SEMESTER-IV

ଓଡ଼ିଶା ରାଜ୍ୟ ମୁକ୍ତ ବିଶ୍ୱବିଦ୍ୟାଳୟ, ସମ୍ବଲପୁର
ODISHA STATE OPEN UNIVERSITY, SAMBALPUR

ଓଡ଼ିଶା ରାଜ୍ୟ ମୁକ୍ତ ବିଶ୍ୱବିଦ୍ୟାଳୟ, ସମ୍ବଲପୁର

Odisha State Open University
Sambalpur

BACHELOR OF COMMERCE *(HONOURS)* (BCOM)

SKILL ENHANCEMENT COURSE-2

SEC-CO-02: ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS ETHICS

Credit: 4

Block-1,2,3 & 4

SEC -CO 02: ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS ETHICS

Brief Contents

ODISHA STATE OPEN UNIVERSITY, SAMBALPUR

Programme Name: **Bachelor of Commerce (B.Com)** Programme Code: **BCO**

Course Name: **ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS ETHICS**

Course Code: **SEC -CO 02**

Semester: **IV** Credit: **4** Block No. **1 to 4** Unit No. **1 to 16**

This study material has been developed by Odisha State Open University as per the State Model Syllabus for Under Graduate Course in Commerce (Bachelor of Commerce Examinations) under Choice Based Credit System (CBCS).

https://drive.google.com/file/d/1lP6P9CsWjtH-CYXAqDShZUGQiDjV6vpT/view
https://drive.google.com/file/d/1s1iTjmkE3nckLYatEbY11H1IGsdZkAdq/view
Reference the above link

COURSE WRITERS

Dr. Neha Sharma (Block 2 & 3)
Director, Graduate School of Management
National Institute of Technology, Nagpur

COURSE EDITORS

Dr. Susanta K. Moharana
Former Principal,
Regional College of Management and Consultant
School of Business & Management, Sambalpur

Dr. Pooja Bai Kewat
Academic Consultant (Commerce),
Odisha State Open University.

MATERIAL PRODUCTION

Registrar
Odisha State Open University, Sambalpur

Printers by:

SEC -CO 02: ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS ETHICS

Contents

BLOCK- 1

INTRODUCTION TO ENTREPRENEURSHIP

UNIT 1: MEANING AND DETERMINANTS OF ENTREPRENEURSHIP

Structure

1.0 LEARNING OBJECTIVES

After going through this unit, you will be able to

- Explain the meaning ,characteristics ,role of entrepreneur in economic growth.
- Understand the definition,nature,role,needs and importance of entrepreneurship.
- Explain factors responsible for success of entrepreneurship and the risk,barriers involved with entrepreneurship.
- Explain creativity,innovation and invention;difference between Entrepreneurs vs Managers.
- Meaning of Intrapreneur,advantages and difference between Entrepreneurship and Intrapreneurs.

1.1 INTRODUCTION

An entrepreneur is someone who organises, manages and assumes the risks of a business or enterprise. He is an agent of change. Also, entrepreneurs are individuals who recognise opportunities where others see chaos or confusion. Entrepreneurs are the creators and builders of new ventures that not only fulfil their own dreams, bring them huge fortune but also make a story impact an society and ultimately improve the quality of lives of people. When we hear the word “entrepreneurs” , images of top business tycoons – Dhirubhai Ambani, LN Mittal , Bill Gates – flash in our mind . While these high profile “success stories” can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with these world famous multiConcepts and millionaires. But the fact is that virtually, everybody is entrepreneurial in some aspect of his or her life, entrepreneurial in terms of self-development, entrepreneurial in terms of risk taking, entrepreneurial in terms of creativity, entrepreneurial in terms of self-decision making. When these entrepreneurial traits are utilized by a person in running his business, he can rightly be called an entrepreneur.

1.2 CONCEPT OF ENTREPRENEUR

The word “entrepreneur” is derived from the French word “entreprendre”which means “to undertake”. The term entrepreneur was first coined by Richard Cantillon, a French baker in 18th Century to mean, “A person who is uncertainty bearer”. Richard Cantillon, an Irishman living in France was the first person who used the term entrepreneur for economic activities. J.B.Say another Frenchman, expanded Cantillon’s ideas and said that entrepreneur is “an organizer who combines various factors of production to produce a socially viable product”.

