

## **Books**

- Robert Hisrich and Michael Peters, *Entrepreneurship*, Tata Mc Graw– Hill
- Vasant Desai, *Entrepreneurship*
- Marc J Dollinger, *Entrepreneurship – Strategies and Resources*, Pearson Education

## **Syllabus**

- I – Entrepreneurial Perspective
- II – Entrepreneurial Environment
- III – Launching an Enterprise
- ***Entrepreneurial Perspective***
  - Concepts of entrepreneur, entrepreneurship and enterprise
  - Advantages of entrepreneurship
  - Nature and development of entrepreneurship
  - Gender issues in entrepreneurship
  - Dynamic role of small businesses in economic development
  - Personality of entrepreneurs and of intrapreneurs
  - Innovation and entrepreneurship
- ***Entrepreneurial Environment***
  - Policy perspectives to promote entrepreneurship and enterprises
  - Analysis of business opportunities in different sectors of economy at national and global levels
  - Quick– start routes to enterprises (franchises, ancillaries and acquisitions)
  - Support organizations for entrepreneurs and their role
  - Legal framework for starting a business in India
- ***Launching Enterprises***
  - Product and project identification
  - Developing a project report or business plan
  - Business financing including VC finance
  - Managing early growth
  - Business incubation
  - New venture expansion – strategies and issues

## Definitions

**Entrepreneur** (Oxford Dictionary) – Person who undertakes an enterprise with chances of profit or loss. (As I have understood, *Entrepreneur is a person who undertakes a business activity of which he has no background and faces considerable risks in the process. If either of the two elements, i.e., “no background” or “considerable risk” is missing in the venture, it is no entrepreneurship.*)

**Enterprise** (Oxford Dictionary) – Bold Undertaking

**Entrepreneur** – (New Encyclopaedia Britannica) – An individual who bears the risk of operating business in the face of uncertainty about the future conditions.

Common Meaning – one who starts his own, new and small business

**Entrepreneurship** – It is a philosophy or process through which an entrepreneur seeks innovation and employment.

### Entrepreneur

Person

### Entrepreneurship

Process or Philosophy

### Enterprise

Object

### Dissecting the word we get

Entre – Enter

Pre – Before

Neur – Nerve Centre

Entrepreneurship can also be described as a creative and innovative response to the environment.

## Entrepreneurship Theories

**1600** – French verb – *Entreprendre* – to undertake.

**1700** – Person bearing Risk or Profit in a fixed price contract (Risk)

**1725** – Richard Cantillon – Person bearing risks is different from Capital Supplier (Risk)

**1803** – J. B. Say – Shifts economic resources out from an area of lower to higher productivity & greater yields (Value Addition)

**1934** – Joseph Schumpeter – Innovator and develops untried technology (Productivity & Innovation)

**1961** – David McClelland – Highly motivated, energetic, moderate risk taker (Need for achievement)

**1964** – Peter Drucker – Searches for change, responds to it & exploits as opportunity (Opportunity Focused)



## ***How do you define an entrepreneur in the 21st Century?***

An entrepreneur of 21<sup>st</sup> century is a customer focused innovator. He uses e- knowledge. Advantage is speed. He is a global thinker even though he may not necessarily be a global player.

### ***Standard (New) Definition***

Entrepreneurship is the process of ***creating something different*** with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

Word “Entrepreneur” stems from French Verb Entreprenre – means between; taker or go between

### ***New Definition involves four aspects –***

- (a) The creation process
- (b) Devotion of time and efforts
- (c) Assumption of risks
- (d) Rewards of independence, satisfaction, money.

## ***Advantages of Entrepreneurship***

### ***To an Individual***

- (a) Provides Self Employment for the entrepreneur
- (b) Entrepreneur can provide employment for near & dear one as well
- (c) Entrepreneurship often provides an employment and livelihood for next generations as well.
- (d) Freedom to use own ideas – Innovation and creativity
- (e) Unlimited income / higher retained income – Bill Gates has risen to become richest in the world in a single life time through entrepreneurship
- (f) Independence
- (g) Satisfaction

### ***To the nation***

- (a) Provides larger employment – Entrepreneurs provide employment for self as well as other people and is source of employment creation.
- (b) Results in wider distribution of wealth – This is a logical sequel of above issue. Higher the employment, greater the distribution of wealth

- (c) Mobilizes local resources, skills and savings
- (d) Accelerates the pace of economic development – Entrepreneurship is the govt's one of the most trusted vehicles for economic development
- (e) Stimulates innovation & efficiency

### ***Factors Favouring Entrepreneurship***

1. ***Developed Infrastructure Facilities*** – Availability of infrastructure reduces the cost & efforts and improves viability of projects through higher profit margins.
2. ***Financial Assistance*** – Easy availability of cheap funds is vital for promoting entrepreneurship.
3. ***Protective and Promotional Policies*** – Most of the entrepreneurship projects start very small and have no resilience. They are extremely vulnerable to competitors, market, money markets, etc, for considerable time. Favourable Govt policies shelter them from such vagaries.
4. ***Growth of Education*** – Science, Technology & Management – Growth of education is ***believed*** to be promoting entrepreneurship. However, there are enough examples to suggest otherwise. A very large proportion of first generation entrepreneurs are low educated. Take the case of Microsoft Chairman Mr Bill Gates or Reliance Founder Mr Dhirubhai Ambani. (We also have Mr Narayan Murthy and Mr Ajim Premji to balance this scale). On a wider spectrum, Kerala, the most literate state and West Bengal, another state high on literacy front, are least entrepreneurial states where as Punjab, with 5 rank from bottom was top on entrepreneurial charts.
5. ***Risk Taking Abilities*** – Risk taking ability is one of the pillars of entrepreneurial spirits.
6. ***Hunger for Success (Capitalistic View)*** – Fire in the belly and dreams of riches is what drives most entrepreneurs on this risky path. Any person content with what he has would take the easier route of salaries job.
7. ***Environment/Culture Impact*** – Entrepreneurship is contagious. Communities like Punjabies and Marwaries are historically entrepreneurial. They are known for seeking and exploiting business opportunities in most remote areas. It is a culture that propels them. ([Go to Pull Factors](#) 📌)
8. ***Social Security*** – Social security acts as a safety net against failure of enterprise. Social security guarantees basic '***roti, kapada aur makan***' in case of failure. Entrepreneurial spirit of United States is born partly out of this security.
9. ***Technical/Industrial Training Facilities*** – Industrial Training facilities on one hand generate skilled manpower so vitally required for setting up enterprises while on the other hand they are also nursery for future entrepreneurs. Among the











## **ENTREPRENEUR'S BACKGROUND & CHARACTERISTICS**

1. **Family Environment** – In most cases, people follow the footsteps of father. A businessman's son takes up business and a salaried person's son tries to find a job. So, if a family has had a tradition of entrepreneurship, later generations also follow the steps of their ancestors, like the Gujaratis and Marwaris. Conversely, if a family has had a bad experience with entrepreneurship, it is unlikely that the next generation will be very entrepreneurial.
2. **Education** – Education has no correlation with entrepreneurial spirit. If at all there is one, it seems to be inverse. Most of the entrepreneurs come from a low education background. Educated people who get a decent job rarely prefer the comfort of a salaried job. It is only those who are unable to find a living for themselves eventually try their hands at new business. For long long years, due to problems of licence, quota and inspector raj, most educated people preferred govt jobs, for it symbolized power, comfort, social status and for the people with low scruples, money too. However, the trend is slowly changing. With the business environment becoming easier and govt officials' powers being on the wane, many educated people are also beginning to venture into entrepreneurship.
3. **Age** – There are people who start as early as probably 10 and some others after their retirement. **Harland David Sanders**, better known as **Colonel Sanders** (not an Army Colonel but an honorary one) started his famous Kentucky Fried Chicken business quite late in his varied career. But commonly, men are often in the age group of 25 – 35 and women in the age group of 30– 45.
4. **Physical Attributes** – Have absolutely no correlation with entrepreneurial spirit.
5. **Marital Status** – No direct correlation but going by the age group, most entrepreneurs are married.
6. **Working History** – Entrepreneurs quite often have some working experience as a salaried employee in the field of their venture. It always helps to learn a little about business before putting your money in. The Sindhi community follows this practice assiduously.
7. **Family Contacts** – Family contacts in the business world reduce the risks and help the entrepreneur.
8. **Professional Contacts** – Professional contacts again help. IIT and IIM graduates venturing into entrepreneurship often get help from their peers and seniors.
9. Personal values
10. **Lifestyle** – Most entrepreneurs are fond of good things in life but are willing to wait till they strike rich. In the interim they are willing to rough it out.

## ***What is a job competency?***

It is knowledge, skills and attitude related to a particular job. Performance emerges from the combination of knowledge, skills and attitude. A perfect balance of all the three is required. They can not compensate each other. Mathematically, competency is not *sum* total of knowledge, skill and attitude but their *product*. If one of the factors is zero, ourpur is zero irrespective of how high are the other two. So, very high knowledge and skill can not compensate absence of right attitude.

## ***Some Definitions and Explanations***

1. ***Knowledge*** – Collection and retention of information in a form that it can be effectively used.
2. ***Skill*** is the physical or mental ability to do something well (hard and soft skills)
3. ***Motives*** are reasons for doing something (need)
4. ***Traits*** – Characteristical way in which a person behaves or responds to a particular situation.
5. ***Attitude*** reflects the way of thinking and acting  
(Self and others determine the attitude)
6. ***Initiative*** – Willingness to take action solely on demand of the occasion without being asked/prompted/forced by others. Taking actions to start the business and expand into new areas, products and services.
7. ***Persistence*** – Repeated attempts to overcome obstacles despite failures. But a successful entrepreneur analyses reasons for his failure, learns and modifies his methods every time. But wisdom of knowing when to abandon attempts is more important that capacity to persevere in the face of obstacles.
8. ***Information Seeking*** – Information is power. Right information at the right time makes the job easier. Knowing that flight has got cancelled before you leave home will save you time, money and spare frustration. A successful entrepreneur invests in establishing information channels.
9. ***Concern for High Quality of Work*** – Quality has no set standards. Eventually, it settles down to price – performance ratio. Whether a company follows Cost Leadership or Differentiation strategy, it is value that customer perceives in product which will sell the product in the market. Therefore, a entrepreneur has to be conscious of delivering value.

10. **Efficiency Orientation** – Constantly looking for ways to do things faster or with fewer resources or at a lesser cost.
11. **Systematic Planning**
  - (a) Breaking a large task into several sub tasks.
  - (b) Developing and using logical steps to analyse past events and forecast future developments.
  - (c) Developing plans after duly anticipating obstacles and opportunities.
  - (d) Evaluating alternatives on merits and demerits.
12. **Problem Solving**
  - (a) Identifying the root cause of the problem.
  - (b) Developing strategies in the light of objectives, resources, and constraints.
  - (c) Generating new ideas or innovative solutions.
  - (d) Identifying the best idea and applying to reach the goals.
13. **Persuasion** – Persuasive ability is another key to success in entrepreneurial success. Right from the time of arranging finances to the point where people are cajoled to abandon a trusted product/brand and try out a new product, there are 100s or 1000s of people whose cooperation has to be sought. Persuasive skills make the job much easier and faster.
14. **Use of Influence Strategies** – Using influence to get your job done is often at cross roads with ethics. But every use of influence may not be unethical. If some one is creating hurdles just because he is expecting bribe or simply being lazy, use of little influence to get your job is done is definitely not unethical. However, if influence is used to jump a queue and deny or delay a genuine claimant in the process is definitely unethical.
15. **Assertiveness**
  - (a) Confronting problems and issues with other directly
  - (b) Be polite but firm.
  - (c) Telling others clearly what they have to do.
  - (d) Reprimanding those who fail to perform as expected however close they may be.
16. **Concern for Other's Welfare** – It is an important quality for team building which is necessary if the initial success is to be translated into a larger success.



overall gains in terms of money. Status, security, future, etc as an entrepreneur are better than working as an employee, he tends to turn an entrepreneur.

