.	report	profile	directoions	both b and c	report
26	_________ was started by central Government	DIC	SIDBI	NSIC	SFC	NSIC
27	NSIC Promotes central _________	state	small	industries.	shops	industries.
28	A_________ is essential to any enterprise.	Finance	loan	docoument	loan and document	Finance
29	Financial assistance is given to__________ Entrepreneurs.	large	high	small	tiny	small
30	The TIIC, sponsored by the Government of ________	Tamilnadu	Kerala	Andra	Karnataka	Tamilnadu
31	Small Industries service Institutes established in the year _______	1936	1946	1956	1966	1956
32	The main __________of TIIC is to cater small industries	people	company	functions	concern	functions
33	Finance is essential to any________.	enterprise.	loan	docoument	project	enterprise.
34	_______________ assistance is given to small Entrepreneurs.	large	high	small	Technical	Technical
35	In 1948_________________________ was set up.	IFCI	training	EDP	CIT	IFCI

36	The SIPCOT concentrates mainly to______________Industries.	small scale	Large Scale	medium	tiny level	Large Scale
37	The main functions of _________ is to cater small industries	EDP	CIT	SIPCOT	IFCI	SIPCOT
38	IIC Is promoted for________________industries.	medium	small	large	tiny	small
39	______________main role is to promote development	DIC	CIT	SIPCOT	IFCI	DIC
40	The commercuial banks started to cater__________________.	medium	industries	large	tiny Institutions	industries
41	DIC Is promoted for_________industries.	medium	small	large	tiny	small
42	Dividends can be derived from the shaes of __________	Sale	Profit	loss	No loss and no profit	profit
43	DIC s funds is provided by__________________government.	state	small	central	local self	central
44	Project managers provide_________service.	people	company	company	technical	technical
45	Small industries register in____________.	district	optimistic	thinking	urban	district
46	Programmes develop__________estates.	people	work	person	estates.	estates.
47	Industrial estates promote____________	people	industralisation	person	estates.	industralisation

48	SIDO isone of the _________ like.	people	company	office	Corporation	office
49	Function of SIDO is______________.	co-ordination	data mining	catching	planning	co-ordination
50	A______________is an apex body.	SIOD	SIDO	DIOC	SFC	SIDO
51	SIDO Is assisted by its ___________.	district	optimistic	directors	officers	directors
52	Policies__________ the programmes.	co-ordinate	small	central	create	co-ordinate
53	Small industries assist to __________________.	market	small	large	planning	market
54	SISI s provide____________ also.	knowledge	lateral	consultancy	Work	consultancy
55	SISI s provide__________to small entrepreneurs.	failure	training	economic	success	training
56	SISI S set up by ________capital.	state	small	central	local self	central
57	___________profile is the main function of SISI.	district	Project	irectors	innovators	Project
58	_______ was started by central government	people	company	NSIC	SFC	NSIC
59	NSIC Promotes_________industries.	state	small	central	urban	central
60	SIDO is made for ________of SSI	organize	development	control	staffing	development

Unit III

SYLLABUS

Establishing a Small Enterprise - Learning the important steps for starting a Business - Project Identification and Selecting the Product - Generation and Screening the Project Ideas - Market Analysis - Technical Analysis, Financial Analysis (up to cost of production) Project Formulation - Assessment of Project Feasibility - Preparation of Project Report - Dealing with basic startup problems.

Introduction

Small Scale Industries are those industrial undertakings having a fixed investment in plant and machinery, whether held on an ownership basis or a lease basis or a hire purchase basis and not exceeding Rs.1 crore. It has a larger contribution to the growth of an economy. However, this investment money is varied by the Government from time to time.

A small scale unit is normally a one-man show and even in the case of a partnership the activities are mainly carried out by the active partner and the rest are sleeping partners. The area of operation of small units is localized, catering to the local or regional demand. Small industries are fairly intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce, and there is an abundant supply of labor. The Ministry of Small Scale Industries has now merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small, and Medium Enterprises (MSME).

Registration of Small Scale Industries

One of the advantages of small scale industries is that they are more flexible to adapt to changes to the new method of production, the introduction of new products, etc. Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. The objective of small scale industries is to adapt to the latest technology and to produce better quality products at lower costs.

Even in this type of business, registration is voluntary and not compulsory. But, its registration with the State Directorate or Commissioner of industries or DIC's makes the unit eligible for availing different types of Government assistance like financial assistance from the Department of Industries, medium and long terms loans from State Financial Corporations and other commercial banks, machinery on hire-purchase basis from the National Small Industries Corporation, etc.

Two types of registration are done in all States.

- Firstly, a provisional registration certificate is given, i.e., valid for normally five years and after the commencement of production, a permanent certificate is given, i.e., in perpetuity.
- Once the company is being registered as an SSI, it can avail several benefits such as cheap Bank Finance, exemption from Sales Tax, exemption from Excise Duty, ease in getting licenses and permissions, capital subsidy, ISO-9000 Certification reimbursement, reduced customs duty and several other benefits provided by the State Government.

Procedures for Setting Up of a Small Scale Business

Small Scale Business provides more independence than the large scale business and through this type of business one can fulfill their dream to become an entrepreneur. It eliminates much of the overhead expense and extensive planning required in larger business ventures.

Decision Making: To prepare the description for the small scale industry you want to set up. It is necessary to decide whether you wish to set up a corporation, proprietorship or partnership. The potential entrepreneur has to analyze his strength, weakness while deciding for entrepreneur career. This analysis helps in knowing what type and size of business would be the most suitable.

Scanning Of Business Environment: Before setting up your industry, it is always essential to study and understand the prevailing business environment in which they operate particularly the industrial policy, economic policy, licensing policy, legal environment, and technological environment. The environment impacts a lot in setting up a proper industry.

Product Selection: You need to decide the product you wish to manufacture or the service you wish to offer. While choosing the product or service you want to offer, you must conduct a good market research and learn about the prevailing competition in the market.

Location: You need to choose a location to set up your small scale industry. While choosing the location such factors such as nearness to market, sources of material availability of raw materials, labor, transportation services, modern infrastructural facilities and other things are considered. Location determines the success or failure of the enterprise.

Technology: To manufacture any item, technology is used. The entrepreneur should collect information on all available technologies, and the most suitable one should be identified. This will also be useful to determine the type of machinery and equipment to be installed.

Project: Project appraisal means the assessment of a project. It is a technique for ex-ante analysis of a scheme or project while preparing to set up an enterprise; the entrepreneur has to appraise the project carefully from the standpoint of economic, financial, technical, market, social and managerial aspects to arrive at the most socially-feasible enterprise.

Finance: Finance is the lifeblood of the enterprise. So, the next big step is to arrange for finance. No business can be created, with zero capital. If you don't have enough finance and then the best way is to borrow or take a loan.

Provisional Registration: It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries.

Production Management: Production management is the next step, once you can start your small scale industry. This includes allocating space for different operations and choosing your production methods. You are required to purchase machinery and hire employees and workers for different departments.

Power and Water Connection: The sites where the enterprise will be located should either have adequate power connections, or it should be arranged. The entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise, as it can materially affect the installation cost.

Installation of Machinery: Once the above formalities have been completed; the next step is to procure machinery and begin its installation as per the plant layout.

Insurance: It is necessary to have adequate insurance for fixed assets at this stage and later on for the current assets as well.

Recruitment of Manpower: Once machines are installed, the need for manpower arises to run them. So, the quantum and type of manpower are to be decided. The sources of getting desired labor are also important. This follows the recruitment, training, and placement.

Production: The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery, and methods effectively. There should not be any wastage of manpower, machinery, and materials. If items are exported, then the product and its packaging must be attractive.

Marketing: Marketing is the most important activity as far as the entrepreneurial development is concerned. Marketing and business advertising form the next big step of setting up a small scale industry. Online business directories and various traditional forms of advertising can gain exposure for your business. Prices for your products or services are decided to keep in mind the profit margin.

Quality Assurance: Before marketing, the product quality certification from BIS (Bureau of Indian Standard)/ AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there are no quality standards specified for the products, the entrepreneur should evolve his quality control parameters.

Permanent Registration: After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from the DIC or Directorate of Industries.

Market Research: Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, up gradation and growth.

Monitoring: Periodical monitoring and evaluation not only of markets but also production, quality, and profitability help in knowing where the firm stands in comparison to performance envisaged in the business plan. It also identifies the direction of future growth. Therefore, planning is a useful aspect of setting up a small scale. According to business, at every stage, you are required to improve your plan.

Project Identification and Classification

Concept of Project

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.

1. They have consequences which are long-term in nature.
2. Projects 'provided the framework of the future activities of the enterprises.
3. They also shape the future pattern of services.
4. Projects usually involve substantial financial outlays.
5. They also initiate development of basic infrastructure and environment.
6. Project commitments cannot be easily reversed.
7. Project Identification brings the necessary changes in society in course of time.
8. Projects accelerate the process of socio-cultural development.

The kinds of projects

1. Agricultural projects- relating to
    a. Land development
    b. Irrigation
    c. Soil- conservation
    d. Fertilizers, and
    e. Seeds etc.
2. Research projects

Definition of "Project"- According to World Bank, project can be defined as "An approval for a capital investment to develop facilities to provide goods and services".

Little and Mireless defines project as "A scheme or a part of scheme for investing resources which can be reasonably analyzed and evaluated as an independent unit".

"It is an appraisal for investment with the definite aim of producing a flow of output over a specific period of time".

Gittinger has defined it as the whole gamut of activities involved in using resources to gain benefits.

According to Dr. Albert O. Hirchman" The development project connotes purposefulness, some minimum size, a specific location, the introduction of something qualitative new, and the expectation that a sequence of further development will be set in motion".

Project can be defined as a scientifically evolved work plan devised to achieve a specific objective with a specified period of time. The three basic attributes of a project are

1. A course of action
2. Specific objectives, and
3. Definite time perspective

CONCEPTUALlS'ING THE PROJECT

CONCEPTUALISING THE PROJECT

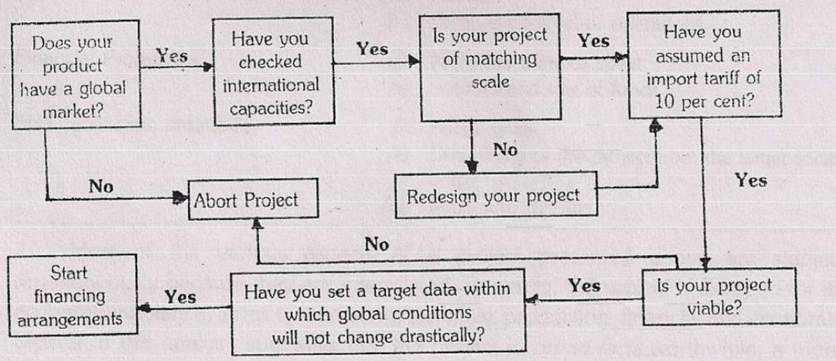

Fig. 3.2

ASPECTS OF PROJECTS

Aspects	Concerned with
	I. Preliminary
Product/Service	*(i)* Choice of a product/service
	(ii) Technical characteristics of the product/service
	(iii) Uses of the product/service
Marketing	*(i)* Consumer preferences
	(ii) Nature of competition
	(iii) Potential aggregate demand
	(iv) Likely share of the project

Aspects of a Project

There are two aspects of a project. First, a preliminary aspect of analysing the product, its marketing, technical, financial and economic aspects. Second, the feasibility aspects. It contains adequate information for decision-making and sometimes, even implementation.

Technical	*(i)* Location *(ii)* Scale of operation *(iii)* Manufacturing process *(iv)* Plant and machinery *(v)* Plant layout *(vi)* Work schedule
Financial	*(i)* Outlay on fixed assets *(ii)* Current assets *(iii)* Working capital *(iv)* Short and long-term finance *(v)* Bills etc.
Economic	*(i)* Utility to society *(ii)* Employment generation *(iii)* Ancillary development *(iv)* Scope for area development *(v)* Social benefits
	II. Feasibility
Financial viability	*(i)* Costs and benefits *(ii)* Risk characteristics *(iii)* Viability *(iv)* Internal rate of return (IRR)
Profitability	*(i)* Revenues, earnings *(ii)* Costs *(iii)* Profits *(iv)* Break-even level of operations
Financial Projections	*(i)* Proforma balance sheet *(ii)* Sources and use of funds
Socio-economic desirability	*(i)* Social goals *(ii)* Desirability of the project from the larger social angle *(iii)* Maximum Returns.

Most of the various aspects of a project presented above are studied simultaneously because they are interrelated. Primarily, the' project is assessed for its economic viability in terms of marketing, technical, production, financial and economic aspects. If this analysis suggestes that the project is *prima fade* worthwhile, a more detailed investigation is conducted. It examines the feasibility of the project. The detailed analysis at various stages provides stimulus to its smooth implementation. The project has a number of sub-projects within a project. Detailed examination of all these . project pave the way for assessing the soundness of a project. A sound project is one which is socio-economically desirable and it aims at social good of a larger segment of the society.

The Project Cycle

The project work comprises of several distinct stages, commonly referred to collectively .as the project cycle. The stages are closely linked and follow a logical progression. with the later stages providing the basis for a renewal of the cycle. The principal stages of the cycle are the identi'fication of a project; its design, preparation' and appraisal; its implementation; and its evaluation once the investment phase has been completed. The Project cycle is illustrated in the diagram.

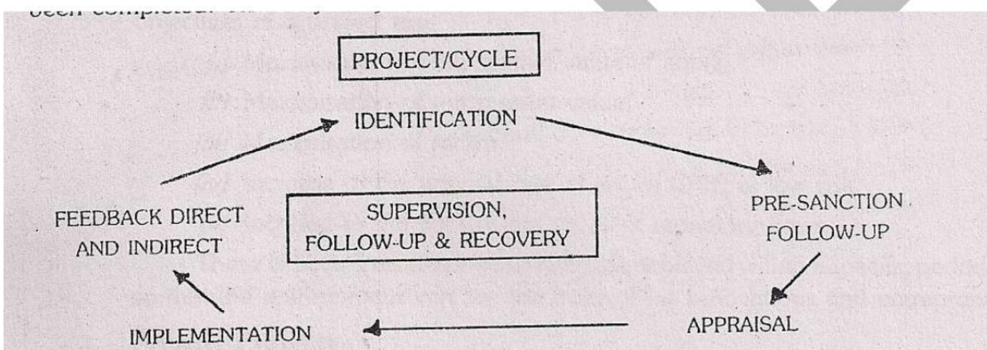

Fig. 3.3

Project Identification

The project cycle begins with the identification of project ideas that appear to represent a high-priority to achieve important development objectives.

Project Preparation

At the next stage, a feasibility study should be taken in its principal dimensions technical, economic, financial, social and so forth to establish the justification of the project. Projects should he designed with a view to how they will be implemented.

Appropriate design is essential. The design of projects need to be adopted to lcoal, political, administrative, economic, and cultural conditions, particularly if success hinges on changing behaviour. The entire project should be objectively appraised.

Project Implementation

All project identification and preparation work' is directed toward facilitating project implementation and helping to ensure its success. Implementation is a critical stage of project work.

Ex-post Evaluation

The project cycle does not end when implementation is completed and the project goes into operation. The main purpose is to learn lessons for the design of future projects and help ensure accountability, Ex-post evaluation should provide a comprehensive and detailed review of the elements of success and failure of the project for enhancing the development impact of project work.

Project Objectives

Project objective is a!1 important element in the project planning cycle. Project objectives are concerned with defining in a precise manner what the project is expected to achieve and to provide a measure of performance for the project as a whole. Objectives are the foundations on which the entire edifice or the project design is built.

The essential requirements for project objectives are: *(a)* specific, not general

(b) not overly complex

(c) measurable, tangible and verifiable *(d)* realistic and attainable

(e) established within resource bounds

(I) consistent with resources available or anticipated

(g) consistent with organisational plans, policies and procedures.