Entrepreneur as Risk-Bearer

In 18th Century Richard Cantillon defined entrepreneur as a capitalist. According to him entrepreneurship is a matter of foresight and willingness to assume risk. He defined entrepreneur as an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future.

He illustrated it with the help of an example. A farmer has to pay contractual incomes, which are certain, to the landlords and labourers and sells at prices that are “uncertain”. He also explains that so with the merchants who make certain payments in expectation of uncertain receipts. So a farmer or merchant both are considered as “risk bearing” agent of production.

Entrepreneur as Organizer

J.B. Say, a French economist, also developed further the concept of entrepreneur, which survived for almost two centuries. He associates entrepreneur with the functions of coordination, organization and supervision. Say was the first economist to differentiate the function and remuneration of the entrepreneur from those of the capitalist.

He emphasized coordination and supervision and recognized entrepreneur as the most important agent of production as he brings together other productive factors and provides continuity of management.

According to Say, entrepreneurship is the combination of three factors;

i) Moral qualities for the work consisting of judgment, perseverance and knowledge of business environment,
ii) Command over capital resources and
iii) Effective utilisation and administration to overcome uncertainty of profits.

Thus, Say's entrepreneur shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield. Marshall during 1936 also focused the relevance of organisation among the various services of special class of business undertakers.

Entrepreneur as Innovator

During 1934 Schumpeter in his magnum opus "Theory of Economic Development" highlighted the role of entrepreneur as "Innovator". According to him entrepreneur is basically an innovator who carries out new combinations of factors of production to initiate and accelerate the process of economic development. Innovations may be occurred in any of the following forms:

- Introducing new product in the market
- Introducing new methods of production
- Opening of a new market
- Discovering new sources of raw material
- Carrying of new organisation of any industry

Schumpeter differentiates between inventor and an innovator. According to him an inventor is one who discovers new factors of production like men, material, machine and methods and an innovator utilizes these inventions and discoveries to make new combination of factors of production. He argued on the fact that the entrepreneur may or may not be the inventor and therefore, he may or may not be supplier of capital. Major different between the inventor and innovator is that the former creates idea and the latter gets it converted into reality.

However, Schumpeter's theory is based on certain assumptions like prevalence of capitalist society with private property, private initiative, money and banking system etc. The applicability of his theory is doubtful in under developed countries where the poor infrastructure and lack of capital may block the innovativeness.

The most recent definition of entrepreneurship is given by Knowledge Commission of India with special reference to India. According to NKC "entrepreneurship is defined as the profession application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus, to pursue growth while generating wealth, employment and social good".

1.3 CHARACTERISTICS/QUALITIES OF A ENTREPRENEUR

1) **Innovator**: Entrepreneurs are generally regarded as innovators. They introduce new methods, new products, new markets, new sources of raw material and new forms of industrial units. According to Schumpeter entrepreneur is basically an innovator who carries out new combinations of factors of production to initiate and accelerate the process of economic development.

2) **Risk Taker**: Entrepreneur assumes the risk of the business. Risk means uncertainty. It is the condition of not knowing the outcome of a decision or activity. He takes calculated risk and faces uncertainty confidently and assumes risk. Higher the risk, higher would be the profit is general saying about risk but it all depends upon the ability of a person taking the decisions and thereby gains higher returns.

3) **Good Organiser**: Entrepreneurs have remarkable skills in organising work and people. They make objective selection of individuals in conformity with their skill in solving specific problem. They bring together various factors of production, minimise losses and reduce the cost of production. An entrepreneur formulates business plans and ensures their execution. An entrepreneur is one who combines various factors of production and then produces a product for market.

4) **Optimistic**: The successful entrepreneurs have a positive approach toward things. They do not get disturbed by the present problems faced by them. They become optimistic for future that the situations will become favourable to business in future.

5) **Foresight**: The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude and taste, technological developments etc. and take necessary and timely actions accordingly.

6) **Visionary**: Vision is the ability to see the end result of goals while striving to achieve them. Every entrepreneur has a vision for growth and development. An

entrepreneur is one who incubates new ideas, starts his enterprise with these ideas and provides added value to society based on their independent initiative. With persistence and determination, the entrepreneur develops strategies to change the vision into reality.