- (b) **Spotting an Opportunity** – Many employees spot a business opportunity in the course of their work and decide to exploit that opportunity rather than pass it on to their employer. Many employees buy unsuccessful businesses at throw away prices from their former employers and turn them around.
- (c) **Government Policies** – Govts very often formulate policies to promote certain business activity or backward areas which offer tax concessions/holidays, cash subsidies, cheap land, etc, which improve success and profit prospects.
- (d) **Motivation** from biographies or success stories.
- (e) **Influenced** by Culture, Community, Family Background, Teachers, Peers, etc. – (Refer page 5 para 7) Go to [Environment Impact](#)

#### **Push Factors**

- (a) **Job Dissatisfaction** – Many people start their own venture because they feel dissatisfied with their existing jobs/boss/work environment.
- (b) **Relocation** – Repeated or especially unhappy relocation some times prompts some people to entrepreneurship.
- (c) **Joblessness** – This is the biggest source of micro level entrepreneurships. Many parents help their academically poor children, who fail to find a job, to start their own micro ventures. But success rate in such ventures is poor. The very traits responsible for their academic failure lead to business failure.
- (d) **Lay off** – Lay offs often lower the market value of an employee to half. Thus, if a person is laid off and he is unable to find a suitable job for him, he might think of starting his own business.
- (e) **Retirement** – Many retired, but physically and mentally fit, people start their own business either to supplement their pension/savings or just to keep themselves gainfully occupied.
- (f) **Boredom** – This is applicable to many ladies from well to do families. With their army of servants to take care of home, they find an avenue to keep the boredom away and start ventures like boutiques, fashion designing, etc.

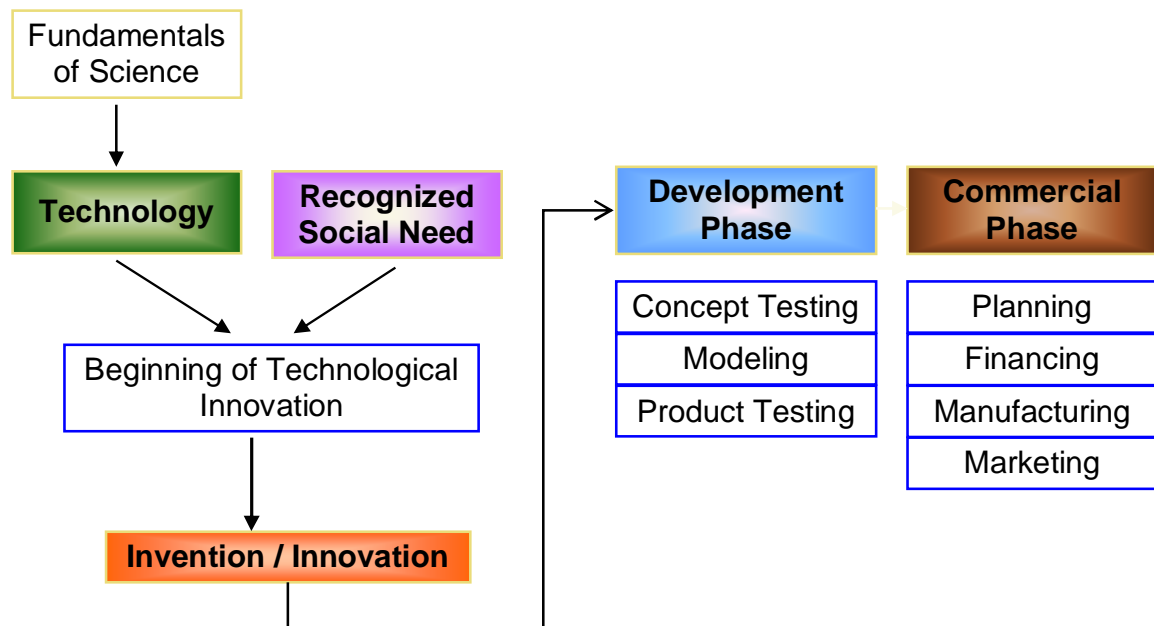
## ***Entrepreneurship and Economic Development***

Entrepreneurial spirit of people is greatly responsible for economic development of any country. There is no resource including diamond mines as valuable as human resource. South Africa and a few other African countries despite their fertile gold and diamond mines have remained poor/relatively poor, where as Japan with literally no natural resources and having suffered devastation during WW–II became a developed country in just three decades. Therefore, if a country allows its human resources to be unutilized/underutilized (unemployment/disguised unemployment), its economic development would be severely hampered.

Failure of communism worldwide and our own harrowing experience with socialism has shown that “Govt has no business to be in Business”. Govt should only govern. Business activity should be left to people. And this is where entrepreneurs enter the picture.

- (a) Entrepreneurs set up enterprises which provide employment not only to themselves but to many others directly and indirectly and thereby put into utilization Human Resource of the country.
- (b) Entrepreneurs combine resources, put their time and efforts and produce goods or services. The Value Addition that they do to the resources brings prosperity to the country.
- (c) What they contribute – productivity, output, value addition, income and employment
- (d) Entrepreneurship is a “Low Cost Strategy”. An entrepreneur works with maximum financial efficiency in order to maximize his profits. Entrepreneurs rarely indulge themselves in luxury of Business Class travel and 5 Star Hotel comforts which the managers avail without fail. Thus, many such costs are either avoided or kept in check. Entrepreneurs perform the crucial role themselves.
- (e) The spirit of Entrepreneurship – Drive, achieving higher goals, creativity, innovative attitude.
- (f) A dynamic society emerges and the spirit spreads like a chain reaction – Many entrepreneurs have proved to be catalyst for growth of a bevy of smaller entrepreneurs. Jamshedpur was a small town before Tata Steel Plant was set up. Once the plant came up in the place, many people set up their small enterprises to cater to the needs of the growing population.

## *Product Evolution Process*



## *The Evolution Process*

- (a) Intersection of knowledge and a recognized social need
- (b) Initiation of technological innovation
- (c) Iterative Synthesis
- (d) Development Phase
- (e) Industrial Phase

## *The Product Planning and Development Process*

- (a) **Idea Stage** – Idea – Evaluate
- (b) **Concept Stage** – Lab Development – Evaluate
- (c) **Product Development Stage** – Pilot Production – Evaluation
- (d) **Test Marketing Stage** – Semi Commercial Production Evaluation
- (e) **Commercial Stage** –
  - (i) Introduction
  - (ii) Growth
  - (iii) Maturity
  - (iv) Decline



### ***Commercialization***

- (a) Role of Government
- (b) Role of Corporate – Intrapreneurship
- (c) Role of Individuals – Entrepreneurship
- (d) Development of Technology
  - (i) Utilization of materials
  - (ii) Exploitation & transformation of energy
  - (iii) Understanding and application of Scientific Principles
- (e) The Role of Government
  - (i) Promotional
  - (ii) Neutral
  - (iii) Regulatory

### ***The Strategies for an Entrepreneurial firm***

Below is illustrated recommended strategic response for a small firm under differing conditions of technological and finance requirements for various industries

**T** – Technological Inputs

**M** – Money Inputs

- (a) **Technology – High, Money – High** – Industry requires large skilled resources (difficult to obtain for a start up firm) and large financial strength (again a difficult proposition for a new firm). Recommended response – Act as a Supplier or Sub –Contractor.
- (b) **T– High, M– Low** – Specialist firm, access to low cost research
- (c) **T– Low, M– High** – Linkage with well– established channels
- (d) **T– Low, M– Low** – Well suited to small firm
- (e) **Low Tech – High Volume** – Requires strong Financial Ability
- (f) **High Tech – Low Volume** – Requires Strategic Ability
- (g) **Emerging Options** – Franchisee; Sub– contractor

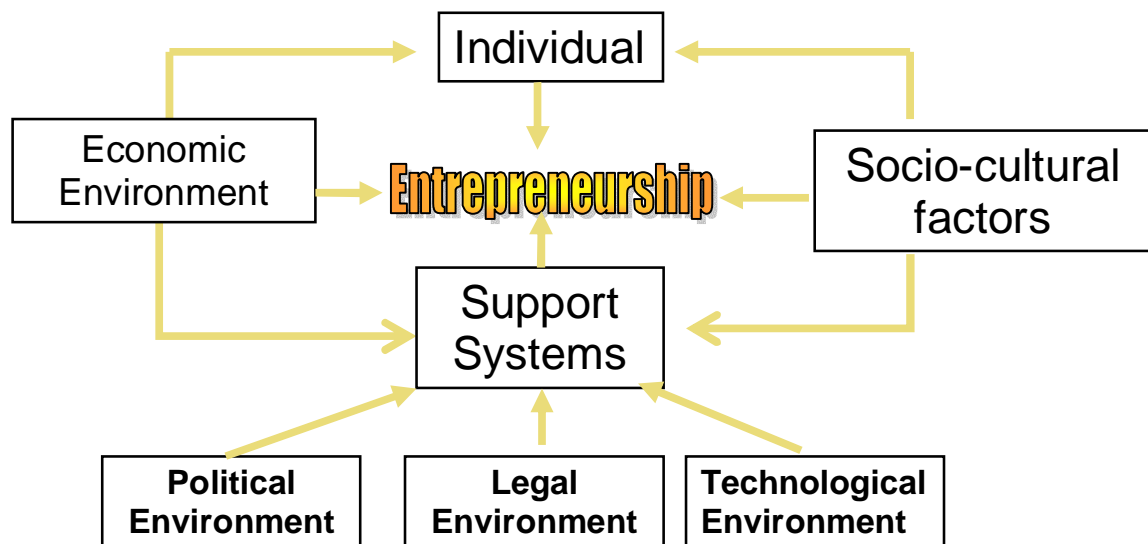
## ***Business Environment & Entrepreneurship Environment***

- (a) **Political** – System, Stability, Leadership
- (b) **Socio-cultural** – Culture, Community, Values, Ethics, Attitude
- (c) **Technological** – Education, Absorption, Competition, Innovation
- (d) **Legal** – Regulatory framework, Consumer protection, Concern for environment, Labour laws
- (e) **Economic** – GDP, GNP, Resources, Fiscal, Non-fiscal policies, Incentives and Subsidies

## ***Dimensions of Environment***

- (a) SPECTACLES – Social, Political, Economic, Cultural, Technological, Aesthetic, Customer, Legal, Environmental and Sectoral
- (b) PEETS – Political, Economic, Ecological, Technological and Socio-demographical
- (c) SLEPT – Social, Legal, Economical, Political and Technological

## ***Factors Influencing Entrepreneurship***



## **OUTLINE OF A BUSINESS PLAN**

1. ***Introductory page***
  - (a) Name and address of the venture
  - (b) Names and addresses of the principals
  - (c) Nature of business
  - (d) Statement of financing needed
  - (e) Statement of confidentiality of the report
2. ***Executive Summary***
3. ***Industry Analysis***
  - (a) Future outlook and trends
  - (b) Analysis of competitors
  - (c) Market segmentation
  - (d) Industry forecasts
4. ***Description of Venture***
  - (a) Product(s)/Service(s)
  - (b) Size of business
  - (c) Office equipment and personnel
  - (d) Background of entrepreneurs
5. ***Production Plan or Operations Plan***
  - (a) Manufacturing process (amount subcontracted)
  - (b) Physical plant
  - (c) Machinery and equipment
  - (d) Names of suppliers of raw materials
6. ***Marketing Plan***
  - (a) Pricing
  - (b) Distribution
  - (c) Promotion
  - (d) Product forecasts

- (e) Controls
- (f) e- initiatives

7. **Organizational Plan**

- (a) Form of ownership
- (b) Identification of partners or principal shareholders
- (c) Authority of principals
- (d) Management- team background
- (e) Roles and responsibilities of members of organization

8. **Assessment of Risk**

- (a) Evaluation of weaknesses of business
- (b) New technologies
- (c) Contingencies plans

9. **Financial Plan**

- (a) Pro forma income plan
- (b) Cash flow projections
- (c) Pro forma balance sheet
- (d) Break- even analysis
- (e) Sources and applications of funds

10. **Appendices** (contains backup material)

- (a) Resumes of principals
- (b) Letters
- (c) Market research data and survey results
- (d) Leases or contracts
- (e) Price lists from suppliers
- (f) Facility layout
- (g) Draft marketing brochure with or without pricing
- (h) Structure of e- marketing thrusts, if any

Business plans rank no higher than 2/10 as a predictor of a new venture's success. With all the uncertainties involved, it is not easy to forecast or make future projections. An entrepreneurial venture faces even greater uncertainties. It is hard to predict even revenues









## ***Characteristics and Guiding Factors for Successful Entrepreneur***

### ***Characteristics of a successful entrepreneur***

1. The urge for achievement (most often monetary ambitions) – Most Important
2. Willingness to take **moderate** risks – (*High risk takers are not entrepreneurs but gamblers*).
3. Self Confidence – Confidence in own ability to win against all odds.
4. Ability to identify & exploit opportunities
5. Analytical ability to take strategic decisions
6. Perseverance
7. Determination to win
8. High organisational ability
9. Who has some financial strength – On his own or borrowed
10. Who has ability to work hard
11. Who has desire for responsibility
12. Win– Win Personality
13. Flexibility
14. Capacity to plan and organize
15. Preparedness to undergo physical and emotional stress
16. Positive self concept/Self Belief
17. Future orientation – Vision
18. Ethics and Values – Mission

### ***Guiding Factors –***

1. Clear objectives,
2. HR abilities,
3. Communication ability,
4. Technical knowledge,
5. High energy level,
6. Motivator,
7. Self confidence,
8. Problem solver,
9. Goal setter.