The project objectives are aimed to complete the project on time, within contemplated costs and at a profit. Whereas, the objectives of social projects are service

oriented. . 1

. Objectives are the foundations on which the entire edifice of the project design rests. They specify the present position, goals and the time duration. The basic objective objectives of a project are:

- Maximisation of the market value of equity.
- Maximisation of net present value.
- Maximisation of return.
- Increase in the internal rate of return (IRR) at low risk.
- Increase in the net present value of monetary flows.

These expected results or goals are to be achieved within a specific period of time, so that the entrepreneur can see the fruits of his innovations and entrepreneurship.

Priority Projects

India· being basically an agricultural country must give top priority to rural development. For this, rural development projects intend to provide a sustained increase in agricultural output and generation of adequate gainful employment. Rural development programmes can be accomplished only by uplifting the individual other family. As already mentioned, taking up schemes or projects for development of rural' population on individual sporadic basis' would at best touch only the fringe of the. Problem of mass rural development. This scattered development effort leads to waste of resources. Therefore a package of programme projects, area development schemes and other means should be systematically evolved>

Project Planning

Projects neither come out of nothing, nor would they fall from the blue. They have to be planned. Investment projects should be planned within the framework of national policy directives. Priorities should be fixed. Planning is the most important aspect of project preparation.

CLASSIFICATION OF PROJECTS

Establishment of a new business unit to manufacture some product or arrange for the distribution of products of another company poses a challenge to the entrepreneur.

a. Helps in expressing and highlighting the essential features of the project.
b. Project includes all activities aimed at:
    - Increased production of goods and/ or services.
    - Increasing the capability of existing projects and
    - Increasing the productivity of these goods/ services.

The projects can be classified as under:

1. 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

2. 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
- Miscellaneous

Useful in resource allocation at macro level.

3. Techno- Economic Projects

Based on their techno- economic characteristics

Projects classification based on techno-projects classification based on techno projects

economic characteristics fallin this category. This type of classification includes factor s intensity-oriented classification, causation oriented classification and magnitude-oriented classification. These are discussed as follows:

(a) Factor Intensity-Oriented Classification

classification, projects may be classified as capital intensive or labor intensive. If large investment is made in plant and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large number of human resources will be termed as 'labor intensive'.

(b) Causation-Oriented Classification

Where causation is used as a basis of classification, projects may be classified as demand based or raw material based projects. The very existence of demand for certain goods or services makes the project demand-based and the availability of certain raw materials, skills or other inputs makes the project raw material-based.

(c)Magnitude-Oriented Classification

In case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium-scale or small-scale projects Definite procedure of selecting a project. Basically, project selection consists of two main steps:1. Project Identification2. Project Selection

Techno- economic classification facilitates the process of project feasibility appraisal.

4. 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.

5. Services Projects

- Welfare projects
- Service projects
- Research and development projects
- Educational projects

3.Projects accelerate the process of socio-cultural development.

PROJECT IDENTIFICATION

Project identification is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according Drucker (1955), are of three kinds; additive, complementary and break-through.

Additive opportunities are those opportunities, which enable the decision-maker to better utilize the existing resources without in any way involving a change in the character of business

.i)Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure

.ii)Break-through opportunities, on the other hand, involve fundamental changes in both the structure and character of business

.iii)Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk.

The element of risk is more in other two opportunities. When the element of risk increases, it becomes more important to precisely define the scope and nature of project idea, to develop alternative solutions for achieving the project objectives and to select the best possible approach so as to minimize both resource consumption and risks and to optimize the return or gains.

Project identification cannot be complete without identifying the characteristics of a project. Every project has three basic dimensions-inputs, outputs and social costs and benefits.

The input characteristics define what the project will consume in terms of raw materials, energy, manpower, finance and organizational setup. The nature and magnitude of each of these inputs must be determined in order to make the input characteristic explicit.

The output characteristics of a project define what the project will generate in the form of goods and services, employment, revenue etc., the quantity and quality of all these outputs should be clearly specified.

In addition to inputs and outputs every project has an impact on the society. It inevitably affects the current equilibriums of the demand and supply in the economy. It is necessary to evaluate carefully the sacrifice, which the society will be required to make, and the benefits that will accrueto the society from a given project.

Project do not emerge them selves. The inputs to set up a project can come from different sources such as Government agencies, credit and financial institutions, non-governmental organization like chambers of commerce and industry, inter-institutional groups, technical consultancy organizations and inter-national collaborations. Once the venture ideas have been developed by entrepreneurs by following on or combination of sources explained, these have to be screened and evaluated in a preliminary fashion on the basis of internal and external constraints prior to being put to additional tests of pre-feasibility. This project identification comes to an end by laying down specific project objectives clearly and concisely and without any ambiguity so that these convey one and the same meaning to all concerned

INTERNAL CONSTRAINTS:

Internal constraints arise on account of the limitations of the management system, which will eventually be responsible for the implementation of a project. In India, the internal constraints for the entrepreneurs while venturing the projects comprise inputs, resources and outputs. These are narrated as under

i) Entrepreneurs, while implementing the projects, rely more on outside consultants for preparation of feasibility reports in the formulation of their projects. The limitation of the part of entrepreneurs to provide in built project services in the form of preparing feasibility reports is an important internal constraint in the early implementation of the project.

ii) For early implementation of projects within the budgeted cost and time schedule, all the entrepreneurs cannot develop independent project management system, organization structure, network analysis and other elements. In such a situation, the entrepreneurs' inherent internal constraints are developing well-equipped project management strategies and tools while implementing them

.iii) Project goals and objectives lay down the main purpose for which an organization exists. Practically, project management team is not much involved with the determination of project objectives. Certainly this will be another internal; constrain for the project objectives the unrealistic objectives, which are decided by the top management personnel of the business.

iv)The availability of the necessary internal project elements and resources are physical and non-physical resources. The physical resources include finance, personnel, inventories and facilities. The non-physical resources are patents secret processes, unique experience and skills. Both the physical and non-physical resources are the important constraints for the entrepreneurs to make available at a time when the project implementation is in progress.

Project Formulation

Introduction

But in reality, the case is quite different. A major constraint faced especially in developing countries is the resources constraint. Hence it becomes imperative that certain project ideas are only taken up or pursued in preference to others. How to make this decision or choose only a few projects for implementation? Project formulation, techniques help us in making a choice. When we say project formulation, we mean that a project idea is presented in such a form that it can be subjected to comparative appraisal. This process will aid in definitely determining the priority of projects from the point of view of resource allocation. The project ideas can be analysed from the point of view of inputs as well as outputs. such an analysis when presented to a decision maker or to consulting agencies will help them in decision-making. This strategy analyses project ideas not only from the viewpoint of technical feasibility and financial viability but also evaluates the sum total effect which the project will have on the society and the immediate environment.

What is Project Formulation?

Project formulation is defined as *taking* a *first* a *look carefully and critically at. a project idea by an entrepreneur to build up an all-round beneficial to project after carefully weighing its various components.* It is formulated by the entrepreneur with the assistance of specialists or consultants. Project formulation is, therefore, 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 also its liability. By all means, this strategy forms an important stage in the pre-investment phase - that is the period from the conception of an idea until the final analysis to decide about the future of a project idea. This makes it an analytical management aid. The aim of project formulation is to achieve the project objectives with the minimum expenditure and adequate resources. In other words, it is to derive maximum benefits from minimum expenses in a short span of time.

It is assessment of the feasibility of a proposal or a scheme of a borrower based on the examination of factors like the capacity of the unit or farm to produce, the repaying capacity generated by the funds asked for, the assets and liabilities and so on. These factors are technical; economic, managerial, financial, commercial, organisational and legal. The project size is determined by taking into consideration factors like the area of operation, the types and levels of activities undertaken, the type and size of the organisation, amount of investment necessary and the time required for the completion of the activities contemplated under the project.

Steps in Project Formulation

As mentioned earlier, a project comprises a series of activities for achieving predetermined objective or set of-objectives. In view of this, to begin with, the objective (s) of the project should be defined as precisely as possible. The objectives may be social, economic or a combination of both and they can be defined under the following categories:

(i] General. objectives and

{ii} Operational objectives.

A *general objective* merely states in broad terms the achievements expected whereas' an *operational objective* specifically mentions results expected from the implementation of the project or scheme. The definition of objective in clear terms helps in quantifying physical, financial, human and other resources requirements.

Following this, the next strategy concerns itself with the location and size of the project. The location of the project is influenced by the availability or existence of various resources and the infrastructural facilities. Examination of availability/existence of these resources/facilities at one or more sites should lead to a decision on the selection of the location of the project and thus facilitate exploitation of the available resources/ facilities to the advantage of the investor or the community at large or both.

Need for Project Formulation

The entrepreneur in a developing country has to encounter a number of problems while establishing a new project. These problems cause greater concern to many enthusiastic entrepreneurs. However, they could be saved to a greater extent by undertaking a project formulation exercise at the appropriate time.

1. **Selection of appropriate technology:** The first problem faced by an entrepreneur is in the matter of selection of appropriate technology for his enterprise. Modern technology developed in the highly industrialised countries may not be suitable for adoption in the developing countries as the conditions prevalent differ from country to country. For example, the optimal size of plants recommended for a highly industrialised country may be too ***big*** for acceptance in a developing country owing to the factors such as limited market for the products and limited availability of ***capital*** and skilled labour. Hence, the entrepreneur has to examine the project idea thoroughly as regards its design, production, marketing, after sales service, etc.

2. **Influence of External Economies:** The second problem relates to the absence or non-availability of external economies. No project can function an isolation in any economy. It has to depend on other industries for the supply of raw materials, power, tools, spare parts, etc., or on ancillary enterprises which can provide technical, financial and managerial services or on a complex net-work of communication and transport facilities or an intricate system of ***business*** practices. The entrepreneur in developing countries is, therefore, to consider not only the basic costs of the project but also the ancillary costs which in industrially advanced countries would have been contributed by the external economies.

3. Dearth of Technically Qualified Personnel: The third problem is the non-availability of technically qualified and appropriate personnel. Modern technology calls for a certain minimum supply of various skills that are generally lacking in developing countries.

4. Resource mobilisation: The fourth problem is resource mobilisation. In the context of present-day development of the magnitude and size of project it would be very difficult for an entrepreneur to provide the entire development capital that a project may need.

5. **Knowledge about Government Regulations:** Besides these problems the entrepreneur has to comprehend a number of Government directives, import and export policies, ***price*** controls, etc. The difficulty is to be familiar with all these regulations, for they are not available in a consolidated and detailed form in most of the developing countries. However, in India, a compendium entitled 'Guidelines for Industries' has been published by the Ministry of Industrial Development. II provides information regarding the industrial policy, licensing procedures, guidelines for foreign collaboration, import and export control orders and foreign exchange orders. It also has information regarding the present status of capacities and possibilities of future development in various industrial fields like metallurgical industries, electronics equipment industries, transportation industries and the like.

These problems make the entrepreneur to undergo a lot of harassment, disappointment and despair. However, a project formulation exercise undertaken at the right ***time*** mitigates the severity as well as magnitude of these problems

Elements of Project Formulation

The process of project development has been categorised into seven distinct and sequential stages. They are:

1.Feasibility Analysis.

2.Techno-Economic Analysis.

3 .. Project Design and Network Analysis.

4.Input Analysis.

5.Financial Analysis.

6.Social Cost-Benefit Analysis.

7.Pre-Investment Analysis.

Thus, project formulation takes into consideration the above seven important aspects of a project, as shown in Fig. 5.2.

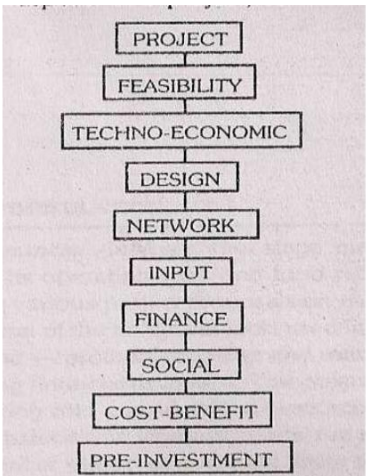

Fig. 5.2 Sequential Stages of Project Formulation

1. Feasibility Analysis:

This is the very first stage in project formulation. At this stage, the project idea is examined from the point of view of whether to 'go in for a detailed investment proposal or not. As project idea is examined in the context of internal and external constraints three alternatives could be considered. First, the project idea seems to be feasible, second, the project idea is not a feasible one and third, unable to arrive at a conclusion for want of adequate data. If it is feasible, we proceed to the second step., if not feasible, we' abandon the idea and if sufficient data are not available, we make .more efforts to collect the required data and design development.

2. Techno-Economic Analysis:

In this step, estimation of project demand potential and choice of optimal technology is made. As the project may produce goods or services, it is imperative to know the Market of Project Formulation analysis is also in-built in this step. The choice of technology itself will be based on the demand potential and aid in project design.

Techno-economic analysis gives the project a unique individuality and sets the 'stage for detailed design development.

3. Project Design and Network Analysis:

This important step defines individual' activities which constitute the project and their inter-relationship with each other. The sequence of events of the project is presented. A detailed work plan of the project is prepared with time allocation for each activity and presented in a network drawing. Project design is the heart of the project entity. This paves the way for detailed identification and qualification of the project inputs, an essential step, in the development of the financial and cost-benefit profile of the project.

4. lnput Analysis:

The step assesses the input requirements durinq the construction of the project and also during the operation of the 'project. In the earlier step, a project was divided into several activities. Now it is better to see to the inputs required for each activity and sum it up to get at the total input requirements on qualitative and quantitative terms. Inputs include materials, human resources. Input analysis also considers the recurring as well .as non-recurring resource requirements of the project and evaluate the feasibility of the project frpm the point of view of the availability of these resources. This will aid in assessing the project cost itself which in turn is necessary for financial analysis or cost-benefit analysis.

5. Financial Analysis:

This stage mainly involves estimating the project costs, estimating its operating costs and fund requirements. Financial analysis also helps in comparing various project proposals on a common scale, thereby aiding the decisionmaker. Some of the analytical tools used in financial analysis are discounted cash flow, cost-volume - profit relationship' and ratio analysis. It is very essential to take caution in preparing financial estimates. The objective of this strategy caution is to develop the project taking into consideration resources and also to identify these characteristics. Investment decisions whether made for the provision of goods or services involve commitment of resources in future. Since investment proposition has a very long timehorizon, it is absolutely necessary to exercise due care and foresight in developing project financial forecasts.

6. Cost-Benefit Analysis.

The overall worth of a project is the main consideration here. While financial analysis will go to justify a project from the profitability point of view, cost-benefit analysis will consider the project from the national viability point of view. Here again, the project design forms the basis of evaluation. When we talk of cost-benefit analysis, we not only take into account the apparent direct costs and direct

, benefits of the project but also the costs which all entities connected with the project have to bear and the benefits which will be enjoyed by all such entities. This strategy is now taken to be the internationally recognised system of project formulation.

7. Pre-investment Analysis:

The project proposal gets a formal and final shape at this stage. All the results obtained in the above steps are consolidated and various conclusions arrived at to present a clear picture. At this stage, the project is presented in such a way that the project-sponsoring body, the project-implementing body and the external consulting agencies are able to decide whether to accept the proposal. or not. The sum total of the pre-investment appraisal is to 'present the project idea in a form in which the project-sponsoring body, the project-implementing body can take an investment decision regarding the project,

Project selection

Project selection starts from where project identification ends. After having some project ideas, these are analyzed in the light of existing economic conditions, the government policy and so on. A tool generally used for this purpose is, what is called in the managerial jargon, SWOT analysis.