7) **Self-Confident**: An entrepreneur should be self confident. He must have faith in himself and in his abilities. He should have ability to tackle the problems independently with confidence. Only a self confident entrepreneur can trust others and can delegate authority to others. He should have the confidence to implement the change with his relevant knowledge, skills and experience.

8) **Perseverance**: One of the qualities of successful entrepreneurs is that they possess and exhibit tremendous perseverance in their pursuits. They do not give up their effort even if they fail. They are not deterred by difficulties and problems that beset any project, rather they work hard until the whole project is successfully accomplished. They have the willingness to keep goals in sight and work toward them despite obstacles. They make hard efforts to get rid of obstacles coming in the way of reaching the ultimate goal.

9) **Emotional Balance**: There are many ups and downs in the business but entrepreneur has to be emotionally stable. They do not get carried away by the huge profits and disappointed by the huge losses. They remain quiet and calm at every situation.

10) **Hard Work**: Entrepreneurs works very hard to succeed. Most of entrepreneurs work hard in the beginning and thus same becomes their habit for the lifetime because they believe that hard work is the key to success.

11) **Decision Maker**: An entrepreneur has to take various decisions in performing activities of his enterprise. Therefore he must be innovative in decision making process. The true entrepreneurship requires creative decision making, rational approach, problem solving ability and ability to take quick and correct decision. The profitability and productivity of an enterprise directly depends upon the decision making capacity of an entrepreneur.

12) **Patient**: Entrepreneurs are highly patient and do not get affected by the temporary failure and continue to work hard. Entrepreneurs try again and again to achieve the success.

13) **Communication Skills**: Entrepreneurs are good communicator and with their good communication skills they are able to convince others with their ideas. Good communication also means that both sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed.

14) **Leadership and Team Spirit**: An entrepreneur must have the ability to build

successful teams and thus working in teams. He should be good at building and managing successful teams. Leadership quality is the most important characteristic of entrepreneur. It is the process of influencing and supporting others to work enthusiastically towards achieving objectives.

15) **Interpersonal Skills**: An entrepreneur is a person who comes across with different persons. He has to deal with many types of persons. He is the person who gets the things done through with the help of others. So a successful entrepreneur possesses the interpersonal skills of dealing with people.

16) **Creative**: An entrepreneur must have the qualities of creative thinker. He must be reasonably intelligent and should have creative thinking so that he must be able to solve various problems and handle the critical situations in order to deal with them.

1.4 FUNCTIONS OF ENTREPRENEURS FOR ECONOMIC GROWTH

Every country is very keen in promoting its economic development. The entrepreneurs perform various significant functions for the economic growth. The functions performed by entrepreneurs in the economic development of a country can be studied under the following heads:

1) ***Coordinating Function*** : The essential function of an entrepreneur is to coordinate the various factors of production. Coordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technology, division of labour etc. He must also see the best combination of factors is made available for the production process. Schumpeter feels that economic development will be a reality if new combinations of factors of production are undertaken. In absence of this coordinating role the factors of production will remain idle in the country.

2) ***Agent's Function*** : Entrepreneurs are called 'Agents of change'. Entrepreneurs act as catalyst or agent of economic growth by perceiving opportunities and putting them into action.

3) ***Innovation Function*** : Innovation is a key to entrepreneurship. Innovation implies the commercial application of an invention. Innovative entrepreneurship can alter the production function of nations and bring about rapid development.

4) ***Risk Assumption Function*** : The most important function of an entrepreneur is the assumption of risk. The economic reward for risk bearing is profit. Entrepreneurs promote economic development by coming forward to assume risks of productive ventures.

5) ***Capital Formation Function*** : Entrepreneurs promote capital formation by

mobilising the idle savings of the public. Again, the profits they earn lead to saving of wealth which ultimately goes to capital formation. Without capital formation, economic growth would remain static.

6) ***Employment Generation Function*** : Entrepreneurs with high achievement motivation come forward to establish business and industrial ventures which provide immediate large-scale employment.

7) ***Export Promotion Function*** : Entrepreneurs also promote a country's export trade which is an important ingredient to economic growth.

8) ***Imitating Function*** : Entrepreneurs in developing countries take the role of "imitators" who generally copy the innovations introduced by the "innovative" entrepreneurs of the developed countries. Imitative entrepreneurship seems to be the best medicine for underdeveloped countries to overcome their entrepreneurial ills and bring about substantial economic development.