## ***Factors Favouring Growth of Entrepreneurship***

Following are the major factors which favour growth of entrepreneurship in a country

1. ***Developed Infrastructure Facilities*** – Availability of infrastructure reduces the cost & efforts and improves viability of projects through higher profit margins.
2. ***Financial Assistance*** – Easy availability of cheap funds is vital for promoting entrepreneurship.
3. ***Protective and Promotional Govt Policies*** – Most of the entrepreneurship projects start very small and have no resilience. They are extremely vulnerable to competitors, market, money markets, etc, for considerable time. Favourable Govt policies shelter them from such vagaries.
4. ***Growth of Education***– Science, Technology & Management – Growth of education is ***believed*** to be promoting entrepreneurship. However, there are enough examples to suggest otherwise. A very large proportion of first generation entrepreneurs are low educated. Take the case of Microsoft Chairman Mr Bill Gates or Reliance Founder Mr Dhirubhai Ambani. (We also have Mr Narayan Murthy and Mr Ajim Premji to balance this scale). On a wider spectrum, Kerala, the most literate state and West Bengal, another state high on literacy front, are least entrepreneurial states where as Punjab, with 5<sup>th</sup> rank from bottom on educational scale was top on entrepreneurial charts. But, this entrepreneurial backwardness of Kerala and West Bengal is probably attributable to political and labour climate.
5. ***Risk Taking Attitude*** – Risk taking attitude is one of the pillars of entrepreneurial spirits.
6. ***Hunger for Success (Capitalistic View)*** – Dreams of riches and fire in the belly is what drives most entrepreneurs on this risky path. Any person content with what he has would take the easier route of salaried job.
7. ***Environment/Culture Impact*** – Entrepreneurship is contagious. Communities like Punjabies and Marwaries are historically entrepreneurial. They are known for seeking and exploiting business opportunities in most remote areas. It is a culture that propels them. ([Go to Pull Factors](#) 📌)
8. ***Social Security*** – Social security acts as a safety net against failure of enterprise. Social security guarantees basic '*roti, kapada aur makan*' in case of failure. Entrepreneurial spirit of United States is born partly out of this security.
9. ***Technical/Industrial Training Facilities*** – Industrial Training facilities on one hand generate skilled manpower so vitally required for setting up enterprises while on the other hand they are also nursery for future entrepreneurs. Among the educated entrepreneurs, a majority is product of technical institutes from IIT to ITI (Tier I to Tier III institutes).



5. **Locus of status** – Intrapreneurs want to do the work on their own rather than delegate like managers
6. **Failure and Mistakes** – Intrapreneur hide risky projects and ideas to ensure learning without political cost and public failure. They develop multi disciplinary team in the organisation and may go beyond organisation boundaries for results.
7. **Goal set up** – Intrapreneur are determined to do things not even asked for. They set goals and quality standards.

### ***Steps for setting Intrapreneurship in organisation***

Following are the steps required to be taken to establish Intrapreneurship in an organisation

1. **Secure Commitment to Intrapreneurship from Top, Upper and Middle Management** –
  - (a) **Cultural Changes** – The cultural changes needed to development the spirit of intrapreneurship in an organisation is not possible without whole hearted commitment of its full line of higher management. It requires prolonged commitment and investment in arranging to expose the spirit of intrapreneurship among the employees. Talk shows are organised and bulletins published to expose people to this concept. Seminars and strategy sessions are held to transform the organisation into an intrapreneurial organisation.
  - (b) **Resource Requirement** – Intrapreneurship demands commitment of lot of resources; material as well as human. Without commitment of higher management, such resources will not be available for any intrapreneurial venture.
  - (c) **Confidence Building** – While intrapreneurship leads to rich rewards for the company, there is very little direct benefit to the employees. Most tend to work as intrapreneur to give expression to their creative zeal. On top of that, there is always a fair amount of risk of failure in such ventures. Therefore, unless the employees have full support of the higher management, they will not stick their neck out in such a venture.
2. **Create Framework for Intrapreneurship** – Once cultural changes have been launched, which is a long slow process lasting approximately 2–3 years, parallely, a framework needs to be developed as to how the ideas will be processed and executed, how they will be funded, how they will be monitored and how will the losses, whenever they occur will be accounted.
3. **Identification of Intrapreneurial Leaders** – Not every one has entrepreneurial spirit. Therefore, people with entrepreneurial characteristic need to be identified,

- selected and trained. Along with training, a mentor/sponsor system is also needed to be developed. These mentors from the top management will give the needed guidance and support to the intrapreneurial leaders
4. **Identify the general areas of Intrapreneurial Thrust** – Every company has a priority area where it would like to move forward. Such areas need to be identified and notified to employees. An IT company would rarely want to foray into hardcore manufacturing sector even if the prospects are quite promising.
  5. **Improve Responsiveness and Flexibility** – Intrapreneurial spirit can not sustain the usual snail paced and ultra cautious bureaucratic decision making process in case of capital investments that is typical of ordinary organisations. Use of technology to speed– up decision making process and induce flexibility in the process is required.
  6. **Modifying Organisational Structure** – A fat hierarchical organisational structure is inherently sluggish in decision making (Many cooks spoil the broth). A flat organisational structure is more suited to the Intrapreneurship. Therefore, certain modifications to the organisational structure may be needed. However, It is easier said than done.
  7. **Publicity of Ideas** – New ideas should be well publicised. While such publicity is a morale booster for the author of the idea and therefore encourages more people to come forward with ideas, published ideas get scrutinised and value added by other people.
  8. **Tapping Customers Base for New Ideas** – Customers are the richest source of new ideas. 3M Corporation, holding over 6 lakh patents, claims that almost 70% of new ideas have been contributed by the customers themselves.
  9. **Create Strong Support Structure for Intrapreneurship** – This is particularly important since most people have short term focus on quarterly, half yearly and yearly numbers. Intrapreneurial ventures are long term projects and therefore may get overlooked for funding and other support. Similarly, appraisal of the intrapreneurs may get adversely affected since there is nothing concrete to show quarter by quarter. Such a mishap is to be strongly guarded against because if such a thing does happen, it would kill the initiative among the employees.
  10. **Create a Strong Reward System Linked to Performance of the Intrapreneurial Venture** – Notwithstanding all the OB theories to the contrary, nothing works as fast and as effectively as tangible/material rewards system to motivate most people to put their best feet forward.
  11. **Create an Evaluation System** – Some Intrapreneurial venture are bound to fail for various reasons including change in external environment. Also, some ventures are likely to astonish with their success even the most optimistic supporters. Therefore, regular evaluation of the ventures in hand is necessary. Promising ventures might need further thrust or scaling up in size while unsuccessful need to be wound up.

**Q. Describe the concept of venture capital with specific reference to the entrepreneur. Give the methodology to get venture capital from venture capital providing firms.**

**Ans.** Let us first see what is a Venture Capital.

The dictionary meaning of “**Venture**”, is “*a risky or daring undertaking that has no guarantee of success*”. Thus, a venture capital is a source of finance for risky and daring undertakings; and an entrepreneurial venture is a risky and daring undertaking. So, the two match perfectly.

Venture capital is a type of private equity capital typically provided by outside investors to new, growth businesses. Generally made as cash in exchange for shares in the investee company, Venture capital investments are usually high risk, but have the potential for above-average returns. A **Venture Capitalist** (VC) is a person who makes such investments. A **Venture Capital Fund** is a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.

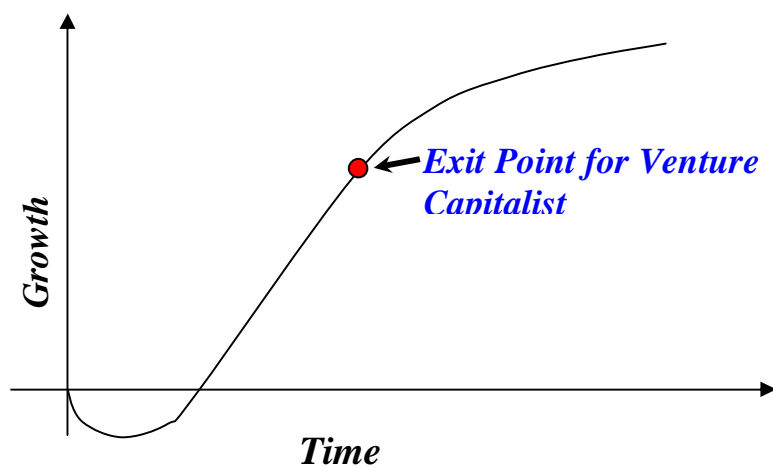
Venture capital as a concept was born to fund the promising but unproven and therefore risky business ideas. Even though the modern venture capital concept is no more than half a century old (*1958 to be precise when a semiconductor business was funded*), original venture capital funding in Europe started over half a millennium back (before Christopher Columbus) back when the voyagers use to go on expeditions towards distant, and some times new, locations in hunt of exotic items like Indian Spices which use to fetch great profit back home. Such expeditions used to be funded by rich people including kings and queens (*Columbus’s expedition which led to discovery of America was funded by Queen of Spain after King of Portugal refused*). There was risk of loot and natural elements like storms, wild animals, etc, besides the risk of merchandise not finding buyer at anticipated price. Thus, there was great personal risk as well as equally big financial risk. The profits earned from such ventures were divided provided between financier (**Venture Capitalist**) and the adventurers (**Old days Entrepreneurs**).

### **Salient Features**

1. It is long term source of investment, generally for 5 to 10 years.
2. Venture capital firms opt for equity participation through shares or convertible securities and rarely as loan at fixed rate.
3. Venture capitalist seeks participation in management of business.
4. Venture capitalist is often an active partner in business and provides his seasoned expertise in terms of marketing, technological management and developing organisational structure.



5. It is easier source of funding than conventional sources but expensive (equity is always costliest source of funding).
6. Venture capitalist is not averse to risk, only growth potential should be high.
7. Flow of funds is in phases of production or in initial stages as debts
8. Venture capitalists are not permanent equity holders – Such high growth businesses have a typical growth curve which slows down and then flattens after a meteoric rise in initial years. Venture capitalists exit at the end of initial high growth phase while ensuring that entrepreneur's interest is not jeopardised.



### ***Stages of Process***

1. ***Delivery of business plan*** from an entrepreneur to venture capitalist. While evaluating business plan venture capitalist broadly ascertains the prospects of the proposal and the ROI vis a vis risk of capital. He also ascertains the capability and credentials of entrepreneur. Many venture capitalists put more emphasis on credentials of entrepreneur than the business proposal itself.
2. ***Due Diligence*** - If some merit is found in the proposal during the initial stage, the detailed analysis of the business plan begins. This is called due diligence. It is a stage of thorough scrutiny of business plan from every angle and intense cross questioning of the entrepreneur. Resume of promoters and key managers, financial background of promoters and risk of business are analyzed at this stage.
3. ***Negotiation*** – After viability study of project, negotiation takes place in respect of quantum of funds to be provided, modality of funding, like, percentage of equity in lieu, or convertible debentures, interest rate on loan, tenure, fund release timing, etc. Further, other factors like, right to control the management of business (seats in the Board of Directors), buy back arrangement and exit policy are also negotiated. (Typically, a venture capitalist would like to invest in the form of equity share while entrepreneur would like to have it as fixed rate loan).