The intending entrepreneur analyses his/her strengths andweaknesses as well as opp ortunities/competitive advantages and threats/challenges offered by each of the project ideas. On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of some projects is also described as the "zeroing in process".

What follows from above analysis is that there is a time interval involved in between project identification and project selection. But, in some cases, there may be almost no time gap between the two. An imaginary case can illustrate it. Two friends Nikhil and Chinmoy were traveling from Guwahati to Delhi by North East Express. Their train stopped at Allahabad. Some teenagers with guava baskets crowded the compartment. Almost every passenger purchased guava. So did Nikhil and Chinmoy also. They started eating guava. Chinmoy told to Nikhil: "The guavas are really delicious". Nikhilnodded. They reached Delhi by evening and parted company. While Chinmoy went to his home, Nikhil took Bramputra Mail to Allahabad. He contacted shopkeepers in Allahabad who were selling guavas. He finalized a business deal for them to send a packet of 1000 kgs of guavas daily to Delhi. Thus, Nikhil's business started from the third day when he was selling guavas in Delhi. Here on pertinent question for us is how did this idea make its head way into a business opportunity for Nikhil? In its answer, what can we mention is that Nikhil must have turned questions in his mind like:

Project identification and selection is half done in the process of establishing an enter prise. The entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location, forms of ownership etc. It is necessary to mention that each of these aspects has to be evaluated independently and in relation to each other. Project ideas identified earlier are screened on the basis of their technical, economic and financial soundness. After screening the ideas are translated into project profiles. A project profile consists of the following broad items

1.Economic size

2.Status of industry or scope

Raw material availability

4.Cost of production

5.Capital cost

6.Utility requirements

7.Infrastructure facilities needed

8.Profitability

9.Government policy

After gathering a large number of project profiles, the entrepreneur is faced with the problem of selecting the most appropriate project. The following criteria may be used for this purpose.

Investment size

Investment size depends upon the entrepreneur ‘s capacity to raise resources and his attitude towards economies of scale. If the project is to be financed through all-India institutions with lesser promoter’s contribution, the project cost should be at least Rs.3 to 5 crores.

Location:

A new entrepreneur should as far as possible locate his project in and around a state headquarters. Such a location helps to attractcompetent managers and facilitates liaison with the State IndustrialDevelopme nt Corporation, the State Electricity Board and various other agencies.

Technology:

It is better for a new entrepreneur to go in for a project with proven technology, which is indigenously available. It avoids the problems of foreign technical collaboration and makes life easier.

Equipment:

While selecting the equipment the advice of experienced technical consultants should be obtained. Some entrepreneurs enter into some sort of a deal with the equipment manufacturers for a ‘kick-back’ and in the process sacrifice quality. This is shortsightedness and no compromise on quality should be made.

Marketing:

It is advisable to go in for a product with a limited number of industrial customers. A new entrepreneur should not go into a project having cut throat competition.

Power & water

The entrepreneur should ensure abundant supply of these two inputs. If possible, power-intensive and water-intensive projects should be avoided.

Others' performance

a new entrepreneur should judge how well the existing units in the industry are doing. It is not advisable to enter into industries in which seasoned entrepreneurs fear to tread. As a rule, one should get into a line in which others are doing reasonable well.

Working Capital Requirements

: the entrepreneur should avoid projects with very long operating cycle and requiring huge working capital. The lending policies of banks are unpredictable and, therefore, good margin money should be provided for. This is particularly necessary when theentrepreneur has to buy from any government agency (advancepayments) or to sell to a government agency (delayed settlement of bills).

Labor component

A shrewd entrepreneur should minimize unskilled skilled labor. Material andsemi-handling labor can be reduced throughautomatic devices and proper handling buying policies.

Economic viability

The project should break-even on a cash basis in the first 6-8 months. It should generate profits in the first year of operations. After evaluating alternative projects on a multipoint scale, the project with maximum points should be selected for further analysis. A detailedproject report may be commissioned with the help of well-knownconsultants in the field.

General Format on scope of feasibility Report:

1.Introduction.

2.Summary and Recommendations.

3.Product

Capacity Chemistry of the product Specifications Properties Applications and Uses

4.Market potential

Existing installed Capacity and actual production for the last five years. New capacities under consideration/implementationDemand pattern with specific reference to requirements in variousregions based on desk research and field survey.

5.Process and know-how

Description of different processes available. Selection of the process for the project and the reason for the same. Selection of suitable know-how for the said project based on technical land economic evaluation from available data. Prospective collaborator and terms of collaborations.

6. Plant and Machinery

List of imported/indigenous machinery Broad specifications of the machinery List of manufacturers of machinery Critical items of the machinery

7. Location

Actual site selection survey. Availability of raw material, electricity, water, and other infrastructural facilities.

8.Plot plan and building

Overall plot plan along with building plan.

9.Raw materials

Raw material requirements and their specifications.

10.Utilities:

Requirements of power, water and others including fuel, steam, inert, gas, etc., ad their specifications.

11.Effluents

Nature and type of effluent/specifications and quality of effluent Effect of effluent if discharged as such. Effluent treatment suggested.

12.Personnel requirement

:Manpower requirement (top, middle and bottom level)Organizational Structure.

13.Capital cost

Project cost-giving break up details (based on budgetary estimates)Margin money for working capital in the project cost.

14. Working capital needs

Details of requirement of working capital and norms

16. Mode of finance

Based on the debt-equity ratio and other financing norms followed by financial institutions.

17. Manufacturing Cost

Unit cost of production Projected cost of production for 10 years.

18.Financial analysis

Profitability statement for 10 years. Break-even and sensitivity analysis Payback period Projected balance sheet for 10 years.

19.Implementation schedule

Time schedule for the implementation of the project.

POSSIBLE QUESTIONS

PART –A (1 Mark)

(Online Question)

PART –B (6 Marks)

1. Determine the internal and external constraints of project identification.
2. Explicate in detail on project identification.
3. Describe the main phases of Feasibility analysis.
4. Determine the need for project formulation technniques.
5. Define the term Project and explain its essential features?
6. Explain the characteristics of project management?
7. Explain the techniques involved in project identification.
8. Discuss briefly the steps involved in the project selection.
9. Determine the methods of project appraisal
10. Write in detail on project formulation

KARPAGAM ACADEMY OF HIGHER EDUCATION

PART A
ONLINE QUESTIONS

S.No.	Questions	Option 1	Option 2	Option 3	Option 4	Answers
1	The DIC S was started in the year__________	1978	1968	1938	1977	1978
2	EDPs are conducted by _______________	Entrepreneurs	Specialized Institutions	Business Community	Business Community	Specialized Institutions
3	______presupposes commitment to tasks to be performed with well defined objectives, schedules and budget.	Plan	Promote	Project	Select	Project
4	Indian Planning Commission classifies the projects under the category of	Economic development	Sectors	Quantity	Facto intendi	Sectors
5	Every project has ___________ basic dimensions	one	Two	Three	Four	three
6	The small industries are exempted from ___________	small scale	Expense	Scale	income tax	income tax
7	Each DIC has one General __________ in the rank of Joint Director	Officer	Organizer	Manager	Supervisors	Manager
8	Industrial estates promote____________________..	people	industralisation	person	estates.	industralisation
9	KVIC is activated in the year ____________	1953	1963	1964	1825	1953

10	Expand CPM.	Critical Path Method	Critical Par Method	Critical Project Method	Critical Price Method	Critical Path Method
11	Main Objective of KVIC is to increase the ___________employment opportunities	rural	urban	district	Nation	rural
12	Female entrepreneur differs from male entrepreneur in terms of the following except ___________	Motivation	Busnisss skill	Departure point	Goal Orientation	Motivation
13	The term EDP refers to ___________	Entrepreneurship Development Programme	Entrepreneurial Development Programme	Entrepreneur Development Programme	Entrepreneuring Development Programme	Entrepreneurship Development Programme
14	TIIC is sponsored by the _____________	Government of Tamilnadu	Government of Karnataka	Governement of Andhra Pradesh	Government of Kerala	Government of Tamilnadu
15	RCI stands for __________	Re-investment corporation of India	Re-investment committee of India	Refinance corporation of India	Refinance committee of India	Refinance corporation of India
16	Refinance to commercial banks is granted only for loans ranging between ________	1 and 5 years	3 and 6 years	3 and 10 years	3 and 5 years	3 and 10 years
17	Technical feasibility examines the project with reference to ________	location	land and building	technical competence	location,technical competence	location and technical competence

18	There are ________ TIIC branches in Tamil Nadu	15	20	18	17	15
19	__________ is the first state level financial institution in the country	TIIC	SFC	SIDBI	SIDC	TIIC
20	TIIC will not consider financial assistance when the project cost exceeds ____	1 Crore	3 Crores	5Crores	6 Crores	3 Crores
21	______ offers technical advice to new entrepreneurs.	TIIC	SFC	DIC	SIDC	DIC
22	IIC is the link between the foreign entrepreneurs and __________ entrepreneurs	Indian	domestic	directors	local	Assistance
23	_________ Promotes small industries.	Khadi	SIDC	SIDO	SFC	Khadi
24	IIC Is promoted for____________industries.	medium	small	large	tiny	small
25	GATT is established in 1947 under _______	China leadershipo	Japan leadership	U.S.Leadership	U.K. Leadership	U.S.Leadership
26	Planning and conrolling the task is the ________ of the project manager	Strategy	responsibility	procedure	rules	responsibility
27	__________ is the company which perceived htat the computer market is very big.	APPLE	DELL	SONY	TOSHIBA	APPLE
28	Project managers provide___________________________service.	people	company	company	technical	technical

29	Project over run is a frightening facing______ India	financial problem	resource problem	economic problem	research problem	economic problem
30	Small industries need financial __________	assistance	attitude	aptitude	analyse	assistance
31	Programmes develop___________	People	work	person	estates.	estates.
32	Industrial estates promote____________________..	People	industralisation	person	estates.	industralisation
33	GATT is established in the year _____________	1954	1957	1947	1952	1947
34	Expenditure incurred by a publisher for acquiring copyright is a__________	Deferred revenue expenditure	Capital expenditure	Revenue expenditure	Assets	Capital expenditure
35	Loss of cash by theft committed by cashier after business hours is a _____________	Revenue loss	Deferred revenue loss	Capital loss	Business loss	Capital loss
36	An expenditure incurred to derive long term advantage is _________	Revenue expenditure	Expense	Capital expenditure	Deferred capital expenditure	Capital expenditure
37	In accounting only _________ discount is Recorded	Trade	Cash	Real	Nominal	Cash
38	Debit balance of all personal accounts are collectively called___________	Sundry creditors	Sundry debtors	Personal account balance	Total of personal accounts	Sundry debtors

39	Under______ system branch profit or loss is ascertained by preparing branch accounts	Debtors	Stock and debtors	Wholesale	Final accounts	Debtors
40	'Every debit has a corresponding credit' it is the concept of_________	Incomplete records	Cost sheets	Single entry system	Double entry system	Double entry system
41	Bank loan account is a ______	Real Account	Nominal Account	Personal Account	Current Account	Personal Account
42	The process of recording transactions in a journal is known as _______	Journalizing	Journal	Posting	Journal entry	Journalizing
43	Accounting records transactions in term of ________	Commodity units	Production units	Monetary units	Expense units	Monetary units
44	Income received in advance by a business units is____________	liability	An assets	A loss	Gain	Liability
45	The policy of anticipate no profit and provide for all possible losses arises due to_____	Convention of consistency	Convention of conservatism	Convention of materiality	Convention of full disclosure	Convention of consistency
46	Capital account is a ___________	Fictitious account	Personal account	Liability account	Nominal account	Personal account
47	Revenue is generally recognized as being earned at the point of time _____________	Sale is effected	Cost is effected	Expenditure is effected	Overcast is effected	Sale is effected
48	Depreciation is__________	An accounting necessity only	Tax necessity only	Tax and accounting necessity	Tax, account and audit necessity	Tax, account and audit necessity

49	___________presupposes commitment to tasks to be performed with well defined objectives, schedules and budget.	plan	project	proposal	procedure	project
50	The____________ industries are exempted fromincome tax	small scale	Large Scale	tiny	tiny and large	small scale
51	____________________expenses also relates to business.	data	engine	matter	engineering	engineering
52	________________ Deduction is allowed for fixed assets	data	Depreciation	matter	cost	Depreciation
53	_______ Carry forward is made for deductions	plan	royalities	Carry	accounts	Carry
54	The__________________ can be audited	plan	royalities	accounts	proposals	accounts
55	Entrepreneurs esentially inneed of ____________	trade	technology skills	Goods	services	technology skillls
56	Entrepreneurs get government's______________	trade	technology	subsidies	business	subsidies
57	Small industries need_______________	data	finance	matter	document	finance
58	SIDO Is to ________develop the SSI's .	develop	medium scale	large scale	groupisim	develop
59	Entrepreneurs need to Co- ordinate ____________.	Company	business	enterprise	All functions of Enterprise	All functions of Enterprise
60	SIDO provides_________to all type of persons .	develop	medium scale	informations	small scale	informations

Unit –IV

Syllabus

Growth Strategy - Growth strategy for Small Business - Need for Growth - Types of Growth Strategy - Expansion - Diversification-Sub contracting.

Meaning of Growth Strategies:

A growth strategy is one under which management plans to advance further and achieve growth of the enterprise, in fields of manufacturing, marketing, financial resources etc.

As growth entails risk, especially in a dynamic economy, a growth strategy might be described as a safest policy of growth-maximising gains and minimising risk and untoward consequences.

Growth Strategies in Business

Growth strategies in business can include diversification, product expansion and acquisitions.

Most small companies have plans to grow their business and increase sales and profits. However, there are certain methods companies must use for implementing a growth strategy. The method a company uses to expand its business is largely contingent upon its financial situation, the competition and even government regulation. Some common growth strategies in business include market penetration, market expansion, product expansion, diversification and acquisition.

Market Penetration

One growth strategy in business is market penetration. A small company uses a market penetration strategy when it decides to market existing products within the same market it has been using. The only way to grow using existing products and markets is to increase market share, according to the article "Growth Strategies" at gaebler.com. Market share is the percent of unit and dollar sales a company holds within a certain market vs. all other competitors. One way to increase market share is by lowering prices. For example, in markets where there is little differentiation among products, a lower price may help a company increase its share of the market.

Market Expansion

A market expansion growth strategy, often called market development, entails selling current products in a new market. There several reasons why a company may consider a market expansion strategy. First, the competition may be such that there is no room for growth within the current market. If a business does not find new markets for its products, it cannot increase sales or profits. A small company may also use a market expansion strategy if it finds new uses for its product. For example, a small soap distributor that sells to retail stores may discover that factory workers also use its product.

Product Expansion

A small company may also expand its product line or add new features to increase its sales and profits. When small companies employ a product expansion strategy, also known as product development, they continue selling within the existing market. A product expansion growth strategy often works well when technology starts to change. A small company may also be forced to add new products as older ones become outmoded.

Diversification

Growth strategies in business also include diversification, where a small company will sell new products to new markets. This type of strategy can be very risky, according to gaebler.com. A small company will need to plan carefully when using a diversification growth strategy. Marketing research is essential because a company will need to determine if consumers in the new market will potentially like the new products.

Acquisition

Growth strategies in business can also includes an acquisition. In acquisition, a company purchases another company to expand its operations. A small company may use this type of strategy to expand its product line and enter new markets. An acquisition growth strategy can be risky, but not as risky as a diversification strategy. One reason is that the products and market are already established. A company must know exactly what it wants to achieve when using an acquisition strategy, mainly because of the significant investment required to implement it.