1.5 DEFINITION OF ENTREPRENEURSHIP

Entrepreneurship has been considered as the propensity of mind to take calculated risk with confidence to achieve predetermined business objectives. There are many views and opinions on the concept of entrepreneurship forwarded by some of the world famous management gurus and economists as mentioned below which will help in understanding this concept.

Oxford Dictionary "A person who sets up a business or businesses, taking on financial risks in the hope of profit" International Encyclopaedia "An individual who bears the risk of operating a business in the face of uncertainty about the future conditions"

Schumpeter's Definition The entrepreneur in an advanced economy is an individual who introduce something new in the economy- a method of production not yet tested by experience in the branch of manufacturing, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like"

Drucker's Views on Entrepreneur "An entrepreneur is the one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or different service"
Richard Cantillon "A person who pays certain price for a product to resell it at an uncertain price thereby making decision about obtaining and using resources while assuming the risk of enterprise".

1.6 NATURE AND ELEMENTS OF ENTREPRENEURSHIP

A clear analysis and appraisal of the above definitions further signifies the nature and characteristics of entrepreneurship. An entrepreneur is considered as a business leader and not as simple owner of capital. He is a person with intense drive and talent who perceives business opportunities and promptly seizes them for exploitation.

For successful accomplishment of stated goals/objectives, an entrepreneur should have the following characteristics and nature;

1. **Innovation:** Entrepreneurship is innovative process. Innovation does not mean "invention". It means introducing new products, new technology, searching new markets, and discovering new sources of raw material etc. the innovation function gives impetus to the economic development of a country. Schumpeter has regarded innovation as a main feature of entrepreneurship. Tata's Nano car is an Example of innovation in automobile industry.

2. **Risk bearing:** The second important characteristic of entrepreneurship is risk taking. Business is full of risks and uncertainties. The entrepreneur has to bear a number of risks in forming and running the enterprise. The market and price to be received is uncertain, there is a risk of changes in consumer likes and dislikes, in government policies, the competition may intensify etc. The entrepreneurs are calculated risk takers and not gamblers. They bear all risks in business in return of profit. Entrepreneurship develops in a society, which has a large number of persons ready to take risk.

3. **Decision-making:** Entrepreneurship involves decision-making. Entrepreneurs have to take decisions on selection of product, site, raw material, labour, technology etc. They have to decide the quantum and sources of capital, marketing strategies and so on. Success of entrepreneurs depends on the ability to make decision promptly and accurately, and this requires a creative and analytical mind. Dynamic process: Entrepreneurship is a dynamic process. In the course of time, enterprises grow, unsuccessful enterprise die and new enterprises are established. The nature of enterprise, methods of business, nature of technology change over a period of time. Today's complex and uncertain environment compels the entrepreneurs to remain dynamic in order to survive in the market.

4. **Organizing process:** Entrepreneurship is an organizing process in the sense that the entrepreneur has to organize various factors of product, create an organization structure and define the roles and responsibilities of personnel and manage the enterprise. Alfred Marshall has emphasized the organizing and management functions of entrepreneur.

5. **Concepts and Overview of Entrepreneurship Accepting challenges:** Entrepreneurship gives importance to accepting challenges by the entrepreneurs.

In any business, there are tremendous challenges, and the entrepreneurs cannot avoid them. The task of seeking opportunities and exploiting them itself is challenging. In today's era of globalization and hyper change entrepreneurs have to face more challenges.

6. **Management:** The entrepreneurs should manage the resources in an effective and viable manner. The management function has become more impact in modern times. It is the effective management, which helps entrepreneur to achieve the goals, maintain and improve the market share, fulfil the needs of customers and earn sufficient profit.

1.7 ROLE OF ENTREPRENEURS

The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

- Entrepreneurship promotes capital formation by mobilising the idle saving of the public.
- It provides immediate large-scale employment. Thus, it helps reduce the unemployment problem in the country, i.e., the root of all socio-economic problems.
- It promotes balanced regional development.
- It helps reduce the concentration of economic power.
- It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
- It encourages effective resource mobilisation of capital and skill which might otherwise remain unutilized and idle.
- It also induces backward and forward linkages which stimulate the process of economic development in the country.
- Last but no means the least, it also promotes country's export trade i.e., an important ingredient to economic development.