4. **Contract and MOU** – After the negotiations have concluded satisfactorily, contract or MOU is signed by both the parties.
5. **Flow of Funds** – Begins as per MOU, higher degree flexibility is desired from both parties and periodic review is done at each stage.
6. **Exit** – Since venture capitalist are not permanent equity holders so they exit at appropriate time through equity buy back, IPO (initial public offering), mergers and acquisitions and smooth transition as exit strategy.

**Q. Compare Franchising, Ancillarisation and Acquisitioning as a start up for an entrepreneur.**

### **Franchising –**

The toughest part of business is to gain customer acceptance and trust for your product. Franchising is an start-up strategy that minimises this uncertainty from business venture. Franchising strategy is adopted by well established and visible brands.

Franchising is a special form of licensing which allows the franchisee to sell a highly publicised product or service using the franchiser's brand name or trademark, carefully developed procedures and marketing strategies. The franchise is operated by the franchisee, who must adhere to the strict policies of the franchising company. Like in case of licensing, in this case too, the franchisee pays a fee to the franchiser, normally as percentage of sales.

McDonald outlets are all franchisee outlets. Actually most of the food chain companies' outlets are franchisee outlets.

The entrepreneur is trained in conduct of business and supported in marketing by the franchiser besides using a name that has some established image and some ready customers.

#### **Four Characteristics of Franchising –**

- (a) A contractual relationship in which franchise licenses the franchisee to carry out business under the name owned by or associated with franchiser
- (b) Controlled by the franchiser over the way in which franchisee carries out the business
- (c) Assistance to the franchisee by the franchiser in running the business prior to commitment and through out the contract period
- (d) Franchisee's business is a separate entity from that of the franchiser. The franchisee provides and seeks capital in the venture.

There are three types of franchising available –

1. **Product Franchising** – Sales outlets are franchised. Most of the apparels and shoes companies follow this format. It facilitates easy accessibility to the product for customer and achieves sale transaction without any value addition.
2. **Process Franchising** – outlets are granted to use the brand name and process of the franchiser. The process and recipe are generally patented by the parent company. Like soft drinks companies who franchise bottling plants (but draw the money by sale of soft drink concentrate)
3. **Business format franchising** – Name, sale and method of doing business are transferred for a yearly fee/percentage of yearly sales. McDonalds outlets fall in this category. This is the most common type of franchising.

#### ***Advantages to the Entrepreneur –***

1. **Product Acceptance** – The franchisee usually enters into a business that has an accepted brand name and therefore ready customer base. The franchisee, therefore, does not have to spend resources trying to establish the credibility of the business.
2. **Management Expertise** – Management assistance is provided by the franchiser. Each new franchise is often required to take a training program on all aspects of operating the franchise. This training could include classes in accounting, personnel management, marketing and production.
3. **Capital Requirement** – A new venture can be costly both in terms of time and money. The franchise offers an opportunity to start a new venture with upfront support that could save the entrepreneur significant time and possibly less capital. In some cases the franchiser will also finance the initial investment to start the franchise operation. The initial capital required to purchase the franchise generally reflects a fees for the franchise, construction cost and purchase of equipment. The pre-structured layout of the facility, control of stock, inventory and the potential buying power of the entire franchise operation can save the entrepreneurs significant funds.
4. **Knowledge of the Market** – Most franchiser will be constantly evaluating market conditions and determining the most effective strategies to be communicated to the franchisees.
5. **Operating and Structural Control** – Two problems that many entrepreneurs have in starting a new venture are maintaining quality controls of the product and services and establishing effective managerial controls. Administrative controls usually involve financial decisions revolving to cost, inventory, cash flow and personal issues such as criteria for hiring/firing, scheduling and training to ensure consistent service to the customer. These controls will usually be outlined in a manual supplied to the franchisee by the franchiser.

### ***Advantages to Franchiser (As expansion strategy used by Entrepreneur)***

The most obvious advantage of franchising as a expansion strategy for the entrepreneur is that business can be expanded quickly with little capital. A franchiser can expand a business nationally and even internationally by authorising and selling franchise in selected locations. The capital necessary for this expansion is much less than it should be without franchising. Operating a franchised business requires fewer employees than a non-franchised one. Head quarters and regional offices can be slightly modified to primarily support the needs of the franchises.

#### ***Cost Advantages –***

The franchiser can purchase supplies in large quantities and get economies of scale that would not have been possible otherwise. Many franchised businesses purchase parts, accessories, packaging and raw material in large quantities and then in turn sell them to franchisees.

#### ***Problems in Franchising***

1. The problem in franchising usually centre on the inability of the franchiser to provide service and advertising. When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas.
2. The franchisee may also face a problem when a franchiser fails or is brought out by another company. In some case, the franchiser finds it difficult to find quality franchisee. Poor management can cause individual franchise failure.

#### ***Acquisition***

An acquisition is the purchase of a company or a part of it so that the acquired company is completely absorbed and no longer exists as business entity. Entrepreneur can start & expand the venture by acquiring an existing business.

#### ***Advantages of Acquisition –***

1. Acquired firm has an established management and operating practices.
2. Entrepreneur gets a well established customer base from the acquired firm
3. Entrepreneur acquires well established channels and sales structure, suppliers, retailers, wholesalers, manufacturers by acquiring the firm.
4. Actual cost of acquiring can be lower than other methods of expansion.
5. The employees of the existing business can be an important asset & can help the business to continue its successful mode.

6. Since entrepreneur does not have to find suppliers, channel members, employees or customers more time can be spent assessing opportunities to expand the business.

### ***Disadvantages of Acquisition***

1. Most firms offered for acquisition have an erratic, marginally successful or even unprofitable track record. It is important to review the records to assess future potentials.
2. Entrepreneur may assume he can succeed where others have failed. Self evaluation is important before agreement. Even though the entrepreneur brings new ideas & management qualities, the venture may never be successful for reasons that are not possible to correct.
3. When business changes hands, often, key employees also leave. Loss can be devastating since value of business is often a reflection of efforts of employees.
4. It is possible that purchase price is too high

### ***Determining the Price of an Firm for Acquisition –***

There are three main valuation processes a entrepreneur can use to determine the fair price of an acquisition –

- (a) ***Asset Based*** – Price of firm is calculated on the basis of value of tangible assets,
- (b) ***Discounted Cashflow Method*** – Calculating the present value of future earnings.
- (c) ***Market Valuation*** of Approximately Similar Companies (if not listed). are ;

### ***Joint Ventures –***

Joint Ventures are partnership projects. Two or more companies join hands to launch a third company. While the capital is often shared between the JV companies, there is a complementary relationship between the strengths and weaknesses of the two companies. While one firm may have cutting edge technology but no knowledge of marketing dynamics of other country, second firm may have obsolete technology but a strong presence in that product segment of targeted market. Thus, coordination of superior technology and equally strong marketing and managerial strength creates a formidable company which has all strengths and few weaknesses.

Airbus Industries of Europe is a joint venture among many companies in Britain, France, Spain and Germany.

### ***Ancillarisation***

An ancillary unit is defined as an industrial undertaking engaged in –

1. Manufacturer of parts & components, sub– assemblies, tooling or intermediates &
2. Supply not less than 50 % of its production to one or more other industrial undertaking for use in their production.

Major part of production of an ancillary unit is used by another company in its production. Thus, a company engaged in supplying headlights or rear view mirror to Maruti is an ancillary unit if 50% or more of its sales come from supply to Maruti and other car manufacturers. However, a tyre company supplying tyres to Maruti can not be called an ancillary unit because its major part of production is not consumed by a few industrial units. Thus, an SSI can be an ancillary but every SSI is not an ancillary.

### ***Advantages of Ancillarisation***

1. Investment can be minimised by sourcing part of requirements by subcontracting to an ancillary unit
2. JIT concept followed by many Ancillary units helps the large companies to bring down the inventory level and saves a lot of money.
3. Sourcing is economical from ancillary units that are normally located near the company.
4. Ancillary units work with the parent companies in the process & product development.

### ***Major benefits of Ancillarisation Drive to a Country –***

1. It is the first step towards full fledged industrialisation of the country. India is now embarking on this path through ancillarisation of automobile spares.
2. Helps in generating employment
3. Helps in growth of GDP
4. Promotes entrepreneurship

### ***Problems with Ancillarisation***

1. Delay in payments puts ancillary company in big trouble. If the parent company is big (which is most often the case), then the ancillary company finds it difficult to take even any legal action for non payment.

2. When parent company revises the specifications, ancillary units are some times not given the expected support for adopting the higher technology, nor given sufficient time to bring changes in the technology to match that of parent co.
3. Reckless multiplication of suppliers by the parent company makes the ancillary units operate below BEP (Break even point). As a result these units incur losses because of capacity under utilisation.
4. Any problems in production or marketing of parent units product reflect on sales of ancillary unit due to its overdependence.

**Q. Selection criteria for factory site location?**

**Ans.** Proper selection of site for factory location is often critical to success of the venture. There are a host of factors that are required to be considered before taking a final decision on location. The most important among them are –

1. **Proximity to Raw Material Source/Markets** – This decision will depend on nature of product. In case of high cost products like specialist machines, watches, etc, where transport cost is a fraction of total cost, this factor loses most of its relevance. But for products like cement, where freight cost is a major component in the total cost, this factor assumes mighty significance since freight cost is often directly proportional to the distance. low weight/volume product, proximity. At times trade off is required between raw material source and markets. Unless the product is highly perishable, preference is given to proximity to raw material source, since volume of raw materials is mostly more than finished product.
2. **Infrastructure** – Good infrastructure brings down the capital as well as operating cost and therefore play a vital role in the location selection for an industry. The facilities includes transport & communication, power, water, banking etc.
3. **Government Policy** – Many state govts offer various incentives in the form of tax shelters/deferment, concessional land and amenities, in order to promote industrial development of state or a particularly backward region of the state.
4. **Availability of Skilled Man Power** – Certain kind of artisans are in abundance in certain geographical areas only. They are hard to find elsewhere. Like, Diamond Cutting and polishing is a skill for which artisans are available in Gujarat only. Similarly, carpet weavers are in abundant supply in certain pockets of Uttar Pradesh.
5. **Local laws and Regulations** – Local laws might prohibit setting up of certain kind of industries in particular areas for various reasons.
6. Ecological & Environment Factors

7. **Competition** – In case of some enterprises, like retail stores, where the revenue of a particular site depends on the degree of competition from the other competitors in the locality, it plays a crucial role in selecting the location of the stores.

**Q. Comparison – Manager v /s Entrepreneur**

**Ans.** An Entrepreneur and a Manager make an interest comparison. To succeed as an entrepreneur, one is required to possess great managerial skills and more. Therefore, there are a lot of commonalities between the two in terms of planning, organising, directing and controlling abilities which are essential qualities of a manager. However, there are great deal of differences as well. The differences primarily lie in approach to various issues.

<u><b>Business Dimension</b></u>	<u><b>Managers</b></u>	<u><b>Entrepreneur</b></u>
Primary Motives	Promotion & other traditional corporate rewards, such as office staff & powers	Independence, opportunity to create & money
Time Orientation	Short term - meeting quotas & budgets, weekly, monthly & quarterly	Survival and achieving 5 to 10 yr growth of business
Functional Style	Delegates & supervises more than direct involvement	Direct involvement
Risk Appetite	Low – Careful approach to decision making	Moderate risk taker. Follows dreams with decisions. Deals with mistakes and failures
Attitude	Conservative, hierarchical, status conscious attitude	No concern about status symbol
Decision Making Style	Takes the safest path. Tries to push decision making to others to be able to avoid blame in case of failure. Follows the wishes of higher management	Independent in decision making. Takes bold decisions with calculated risk in favour of higher profit potential.