MAIN INCENTIVE SCHEMES GOVT. OF INDIA

Name of Schemes	Salient features	Eligible beneficiaries
Prime Minister's Employment Generation Programme	25% subsidy for entrepreneurs of urban area, 35% subsidy for entrepreneurs of rural area, 5% of project cost as beneficiaries' contribution & balance 95% loan from banks.	Educated unemployed youth.
ISO-9000/ISO-14001 Certification Fee Reimbursement Scheme	Reimbursement of expenses incurred in acquiring ISO-9000/ISO-14001 Certification, at 75% of the cost or Rs.75,000 whichever is less.	Individual MSEs including those engaged in business/ services.
Market Development Assistance Scheme.	• To encourage participation in international trade fairs for export promotion. • 100% subsidy on space rent for NER. • 100% reimbursement of air fare by economy class for NER. • Reimbursement of 75% of one time registration fee for obtaining Bar Code Registration. • Reimbursement of 75% of annual fee for	Individual micro & small enterprises

UNIT: IV

	the first three years.	
Credit and Appraisal and Rating **Tool(CART)**	**Reimbursement of performance and credit rating fee through reputed** credit rating agencies.	**Individual micro & small enterprises.**
Purchase and Price Preference in Govt. Procurement.	**• 358 items are currently reserved for exclusive purchase by the Central Govt. and its PSUs from the MSMEs.** **• 15% price preference for Central Gov. purchases.** **• Tender documents is provided free of charge.** **• Exemption from earnest money/security deposit.**	**MSEs registered with NSIC.**
Integrated Infrastructure Development Scheme	**• To facilitate provision of building up infrastructure with necessary facilities for manufacturing and related service enterprises with reservation of 50% for rural areas.** **• Central Govt. grants assistance upto 80% or Rs.40 million for setting up new industrial estates for MSEs.** **• The scheme has now been subsumed with MSE CDP.**	**State govts., industry associations and NGOs for development/ disposal of plots/sheds on commercial basi**
Mini Tool Room	**• To improve availability of quality**	**State Govts.,**

& Training Centr	equipment, machines and tooling facilities. • Assistance upto 90% of the cost of plant & machinery or Rs.900 lakh whichever is less for setting up new mini tool rooms. • 75% of the cost of plant & machinery or Rs.750 lakh for upgrading existing tool rooms.	State Govt. agencies.
Testing Centres	• To improve availability of quality testing equipments, machines and other facilities necessary for testing of raw material intermediates and finished products on payment of user charges. • Assistance upto 50% of the cost of testing equipment and machinery or Rs.50 lakh whichever is less.	State Govts., State Govt. agencies.
Assistance to Entrepreneurship Development Institutes	Financial assistance in the form of non-recurring grant for strengthening infrastructure like building, training aids/equipment and other support services on matching (50:50 basis) of the cost or Rs.100	State/UT Govt. and other agencies involved in entrepreneurship development.

	lakh whichever is less.	
Capacity Building, Strengthening of Database and Advocacy by Industry/ Enterprise Association.	• To strengthen the role and increase efficiency of the Associations of Micro and Small Enterprises. • Financial assistance upto Rs.10 lakh for computers, photocopier, consumables, travel expense etc. • Assistance will be required to meet 50% of the total sanctioned amount from their resources.	Micro & Small Enterprises Associations.
Financial Assistance for Bar Code Certification	• Reimbursement of 75% of one-time registration fee. • Reimbursement of 75% of annual fee (recurring) of Bar Code Certification for the period of first three years.	Individual Micro and Small enterprises
Rajeev Gandhi Udyami Mitra Yojana	• To provide handholding support to potential first generation entrepreneurs. • Financial assistance @ Rs.4000/- per trainee for service enterprises and @ Rs.6000/- per trainee for manufacturing enterprises would be provided to Udyami Mitras as	EDIs, NSIC, SIDC, KVIC, SPVs, MSME-DI , Associations of MSEs/ SSIs, Universities/ Institutes.

	handholding charges. • For the beneficiaries from NER the beneficiary's contribution of Rs.1000/- shall also be provided as grant. • For empanelment as Udyami Mitra the interested institution to apply on prescribed format through the Director of Industries, Govt. of Manipur.	
National Awards	• To encourage and appreciate the outstanding efforts of MSMEs in three categories (i) Entrepreneurship, (ii) Quality upgradation and (iii) Research and Development. • First National Award: Rs.1,000,000/- cash prize, a Trophy and a Certificate. • Second National Award: Rs.75,000/- cash prize, a Trophy and a Certificate. • Third National Award: Rs.50,000/- cash prize, a Trophy and a Certificate. • Special National Award to Woman Entrepreneur:	Individual MSMEs.

	Rs.1,00,000/- cash prize, a Trophy and a Certificate. • Special National Award for SC/ST Entrepreneur : Rs.1,00,000/- cash prize, a Trophy and a Certificate. • Special National Award to Outstanding Entrepreneur from NER : Rs.1,00,000/- cash prize, a Trophy and a Certificate. • Special Recognition Award to MSMEs Scoring Marks above 80% (50% in case of NER) : Rs.20,000/- cash prize, a Trophy and a Certificate each.	

Growth strategies may be classified into two categories:

(I) Internal growth strategies

(II) External growth strategies.

Internal growth strategies are those in which a firm plans to grow on its own, without the support of others. On the other hand, external growth strategies are those in which a firm plans to grow by combining with others.

Types of Growth Strategies:

Following is an account of important growth strategies, comprised in both categories as stated above:

(I) Internal Growth Strategies:

Some popular internal growth strategies are described below:

(1) Market Penetration:

Market penetration is a growth strategy, in which a firm tries to seek a higher volume of sales of present products by penetrating (or getting deeper), into existing markets through devices like the following:

1. Aggressive advertising and other sales promotion techniques.

2. Encouraging new uses of the old product e.g. use of coffee during summer season by way of cold coffee or coffee-shake.

3. Coming out with exchange offers e.g. exchange of old scooters or TV for new ones at a discount etc.

(2) Market Development:

This growth strategy, as the name implies, aims at increasing sales of existing products through l market development, i.e. exploring new markets for company's products. For example, many companies have achieved remarkable growth by entering into foreign markets; pushing their products I by changing size, packaging, and brand name etc.

Market development may be tried by a company I within the same country also e.g. sale of electronic goods like transistors etc. in rural areas.

(3) Product Development:

Product development as a growth strategy implies developing new and improved products for sale in existing markets; so that people who have otherwise become indifferent to the old product with passage of time get attracted to the new product because of the charisma associated with the phenomenon of newness.

Examples: introduction of Babool and Promise toothpastes by Balsara Hygiene Products Ltd.; introduction of Colgate Super Shakti by Colgate-Palmolive (India) Ltd. etc.

(4) Diversification:

Diversification is quite an important growth strategy. As growth entails risk, diversification, as a growth strategy, implies developing a wider range of products to diffuse risk or to reduce risk associated with growth. The fundamental philosophy of diversification is presumably contained in an old English proverb which suggests that one should not keep all one's eggs in one basket.

Major dimensions of diversification growth strategy are as follows:

(a) Internal horizontal diversification:

Under this type of diversification, new products – whether related or unrelated to the present business line are developed by the business enterprise on its own. For example, Raymon Woolen Mills have added new product, cement to their existing line of woolen textiles. Similarly, Godrej added refrigerators and later on detergents to their original product lines of steel safes and locks.

(b) Vertical diversification:

Vertical diversification maybe backward or forward. In backward vertical diversification, the aim of a firm is to move backwards in the production process so that it is able to produce its own raw-materials/basic components. For example, a TV manufacturer may start producing picture tubes, built-in-voltage stabilizers and other similar components.

In forward vertical diversification, the aim of a firm is to move forward towards distribution process so as to reach the final consumer. For example, many textile mills like Mafatlal, Reliance, Raymond etc. have set up their own retail distribution systems.

(c) Concentric diversification:

In case of market related concentric diversification, new product/service is sold through existing distribution system. For example, addition of lease-financing for buying cars to the existing hire-purchase business is market related concentric diversification.

In technology related concentric diversification, new products are provided by using technologies similar to the present product line. For example, Food Specialties Ltdh as added 'Tomato Ketchup' to the existing 'Maggi' produced by them.

(d) Conglomerate diversification:

This growths strategy involves addition of dissimilar new products to the existing line of business. DCM Ltd. is a good example of conglomerate diversification. There has been an addition of a wide range of products such as fertilizers, sugar, chemicals, rayon, trucks etc. to their basic line of textiles. ITC, Godrej, Kirloskars etc. are other examples of conglomerate diversification.

Advantages of Diversification Growth Strategy:

Following are some advantages of diversification, as an internal growth strategy:

(i) Diversification enables a company to make better use of its resources like managerial personnel, technology, marketing network, research facilities etc. As such, diversification may lead to cost reduction and profit-maximization.

(ii)Diversification helps to minimize risk associated with growth. For example, loss in one line may be made good through profits in some other lines.

(iii)Diversification adds to the competitive strength of a company because of more products, greater resources, wider distribution network etc.

(iv) Diversification acts as shock-absorber for a company, in phases of business cycle. For instance, if there is depression in one product line; the firm may survive if there is good business in other lines of production.

(v) Diversification adds to the goodwill of a firm; because of its brand name associated with a variety of product items.

Limitations of Diversification Growth Strategy:

Following are major drawbacks of the policy of diversification, as an internal growth strategy:

(i) Huge funds are needed to cope with the requirements of diversification strategy. As such only big firms can think of diversification.

(ii) Diversification creates problems of co-ordination among lines of diversified production. Failure to ensure effective co-ordination, may lead to substantial reduction in the advantages planned for diversification strategy.

(iii) New products, new technologies etc. may become a challenging task to handle for management and staff of the organisation. The organisation may find problems in adapting to the new growth pattern.

(5) Modernisation:

Modernisation involves replacing worn-out and obsolete machines etc. by modern machines and equipment's operated according to latest technology; to achieve objectives like better quality, cost reduction etc. Modernisation is a growth strategy in the sense that it helps to achieve more and qualitative production at lower costs; thus helping to increase sales and profits for the enterprise.

Modernisation may be a pre-requisite to the adoption of other growth strategies like product development, diversification (of many dimensions) etc. In fact, it is a background growth strategy.

Advantages of Modernisation:

Following are important advantages of modernisation, as a growth strategy:

(i) Modernisation results in lesser cost of production and consequently higher profits for the company.

(ii)Modernisation leads to qualitative production; attracting quality-conscious consumers. It helps to increase sales of the company.

(iii)Modernisation helps to improve long-run competitive position of the enterprise. It may help the enterprise in developing strategies of product differentiation and beating powerful forces of competition.

(iv) Modernisation gives a new looks to the enterprise and its functioning; thus adding to its goodwill in the market.

Limitations of Modernisation:

Following are some limitations of modernisation, as a growth strategy:

(i) Modernisation requires huge capital investment; which is a serious problem for enterprises facing financial crunch (ii)Existing management and staff may not be competent to understand, introduce and implement new technology.

(iii)Organisational restructuring might be a major problem to introduce and successfully implement new technology.

(II) External Growth Strategies:

Some popular external growth strategies are described below:

(1) Joint Ventures:

Joint venture is a growth strategy in which two or more companies, establish a new enterprise (or organisation) by participating in the equity capital of the new organisation and by agreeing to participate in its management in an agreed manner.

A firm or a company may have a joint venture with another company of the same country or a foreign country. Some examples of joint ventures: Tata Iron and Steel Co. joined hands with IPICOL of Orissa to form IPITATA Sponge Iron Ltd; Hindustan Computers Ltd. and Hewlett Packard of USA formed a joint venture named HCL-HP Ltd; Tungabhadra Industries Ltd. of India and Yamaha Motor Company Ltd. of Japan formed a joint-venture Birla Yamaha Ltd. etc.

Ensuring success of a joint venture, the co-venturers must agree in advance on:

1. Objectives of joint venture
2. Equity participation of co-venturers
3. Management pattern etc.

Advantages of Joint Ventures:

As a growth strategy, joint-venture provides the following advantages:

(i) In case joint venture involves a foreign partner, the problem of foreign exchange is solved to a great extent; if the foreign partner brings latest machines etc. from the other country.

(ii) Through joint venture approach, risk of business is shared among partners. In fact, high risk involved in a new project can be reduced considerably by mutual sharing of such risk.

(iii) The foreign partner in a joint venture can provide advanced technology, not available within the country

(iv) Joint venture of companies, within the same country, helps to reduce competition.

(v) Joint venture strategy provides opportunity to small firms to become big through joining with others and add to their prospects of survival.

(vi) In joint-venture, the managerial competence of co-venturers is integrated towards better managerial efficiency.

Limitations of Joint Ventures:

Some important limitations of joint ventures are as follows:

(i) Problems arise in matter of agreement on equity participation; as both partners to a joint venture may desire to have majority of stake in joint venture.

(ii)Differences in the culture of countries which co-venturers belong to may create problems of achieving mutual understanding; and may lead to conflicts.

(iii)Lack of co-ordination among thinking and actions of co-venturers may affect successful functioning of the joint venture. For example, co-venturers may not agree on common objectives of the joint venture or the composition of the board of directors.

(2) Mergers:

Merger, as a growth strategy, implies combination (or integration) of two or more companies into one. Merger may take place with a co-operative approach or it may take place with a hostile approach. In the latter case, a merger is known as a takeover.

Specially in the Indian conditions, industrialists Vijaya Mallaya, R.P. Goenka and Manu Chabria are described as “take-over kings.”

Mergers are of the following four types:

(a) Horizontal Mergers:

In this type of merger, different business units which have been competing with one another in the same business line join together and form a combination. The Indian Jute Mills Association, the Indian Paper Mill Makers’ Association and Associated Cement Companies (ACC) are some popular examples of horizontal merger.

Diagram showing horizontal merger

Advantages of Horizontal Merger:

(i) Horizontal merger eliminates cut-throat competition among units, which are engaged in the same business line.

(ii) It helps to secure economies of large scale operation; and thereby, reduces cost per unit of output.

(iii) It can avail of external economies in respect of transport, insurance, banking services etc.

(iv) It increases competitive power of the group and provides synergistic effect.

Limitations of Horizontal Merger:

(i) This type of merger does not assure the supply of raw materials.

(ii) It has a tendency to acquire monopolistic power in the market; and thereby, increasing prices and exploiting consumers.

(iii) It carries with itself, a danger of over-capitalisation.

(iv) The merger may earn abnormal profits, tempting the government to levy more taxes.

(b) Vertical Mergers:

Vertical merger arises as a result of integration of those units which are engaged in different stages of production of product. It is also known as sequence or process merger. Vertical merger may be backward or forward. When manufacturers at successive stages of production integrate backwards up to the source of raw materials; it is known as backward merger.

On the other hand, when manufacturing units combine with business units which distribute their product; it is known as forward integration or merger.

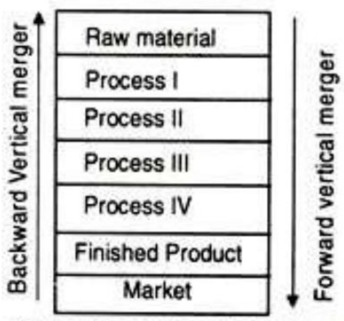

Diagram showing vertical merger

Backward merger is adopted to have a control over sources of raw-materials; while forward merger aims at attaining control over channels of distribution eliminating middlemen's profits.

Examples:

A textile unit takes over cotton ginning and yarn spinning units to get smooth supply of raw materials. It is a case of backward merger. A textile company manufacturing various kinds of cloth takes over wholesalers and retailers engaged in marketing its product. It is a case of forward merger.

Advantages of vertical merger:

(These advantages are common to both – backward and forward mergers).

(i) Various processes of production can be arranged in a continuous sequence; as they are under common control.

(ii) There is saving in management costs because of common administrative control.

(iii)Vertical merger facilitates research in production processes because of integration of processes.

Limitations of vertical merger:

(These limitations are also common).

(i)It is difficult to bring about effective co-ordination among activities of dissimilar business units.