1.8 NEED AND IMPORTANCE OF ENTREPRENEURSHIP

It has been said that entrepreneurship is essential for economic development of nations across the globe. The entrepreneurs played an important role in their development. In socialist economies, the state played the role of the entrepreneur. But in a developing country like India which followed the path of mixed economy, both the government and the private entrepreneurs played an equally important role. Of course, there has been a significant increase in entrepreneurship in India in the post liberalisation period. People have now begun to realise the crucial role the entrepreneurs have to play for achieving the goal of economic development. They are regarded as the prime movers of innovations and act as key figures in economic development of a country.

Prof Joseph Schumpeter argues that entrepreneur leads the economy forward toward "Creative destruction" means developing new merchandise and technologies that make current goods and technologies obsolete. Such creative destruction is widely accepted by the society as new products and technologies are better than those they replace.

Some of the reasons for the current growth of entrepreneurial activity are discussed below:

- **Economic Independence**:
  - Entrepreneurs develop substitute goods being imported and thus prevent over-dependence on foreign countries and at the same time help in saving of precious foreign exchange.
  - Entrepreneurs through sale of their surplus products in foreign market, enable a country to earn foreign exchange.
  - Export promotion and import substitution always help in promoting economic independence of the economy.
- **Regional development**: Entrepreneurs are felt to remove the regional disparities. It is due to entrepreneurship that industries are set in the rural and backward classes also. Government also provides various incentives, concessions and subsidies to remove regional imbalances in the country. It is firmly believed that more industries always create more opportunities of employment, more income and overall development of these regions.
- **Mobilizing resources of the Economy**: All individuals who search business opportunities usually create wealth by entering into Entrepreneurship. The business as well as entrepreneur contributes in some or other way in an economy, may be in the form of product or services or boosting the GDP rates or tax contributions. Entrepreneur mobilizes the resources of the economy and makes optimum use of them.
- **Deregulation and Privatization**: It is evidence that liberal economic policies in china have led to phenomenal fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in the new free market economies. Now companies have to deal with fewer licenses and fewer government controls. Many state owned enterprises have also been privatized leading to a greater role for the private sector in general and entrepreneur in particular. (Roy Rajiv, Oxford University Press)
- **Generation of employment**: Entrepreneurs generate employment both directly and indirectly. Self employment as an entrepreneur directly creates employment and by setting up large and small scale business units employment for others are created. So entrepreneur heads nation towards better opportunities, which is a significant input to an economy.
- **Research and Development**: Entrepreneurs are innovators. So entrepreneurs contribute toward research and development.
- **Capital Formation**: Entrepreneurs as an organizer of factor of production employ his own as well as borrowed resources for the setting up of his enterprise. So in this way he mobilizes idle saving of the public and put them to productive use and helps in capital formation which is so essential for the industries and economic development of the country.

- **Reducing Social Tension**: Entrepreneur can help in channeling the talent of youth and educated people of the society in the right direction by providing them proper counseling and guidance, training and assistance for setting up their enterprise, because unemployment amongst the youth and educated people is the major cause of social unrest in the society.

1.9 BENEFITS OF BEING AN ENTREPRENEUR

- First of all, being an entrepreneur you learn basic skills like – time management, creativity enhancement, passion, strategy planning, etc.
- It certainly helps developing strong technology skills or expertise in a key area.
- You develop the ability to keep going in the face of hardship.
- By studying Entrepreneurship and Innovation in college you can understand and adapt change, because change is at the very core of Entrepreneurship.
- You develop the ability to think and then do big.
- Do what you enjoy.

1.10 NOTION OF ECONOMIC DEVELOPMENT

Economic development is the progress in an economy, or the qualitative measure of this. It usually refers to the adoption of new technologies, transition from agriculture-based to the industrybased economy, and general improvement in living standards. Economic growth represents an increase in jobs and income in the community. it refers to the expansion of total economic activity in the community. While economic development can involve job and income growth, it also involves sustainable increases in the productivity of individuals, businesses in enhancing the quality of life. Economic growth is generally a short run concept while economic development is a long time commitment. Economic development is a process which involves various policies by which a nation improves the economic, political, and social well being of its people. Economic growth deals with increase in the level of output, but economic development is related to increase in output coupled with improvement in social , political welfare of people within a country. Therefore, economic development encompasses both growth and welfare value dimensions. In the ultimate analysis economic development implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socio-economic structure of the country.