**Q. Comparison – Male Vs Female Entrepreneur**

**Ans.** While essential qualities remain the same irrespective of the gender of entrepreneur, female entrepreneurs exhibit certain subtle distinctions due to their psychological make up as well as social and family obligations –

<b><i>Factor</i></b>	<b><i>Male Entrepreneur</i></b>	<b><i>Female Entrepreneur</i></b>
Motivation	Desire to control own destiny. Desire for better life style.	Need for achievement. Support family income.
Impetus	Disagreement with bosses or dissatisfaction with working conditions, lay off, unemployment.	Frustration at not being allowed to grow in previous situation
Sources of funds	Personal asset & savings, bank financing, investors, loan from friends & family	Personal assets & savings, personal loans
Occupational Background	Experience in the line of work as recognised specialist or one who has gained a high level of achievement in the field, competent in a variety of business function	Middle mgmt or administrative level experience in the field
Personality Characteristics	High level of self confidence, low in flexibility and tolerance. Better at dealing with economic environment but less adept at dealing with social environment	Medium level of self confidence, More flexible & tolerant. Low level of comfort in dealing with economic environment but adept at handling social environment.
Background	Age when starting venture– 25 to 35 Degree in business or technical field, usually Engineering	Age when starting venture– 35 to 45 Degree in liberal arts.
Support Groups	Professionals like lawyers, accountants being first, thereafter spouse and followed by friends and others Little reliance on trade associations	Spouse is first, close friends second and followed by others. Support of women professional groups and trade associations actively sought.
Nature of Venture	Manufacturing, construction, high technology	Service related – educational service, consulting or public relations
Size of Venture	Medium to large	Generally small to medium

**Q** *What are prominent organisations promoting entrepreneurship in India? Give a Brief account of activities of each organisation.*

**Ans.** There are several organisations engaged in conducting entrepreneurship development program in India. The lead in the matter was taken by the Small Industrial Development Organisation (SIDO) through its service centres. Other organisations that have been actively conducting Entrepreneurship Development Programmes are –

- (a) State Bank of India;
- (b) Financial institutes such as IDBI Entrepreneurial Motivation Training centre in northern – eastern region,
- (c) Xavier Institute of Social Services, Ranchi
- (d) Industrial Consultancy Organizations in various states,
- (e) Centre for Entrepreneurship Development, Ahmedabad
- (f) State Financial Corporations,
- (g) Centre of Entrepreneurship development, Hubli
- (h) Small Industries Extension Training Institute, Hyderabad,
- (i) National Science & Technology Entrepreneurship Development Board etc.

A need was felt to evolve an integrated national approach towards training program for various centre's and states' entrepreneurship development programme. In order to train the entrepreneurs, proper syllabi needed to drawn. Moreover, it was felt that there are not enough trainers and motivators to run the Entrepreneurship Development Programmes.

The training program is designed to serve the following objectives –

1. To impart basic knowledge about the industry, product & production methods
2. To build the necessary skill for new entrepreneurs.
3. To assist the entrepreneur to function more effectively in his present position by exposing him to various relevant concepts, techniques & information.
4. To expose the entrepreneur to latest developments which directly or indirectly affect him.
5. To broaden the vision of entrepreneurs by providing them suitable opportunity for an interchange of experiences within and outside an industry.

6. To impart customer education
7. To impart knowledge of the marketing of goods

**Methods of Training –**

1. **Individual Instructions** – Under this method, a single individual is selected for training. This mode of training is undertaken where a complicated skill is to be imparted to an individual
2. **Group Instructions** – This mode of training is suitable for a group of individuals for tasks which are not very complicated and entire group needs same set of skills.
3. **Lecture Method** – Here the instructor teaches the theoretical aspects. Any practicals are followed by the learners subsequently. Under this method, whenever there are any doubts they may be clarified on the spot.
4. **Demonstration Method** – Where the performance of work to be shown practically by the instructor for better understanding, this method can be followed. This is more concerned with the practical than theoretical aspects.
5. **Written Instruction Method** – The medium of training is followed where a feature reference is to be made by the learners. This method is mostly followed where a standardisation production is followed.
6. **Conference** – Conferences are organised wherein experts in the field share their ideas & bring to the notice of learners new ideas & techniques to increase the production
7. **Meeting** – Meetings are a mode of training involving a group of people who discuss the various problems confronting them; they exchange ideas & views and learn from each other.











and its employees do in off season? Therefore, such products are rated poorly. Alternative products will have to be thought of to sustain profit during such lean periods.

- (d) **Company Position Factors** – Time required to get established. Projects having higher gestation period are more risky for entrepreneurs as he exposes himself to a greater risk of changes in technology, competition & economic conditions.
- (i) **Degree of Value Addition** – Greater the value addition better the rating. Hence, it is better to carry out the entire manufacturing process yourself rather than subcontracting.
  - (ii) **Availability of Raw Material** – If crucial raw material and other materials are available during varying conditions than a good rating can be assigned.
  - (iii) **General Labour Atmosphere** – The project should be located in a area enjoying a good labour climate.
- (e) **Production Factors**
- (i) **Equipment Availability** – Will it be possible to get machinery & equipment easily & quickly ? Are the suppliers reliable & conveniently located? If your answer is yes, rating is good
  - (ii) **Utilities / Facilities Required** – Some projects are highly dependent on clean water, steam, electricity and good sewage system & if these are not available regularly then that project would be rated poorly.
  - (iii) **Training of Personnel** – Are technical people easily available ? If yes, how quickly can they be inducted into the company? If no, then, is the training likely to be time consuming.
  - (iv) **Ease of Maintenance**
  - (v) **Hazard** – Does the project involve a manufacturing process, which is hazardous, which could affect the well being of not only the work place but also the community at large. A poor rating follows.
  - (vi) **Waste Disposal Problem** – Both govt. & society are becoming more conscious of pollution and its dangers. If your project calls for an expensive waste disposal system to neutralise the effluents, then it will be a negative factor.

Conclusion – the list of factors is by no mean exhaustive and can be modified to suit specific products. A comparison of product profile would help us to decide which product to pick up.

**Q Role of SIDBI in development of Small Scale Industries?**

**Ans.** SIDBI (Small Industries Development Bank of India) was set up on April 2, 1990 as a wholly owned subsidiary of IDBI (Industrial Development Bank of India) with a authorised capital of Rs 250 crore. IT was set up as an apex institution for promotion, financing and development of industries in small scale sector and for coordinating the functions of other institutions engaged in similar activities. SIDBI extends direct/indirect financial assistance to SSIs, assisting the entire spectrum of small and tiny sector industries on All India basis.

Its objectives are –

1. To initiate steps for technological upgradation and modernisation of existing units
2. To expand channels of marketing of SSI sector products in India and abroad
3. To promote employment oriented industries in semi urban areas and to check migration of population to big cities.

The range of assistance comprising financing, extension support and promotional, are made available through appropriate schemes of direct and indirect assistance for the following purposes:-

- (a) Setting up of small scale projects
- (b) Expansion, diversification, modernisation, technology upgradation, quality improvement and rehabilitation of existing SSIs
- (c) Strengthening of marketing capabilities of SSI units.
- (d) Development of infrastructure for SSIs and
- (e) Export promotion.

**Direct Assistance Schemes**

SIDBI directly assists SSIs under –

- (a) Project Finance Scheme,
- (b) Equipment Finance Scheme,
- (c) Marketing Scheme,
- (d) Vendor Development Scheme,
- (e) Infrastructural Development Scheme, ISO-9000,
- (f) Technology Development & Modernisation Fund,
- (g) Venture Capital Scheme,

- (h) Assistance for leasing to NBFCs, SFCs, SIDCs and
- (i) resource support to institutions involved in the development and financing of small scale sector.

These Schemes are mainly targeted at addressing some of the major problems of SSIs in areas such as high tech project, marketing, infrastructural development, delayed realisation of bills, obsolescence of technology, quality improvement, export financing and venture capital assistance.

### ***Indirect Assistance Schemes***

Under its indirect schemes, SIDBI extends refinance of loans to Small Scale sector by Primary Lending Institutions (PLIs) viz. SFCs, SIDCs and Banks. At present, such refinance assistance is extended to 892 PLIs and these PLIs extend credit through a network of more than 65,000 branches all over the country.

All the Schemes of SIDBI, both direct and indirect assistance, are in operation in all the States of the country through 39 regional/branch offices of SIDBI.

### ***Promotional and Development Activities***

SIDBI is actively involved in promoting Tiny and Small Scale Industries by means of its promotional and developmental activities through suitable professional agencies for organising Entrepreneurship Development Programmes, Technology Upgradation & Modernisation Programmes, Micro Credit Schemes and assistance under Mahila Vikas Nidhi to bring about economic empowerment of women, specially the rural poor, by providing them avenues for training and employment opportunities.

### ***Main Schemes of SIDBI***

1. ***National Equity Fund Scheme*** – Provides equity support to small entrepreneurs setting up projects in Tiny Sector.

National Equity Fund (NEF) under SIDBI provides equity type assistance to SSI units and tiny units at one per cent service charges. The scope of this scheme was widened in 1995-96 to cover all areas except Metropolitan areas, raising the limit of loan from Rs. 1.5 lakhs to Rs. 2.5 lakhs and covering both existing as well as new units.

- (a) The following are eligible for assistance under the scheme:-
  - (i) New projects in tiny and small scale sectors for manufacture, preservation or processing of goods irrespective of the location (except for the units in Metropolitan areas).
  - (ii) Existing tiny and small scale industrial units and service enterprises as mentioned above (including those which have availed of NEF



3. **Single Window Scheme** to provide both term loan for fixed assets and loan for working capital through the same agency.
4. **Composite Loan Scheme** for equipment and/or working capital and also for worksheds to artisans, village and cottage industries in Tiny Sector.
5. **Mahila Udyam Nidhi (MUN) Scheme** provides equity support to women entrepreneurs for setting up projects in Tiny Sector.
6. **Scheme for Financing Activities** relating to marketing of SSI products which provides assistance for undertaking various marketing related activities such as marketing research, R&D, product upgradation, participation in trade fairs and exhibitions, advertising branding, establishing distribution networks including show room, retail outlet, wears-housing facility, etc.
7. **Equipment Finance Scheme** for acquisition of machinery/equipment including Diesel Generator Sets which are not related to any specific project.
8. **Venture Capital Scheme** to encourage SSI ventures/sub-contracting units to acquire capital equipment, as also requisite technology for building up of export capabilities/import substitution including cost of total quality management and acquisition of ISO-9000 certification and for expansion of capacity.
9. **ISO 9000 Scheme** to meet the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.
10. **Micro Credit Scheme** to meet the requirement of well managed Voluntary Agencies that are in existence for at least 5 years; have a good track record and have established network and experience in small savings-cum-credit programmes with Self Help Groups (SHGs) individuals.





venture thinks of doing business on foreign soil, it should first consolidate domestically and try to achieve a leadership position in the domestic market.

Before venturing into foreign business, an Indian entrepreneur must understand how international business differs from his local business . The key to his success lies in being able to understand the above & respond accordingly. International entrepreneurial decisions are more complex due to the following factors –

- **Economics** – Creating a business strategy for a multi country business means dealing with differences with levels of Economic development, currency valuations, government regulations, banking systems, as well as market /distribution systems . The extent of the quality of these factors significantly impacts the ability to successfully engage in international business .
- **The Country's Balance of Payment (BOP) Position** – BOP affects the cross currency exchange rates which affect the margin since there is often considerable time gap between contract and realisation of payments in foreign business.
- **Political Environment** – The differences in political & legal environments across international markets pose different challenges in doing business in foreign markets. Each element of the business strategy of the international entrepreneur can be affected by political/legal environments.
- **Culture** – The impact of culture on Entrepreneurs is significant with respect to the strategies that they intend to employ. Each element of the business plan has to be in congruence with local culture . Understanding local culture is essential to development of business. The product and marketing strategies have to be adopted to the local culture. Mr Vijay Mallya can not distribute his annual bikini calendar as a product promotion article in Middle East Countries while it will be pretty welcome in Europe and US.
- **Technology** – Many of the production technologies are not acceptable in certain countries.