(ii) Vertical merger, because of large size, may lead to inflexibility. The merger or combination may find it difficult to adapt to changes in production or marketing technologies.

(iii)Even a slight dislocation at any stage of production may throw the entire enterprise out of gear.

(c) Concentric Merger:

(Concentric means having the same centre) Concentric merger takes place when companies which are similar either in terms of technology or marketing system, combine with each other i.e. combining units do production with the same technology or use the same distribution channels.

(d) Conglomerate Merger:

(Conglomerate means a larger company that is formed by joining together different firms). When two or more unrelated or dissimilar firms combine together; it is known as a conglomerate merger. It implies dissimilar products or services under common control. When e.g. a footwear company combines with a cement company or a ready-made garment manufacturer etc.; a conglomerate merger comes into existence.

Diversification

This means launching new products or services on previously unexplored markets. Diversification is the riskiest strategy. It involves the marketing, by the company, of completely new products and services on a completely unknown market. Diversification may be divided into further categories:

- **Horizontal diversification**

This involves the purchase or development of new products by the company, with the aim of selling them to existing customer groups. These new products are often technologically or commercially unrelated to current products but that may appeal to current customers. For example, a company that was making notebooks earlier may also enter the pen market with its new product.

- **Vertical diversification**

The company enters the sector of its suppliers or of its customers.For example, if you have a company that does reconstruction of houses and offices and you start selling paints and other construction materials for use in this business.

- **Concentric diversification**

Concentric diversification involves the development of a new line of products or services with technical and/or commercial similarities to an existing range of products. This type of diversification is often used by small producers of consumer goods, e.g. a bakery starts producing pastries or dough products.

- **Conglomerate diversification**

Is moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry. It is often used by large companies looking for ways to balance their cyclical portfolio with their non-cyclical portfolio.

Expansion:

Expansion is one of the forms of internal growth of business. It means enlargement or increase in the same line of activity. Expansion is a natural growth of business enterprise taking place in course of time. In case of expansion, the enterprise grows its own without joining hands with any other enterprise. There are three common forms of business expansion.

These are:

a. Expansion through Market Penetration:

It means the enterprise increases the sales of its existing product by enlarging the existing market. In other words, market penetration means making deeper in roads in the existing market. Various schemes are launched to penetrate into an existing market. The scheme for exchanging an old scooter for new one introduced by LML, for example, is a form of market penetration.

b. Expansion through Market Development:

It implies exploring new markets for the existing product. In order to increase the sale of existing product, the enterprise makes searches for new customers.

c. Expansion through Product Development and/or Modification:

It implies developing or modifying the existing product to meet the requirements of the customers. Introduction of plastic bottles for selling refined oil in addition to lose sales is an example of product development /modification.

Advantages:

Expansion provides the following advantages:

(i) Growth through expansion is natural and gradual.

(ii) Enterprise grows without making major changes in its organizational structure.

(iii) Expansion makes possible the effective utilization of existing resources of an enterprise.

(iv) Gradual growth of enterprise becomes easily manageable by the enterprise.

Advantages and Disadvantages of Subcontracting

'Subcontracting'

Subcontracting is the practice of assigning part of the obligations and tasks under a contract to another party known as a subcontractor. Subcontracting is especially prevalent in areas where complex projects are the norm, such as construction and information technology. Subcontractors are hired by the project's general contractor, who continues to have overall responsibility for project completion and execution within its stipulated parameters and deadlines.

Why Subcontract?

There are a number of reasons why subcontracting is carried out. Subcontracting is very useful in situations where the range of required capabilities for a project is too diverse to be carried out by a single general contractor. In such cases, subcontracting parts of the project that do not form the general contractor's core competencies may assist in keeping costs under control and mitigate overall project risk. Secondly, some large government contracts or contracts that impact local community development may require the primary contractor to hire a certain number of subcontracting entities from the community as part of the contract. Additionally, a business may decide to subcontract some mundane but necessary jobs to free up time and resources to attend to other profitable undertakings. Finally, it is less expensive for a contractor to hire the services of a subcontracting firm or freelancer than it is to hire an employee since the primary contractor is not responsible for paying workers' compensation benefits, vehicle and general liability insurance, health insurance, full-time salaries, and Social Security taxes for independent contractors or subcontractors.

A self-employed individual or company who wants to run a subcontracting business has to be properly licensed in his or her home state as a limited liability company or corporation. In order to be given a subcontract, the business must be in good standing with its home state stipulations, such as having an up-to-date file for its tax returns. For tax purposes, a subcontracting company is required to register with the Internal Revenue Service (IRS) to receive an Employer Identification Number (EIN). The EIN will be used by the primary contractor to report to the IRS all business income paid to the subcontracting company.

According to the IRS, subcontractors are small business owners who are responsible for the self-employment taxes that cover both Medicare and Social Security taxes. Subcontractors may qualify for certain tax deductions that can be claimed on their business expenses. These expenses have to be ordinary and necessary for the operation of a self-employed business. This means that a subcontractor would not be able to claim a deduction on an expense s/he would normally make without the business. Some examples of deductions that can be claimed include home office deductions such as rent and utilities, costs of traveling to a job, costs of courses or certifications that directly relate to the business profession, etc.

The IRS scrutinizes the income reported by a contractor and uses a relationship criterion to verify whether the subcontractor is indeed an independent contractor or an employee. A couple of measures used by the IRS to conclude on the relationship between both parties include determining who sets the rules, who provides the tools and materials used for the job, and who pays for business expenses. If the primary contractor sets the rules for how the project is to be done, provides the tool needed to complete the project, and pays for any business expense incurred by the subcontractor, the IRS will treat the subcontractor as an employee. If this happens, the primary contractor will be required to pay Social Security tax and benefits.

Subcontracting opportunities are advantageous for young businesses and companies that are trying to establish a foothold in their industry. Although they lack the contacts and name recognition to land the contracts themselves, they can gain valuable experience working on large projects that promise solid revenue.

The downside of pursuing subcontracting as a marketing strategy to fuel business growth is that you will end up working through an intermediary. Subcontractors typically earn less than prime contractors (because the prime contractor keeps a percentage for himself) and usually don't get paid until after the client pays the prime contractor. Additionally, the unwritten rules of subcontracting make it difficult for you to bid for the same projects as your prime contractor – especially if you are relying on the prime contractor for future work.

POSSIBLE QUESTIONS

PART –A (1 mark)

(Online Question)

PART –B (6 Marks)

1. Describe the growth strategy for small business.
2. Explain the types of growth strategy.
3. What are the needs for growth strategy in small business?
4. Write a short note on subcontracting
5. Describe the expansion of growth strategy of small business in India.
6. What are the various types of growth strategy?
7. What are the needs for growth strategy in small business?
8. Write a short note on subcontracting
9. Describe the expansion in growth strategy.
10. Explain the types of diversification.

PART A
ONLINE QUESTIONS

S.No.	Questions	Option 1	Option 2	Option 3	Option 4	Answers
1	Each district has a _________ at its headquarters	SFC	IIC	SIDO	DIC	DIC
2	DIC was established in the year ________.	1978	1968	1958	1948	1978
3	Industries play a_____________role in economic development.	plan	vital	market	all	vital
4	All______________announce various allowances to entrepreneurs.	Company	royalities	market	government	government
5	The capital is small in__________industries.	small scale	medium scale	large scale	none	small scale
6	The small industries has to incur more____________.	small scale	expenses	scale	large scale	expenses
7	The small industries are exempted from_____________.	small scale	expenses	scale	income tax	income tax
8	A rehabilition___________is granted to small scale industries.	medium scale	expenses	allowance	income tax	allowance
9	A rehabilition allowance is used for_________purposes.	business	expenses	allowance	income tax	business
10	A__________________intends to raise revenue.	MODVAT	CENVAT	TRADE	WAN	MODVAT
11	Deduction is available in________________.	plan	royalities	market	financial	royalities

12	Carry forward is made for___________.	plan	royalities	deductions	financial	deductions
13	Deduction is allowed for_________years.	10	15	20	25	10
14	LOB stands for _____	Life of Balance	Lift of Balance	Line of Balance	Linr of Balance	Line of Balance
15	A _________ consists of a number of constituent activities.	Project	Proposal	Plan	Budget	Project
16	An event may be the starting event for more number of activities, and in that case such an event will be calles as __________	data	burst	matter	engineering	burst
17	The small industries has established for______________areas.	small scale	expenses	back ward	forward	back ward
18	Depreciation Deduction is allowed for_________.	data	fixed assets	matter	current assets	fixed assets
19	Activities which can be accomplished simultneously concurrently are termes as ___________ activities	Company	co-current	current	concurrent	concurrent
20	Activities which cannot be accomplished until an event has occurred are termed as __________ activities	Succeeding	current	concurrent	corporate	Succeeding
21	Income from co operative societies can be_________.	deducted	engine	matter	engineering	deducted

22	A rehabilition allowance is used for_________purposes.	business	expenses	allowance	income	business
23	The small industries are exempted from____________________________.	small scale	expenses	scale	income tax	income tax
24	Free Float = EST of tail event - EST of Head event - _________________	Activity duration	duration	matter	engineering	Activity duration
25	A_________________ Deduction is allowed for fixed assets	data	Depreciation	matter	Expense units	Depreciation
26	All the activities within the critical path are called as _________ activities	Critical	royalities	subsidy	current	Critical
27	Critical activities are otherwise called as ________ activities	Bottleneck	royalities	accounts	audited	Bottleneck
28	Entrepreneurs need__________________	trade	technology	goals	accounts	technology
29	Entrepreneurs get government__________________	trade	technology	subsidies	business	subsidies
30	Small industries need__________________________________ ____________	data	finance	matter	tiny	finance
31	SIDO Is to ____________________________.	develop	medium scale	large scale	tiny level	develop
32	____________ Is to Co ordinate all small scale industries.	SIDO	SIDC	DIC	SFC	SIDO

33	SIDO provides_________.	develop	medium scale	informations	no informations	informations
34	A_________________support organisations at district level.	SIDO	SIDC	DIC	SFC	DIC
35	DIC provides_________ also.	develop	Services	informations	nothing services	Services
36	Industries play a_________________role.	plan	vital	market	weak	vital
37	Government announced more allowances to______________.	Company	royalities	entrepreneurs	Manager	entrepreneurs
38	Incentives act as_________________	motivators	fixed assets	matter	machinery	fixed assets
39	______________is exempted.	medium scale	expenses	allowance	income tax	income tax
40	Programmes develop__________________________estates.	people	work	person	estates.	estates.
41	Industrial estates promote_________________..	people	industralisation	person	estates.	industralisation
42	Income from co operative societies can be__________________________________ __________.	deducted	engine	matter	engineering	deducted
43	A rehabilition allowance is used for_________purposes.	business	expenses	allowance	none	business

44	The small industries are exempted from_____________________________.	small scale	expenses	scale	income tax	income tax
45	Aphysical infrastructure includes_________________________________ _____.	raw materials	report	project	machinery	raw materials
46	Autilities include___________________.	details	firm	power	data	power
47	A transport facility is an____________________________________ __________.	power	firm	details	utilities	utilities
48	A physical infrastructure includes_________________________________ _____.	project	report	skilled labour	utilities	skilled labour
49	A common utilities include___________________.	repair shops	firm	power	repair, firm and power	repair shops
50	A communication facilities include___________________.	repair shops	firm	telephone	telex	telephone
51	A _____________________________is an communication facilities.	repair shops	telex	tele	data	telex
52	A Research and development should be included in_____________________________.	project report	enterprise	data	goals	project report

53	A Project report is like a road ____.	Project report	format	statement	map	map
54	_______________ is equal to EST of tail event - EST of Head event - Activity duration	Float	Free Float	welding shops	Slack	Free Float
55	One of the utilities include___________________.	details	firm	fuel	unfuel	fuel
56	A project report includes the market_________of the product.	form	potential	data	finance	potential
57	A project report includes the expected_________of the product.	price	potential	data	potential	price
58	A project report includes the demand and supply_________.	price	position	data	potential	position
59	A project report includes the market_________.	form	potential	strategy	business	strategy
60	Provisions will be made for _____________________sales service.	form	potential	data	after	after

Unit-V
Syllabus

Institutional Support - Sources of Finance - Financial Support to Small Business-Various Incentives and Subsidies - Central and State Government Schemes.

COMMERCIAL BANK

The Commercial Bank of India, also known as Exchange Bank was a bank which was established in Bombay Presidency (now Mumbai), in 1845 of the British Raj period. The bank failed in the crash of 1866, after successfully operating for 20 years. The bank had eight branches, exclusive of the head office at Bombay, viz: London, Calcutta, Hong Kong, Foochow, Shangai, Hankow, Yokohama and Singapore, with an agency for the purchase of bullion at San Francisco. Commercial Bank of India then was winded up as directed by the Master of the Rolls, under the corresponding section of the Companies Act of England, where the company was registered under the Indian law and was not registered in England, but was carrying on business in England.

MEANING AND DEFINATION OF COMMERCIAL BANK:

In modern economy commercial Banks Play an important role in the financial sector. A Bank is an institution dealing in money and credit. Credit money is the major component of money supply in a modern economy. Commercial banks are the creators of credit. The strength of economy of any country basically depends on a sound and solvent banking system.

A Commercial bank is a profit seeking business firms dealing in money or rather claims to money. It safeguards the savings of the public and give loans and advances.

Types of loans granted by commercial banks

Secured loans

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral — in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain some or all of the amount originally lent to the borrower, for example, foreclosed a portion of the bundle of rights to specified property. If the sale of the collateral does not raise enough money to pay off the debt, the creditor can often obtain a deficiency judgment against the borrower for the remaining amount. The opposite of secured debt/loan is unsecured debt, which is not connected to any specific piece of property and instead the creditor may only satisfy the debt against the borrower rather than the borrower's collateral and the borrower.

A mortgage loan is a very common type of debt instrument, used to purchase real estate. Under this arrangement, the money is used to purchase the property. Commercial banks, however, are given security - a lien on the title to the house - until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

In the past, commercial banks have not been greatly interested in real estate loans and have placed only a relatively small percentage of assets in mortgages. As their name implies, such financial institutions secured their earning primarily from commercial and consumer loans and left the major task of home financing to others. However, due to changes in banking laws and policies, commercial banks are increasingly active in home financing.

Changes in banking laws now allow commercial banks to make home mortgage loans on a more liberal basis than ever before. In acquiring mortgages on real estate, these institutions follow two main practices. First, some of the banks maintain active and well-organized departments whose primary function is to compete actively for real estate loans. In areas lacking specialized real estate financial institutions, these banks become the source for residential and farm mortgage loans. Second, the banks acquire mortgages by simply purchasing them from mortgage bankers or dealers.

In addition, dealer service companies, which were originally used to obtain car loans for permanent lenders such as commercial banks, wanted to broaden their activity beyond their local area. In recent years, however, such companies have concentrated on acquiring mobile home loans in volume for both commercial banks and savings and loan associations. Service companies obtain these loans from retail dealers, usually on a nonrecourse basis. Almost all bank/service company agreements contain a credit insurance policy that protects the lender if the consumer defaults.

Unsecured loan

Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved). There are small business unsecured loans such as credit cards and credit lines to large corporate credit lines. These may be available from financial institutions under many different guises or marketing packages:

bank overdrafts

corporate bonds

credit card debt

- credit facilities or lines of credit

personal loans

A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date. (The term "commercial paper" is sometimes used for instruments with a shorter maturity.)

Sometimes, the term "corporate bonds" is used to include all bonds except those issued by governments in their own currencies. Strictly speaking, however, it applies only to bonds issued by corporations, not to bonds of local authorities andsupranational organizations.

Corporate bonds are often listed on major exchanges (bonds there are called "listed" bonds) and ECNs like Bonds.com and MarketAxess and the coupon (or interest payment) is usually taxable. Sometimes, this coupon can be zero, with a high redemption value. However, despite being listed on exchanges, the vast majority of trading volume in corporate bonds in most developed markets takes place in decentralized, dealer-based, over-the-counter markets.