1.11 FACTORS RESPONSIBLE TO THE SUCCESS OF ENTREPRENEURSHIP

The success of entrepreneurship is dependent on certain important factors. Some of the important factors are:

1) **Economic Factors**: Capital is one of the most important prerequisites to establish an enterprise. Availability of finance, labour, land, accessibility of customers, suppliers are some of the factors that contribute to the introduction, survival and growth of a business enterprise.

2) **Socio-Economic Factors**: The socio economic factors which contribute towards the success of entrepreneurship are:

- Cast/religion
- Family background
- Level of Education
- Level of perception
- Social Mobility
- social Security

3) **Political Factors**: Political environment prevalent in the country also contributes towards the success of entrepreneurship. A sound and stable political environment is very important for the growth of entrepreneurship.

4) **Work Environment**: The work environment in which the employees are working, if it is not satisfactory then the unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.

5) **Government Incentives and Subsidies**: Government policies with regard to incentives and subsidies to the entrepreneurs also contribute to the success of entrepreneurship in the economy.

6) **Impact of Services Sector**: Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.

1.12 RISKS INVOLVED WITH ENTREPRENEURSHIP

1. ***Financial Risk*** : To start a business, an entrepreneur need to invest funds in business. The sources of funds are loans from investors, entrepreneur's own savings, or funds from family and friends. If any adverse situation arises, the entrepreneur will bear the risk of bankruptcy.
2. ***Strategic Risk*** : A good business plan is a pre- condition to attract the investors

However, in this dynamic world, a well drafted strategy may also prove wrong. Under such situation, the change business environment may create more challenges. This strategic have to bear by the entrepreneur.

3. ***Technology Risk*** :Technological changes possess a great risk. Generally, a good amount of money is to be invested for technology upgradation. At the same time the rate of obsolescence is also very high in case of technology. Therefore, there is always a risk of technology in business.
4. ***Market Risk*** : The product or service need to be placed in the market for consumer. The market is affected by many factors and there continues to be ups and downs in the market. In this regard, the competitors in the market is an important dimension in the market. An entrepreneur must be ready to face these risks.

1.13 BARRIERS TO ENTREPRENEURSHIP

In India, entrepreneurs have to struggle a lot and encounter a large number of problems to succeed in business. Some problems are general and faced by every entrepreneur. These problems are discussed below:

1. **Financial problems**: Finance is considered as the life blood for any business organization, whether it is small or big. Entrepreneurs face the problem of shortage of funds. The sources of funds are limited, specially for new entrepreneurs. In some cases, they have to depend on their private sources like friends and relatives. Thus, due to the scarcity of funds, entrepreneurs find it difficult to initiate enterprise.
2. **Paucity of raw material**: Majority of the enterprises are troubled by the paucity of raw material and essential inputs. This trouble is further deepened by the huge cost of inputs, on the one hand, and obtaining raw material at the least discount, on the other.
3. **Lack of Education**: Lack of education in some cases stands as a barrier for entrepreneurship. Inadequate education is the one of the causes of socio-economic issues.
4. **Stiff competition**: Limited knowledge on the part of the new entrepreneurs regarding business, market, technology, organizational structure etc. stands as a barrier for entrepreneurship development.

1.14 FACTORS AFFECTING ENTREPRENEURIAL GROWTH

The following factors affect the growth of entrepreneurship

1. ***Business Environment*** : Business environment plays an important role developing entrepreneurship. The governmental policies, legal provisions, economic conditions etc. are the important factors that determine entrepreneurial growth. A supportive government mechanism helps in identifying various business opportunities. On the other hand, inefficient legal system, inefficient government mechanism etc.acts as barrier for entrepreneurial growth.
2. ***Lack of Resources*** : Lack of financial resources creates hurdles in the growth of

entrepreneurship. Lack of resources for short- term and long- term funds is a barrier to entrepreneurship development.

3. ***Lack of quality Labour*** : Labour is an important factor of production. Availability of quality labour is a boon for entrepreneurial activities. On the other hand, non-availability of quality labour is a barrier for entrepreneurship development.
4. ***Lack of market***: Market is the place where goods and services are exchanged. Market provide the platform for entrepreneurial growth. Market generates revenue for the entrepreneur and in the absence of efficient market, there is limited scope for development.
5. ***Lack of Adequate Entrepreneurship Training*** : Training for the entrepreneurs is very important. Through training, the entrepreneurs will be able to gain latest knowledge in technical skills, managerial skills, entrepreneurial skills. Therefore, entrepreneurship development programmes are very necessary for the development of entrepreneurship.