As a gradual approach, a new company should preferably try to tap the markets in other developing and underdeveloped countries where quality consciousness and bias against Indian growth is less or absent. Thereafter, the company can start moving gradually towards more sophisticated markets of Europe and US.

Hence the major steps should be

1. Stage 1 – Make initial movements into international business following a highly centralised decision making process. Tread carefully & start operations through direct or Indirect exports. In this stage the entrepreneur & his organisation undergo the learning & experience curve effects which will help in the long run



2. Stage- 2 – After the product and the company has gained acceptance in foreign market, the decision making process has to get de-centralised. The firm could employ a multi country strategy by tailoring its products to suit each countries preferences & culture or go in for high degree of integration & standardisation.
3. Stage- 3– Once decentralisation has been achieved, the HQ should retain tight control over corporate strategy and divest tactical implementation to the local units.

### ***Trade Barriers***

- Import quotas imposed by developed nations on goods allowed from developing nations .
- Local tariffs/import duty in developed nation making Indian goods non-competitive.
- Subsidies to local manufacturers makes imports unviable
- Trade blocks & free trade areas between developed nations & their neighbours favours trade between them. For eg, EU countries, NAFTA, etc. which reduces India's chances of doing business in these sectors.

Trade barriers increase an entrepreneurs cost of exporting products & hence such increased cost will force entrepreneur to establish the manufacturing base in those countries to surmount such barriers .

### ***Favourable Conditions***

The Indian government is encouraging international entrepreneurship by offering the following initiatives –

- Tax sops on export earnings
- Setting up of export processing zones close to ports
- Waiver of import duties on essential raw material meant for processing export goods
- Waiver of sale tax, octroi & other govt. levies on export goods
- Providing for cheaper land to 100 % EOUs.
- Duty Drawback Schemes.

**Q. Describe the process the of scanning the environment to start an entrepreneurial venture, please give a scheme to short list a few good business idea?**

**Ans.** For a new venture to be set up, an initial environment analysis is critically required to identify trends, changes accruing at national and international level, gather knowledge about the government policies in terms of financial and commercial impact on the company, knowledge about raw material ability, infrastructure and utilities availability at the proposed site, etc.–

**Analysis of External (Macro) Environment** – Macro environment is source of threats, opportunities & constraints and uncontrollable. Therefore, the strategy has to be drawn around those uncontrollable within the constraints imposed and opportunities offered by them. Macro Environment can be further sub-divided into following

- (a) **Remote Environment (Global as well as Domestic)**
  - (i) Social
  - (ii) Legal
  - (iii) Economic
  - (iv) Political
  - (v) Technological
- (b) **Industry Environment – Porter’s five forces model –**
  - (i) Entry Barriers
  - (ii) Suppliers Powers
  - (iii) Buyers’ Power
  - (iv) Substitute Availability
  - (v) Competitive Rivalry
- (c) **Operating Environment**
  - (i) Competitors
  - (ii) Creditors
  - (iii) Customers
  - (iv) Labour
  - (v) Suppliers
- (d) **Socio - Cultural Environment**
  - (i) Demographic factors such as:

- (aa) Population size and distribution
- (ab) Age distribution
- (ac) Education levels
- (ad) Income levels
- (ae) Ethnic origins
- (af) Religious affiliations
- (ag) Housing conditions
  
- (ii) Attitudes/Belief towards: Materialism/capitalism/socialism, free enterprise individualism, role of family, role of government, collectivism, language, etc
  
- (iii) Cultural structures including: Religious beliefs and practices, consumerism, environmentalism, Work Ethics, Pride of accomplishment, diet and nutrition, etc.
  
- (e) **Technical Environment**
  - (i) Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc.
  - (ii) New manufacturing processes
  - (iii) New products and services of competitors
  - (iv) New products and services of supply chain partners
  - (v) Any new technology that could impact the company
  
- (f) **Legal Environment**
  - (i) Minimum Wage laws
  - (ii) Environmental Protection laws
  - (iii) Industrial laws
  - (iv) Union laws
  - (v) Copyright and Patent laws
  - (vi) Effectiveness of Law & Order enforcement machinery.
  
- (g) **Political Environment**
  - (i) **Political Climate** – Type of govt (Capitalist/Communist/Democratic/Autocratic/Monarchy/etc)
  - (ii) **Political Stability and Risk** – What political stability relates to business is the stability of govt policies. In many countries like







### ***Importance of SSIs.***

**Ans.** Small Scale Industries (SSIs) provide numerous benefits to the entrepreneurs, the society and to the nation as a whole. These can generally be clubbed into two heads – economic benefits and social benefits, and are as elucidated hereunder.

#### ***Economic Benefits***

- (a) SSIs generally are less intensive on technology and are therefore within reach of individuals who may not be highly educated.
- (b) They need small capital and can be started by people with little resources.
- (c) Due to small size, their gestation period is often short.
- (d) Most SSIs use local raw materials which ensures good prices for producers of raw materials.

#### ***Social Benefits***

- (a) SSIs generate employment at the local level, which is much needed for a developing country like ours with a heavy population load. In India there are 35 lac SSI units, generating employment for over 2 crore people.
- (b) With SSIs generating employment and wealth creating avenues, equitable distribution of income is possible to some extent with their help.
- (c) Also, SSIs check monopoly of strong players to a large extent by producing substitutes, which are cheaper and affordable.
- (d) Infrastructure development in rural and semi-urban areas has also been possible because of SSIs. Baramati, Ichalkarangi, Mokhama, Sivakasi, Tumkur, Tirupur are some such places where infrastructure has vastly developed.
- (e) SSIs have helped in rural development. Agriculture provides employment for only few months in a year. SSIs provide employment round the year.
- (f) SSIs have improved employment opportunities and many SSIs are in under/semi developed areas, even in villages. This keeps a check on the exodus of workers to metros and urban zones.
- (g) SSIs help to establish the linkage between agriculture and industry to harness the potential of both the sectors.



## ***Policy Initiatives towards Small Scale Industries and Entrepreneurship***

Mahatma Gandhi had recognised then need for cottage industry in India even before independence. Therefore, it was only natural that SSIs became the focus of attention for Industrial Policy Planners in Independent India. Starting with first Industrial Policy Resolution (IPR) in 1948, SSIs and in turn Entrepreneurship has found adequate attention in every policy formulation. Unfortunately, intent could not turn reality due to poor implementation.

1. ***The IPR of 1948*** emphasized the role of entrepreneurship and SSIs in the industrialization of the country. An emphasis was laid on the promotion of cottage and small-scale industry as they could play a critical role in creating self-employment. The earlier recommendation to establish a Cottage Industries Board to foster the growth of SSU was accepted.
2. ***Industrial Development Bank of India (IDBI)*** was established in 1964. IDBI was meant to provide financial assistance to cottage, tiny, small and medium enterprises through refinance of industrial loans granted by State Financial Corporations, State Industrial Development Corporations, Commercial Banks, Co-operative Banks and Regional Rural Banks. It also covered provisions for rediscounting of bills, seed capital assistance to new entrepreneurs, finance for purchasing machinery on lease or hire purchase and others.
3. ***Nationalisation of Banks*** – Banks which were under the control of Industrial Houses were reluctant to finance SSIs. In 1969, and in the following decade most of the large banks were nationalised which paved the way for easy flow of loans to SSIs and Tiny sectors on affordable terms and conditions.
4. ***The Industrial Licensing Policy of 1970*** restricted the role of large industrial houses and foreign concerns to the core, heavy and export-oriented Units. In other words, non-core sector, which was within reach of entrepreneurs, was left to them for creating small enterprises.

Also, with a view to promote development of SSIs in rural pockets, District Industries Centres (DIC) were proposed to be set up to provide all the services and support required by the small and village entrepreneurs under a single roof.

5. ***The Industrial Policy Statement of 1977*** under the socialistic Janata Party Govt and Mr George Fernandes as Industry Minister, emphasized that “whatever can be produced by the Small and Cottage Industries must only be so produced”. Salient policy changes were:
  - (a) Expansion of the list of reserved items for exclusive production by the SSI sector from 180 to 807 items.
  - (b) Enhanced limits for investment in plant and machinery for tiny, SSI and ancillary units to Rs. 1, 10 and 15 lakhs respectively.

- (c) Mass creation of DICs.
  - (d) Separate wing of IDBI to deal with credit requirement of small sector.
  - (e) Promotion to technological self-reliance.
  - (f) Restricted role towards foreign capital and collaboration.
  - (g) Rehabilitation programmes for sick units.
6. **The IPS of 1980** was a watershed event in the development of SSI sector. The policy emphasized the ancillarization and the creation of clusters for the growth of this sector. Main initiatives were:
- (a) Modernization of small industries particularly in adopting of the right technology and energy conservation.
  - (b) Thrust to export-oriented units.
  - (c) Selective but speedy approval to foreign capital and collaborations.
  - (d) Integrated Industrial Development.
  - (e) Further enhanced limits for investment in plant and machinery for tiny, SSI and ancillary units to Rs. 2, 10 and 25 lakhs respectively.
7. **Post 1990 Scenario** – Shaken violently by the foreign exchange crisis of 1990, when India escaped default in payment of loan repayment obligations by mortgaging its gold to England, the Govt. of India, announced major changes in the **Industrial Policy on 24<sup>th</sup> July, 1991**. The salient features of this new policy were:
- (a) Abolition of industrial licensing in most cases.
  - (b) Only security and strategic concern areas reserved for public sector.
  - (c) Automatic clearance for import of capital goods.
  - (d) Location clearance required only for polluting industry.
  - (e) Broad-banding facility for existing units. (*Earlier a license to manufacture car did not include Jeep. And you could not manufacture a motor cycle or moped under licence to manufacture scooters. Under new policy licences were issued for two wheelers. It was left to the industrialist to decide what he wants to manufacture; whether motor cycle or scooter or moped*)
  - (f) Liberal foreign investment.
  - (g) Automatic permission for foreign technology.
  - (h) Changes in MRTP Act.
8. Changes in Industrial policy were followed by a new policy for small and tiny enterprises on **6<sup>th</sup> August 1991**. The salient features of this new policy were –
- (a) Equity participation up to 24% by other industrial undertakings.
  - (b) Legislation to ensure payment of SSI bills.



- (c) A **Medium Enterprise**, where the investment in plant and machinery is more than Rs 5 crores but does not exceed Rs 10 crore.

2. **Definition of Enterprises in Services Sector**

- (a) A **Micro Enterprise**, where the investment in equipment does not exceed Rs 10 lakh;
- (b) A **Small Enterprise**, where the investment in equipment is more than Rs 10 lakh but does not exceed Rs 2 crore; or
- (c) A **Medium Enterprise**, where the investment in equipment is more than Rs 2 crore rupees but not exceed Rs 5 crore.

Cost of pollution control equipment, Research and Development set-up, Industrial Safety Devices and such other items shall be excluded.



largely scripted by Jitendra Singh, an officer in charge of implementing the MP Government's Rajiv Gandhi Watershed Mission (RGWM) and Dr Moni Thomas of the government-run Krishi Vigyan Kendra, Shahdol. Jitendra Singh took charge in 1999 and soon realised that the project would not have the desired impact if it focused only on water harvesting. "The villages are predominantly inhabited by poor tribals. The focus had to be on income generation and SHGS.

The official began researching on traditional means of livelihoods of the area and found lac cultivation to be one such method. Maharaja Gulab Singh, the erstwhile ruler of the area, had set up an efficient system of lac production and distribution in his state. But once the Indian government took over the princely state, the system fell into complete disarray. The authorities' indifference and the inability of the cultivators to sell their produce put paid to lac cultivation in Shahdol. It was this source of livelihood that Jitendra Singh decided to revive.

The area has abundance of Palash trees (about 20 per cent trees in Shahdol are Palash). The trees were, however, merely a fuel wood source. Jitendra Singh and Moni Thomas - of the government-run Krishi Vigyan Kendra, Shahdol - arranged to train Nowgai's residents in reviving their traditional means of livelihood.

A group of 10, with Madhav as their head, was the first to benefit from the training. They formed an SHG under Jitendra Singh's and Thomas' guidance; the village watershed committee pitched in with a loan of Rs 6000 to buy palash seeds from Pendra in mp's Bilaspur district. In 2001, Nowgai's cultivators started selling palash seeds to villagers in nearby areas.