Some corporate bonds have an embedded call option that allows the issuer to redeem the debt before its maturity date. Other bonds, known as convertible bonds, allow investors to convert the bond into equity.

Corporate credit spreads may alternatively be earned in exchange for default risk through the mechanism of credit default swaps, which give an unfunded synthetic exposure to similar risks on the same 'Reference Entities'. However, quite volatile credit default swaps 'basis' make the spreads on credit default swaps and the credit spreads on corporate bonds be significantly different.

Assets and Liabilities of Commercial Banks in the United States

Glass-Steagall Act

Mortgage constant

FUNCTIONS OF COMMERCIAL BANKS:-

Modern commercial banks perform a variety of functions. They keep the wheels of commerce, trade and industry always revolving. Major functions of a commercial bank are: - Primary or Banking functions and Secondary or Non-Banking functions.

Primary / Banking Functions :-

Commercial banks have two important banking functions. One is accepting deposits and other is advancing loans.

1) Deposits :-

One of the main function of a bank is to accept deposits from the public. Deposits are accepted by the banks in various forms.

a) Current Account Deposits :-

Current Accounts are usually opened by businessmen who have a number of regular transactions with the bank, both deposits and withdrawals. There is no restriction on number and amount of deposits. There is also no restriction on withdrawals. No interest is paid on current deposits. Banks may even charge interest for providing this facility. These accounts are also known as demand deposits as amount can be withdrawn on demand.

b) Saving Account Deposits :-

Saving Accounts are opened by salaried and other less income people. There is no restriction on number and amount of deposits. withdrawals are subject to certain restrictions. It earns Interest but less than fixed deposits. It encourages saving habit among salary earners and others. Saving deposits are an important source of funds for banks.

c) Fixed Account Deposits :-

Deposits in fixed account are time deposits. Money under this account is deposited for a certain fixed period of time varying from 15 days to several years. A high rate of interest is paid. If money is withdrawn before expiry date, the depositor receives lower rate of interest. Deposits can be renewed for further period. Many banks sanction loans against security of fixed deposits.

d) Recurring Account Deposits :-

In Recurring deposit, a specified amount is regularly deposited by account holder, at an internal of usually a month. This is to form the habit of small savings among the people. At the end of maturity period, the account holder gets a substantial amount. Interest on this type of deposit is almost equal to fixed deposits.

Thus by creating variety of deposits, banks motivate people in a variety of ways and encourage savings in the economy.

2) Loans And Advances :-

Banks not only mobilize money but also lend to its credit worthy customers for maximizing profits. Loans and Advances are granted to :-

a) Business And Trade :-

Commercial banks grant short-term loans to business and trade activities in following forms:-

i) Overdraft :-

Commercial banks grant overdraft facility to current account holders Under this system a borrower is allowed to draw more than what is deposited in his account. The borrower is granted to a fixed additional amount against collateral security. Interest is charged for actual amount drawn.

ii) Cash Credit :-

Cash credit is given by the bank to any businessman to meet regular working capital needs, against the security of goods or personal security. Interest is charged on actual amount drawn by the customer.

iii) Discounting Of Bills :-

When the holder of the bill is not in a position to wait till the maturity of the bill and requires cash urgently, he sells the bill of exchange to bank. Bank advance credit by discounting bills of exchange, government securities or any other approved financial instruments. The bank purchases the instruments at a discount.

iv) Money At Call :-

Banks also grant loans for a very short period, generally not exceeding 7 days. Such advances are repayable immediately at a short notice hence they are called as Money at Call or Call money. These loans are given to dealers or brokers in stock market against Collateral Securities.

v) Direct Loans :-

Loans are given to customers against the security of moveable properties. Their maturity varies from 1 to 10 years. Interest has to be paid on entire loan amount sanctioned. Loans are of many types like :- personal loans, term loans, call loans, participative loans, collateral loans etc.

b) Loans to Agriculture :-

Banks grant short-term credit to agriculture at a lower rate of interest. Loans are granted for irrigation, purchase of equipments, inputs, cattle etc.

c) Loans To Industries :-

Banks grant secured loans to small and medium scale industries to meet their working capital needs. The time period may be from one to five years. It may be in the form of Overdraft, cash credit or direct loan.

d) Loans To Foreign Trade :-

Loans are granted to export and import in the form of direct loans, discounting of bills, guarantee for deferred payments etc. Here the rate of interest is low.

e) Consumer Credit / Personal loans :-

Banks also grant credit to household in a limited amount to buy some durable consumer goods like television sets, refrigerators, washing machine etc. Such consumer credit is repayable in installments. Under 20-point programme, the scope of consumer credit has been extended to cover expenses on marriage, funeral etc., as well.

f) Miscellaneous Advances :-

Banks also gives advances like packing credits to exporters, export bill purchased or discounted, import finance, finance to self-employed, credit to weaker sections of society at concessional rates etc.

II. Secondary / Non-banking Functions :-

Banks gives various forms of services to public. Such services are termed as non-banking or secondary functions :-

1. Agency Services:-

Banks perform certain functions on behalf of their customers. While performing these services, banks act as agents to their customers, hence these are called as agency services. Important agency functions are :-

a) Collection :-

Commercial banks collect cheques, drafts, bills, promissory notes, dividends, subscriptions, rents and any other receipts which are to be received by the customer. For these services banks charge a nominal amount.

b) Payment :-

Banks also makes payments on behalf of their customers like paying insurance premium, rent, taxes, electricity and telephone bills etc for such services commission is charged.

c) Income – Tax Consultant :-

Commercial banks acts as income-tax consultants. They prepare and finalise the income tax returns of their clients.

d) Sale And Purchase Of Financial Assets :-

As per the customers instruction banks undertake sale and purchase of securities, shares and any other financial assets. Nominal charges are charged by a bank.

e) Trustee, Executor And Attorney :-

As a trustee, banks becomes the custodian and manager of customer funds. Bank also acts as executor of deceased customer's will. As an Attorney the banks sign the documents on behalf of customer.

f) E- Banking :-

Through Electronic Banking, a customer can operate his bank account through internet. He can make payments of various bills. He can even transfer money from one place to another.

2. Utility Services :-

Modern Commercial banks also performs certain general utility services for the community, such as :-

a) Letter Of Credit :-

Banks also deal in foreign trade. They issue letter of credit and provide guarantee to foreign traders for the soundness of their customers.

b) Transfer Of Funds :-

Banks arrange transfer of funds cheaply and safely from one place to another. Transfer can be in the form of Demand draft, Mail transfer Travellers cheques etc.

c) Guarantor :-

Banks offer a guarantee of payment on behalf of importer to facilitate imports with deferred payment

d) Underwriting :-

This facility is provided to Joint Stock Companies and to government to enable them to raise funds. Banks guarantee the purchase of certain proportion of shares, if not sold in the market.

e) Locker Facility :-

Safe Lockers are provided to the customers. So that they can deposit their valuables like Jewellary, Securities, Shares and other documents.

f) Referee :-

Banks may act as referee with respect to financial standing, business reputation and respectability of customers.

g) Credit Cards :-

Credit card facility have been introduced by commercial banks. It enables the holder to minimize the use of hard cash. Credit card is a convenient medium of exchange which enables its holder to buy goods and services from member – establishment without using money.

III. Subsidiary Activities:-

Many commercial banks also undertakes subsidiary activities such as :-

1) Housing Finance :-

Housing finance is provided against the security of immoveable property of land and buildings. Many banks such as SBI, Bank of India etc. have set up housing finance subsidiaries.

2) Mutual Funds :-

A Mutual fund is a financial intermediary that pools the savings of investors for collective investment in diversified portfolio securities Many banks like SBI, Indian Bank etc. have set up mutual fund subsidiaries.

3) Merchant Banking :-

A variety of services are offered by merchant banking like :-
Management, Marketing and Underwriting of new issues, project promotion, corporate advisory services, investment advisory services etc.

4) Venture Capital Fund :-

Venture capital fund provides start-up share capital to new ventures of little known, unregistered, risky, young and small private business, especially in technology oriented and knowledge intensive business. Many commercial banks like SBI, Canara Bank etc. have set up venture Capital Fund Subsidiaries.

5) Factoring :-

Factoring is a continuing arrangement between a financial intermediary (factor) and a business concern (client) whereby the factor purchases the clients accounts receivable. Banks like SBI and Canara Bank have established subsidiaries to provide factoring services.

The 'District Industries Centre' (DICs)

The 'District Industries Centre' (DICs) programme was started by the central government in 1978 with the objective of providing a focal point for promoting small, tiny, cottage and village industries in a particular area and to make available to them all necessary services and facilities at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government. To facilitate the process of small enterprise development, DICs have been entrusted with most of the administrative and financial powers. For purpose of allotment of land, work sheds, raw materials etc., DICs functions under the 'Directorate of Industries'. Each DIC is headed by a General Manager who is assisted by four functional managers and three project managers to look after the following activities :

Activities of District Industries Centre (DIC):

i. Economic Investigation

ii. Plant and Machinery

iii. Research, education and training
iv. Raw materials

v. Credit facilities

vi. Marketing assistance

vii. Cottage industries

Objectives of District Industries Centre (DIC):

The important objectives of DICs are as follow :

i. Accelerate the overall efforts for industrialization of the district.

ii. Rural industrialization and development of rural industries and handicrafts.

iii. Attainment of economic equality in various regions of the district.

iv. Providing the benefit of the government schemes to the new entrepreneurs.

v. Centralization of procedures required to start a new industrial unit and minimisation- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

FUNCTIONS OF DISTRICT INDUSTRIES CENTRE (DIC):

i. Acts as the focal point of the industrialization of the district.

ii. Prepares the industrial profile of the district with respect to :

iii. Statistics and information about existing industrial units in the district in the large, Medium, small as well as co-operative sectors.

iv. Opportunity guidance to entrepreneurs.

v. Compilation of information about local sources of raw materials and their availability.

vi. Manpower assessment with respect to skilled, semi-skilled workers.

vii. Assessment of availability of infrastructure facilities like quality testing, research and development, transport, prototype development, warehouse etc.

viii. Organizes entrepreneurship development training programs.

ix. Provides information about various government schemes, subsidies, grants and assistance available from the other corporations set up for promotion of industries.

x. Gives SSI registration.

xi. Prepares techno-economic feasibility report.

xii. Advices the entrepreneurs on investments.

xiii. Acts as a link between the entrepreneurs and the lead bank of the district.

xiv. Implements government sponsored schemes for educated unemployed people like PMRY scheme, Jawahar Rojgar Yojana, etc.

xv. Helps entrepreneurs in obtaining licenses from the Electricity Board, Water Supply Board, No Objection Certificates etc.

xvi. Assist the entrepreneur to procure imported machinery and raw materials.

xvii. Organizes marketing outlets in liaison with other government agencies.

National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation Limited (NSIC) is a PSU established by the Government of India in 1955. It falls under Ministry of Micro, Small & Medium Enterprises of India.

History

It was established in 1955 to promote and develop micro and smalls scale industries and enterprises in the country. It was originally founded as a Government of India agency later made into a fully owned government corporation.

Operation

National Small Industries Corporation Ltd. (NSIC), is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME).

NSIC operates through countrywide network of offices and Technical Centres in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa. In addition, NSIC has set up Training cum Incubation

Centre & with a large professional manpower, NSIC provides a package of services as per the needs of MSME sector.

Objectives

Government of India in order to promote small and budding entrepreneurs of post independent India, decided to establish a government agency which can mediate and provide help to small scale industries (SSI). As such they established *National Small Industries Corporation* with objectives to provide machinery on hire purchase basis and assisting and marketing in exports. Further, SSI's registered with NSIC were exempted from paying Earnest money and provided facility of free participation in government tendered purchases. Also for training persons the training facilities centers and for providing assistance in modernizing the small industries several branches of NSIC were opened up by government over the years in several big and small towns, where small industries were growing.

NSIC also helps in organizing supply of raw materials like coal, iron, steel and other materials and even machines needed by small scale private industries by mediating with other government companies like Coal India Limited, Steel Authority of India Limited, Hindustan Copper Limited and many others, who produce this materials to provide same at concessional rates to SSIs. Further, it also provides assistance to small scale industries by taking orders from Government of India owned enterprises and procures these machineries from SSI units registered with them, thus providing a complete assistance right from financing, training, providing raw materials for manufacturing and marketing of finished products of small scale industries, which would otherwise not be able to survive in face of competition from large and big business conglomerates. It also helps SSI by mediating with government owned banks to provide cheap finance and loans to budding small private industries of India.

Nowadays, it is also providing assistance by setting up incubation centers in other continents and also international technology fairs to provide aspiring entrepreneurs and emerging small enterprises a platform to develop skills, identify appropriate technology, provide hands-on experience on the working projects, manage funds through banks, and practical knowledge on how to set up an enterprise.

SMALL INDUSTRIES SERIVICE INSTITUES

At the heart of all agencies dealing with development of small industry is small industries development organization, SIDO. It was originally know as central small industries organization (CSIO). Attached to the ministry, SIDO administers small industries service institute (SISI's).

The small industries service institutes (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are co-ordinate by the industrial management training division of the DC, SSI office (New Delhi). In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI has wide spectrum of technological, management and administrative tasks to perform.

FUNCTIONS OF SISI

1. To assist existing and prospective entrepreneurs through technical and managerial counselling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;
2. Conducting EDPs all over the country;
3. To advise the Central and State governments on policy matters relating to small industry development;
4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;
5. To provide market information to the SISI's;
6. To recommend SSI's for financial assistance from financial institutions;
7. To enlist entrepreneurs for partition in Government stores purchase programme;
8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.
9. Identify the potential for ancillary development through sub-contract exchanges;
10. Organize seminars, Workshops and Industries Clinics for the benefit of entrepreneurs.

The Small Industries Service Institutes have been generally organizing the following types of EDPs on specialized courses for different target groups like energy conservation, pollution control, Technology up-gradation, Quality improvement, Material handling, Management technique etc. as mentioned earlier.

General EDP for educated unemployed youth, ex-service personnel etc. for a duration of four weeks. In these programmes, classroom lectures and discussions are held on issues such as facilities and assistance available from State and Central government agencies, banks, financial institutions and National Small Industries Corporation.

Apart from this, exposure is given information regarding market survey, product identification and selection, technologies involved, management of small enterprises, particularly in matters relating to financial management, marketing, packaging and exports.

The participants also interact with successful small scale entrepreneurs as a part of their experience sharing Information of quality; possibilities of diversification and expansion are also given.

The entrepreneurs are helped to prepare Project Reports based on their own observations and studies for obtaining financial assistance as may be required. Such courses have benefited many entrepreneurs to set up units of their own choice.

All India Financial Institutions

All India Financial Institutions (AIFI) is a group composed of Development Finance Institutions (DFI) and Investment Institutions that play a pivotal role in the financial markets. Also known as "financial instruments", the financial institutions assist in the proper allocation of resources, sourcing from businesses that have a surplus and distributing to others who have deficits - this also assists with ensuring the continued circulation of money in the economy. Possibly of greatest significance, the financial institutions act as an intermediary between borrowers and final lenders, providing safety and liquidity. This process subsequently ensures earnings on the investments and savings involved.
In Post-Independence India, people were encouraged to increase savings, a tactic intended to provide funds for investment by the Indian government. However, there was a huge gap between the supply of savings and demand for the investment opportunities in the country.

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The Industrial Development Bank of India Limited (IDBI) is one of India's leading public sector banks and 4th largest Bank in overall ratings. RBI categorised IDBI as an "other public sector bank". It was established in 1964 by an Act of Parliament to provide credit and other facilities for the development of the fledgling Indian industry It is currently 10th largest development bank in the world in terms of reach with 1228 ATMs, 725 branches and 486 centers.

Some of the institutions built by IDBI are the National Stock Exchange of India (NSE), the National Securities Depository Services Ltd (NSDL), the Stock Holding Corporation of India (SHCIL), the Credit Analysis & Research Ltd, the Export-Import Bank of India(Exim Bank), the Small Industries Development bank of India(SIDBI), the Entrepreneurship Development Institute of India, and IDBI BANK, which today is owned by the Indian Government, though for a brief period it was a private scheduled bank.

OBJECTIVES

The main objectives of IDBI is to serve as the apex institution for term finance for industry in India. Its objectives include

(1) Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.

(2) Supplementing the resources of other financial institutions and thereby widening the scope of their assistance.

(3) Planning, promotion and development of key industries and diversifications of industrial growth.

(4) Devising and enforcing a system of industrial growth that conforms to national priorities.

FUNCTIONS

The IDBI has been established to perform the following functions-

(1) To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 year.

(2) To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable in 15 years.

(3) To grant loans and advances to IFCI, SFCs, other institutions, scheduled banks, state co-operative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.

(4) To discount or rediscount bills of industrial concerns.

(5) To underwrite or to subscribe to shares or debentures of industrial concerns.

(6) To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.

(7) To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.

(8) To grant loans to any industrial concern.

(9) To guarantee deferred payment due from any industrial concern.

(10) To guarantee loans raised by industrial concerns in the market or from institutions.

(11) To provide consultancy and merchant banking services in or outside India.

(12) To provide technical, legal, marketing and administrative assistance to any industrial Concern or person for promotion, management or expansion of any industry.

SUBSIDIARIES THE FOLLOWING ARE THE SUBSIDIARIES OF IDBI.

(1) Small Industries Development Bank of India (SIDBI)

(2) IDBI Bank Ltd.

(3) IDBI Capital Market Services Ltd.

(4) IDBI Investment Management Company

INDUSTRIAL FINANCE CORPORATION OF INDIA

IFCI, previously **Industrial Finance Corporation of India**, is a Indian government owned development bank to cater to the long-term finance needs of the industrial sector. It was the first Development Financial Institution established by the Indian government after independence.

Until the establishment of ICICI in 1956 , IFCI remained solely responsible for implementation of the government's industrial policy initiatives. Its contribution to the modernization of Indian Industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy.

In 1993 it was reconstituted as a company to impart higher degree of operational flexibility. IFCI was allowed to access thecapital markets directly and

History

At the time of independence in 1947, India's capital market was relatively underdeveloped. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. And commercial banks were not equipped to provide long-term industrial finance in any significant manner.

It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948. The newly established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratioor SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.
This arrangement continued until the 1990s when it was recognized that there was need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this

objective the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently the name of the company was also changed to 'IFCI Limited ' with effect from October 1999.

IFCI has fulfilled its original mandate as a DFI by providing long term financial support to all segments of Indian Industry. It has also been chiefly instrumental in translating the government's development priorities into reality. Until the establishment of ICICI in 1956, IFCI remained solely responsible for implementation of the government's industrial policy initiatives. Its contribution to the modernization of Indian Industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy.

Objectives

The main objective of IFCI is to provide medium and long term financial assistance to large scale industrial undertakings, particularly when ordinary bank accommodation does not suit the undertaking or finance cannot be profitably raised by the concerned by the issue of shares.

Functions

1. For setting up a new industrial undertaking.
2. For expansion and diversification of existing industrial undertaking.
3. For renovation and modernization of existing concerns.
4. For meeting the working capital requirements of industrial concerns in some exceptional cases.
5. Direct financial support (by way of rupee term loans as well as foreign currency loans) to industrial units for under taking new projects, expansion, modernization, diversification etc.
6. Subscription and underwriting of public issues of shares and debentures.
7. Guaranteeing of foreign currency loans and also deferred payment guarantees.
8. Merchant banking, leasing and equipment finance.
9. Provides financial assistance towards balance regional development and development of management education in the country

ICICI

ICICI Bank is an Indian multinational banking and financial services company headquartered in Mumbai, Maharashtra. As of 2014 it is the second largest bank in India in terms of assets and market capitalization. It offers a wide range of banking products and financial services for corporate and retail customersthrough a variety of delivery channels and specialized subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management. The Bank has a network of 3,845 branches and 12,012ATMs in India, and has a presence in 19 countries.

ICICI Bank is one of the *Big Four banks* of India, along with State Bank of India,Punjab National Bank and Bank of Baroda. The bank has subsidiaries in the United Kingdom, Russia, and Canada; branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre; and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. The company's UK subsidiary has also established branches in Belgium and Germany.

In March 2013, Operation Red Spider showed high-ranking officials and some employees of ICICI Bank involved in money laundering. After a governmentinquiry, ICICI Bank suspended 18 employees and faced penalties from theReserve Bank of India in relation to the activity.

History

ICICI Bank was established by the **Industrial Credit and Investment Corporation of India (ICICI)**, an Indian financial institution, as a wholly owned subsidiary in 1994. The parent company was formed in 1955 as a joint-venture of the World Bank, India's public-sector banks and public-sector insurance companies to provide project financing to Indian industry. The bank was initially known as the *Industrial Credit and Investment Corporation of India Bank*, before it changed its name to the abbreviated *ICICI Bank*. The parent company was later merged with the bank.

ICICI Bank launched internet banking operations in 1998

ICICI's shareholding in ICICI Bank was reduced to 46 percent, through a public offering of shares in India in 1998, followed by an equity offering in the form ofAmerican Depositary Receipts on the NYSE in 2000. ICICI Bank acquired the *Bank of Madura Limited* in an all-stock deal in 2001 and sold additional stakes to institutional investors during 2001-02.

In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group, offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

In 2000, ICICI Bank became the first Indian bank to list on the New York Stock Exchange with its five million American depository shares issue generating a demand book 13 times the offer size.

In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmedabad in March 2002 and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002.

In 2008, following the 2008 financial crisis, customers rushed to ICICI ATMs and branches in some locations due to rumours of adverse financial position of ICICI Bank. The Reserve Bank of India issued a clarification on the financial strength of ICICI Bank to dispel the rumours.

Acquisitions

- 1996: SCICI Ltd. A diversiified financial institution with headquarters in Mumbai

- 1997: ITC Classic Finance. Incorporated in 1986, ITC Classic was a non-bank financial firm that engaged in hire, purchase, and leasing operationss. At the time of being acquired, ITC Classic had eight offices, 26 outlets, and 700 brokers.
- 1998: Anagram Finance. Anagram had built up a network of some 50 branches in Gujarat, Rajasthan, andd Maharashtra that were primarily engaged in retail financing of cars and trucks. It also had some 250,000 depositors.

  2001: Bank of Madurai

  2002: The Darjeeling and Shimla branches of Grindlays Bank
- 2005: Investitsionno-Kreditny Bank (IKB), a Russian bank

  2007: Sangli Bank. Sanggli Bank was a private sector unlisted bank, founded in 1916, and 30% owned by the Bahte family. Its headquarters were in Sangli in Maharashtra, and it had 198 branches. It had 158 in Maharashtra and 31 inKarnataka, and others in Gujarat, Andhra Pradesh, Tamil Nadu, Goa, and Delhi. Its branches were relatively evenly split between metropolitan areaas and rural or semi-urban areas.

  2010: The Bank of Rajasthan (BOR) was acquired by the ICICI Bank in 2010 for ₹ 30 billion. RBI was critical of BOR's promoters not reducing thheir holdings in the company. BOR has since been merged with ICICI Bank.

ICICIs role in Indian financial infrastructure

The bank has contributed to the set up of a number of Indian institutioons to establish financial infrastructure in thee country over the years;

National Stock Exchaange - The National Stock Exchange was promoted by India's leading financial institutions (including ICICI Ltd.) in 1992 on behalf of the Government of Inddia with the objective of establishing a natiionwide trading facility for equities, debt instruments and hybrids, by ensuring equal access to investors all over the country through an appropriate communication network.

Credit Rating Information Services of India Limited (CRISIL) - In 1987, ICICI Ltd along with UTI set up CRISIL as India's first professional credit rating agency. CRISIL offers a comprehensive range of integrated products and service offerings which include credit ratings, capital market information, industry analysis and detailed reports.

National Commodities and Derivatives Exchange Limited - NCDEX is an online multi-commodity exchange, set up in 2003, by ICICI Bank Ltd, LIC, NABARD, NSE, Canara Bank, CRISIL, Goldman Sachs, Indian Farmers Fertiliser Cooperative Limited (IFFCO) and Punjab National Bank.

Financial Innovation Network and Operations Pvt Ltd. - ICICI Bank has facilitated setting up of "FINO Cross Link to Case Link Study" in 2006, as a company that would provide technology solutions and services to reach the underserved andunderbanked population of the country. Using cutting edge technologies like smart cards, biometrics and a basket of support services, FINO enables financial institutions to conceptualise, develop and operationalise projects to support sector initiatives in microfinance and livelihoods.

Entrepreneurship Development Institute of India - Entrepreneurship Development Institute of India (EDII), an autonomous body and not-for-profit society, was set up in 1983, by the erstwhile apex financial institutions like IDBI, ICICI, IFCI and SBI with the support of the Government of Gujarat as a national resource organisation committed to entrepreneurship development, education, training and research.

- North Eastern Development Finance Corporation - North Eastern Development Finance Corporation (NEDFI) was promoted by national level financial institutions like ICICI Ltd in 1995 at Guwahati, Assam for the development of industries, infrastructure, animal husbandry, agri-horticulture plantation, medicinal plants, sericulture, aquaculture, poultry and dairy in the North Eastern states of India. NEDFI is the premier financial and development institution for the North East region.

- Asset Reconstruction Company India Limited - Following the enactment of the Securitisation Act in 2002, ICICI Bank together with other institutions, set up Asset Reconstruction Company India Limited (ARCIL) in 2003, to create a facilitative environment for the resolution of distressed debt in India. ARCIL was established to acquire non-performing assets (NPAs) from financial institutions and banks with a view to enhance the management of these assets and help in the maximisation of recovery. This would relieve institutions and banks from the burden of pursuing NPAs, and allow them to focus on core banking activities.

Credit Information Bureau of India Limited - ICICI Bank has also helped in setting up Credit Information Bureau of India Limited (CIBIL), India's first national credit bureau in 2000. CIBIL provides a repository of information (which contains the credit history of commercial and consumer borrowers) to its members in the form of credit information reports. The members of CIBIL include banks, financial institutions, state financial corporations, non-banking financial companies, housing finance companies and credit card companies.

Institutional Investor Advisory Services India Limited (IiAS) - ICICI Bank has indirectly invested in Institutional Investor Advisory Services, through ICICI Prudential Life Insurance Company, in IiAS. IiAS is a voting advisory firm aka proxy firm, dedicated to providing participants in the Indian market with data, research and commentary. It provides recommendations on resolutions placed before shareholders of over 300 companies.

INCENTIVES AVAILABLE TO SSI UNITS IN BACKWARD/RURAL INDUSTRIES PROJECT AREAS

Certain special facilities and incentives have been provided to these back-ward districts. Of these, 101 districts/areas have been declared further as specially backward and hence additional incentives like capital subsidy, special import facilities, etc.. are provided to industrial projects in these 101 districts/ areas over and above what is given in the 247 districts.

In addition, 111 districts in the country have been covered under the Centrally-sponsored Rural Industries Project Programme. Small-scale units set up in these areas gel other special concessions and facilities. The various benefits are enumerated below:

1. An outright subsidy of 15% on the fixed capital investment up to a maximum of Rs. 15 lakhs is admissible to new units being set up in backward areas.

2. Allotment *of* factory or factory sheds In Industrial estates/areas and industrially developed colonies on easy terms.

3. Interest-free loans in lieu of inter-state Sales tax paid/payable by SSI units are available up to 7 years, provided the loan in a particular year will not exceed 8% of the capital investment.

4. Loans and advances to SSI units under the State Aid to Industries Act and Rules framed thereunder, for the construction of factory buildings, purchase of machinery and equipment and working capital on easy terms.

5. The State Financial Corporations grant loans for acquisition of fixed assets up to Rs. 30 lakhs in the case of limited companies and registered co-operative societies and up to Rs. 15 lakhs for others at liberalised margins and rate of interest, and this is done over a longer span of repayment and moratorium period.

6. The Central/State Government directly or through its subsidiary concern—the Stale Industrial Development Corporation—underwites or participates in the preference shares of public limited companies on a selective basis for setting up medium and large industrial units. The State Government also considers cases for setting up of joint ventures with the private sector.

7. The SSI units in the backward areas and other industries with a capital investment in plant and machinery upto Rs. 1 lakh are relieved from the following taxation in some States:

(i) New units established in the districts are completely exempted from the payment of electricity duty up to a period of 7 years.

(ii) (New units are exempted from property tax for a period of 5 years.

(iii) Industrial units set up within the municipal limits are exempted from octroi on capital equipment and building materials subject to a maximum period of 3 years from the date of regular registration.

8. Provision of essential, controlled raw materials to the SSI units on priority and at very liberal terms.

9 State Governments have set up independent testing laboratories on behalf of the Indian Standards Institution, the Export Inspection Council, the Department of Defence, Government of India and various other government organisations for making industrial products of good quality.

10. In order to provide some important and sophisticated common facilities, a network of industrial development centres, heat treatment centres and common facility workshops have been set up in the States to equip the SSI units with modern techniques and process of manufacturing.

Special incentives in the form of transport subsidy to compensate partially for the higher transport cost of established industries in hilly backward areas is also being provided by the Union Government.

The small scale units are now permitted to set up consortia to organise the sales of their own products abroad. Similarly, a co-operative society of small units will also be permitted to do so. Such consortium or a co-operative society of small scale units will be eligible for grant of an Export House Certificate on the following basis :

(1) The applicant is a corporate body or a partnership firm or a co-operative society and is registered as an exporter;

(2) All the members of the applicant consortium are small or cottage units,

(3) The minimum limit prescribed for select products for grant of a certificate will be Rs. 50 lacs (the minimum exports may be either in the immediately preceding years or the annual average of the three years of the base period).

For the purpose of granting the first export house certificate to the consortium, the exports made by its members will be taken into account, if otherwise acceptable.

Thereafter, for the purpose of renewal, the exports made in the name of the consortium alone will be acceptable.

Seed Capital Assistance

One of the constraints faced by the entrepreneurs, especially first generation or technical entrepreneurs, is the lack of resources to meet the minimum promoter's contribution. To help the entrepreneurs overcome the problem. IDBI has come up with a scheme which has gained popularity as the Seed Capital Scheme. If the project is coming up in non-backward areas, then the project would not be eligible for subsidy. Hence, the entire amount of promoter's contribution would be brought by the contributor himself. This would be reduced to the extent of the subsidy if the project is coming up in backward areas like (category A, B, or C). The maximum amount which can be sanctioned is to the extent of Rs. 5 lacs per project on the fulfillment of certain conditions.

Objectives of the Scheme

The objective of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to promote wider dispersal of ownership and control of industrial undertakings.

Agencies for Operating the Scheme

The scheme is operated through the agency of notified SIDCs and SFCs. Assistance under the scheme will also be given directly by IDBI in exceptional cases. Projects assisted by commercial banks are also eligible for seed capital assistance. However, the entrepreneurs will have to submit their applications through SFC/SIDC functioning in the region.

Eligibility Criteria

To be eligible for assistance the entrepreneurs should be technically or professionally qualified or possess relevant experience or skills either in industry, business or trade. The following categories of entrepreneurs are eligible for assistance under the scheme:

1. New generation entrepreneurs in small scale requiring seed capital of more than Rs. 4 lacs.

2.Small scale entrepreneurs who undertake expansion/diversification or modernisation.