They earned about Rs 15,000 in the first harvest in June. In the next harvest in October, the villagers sold seeds worth Rs 70,000 to Shahdol's forest department. Since then they have been assured of a constant source of income, as lac cultivation has gained in popularity. There are 12 SHGS in Nowgai alone. There are 152 lac cultivators' SHGS in 142 villages of the district.

Lac cultivation is not affected by the vagaries of weather or natural disasters. Poor tribals can make huge profits from it with very little investment. Yearly investment is barely Rs 1,000-1,200 and every year, in June and October, they can make almost a lakh of rupees." In addition, lac is cultivated when farmers are not busy in their fields. So, it can bring them a tidy sum of money during the off-season.

Organic Food which has great demand in western countries and fetches very high prices is abundant in deep rural pocket of India. All that is needed is some social entrepreneur who can arrange to market them.

What is very evident from above two case studies is that the real opportunity for any rural entrepreneur lies in identifying the local produce and looking beyond his village as the market. Many social entrepreneurs, some missionaries and some committed Govt Officials have succeeded in setting up the villagers in successful entrepreneurial ventures by

identifying the local produce for which there is great demand outside the country and arranging the production, packing and export. But many more are required.

### ***Profile of a Rural Entrepreneur***

1. He should not be an individualist. He should have a group orientation. A individualist is unlikely to succeed in a village enterprise.
2. He should practice a management style where the concern for people is the highest.
3. He should have a strong commitment for rural development.

### ***Profile of a Social Entrepreneur***

1. He shouldn't be interested in usual perks and allowances. Social gain should be his perk and the smiles on the faces of impoverished rural population his only allowance.
2. He should have strong knowledge of local economy as well as well versed with the national and international economy.
3. Should have good liaison with govt authorities.
4. Should have knack for marketing.

### ***Development Model for Rural Entrepreneurship***

1. Elimination of middlemen and direct marketing to customers.
2. Formations of cooperatives/self help groups like Amul for optimum utilization of farm produce.
3. Finding markets offering best value for local products.
4. Better marketing (national and international) of rural products; farm produce, handicrafts, culture (dance forms, musical instruments and other fine arts of entertainment) resulting in the rural prosperity.
5. Training the local youth for Entrepreneurial ventures resulting in reduction of disguised employment and alternative occupations for rural youth.
6. Optimum utilization of local resource in entrepreneurial venture by rural youth



## CONCESSIONS AND INCENTIVES FOR SSI IN INDIA

The main responsibility for the development of small-scale industries rests with State Governments. Nationalization of Banks, protective and promotional policies by the Governments resulted in significant growth from 1969 onwards. In pre-liberalization era, SSI enjoyed following key advantages:

- ◆ Reservation of items for exclusive manufacture by SSI sector
- ◆ Concessional Finance from Banks
- ◆ Subsidies from Central and State Governments
- ◆ Excise Concessions
- ◆ Protected Market

With opening-up of the economy, the situation has taken a different turn. However, there are still a wide range of facilities, concessions and incentives. An outline is narrated below-

1. **Investment Limit in Plant and Machinery** – The Government of India have lowered the ceiling on investment in plant and machinery for small scale and ancillary industrial undertaking from Rs. 3 crore to Rs. 1 crore with effect from December 24, 1999. The investment ceiling for tiny unit has been retained at Rs.25 lakhs.
2. **Reservation of Items for Exclusive Manufacture in the Small Scale Sector** – The policy was initiated in 1967 with 47 items which grew to the peak level 836 items in 1977. Policy changes in 1997 permitted large scale units to manufacture reserved products but with a 50% export obligation. There is a progressive dereservation approach. In the 2004 - 05 Budget about 85 items were dereserved.
3. **Reservation of Items for Exclusive Purchase from SSI** – Purchases by DGS&D are made exclusively from SSI units for specified items known as reserved list. Prior to 1997 there were 409 items in this list, which has now been substantially reduced. Secondly, for these items and even for those items which are not reserved, SSIs enjoy a purchase price preference of 15% compare to large companies.
4. **Foreign Direct Investment** – To provide access to the Capital market and to encourage modernization and technological upgradation in SSI sector, equity participation upto 24% of the total shareholding is allowed in the SSI units by other industrial undertakings including foreign collaborators.
5. **Export Promotion Councils** – The Export Promotion Councils are registered as non - profit organizations and SSI units can access export – related services from the Councils. EPCs for different industries provide a consortium approach to their member units for exports of the products.

Some of them obtain bulk purchase orders from buyers and distribute these among SSI units for supply to the council for deemed export. This process ensures orders to every member unit and the timely delivery of goods.

6. ***Incentive Scheme for Acquiring ISO 9000 Certification*** – In Order to prepare the Small Scale Industries to face the threat coming in the way of export in future due to ISO 9000 barrier, Office of the DC (SSI) has promoted the schemes to give incentive to small scale industries acquiring ISO 9000 certification to the extent of the cost subject to the maximum of Rs.75,000 in each case. The scheme is implemented by SIDBI.
7. ***Integrated Technology Upgradation and Management Programme (UPTECH)***  
A new scheme on Upgradation of Technology (UPTECH) has been conceptualized and approved during the year 1997-98. It covers all the facets of technological improvements such as quality upgradation, energy conservation, pollution control, process modifications, modernization etc. Some illustrative clusters, where the Scheme operates are –
  - (a) The Lock Industry at Aligarh, UP.
  - (b) The Pottery Cluster at Khurja, UP.
  - (c) The Forging Industry at Ludhiana & Jalandhar in Punjab, Hyderabad and Vijayawada in Andhara Pradesh.
  - (d) The Food Processing Industry Clusters at Pune and Chitoor in Andhara Pradesh.
  - (e) The Neem and Perfumery Industry at Kannauj, UP.
  - (f) The Brassware Cluster at Moradabad, UP.
  - (g) The Sports Goods Cluster at Jalandhar, Punjab
  - (h) The Bulk Drug and Formulation Industry at Kushaiguda
  - (i) Auto Components Industry, Pune, Indore and Chennai.
  - (j) Tile Industry along the West Coast
  - (k) Rice Milling Cluster at Bhandara in Maharashtra
  - (l) Toy Industry in Delhi and Noida.
8. ***Technology Bureau for Small Enterprises*** – The TBSE is a joint venture of SIDBI and the Asian Pacific Center for Transfer of Technology (APCTT). The main objective of the Bureau is speedy access and transfer of technologies. The bureau has a large computerized database on technology options available in the Asia Pacific region. It identifies business partners willing to collaborate, brings them face-to-face and extends support to tie-up financial assistance. It offers, under one roof, assistance to existing and prospective small enterprises in the sphere of technology accession, transfer and funds syndication.

9. **Small Enterprises Information and Resource Centre Network (SENET)** – The Scheme came into being w.e.f. April, 1997 with a view to pioneer, create and promote data – base and information services and facilitate information sharing among the small entrepreneurs and exporters.
10. **Relaxation Under Environmental Laws** – The Ministry of Environment Forests have simplified the consent procedure in respect of small scale industrial units For the units of small scale sector, except 17 categories which are heavily polluting, the acknowledgement of the application by the Board would serve the purpose of the consent and the consent granted shall be valid for 15 years.

**List of Highly Polluting Industries**

- (i) Fertilizer (Nitrogen/ Phosphate)
  - (ii) Sugar
  - (iii) Cement
  - (iv) Fermentation and Distillery
  - (v) Aluminium
  - (vi) Petro chemicals
  - (vii) Thermal power
  - (viii) Oil refinery
  - (ix) Sulphuric Acid
  - (x) Tanneries
  - (xi) Copper Smelter
  - (xii) Iron & Steel
  - (xiii) Pulp & Paper
  - (xiv) Dye and Dye intermediates
  - (xv) Pesticides manufacturing and formulation
  - (xvi) Basic Drugs and Pharmaceuticals
11. **Common Effluent Treatment Plants (CETP)** – The Ministry of Environment and Forests is implementing the scheme for setting up of Common Effluent Treatment Plants (CETPs) in clusters of small scale industrial units. The financial assistance under this scheme towards the total cost of the project is as follows –
- (a) 25% as subsidy from both Central and State Governments;
  - (b) 30% as loan at reduced rate of interest from the financial institutions and
  - (c) 20% a contributions from individual units.

12. **Industry Related Research Institutes** – The council of Scientific and industrial Research (CSIR), New Delhi, has continually been striving to promote the development of indigenous technologies and utilization of indigenous resources. CSIR has signed four MOUs for alliances with All India financial institutions and industry associations viz. ICICI, SIDBI, CII, and FICCI. The alliances seek to synergise the core competencies of each partner to mutual advantage.
13. **Exemption and Preferential Treatment from Excise Duties** – For SSI having clearances in the financial year not exceeding Rs 3 crores, there are two schemes –
- (a) First Clearances upto Rs. 100 lakhs – Nil rate of duty; CENVAT credit is not permissible.
  - (b) First Clearances upto Rs. 100 lakhs – 60% of Normal Duty; CENVAT credit is permissible.
14. **Policy of Priority Credit** – SSI units are entitled for priority sector lending from the nationalized commercial banks on the pattern of agriculture. Out of 40% of bank advances earmarked as priority sector lending about 15 to 17 % have been flowing to SSI sector. Out of priority sector credit going to small scale sector, 40% is earmarked for tiny units having investment in plant and machinery below Rs. 5 lakhs and another 20% for tiny units whose investment in plant and machinery ranges between Rs 5 lakhs to 25 lakhs.
15. **Initiative for Credit** – Commercial banks provide working capital to SSI units worked out at the rate of 20% of their annual turnover subject to a limit of Rs. 5 Crores.
16. **OTC Exchange of India (OTCEI)** – The OTC Exchange of India has been setup by leading Financial Institutions like UTI, IDBI, ICICI, LIC and GIC, expressively to provide an ideal avenue for corporate of all the sizes, its special focus on small scale companies, to raise resources from the capital market.
- The Exchange provides sophisticated trading mechanism like Bought Out deals, market making and sponsorship, which makes it very convenient for the small, and medium sized companies to access the capital market
17. **The Interest on Delayed Payment Act** – “The Interest on Delayed Payment to Small – Scale and Ancillary Industrial Undertaking Act” was enacted in 1993 in order to tackle the problem of settlement of dues from companies. The Act has been amended so that SSI units are not handicapped by delays in the settlement of their dues from larger companies. The amended Act has come into force from 10<sup>th</sup> August, 1998. the amended Act provides for –
- (a) Change in the penal rate of interest from the present 5 percentage points above the floor rate which was applied hitherto, to 150% of the Prime Lending Rate (PLR) of SBI;

- (b) The agreed date of settlement of dues (i.e., any contract between the SSI supplier and the large – scale buyer) not to exceed 120 days from the date of acceptance of goods by the large companies;
- (c) An additional/alternative mechanism of arbitration and conciliation to resolve disputes between the SSI supplier and the large scale buyer to deal with issues/disputes which arise due to non-payment/delayed payment of the dues of SSI units/suppliers by large company customers/buyers.

**Recent Changes (2.10.2006) - Provisions to Check Delayed Payments**

- (i) Provisions related to delayed payments to Micro & Small Enterprises (MSEs) strengthened.
- (ii) Period of payment to MSEs by the buyers reduced to 45 days.
- (iii) Rate of interest on outstanding amount increased to three times the prevailing Bank Rate of Reserve Bank of India, compounded on monthly basis.
- (iv) Constitution of MSE Facilitation Council(s) mandatory for State Government.
- (v) Reference made to the Council to be decided within 90 days
- (vi) Declaration of payment outstanding to MSE supplier mandatory for buyers in their Balance Sheets.
- (vii) Interest (paid or payable to supplier) disallowed for deduction for income tax purposes.
- (viii) No appeal against order of Facilitation Council to be entertained by any Court without deposit of 75% of the decreed amount payable by buyer.
- (ix) Appellate Court may order payment of a part of the deposit to the supplier MSE.
- (x) Disclosure of delayed payments and interest mandatory in the Balance Sheet wherever audit provision is applicable.