3. Entrepreneurs intending to graduate from the small scale to medium sector for the first time.

4. Entrepreneurs intending to set up a project in the medium sector for the first time.

5. Entrepreneurs already in medium sector and intending to undertake diversification for achieving better viability. Entrepreneurs seeking additional seed capital to meet project cost over-run caused by factors beyond their control.

6. Entrepreneurs intending to take over an existing sick or closed unit. Projects constituted as public/private limited companies or partnership/proprietary concerns eligible for assistance.

Amounts and Mode for Assistance

The amount of seed capital assistance for project shall not exceed Rs. 15 lacs. However, the actual amount will be determined on the basis of gap in the equity required for the project as also shortfall if any in the prescribed minimum promoter's contribution after taking into consideration his own contribution and from other sources and subsidies and incentives. For deciding the quantum of assistance, the debt equity norms of 2:1 in the case of SSI units and 1.5:1 in the case of medium scale units would be adopted.

The assistance will be in the form of soft loans in the case of proprietary and partnership concerns. In the case of private limited companies the assistance will be by way of soft loans of subscription to 1% cumulative redeemable preference shares. In the case of public limited companies the assistance will be normally by way of subscription to equity capital or cumulative redeemable preference shares (at 1%) or both or by way of soft loan.

The soft loan would be interest free which will carry a service charge of 1% per annum. However, IDBI may have option to charge the interest on soft loan at a different rate. There is no commitment charge. The repayment period depends upon repaying capacity of the unit with an initial moratorium period not exceeding 5 years. Now security except the personal guarantee of the promoter is stipulated.

TAXATION BENEFITS

The taxation benefits available to small scale industries are explained below:

1. Tax Holiday: New small scale industries are exempted from the payment of income tax under Section 80J of the Act on their profits up to 6% (7.5 % for companies) from the total income of the units in the assessment year in which the units began manufacture, provided the small scale units have followed the procedures laid down in Section 80 J. This tax holiday is available up to 5 years from the commencement ofproduction.

2. Depreciation Allowance: Under Section 32 of the Income Tax Act. a small scale industry is eligible to get a deduction on depreciation account of plant and machinery. land and buildings, at the prescribed rates. In the case of small scale industries the deduction from the actual cost of plant and machinery is allowed up to Rs. 20 lakhs.

The depreciation is calculated on the reducing balance system. Full depreciation is available for a year irrespective of the actual number of days for which the assets have been used. Sometime, an additional allowance, called extra shift allowance is available to the units. Any machinery or plant costing less than Rs. 750 is allowed to be written off completely in the year in which it is first used.

3. Development Rebate: In respect of new plant or machinery other than office appliance or road transport vehicles of a small scale unit, which is wholly used for the purpose of production, a sum, by way of development rebate, as specified below, is allowed under Section 33, in addition to normal depreciation.

(i) In the case of plant and machinery, 35% of the actual cost, if it were installed before 1st April 1970, and 25% of such cost if it were installed after 31st March 1970.

(ii) Where the plant machinery was installed after 31st March 1967, being an asset representing expenditure of a capital nature on scientific research related to the business carried on by a unit, development rebate is given at the specified rates.

4. Rehabilitation Allowance: This is granted to small scale units, under Section 33 B. whose business has been disturbed by:

(a) Riot or civil disturbance.(fa) Floods, typhoons, hurricanes, cyclones, earthquakes or other natural disasters.

(b) Accidental fire or explosion.

(c) Action by an enemy.

The small scale unit re-established, reconstructed or revived, is allowed a deduction of a sum, by way of rehabilitation allowance, equivalent to 60% of the amount of the deduction allowable to the unit.

Investment Allowance: The Investment allowance was introduced in 1976 in place of depreciation allowance. It is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed. The benefit of investment allowance is available for the articles or things except certain low priority items specified in the Eleventh Schedule. However, the Small scale units are eligible for investment allowance irrespective of whether they are used for the purpose of business of construction, manufacture or production of low priority items listed in the Eleventh Schedule.

If a small scale industrial unit produces any article or thing (not listed in the XI Schedule) by using the know-how developed in Government laboratories, public sector companies and universities, the rate of investment allowance will be 35 per cent. This higher rate may be claimed only if the new plant or machinery is installed by it after 20-6-1977 but before 1-4-1982.

The Small scale unit can avail of the benefit of investment allowance only when it has put to use the plant and machinery either in the year of installation or In the immediate following year; otherwise the benefit will be forfeited.

Conditions to be fulfilled: An Investment Allowance Reserve must be created during the relevant financial year. This reserve should be utilised for the purchase of plant and machinery for the business purpose of the small scale unit in India. It cannot be used for any other purpose such as distribution of dividends or separation of profits or creation of assets outside India.

When Withdraw able: The Investment Allowance will be withdrawn:

(i) If plant and machinery is sold or otherwise transferred by the assessee to any person (other than the Government, a local authority, a corporation or a Government Company) at any time before the expiry of eight years from the end of the financial year in which it was acquired or installed. It is not withdrawn if the sale or transfer is made in connection with the amalgamation of a partnership firm into a company or where a firm is succeeded by a company in the business carried on by it.

(ii) If a small scale industrial unit ceases to be a small scale unit by virtue of the total value of plant or machinery installed exceeding the authorised limit.

Publication of Books : A small scale industry engaged in the business of publication of books is entitled to claim a deduction of a sum equal to 20 per cent of (.lie-profits and gains derived from such business under section 80 of the Act. "Books" for the purpose of this Section do not include newspapers, journals. Magazines, diaries, brochures, pamphlets and other publication of similar nature.

Tax Benefits for Amalgamation of Sick Units: Sickness in an industry, whether large or small. Is quite widespread in the country and has become a national problem which has caused a great deal of concern. It is estimated that the aggregate amount involved in the sick units is more than Rs. 2000 crores. The policy of the Government has been to encourage the amalgamation of sick units and concessions have been announced to induce healthy units to take over sick concerns in the public interest. Tax concessions are available for the amalgamation of sick units.

Excise Concession: The long term Fiscal Policy has envisaged to provide the best solution for the problem of cascading effect of taxation of inputs on the value of final product in the Modified Value Added Tax (MODVAT) Scheme. This scheme provides for the extension of the present system of proforma credit to all excisable commodities with the exception of a few sectors like petroleum, tobacco and textile products. The

objective of the scheme is to extend the scope of the provisions for set offs for excise and countervailing duties paid on inputs. This programme will be implemented in phased manner over a period of years, taking due account of the revenue implications, the need to revise administrative procedures and the lessons from experience gained in the early stages of the reform.

The purpose to use MODVAT is not to give substantial net reliefs on excise. The loss of duty on inputs will be recouped through higher excise taxation of final products. Indeed, shifting the effective burden of excise taxation away from inputs and on to final products is at the heart of the proposed reform. Aside from reducing distortionary effects on production and thus increasing the competitiveness of Indian industry, the shifting of excise burden to final products will help in tailoring excise duties in such a manner that the well off bear a higher proportionate burden than the poor.

Tamil Nadu Micro, Small and Medium Industries Policy 2008

This policy is the first-of-its-kind in the country, with a vision to enhance the Competitiveness of the Micro, Small and Medium Enterprises sector and aim for sustained annual growth rate of over IO per cent for MSMEs and generate direct and indirect employment opportunities to the tune of 10 lakhs during the XI Five Year Plan period. The Policy focused on all initiatives to be taken up for the development of MSMEs in the State including infrastructure development, incentive schemes, technology development, subsidy schemes for units located in industrially backward areas, skill development, marketing support, deregulation and simplification, administrative reforms and rehabilitation of sick enterprises in the state, Through this initiative, the Khadi and Village Industries Commission. I he Khadi and Village Industries Board, Coir Board, Small Industries Development Bank of India (SIDBI), Tamil Nadu Industrial Investment Corporation Limited. Tamil Nadu Industrial Cooperative Bank Limited belonging to the Central and Stale Governments facilitate assistance and loans along with employment opportunities.

Subsidy Schemes

(a) **Micro Manufacturing Enterprises**

Micro Manufacturing Enterprises established anywhere in the State are eligible for the following incentives:

· 15% capital subsidy on the value of eligible plant and machinery, subject to a maximum of Rs. 3.75 lakhs

· 20% low tension power tariff subsidy for 36 months from the date of commencement of commercial production or from the date of power connection. whichever is later, after allotment of Entrepreneur Memorandum.

· 100% subsidy on the net value of value added tax (VAT) paid by them for the first 6 years up to the value of investment made in plant and machinery at the time of allotment of Entrepreneur Memorandum.

(b) **Backward Area Development Subsidies**

Micro, Small and Medium manufacturing enterprises established in 251 industrially backward blocks and all industrial estates promoted by the Government and Government Agencies like SIPCOT. SIDCO, etc. (excluding industrial estates located within the radius of 50 Kms. from Chennai City center) and agro based enterprises set up in 385 blocks in the State are eligible for the package of incentives given below:

· 15% capital subsidy on the value of eligible plant and machinery, subject to a maximum of Rs. 30 lakhs-

· 5% additional employment intensive subsidy on the value of eligible plant and machinery for giving employment to 25 workers for 3 years within the first 5 years from the date of commencement of commercial production, subject to a maximum of Rs. 5 lakhs.

· 5% additional capital subsidy on the value of eligible plant and machinery for units set up by women, SC/ST. physically disabled persons and transgender entrepreneurs, subject to a maximum of Rs. 2 lakhs.

· 25% additional capital subsidy on the value of eligible plant and machinery installed to promote cleaner and environment friendly technologies, subject to a maximum of Rs. 3 lakhs and certification by Tamil Nadu Pollution Control Board.

· 20% low tension power tariff subsidy for 36 months from the date of commencement of commercial production or from the date of power connection, whichever is later.

(c) **Special Capital Subsidy for Thrust Sector manufacturing enterprises set up anywherein the State**

Ten thrust-sector manufacturing enterprises viz. Electrical and Electronic Industry. Leather and Leather goods, Auto parts and components. Drugs and Pharmaceuticals. Solar Energy Equipment, Gold and Diamond Jewellery for exports. Pollution Control equipments. Sports Goods and Accessories. Cost effective building material and Readymade Garments, set up anywhere in the State are eligible for a special capital subsidy of 15% on the eligible plant and machinery, subject to a maximum of Rs. 30 lakhs.

(d) **Generator Subsidy**

Micro, Small and Medium manufacturing enterprises established anywhere in the State are eligible for a subsidy of 25% on the cost of Generator set purchased (up to 125 KVA capacity), subject to a maximum of Rs. 1.50 lakhs.

(e) **Back-ended Interest Subsidy**

A back-ended Interest subsidy at the rate of 3% (subject to a maximum of Rs. 10 lakhs per enterprise over a period of five years) will be extended on loans taken up to Rs. 100 lakhs by Micro. Small and Medium Enterprises for Modernization by induction of well established and improved technologies in specified sub-sectors/products as listed in the guidelines on Credit Linked Capital Subsidy Scheme (CLCSS) of Government of India.

Schemes for Technology Development

The following new schemes for Technology Development are announced In the Micro, Small and Medium Industries Policy 2OOS:

· 50% subsidy on the cost of filing a patent application, subject to a maximum of Rs. 2 lakhs per application and 50% of the cost of the application for trade mark registration or Rs. 25000 whichever is less for Micro, Small and Medium Manufacturing Enterprises.

· Establishment of industrial clusters and mini tool rooms under Public Private Partnership mode by providing 25% of the total project cost, subject to a maximum of Rs. 1 crore as assistance.

· Creation of Technology Development Fund for evolving cleaner/energy efficient/lT enabled technologies for the Micro. Small and Medium Manufacturing Sector.

· Assistance for creation of Centers of Excellence and Technology Business incubators for introduction of a new production techniques and design Development to the tune of Rs. 50 lakhs per incubator/center of excellence.

Schemes of Skill Development and Training

Reimbursement of 50% of the tuition fees for Skill Development Training schemes for the benefit of the educated unemployed youth and upgradation of the skills of existing employees of Micro. Small and Medium Enterprises by the MSME Associations have been announced in the MSMI Policy 2008.

Marketing support

Government has announced the following schemes to provide marketing support to Micro, Small and Medium Enterprises in the MSMI Policy 2008.

· 15% Price preference for purchase of goods of domestic Micro and Small Enterprises as provided in the Tamil Nadu Transparency in Tenders Act. 1998.

· Purchase preference for items notified from time to time by the S tate Government.

· Waiver of Earnest Money Deposit for participation in tenders.

· 50% grant on hall rent for participation in exhibitions within the State and also in other States by MSME Associations.Support for marketing under a common banner or brand name.

Credit Linked Capital Subsidy scheme: The Government of India is operating Credit Linked Capital Subsidy Scheme to facilitate the upgrading of technology in SSI units in respect of 48 specified products/sub-sectors. Under this scheme. 15% capital subsidy is granted for induction of proven technologies approved under the Scheme.

TUF scheme for textile: Additional option available for Capital subsidy in lieu of interest rebate for selected sectors. New or existing SME units—including units in cotton ginning and processing sector—are eligible 5%/4% interest reimbursement and (he interest actually charged.

Mega Projects Subsidy: The Govt. of Tamil Nadu is offering Mega Project Subsidy for the projects with investment in Fixed Assets above Rs. 5.00 crores and upto 200 crores as back ended ranging between 30.00 lakhs to 100.00 lakhs depending up to the investment and direct employment to the workers.

Subsidy of Ministry of Food Processing Industries: The Ministry of Food processing, Government of India with a view to accelerate the growth in this sector is providing grants for setting up of food processing units (including meat and fish processing/milk products/spices/coconut/walnut/cashew nut) or upgradation and expansion of such unit and for establishing Food Parks. Grant is available at 25% of the cost of capital equipment and technical civil works up to a maximum of Rs. 50.00 lakhs.

Employment Incentive Subsidy: Employment Incentive Subsidy of an additional 5% subject to a maximum of Rs. 5.00 lakhs will be granted, if at least 25 workers have been employed for a minimum period of 3 years within the first 5 years from the date of commencement of production.

Special Capital Subsidy to thrust sector enterprises : Micro/Small/Medium manufacturing enterprises in the following Thrust Sectors are eligible plant and machinery subject to a maximum of Rs. 30.00 lakhs—

1. Electrical & Electronics Industry
2. Leather & Leather Goods

3. Auto Parts and components
4. Drills and Pharmaceuticals
5. Solar Energy Equipments etc.

Low-tension power tariff (LTPT) subsidy: Flat rate of 20% for the first 36 months from the date of commencement of production or from the date of power connection, after allotment of an Entrepreneur Memorandum from District Industries Center.

INSTITUTIONAL SET UP

In order to accelerate the small industries development, Governments at the Central and State levels have set up a number of development agencies/institutions such as District Industries Centres (DICs). Small Industries Service Institutes (SIS1) and Small Industries Development Organisation, etc. All-India Financial Insitutions—1DB1, IFC1. 1CICI—have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. In 1986. the Small Industries Development Fund was set up in IDBI in order to assist small scale, village and cottage industries and tiny sector units in the rural areas. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. In addition to these institutions there are agencies like National Science and Technology Entrepreneurship Board, Khadi and Village Industries Commission, Commercial Banks, EXIM Bank and Co-operative Banks who undertake promotional activities aiming at facilitating industrial development.

PART –A (1 Mark)

(Online Question)

PART –B (6 Marks)

1. Determine the various functions of SISIs.
2. Elaborate the various functions and organizational set up of SIDO.
3. Explian the objectives and functions of IFCI.
4. Discuss the functions of commercial banks..
5. Explain main incentives schemes in goverment of india.
6. Discuss the various schemes provided by the goverment for women entreprenuer.

7. Explian the objectives and functions of IFCI.
8. Discuss the functions of commercial banks.
9. Determine the various sources of finance.
10. Elaborate the various financial support to small business in india