18. **SIDBI Strategic Initiatives (Others)**

- (a) Modernization and Technology Upgradation
- (b) Marketing Finance
- (c) Development of Industrial Infrastructure
- (d) Bills Discounting and Factoring service



## ***SICKNESS IN SSIs***

### ***Definition***

As per RBI, if principal or interest or both have remained overdue for two consecutive quarters in a financial year and there is an erosion in the net worth due to the accumulated cash losses to the extent of 50% or more

### ***Causes of Sickness***

There is wide variety of causes that can lead to industrial sickness. Some are internal to the company, some external, some controllable and other uncontrollable. We can categorise them into following groups -

1. ***Personal (Owner)***
  - (a) Lack of Integrated Knowledge/Training
  - (b) Incompatible Personalities
  - (c) Health
  - (d) Shift in attitude
  - (e) Succession
2. ***Management***
  - (a) Dispute between Owners
  - (b) Wrong Choice of Product/Location
  - (c) Team Building
  - (d) Planning
  - (e) Management Information Systems
  - (f) Inability to Manage Growth
3. ***HR issues***
  - (a) Faulty Recruitment
  - (b) Wage Structure
  - (c) Industrial Relations - Strikes
  - (d) Low Productivity
4. ***Operational issues***
  - (a) Technology obsolescence



- (b) Quality up gradation
- (c) Production Management
  - (i) Plant layout
  - (ii) Quality
  - (iii) Capacity utilization
  - (iv) Inventory
  - (v) Maintenance
  - (vi) Environment
  - (vii) Waste etc

5. **Financial**

- (a) Capital structure
- (b) Capacity to bring capital
- (c) Poor resources management
- (d) Costing/pricing policy
- (e) Over-dependence on concessions & subsidies
- (f) Diversion of capital
- (g) Over-trading
- (h) Unfavorable gearing
- (i) Lack of tax planning

6. **Marketing**

- (a) Over-dependence on a single customer
- (b) Marketing myopia
- (c) Sales & distribution set-up
- (d) Market feedback/ research
- (e) Marketing strategies

7. **Government**

- (a) Changing policies
- (b) Scale of economy
- (c) Controls
- (d) Fiscal policies
- (e) Role as facilitator



## ***FACTORS FOR GROWTH OF SSI***

1. ***Infrastructure***
  - (a) State Industrial Development Corporation – for land and water (or local bodies)
  - (b) State Electricity Board for subsidized power
2. ***Financial Assistance***
  - (a) Priority Sector Lending by banks
  - (b) Reduced Margins
  - (c) Special Schemes for Weaker Section e.g. PMRY
  - (d) Venture Capital
  - (e) Reduced Interest Rates for Small Projects
3. ***Fiscal Subsidies***
  - (a) Need based subsidies
  - (b) General SSI exemption Scheme – Central Excise
4. ***Government Policies***
  - (a) Reservation of certain products for manufacture by SSIs only.
  - (b) Taxation Policies – New Units, Backward Area, EOU
  - (c) Tax-free Income – exports
5. ***Marketing Assistance***
  - (a) Preferential Procurement / Price (15% handicap in quotations)
  - (b) Trade Fairs, Business Visits
  - (c) Export Marketing
  - (d) Warehouses
6. ***Motivational Assistance***
  - (a) SIDO / SISI / NSIC / NIESBUD / EDII / MDI / ECD / SIETI / Voluntary Organizations etc.
7. ***Neglected Areas***
  - (a) Data Bank / Information
  - (b) Plethora of Rules & Regulations

- (c) Management Training
- (d) HRD, MIS

### ***STEPS FOR STARTING A SSI***

1. ***SWOT Analysis***
  - (a) YOU – Strengths & Weaknesses
  - (b) Your Business – Opportunities & Threats
2. Environmental Scanning
3. Product Selection
4. Market Survey
5. Preparation of Project Report
6. Form of Ownership
7. ***Route to Start –***
  - (a) Franchising
  - (b) Ancillarizing
  - (c) Acquisitioning
  - (d) Building from Scratch
8. Finance
9. Man Power
10. Site Location
11. Provisional Registration
12. Licenses & Approvals
13. Power Connection
14. Machinery – Procurement& Installation
15. Recruitment
16. Raw Materials Procurement
17. Trial Production
18. Marketing
19. Quality Assurance
20. Monitoring
21. Permanent Registration

### ***Small Industries Development Organization (SIDO)***

1. Apex body under Ministry of Small Scale & Agro and Rural Industries
2. Liaison body between Central Govt., State Govts., all organizations connected with promotion & development of SSI
3. Advising the Govt. in Policy Formulation
4. Monitoring of Special Schemes like PMRY etc.
5. Field working through SISI
6. Organizations under its control:
  - (a) Regional Testing Centers (RTC)
  - (b) Field Testing Stations (FTS)
  - (c) Tool Rooms (TR)
  - (d) Tool Design Institutes (TDI)
  - (e) Product-cum-Process Development Centers (PPDC)

### ***Training Institutes***

1. National Institute for Entrepreneurship and Small Business Development, New Delhi (NIESBUD)
2. Entrepreneurship Development Institute of India , Ahemdabad (EDII)
3. Indian Institute for Entrepreneurship, Guwahati (IIE)
4. National Institute of Small Industry Extension Training, Hyderabad (NISJET)
5. Centers for Entrepreneurship Development at State Level (CED)

### ***Small Industries Service Institute (SISI)***

1. Technical Consultancy Services – Project Profiles/Reports
2. Entrepreneurship Development Programmes
3. Ancillary Development Programmes – Sub-Contract Exchanges (SCX)
4. Managerial Consultancy Services
5. Economic Investigation Services
6. Marketing Assistance & Services
7. Export Promotion Services
8. Modernization/ Technology Upgradation / Quality Certification services

9. Common facilities services
10. Small Enterprises Information and Resource Center Network (SENET)
11. Library Facility

### ***NATIONAL SMALL INDUSTRIES CORP LTD(NSIC)***

Promotes SMEs through Sectoral Approach and Cluster Development by –

1. ***Support Services***

- (a) Technology upgradation
- (b) Infomediary
- (c) Mentoring
- (d) Incubation
- (e) Quality Assurance
- (f) Enterprise to Enterprise Cooperation
- (g) Technical Training

2. ***Marketing Support***

- (a) Consortia Marketing & Brand Development
- (b) Exports (Products & Projects)
- (c) Exhibition & Buyer Seller Meet
- (d) Global Tenders
- (e) UN Supply
- (f) Govt. Stores Purchase Programme

3. ***Credit Support***

- (a) Composite Term Loan
- (b) Line of Credit
- (c) Raw Material Assistance
- (d) Export Financing

## ***National Small Industries Corporation (NSIC)***

1. Focused Sectoral Approach
2. ***Upgrade Identified Sectors in Terms of –***
  - (a) Product Design
  - (b) Application of new technologies
  - (c) Quality control
  - (d) Packaging
  - (e) Marketing
  - (f) Linking to the global markets
3. ***Integrated Support***
  - (a) Credit Support
  - (b) Marketing Support
  - (c) Technology Upgradation
  - (d) International Partnerships
  - (e) Infomediary Services
4. ***Common Programmes in Identified Sectors with Stake Holders –***
  - (a) Mentoring and Advisory Support
  - (b) Identification of New Markets
  - (c) Consortia Marketing & Brand Building
  - (d) Quality Assurance & Rating
  - (e) Cluster exclusive Websites
  - (f) Cluster specific Catalogues
  - (g) Buyer-Seller Meets

and more...





4. **Project Cost** – Project cost (including margin money for working capital) should not exceed Rs. 50 lakh in the case of new projects. In the case of existing units and service enterprises, the total outlay including the proposed outlay should not exceed Rs. 50 lakh.
5. **Debt Equity Ratio** – 65:35 (excluding state subsidy which may be utilized for meeting working capital requirement).
6. **Promoter's Contribution** – 10% of project cost or to meet gap in the equity after taking into account soft loan of SIDBI
7. **Nature of Assistance** – Equity type of assistance in the form of soft loan.
8. **Amount of Assistance** – 25% of the project cost or Rs. 10 lakh per project whichever is lower.
9. **Terms of Assistance** –
  - (a) **Interest** – No interest is charged on the soft loan component except service charge of 5% per annum (1% to be retained by the PLI and balance to be passed on to SIDBI
  - (b) **Repayment Period** – 7 yrs (including moratorium upto 3yrs).
  - (c) **Security** – No security (including collateral) is to be insisted upon for the soft loan.

### ***Credit Guarantee Fund Trust for Small Industries***

A Credit Guarantee Trust for Small Industries (CGTSI) was set up by GoI and SIDBI with a corpus of Rs. 125 crore with Rs. 100 crore contributed by GoI and balance by SIDBI. The corpus is envisaged to increase to Rs 2500 crore over the next five years. The trust became operational on Aug 01, 2000. Under the scheme the guarantee cover will be extended to any collateral free credit facility both term loan and working capital (credit cap Rs. 25 lakh) extended by eligible financial institutions on or after June 1, 2000 to new as well as existing manufacturing SSI units, including those in IT/software industry.

### ***Technology Development & Modernization Fund (TDMF)***

1. **Objective** – To encourage existing industrial units in the small scale sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities
2. **Eligibility** – SSI units including ancillary units which go in for modernization/technology upgradation, the outlay on land and building should not exceed 25% of the outlay on modernization/technology upgradation programme.

- (a) The units should be in operation at least for a period for a period of 3 yrs.
- (b) Units which are already exporting their products or have the potential to export at least 25% of their output by adopting the modernization scheme, and
- (c) Units which are not in default to institutions or banks

3. **Purpose –**

- (a) Purchase of capital equipment, need based civil works & acquisition of additional land
- (b) Acquisition of technical know-how, designs, drawings and fashion forecast where relevant to specific product group
- (c) Upgradation of process technology and products with thrust on quality improvement comparable with acceptable domestic and international standards
- (d) Improvement in packaging
- (e) Cost of TQM and acquisition of ISO 9000 series certification

4. **Terms of Assistance –**

- (a) Promoters' contribution: 20% of the project cost
- (b) Mode of Assistance
- (c) Term Loan
- (d) Equity participation (provided the availability of exit route for disinvestment in due course)
- (e) Both

5. **Amount of loan –** Need based, subject to a minimum of Rs. 10 lakh

***Scheme of Direct Assistance for Financing Activities  
Relating to Marketing of SSI products***

1. **Objectives –**

- (a) To provide financial assistance to SSI units to undertake various activities necessary to increase their sales turnover in the domestic and export markets.
- (b) To finance corporate entities to enable them to provide support services and /or infrastructural facilities to small scale sector to improve its marketing capabilities.



4. **Amount of Loan**
  - (a) Would be need based
  - (b) Minimum of Rs. 10 lakh per borrower
5. **Promoter's contribution**
  - (a) Minimum of 10% for the project
  - (b) Within a maximum Debt Equity Ratio not exceeding 2:1 for the company
6. **Rate of Interest** – Within a broad band upto 4% above the prime lending rate
7. **Security** –
  - (a) Exclusive charge over the assets acquired out of the loan
  - (b) First/second charge on existing fixed assets
  - (c) Other collateral security as may be deemed necessary
8. **Period of Repayment** – Varying between 3-8 years with a moratorium upto one year.
9. Scheme of Post-shipment Credit in Foreign Currency (PSC) / Scheme of Export Bills Financing (EBF)
10. Scheme of Pre-shipment Credit in Foreign Currency (PCFC) / Rupee (PCR)

### ***Technology Bureau for Small Enterprises (TBSE)***

1. Promoted by United Nations' Asian and Pacific Center for Transfer of Technology (APCTT) and SIDBI. One roof, synergy of technology and finance
2. Provides a gateway technology market through Internet and other channels
3. **Range of Services** -
  - (a) **Technology Information** – Computerized database on technology option available from different countries.
  - (b) **Match Making** – Between business partners willing to collaborate
  - (c) **Finance Syndication** – Through SIDBI covering term loans, foreign currency, venture capital, letter of credit, equity assistance
  - (d) **Support Services:** Consultancy, visits of overseas experts, buyer-seller meets for specific product / process technologies.