1.15 CREATIVITY, INNOVATION AND INVENTION

One of the key requirements for entrepreneurial success is your ability to develop and offer something unique to the marketplace. Over time, entrepreneurship has become associated with creativity, the ability to develop something original, particularly an idea or a representation of an idea. Innovation requires creativity, but innovation is more specifically the application of creativity. Innovation is the manifestation of creativity into a usable product or service. In the entrepreneurial context, innovation is any new idea, process, or product, or a change to an existing product or process that adds value to that existing product or service.

How is an invention different from an innovation? All inventions contain innovations, but not every innovation rises to the level of a unique invention. For our purposes, an invention is a truly novel product, service, or process. It will be based on previous ideas and products, but it is such a leap that it is not considered an addition to or a variant of an existing product but something unique.

Concept	Description
Creativity	Ability to develop something original, particularly an idea or a representation of an idea, with an element of aesthetic flair
Innovation	Change that adds value to an existing product or service
Invention	Truly novel product, service, or process that, though based on ideas and products that have come before, represents a leap, a creation truly novel and different

1.16 CREATIVITY

Entrepreneurial creativity and artistic creativity are not so different. You can find inspiration in your favorite books, songs, and paintings, and you also can take inspiration from existing products and services. You can find creative inspiration in nature, in conversations with other creative minds, and through formal ideation exercises, for example, brainstorming. **Ideation** is the purposeful process of opening up your mind to new trains of thought that branch out in all directions from a stated purpose or problem. **Brainstorming**, the generation of ideas in an environment free of judgment or dissension with the goal of creating solutions, is just one of dozens of methods for coming up with new ideas.

Entrepreneurs work with two types of thinking. **Linear thinking**—sometimes called vertical thinking—involves a logical, step-by-step process. In contrast, creative thinking is more often **lateral thinking**, free and open thinking in which established patterns of logical thought are purposefully ignored or even challenged. You can ignore logic; anything becomes possible. Linear thinking is crucial in turning your idea into a business. Lateral thinking will allow you to use your creativity to solve problems that arise.

1.17 CREATIVE BEHAVIOUR

Creative behavior has been viewed as the creative act, or a set of acts, which is made explicit through behavior. Creative behavior is not submissive; it is action, which leads to a creative output or a solution to a challenge. Creative behavior is not confined solely to the domain of cognition and thought but rather it is action that yields output that is deemed original and useful (Puccio and Cabra 2011). It is a behavior that permits one to act unobstructed from self or externally imposed constraints in pursuit of self-expression, invention, discovery, design, and problem solving.

The actions most often associated with creative behavior can be drawn from Guilford's explanation and description of divergent thinking. Guilford (1977) constructed a three-dimensional model that he referred to as the Structure of Intellect (SOI) theory.

1.18 TYPES OF ENTREPRENEUR

Entrepreneurs may be classified in a number of ways.

A. <u>**ON THE BASIS OF TYPE OF BUSINESS**</u>: Entrepreneurs are classified into different types. They are :
   - <u>Business Entrepreneur</u>: He is an individual who discovers an idea to start a business and then builds a business to give birth to his idea.

- Trading Entrepreneur: He is an entrepreneur who undertakes trading activity i.e; buying and selling manufactured goods.
- Industrial Entrepreneur: He is an entrepreneur who undertakes manufacturing activities.
- Corporate Entrepreneur: He is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking.
- Agricultural Entrepreneur: They are entrepreneurs who undertake agricultural activities such as raising and marketing of crops, fertilizers and other inputs of agriculture. They are called agripreneurs.

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

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

C. **ON THE BASIS OF MOTIVATION**: Entrepreneurs are of the following types:

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

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

- First Generation Entrepreneur: He is one who starts an industrial unit by means of his own innovative ideas and skills. He is essentially an innovator. He is also called new entrepreneur.
- Modern Entrepreneur: He is an entrepreneur who undertakes those ventures which suit the modern marketing needs. Page 6 3) Classical Entrepreneur: He

is one who develops a self supporting venture for the satisfaction of customer's needs. He is a stereo type or traditional entrepreneur.

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

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

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

- Innovative Entrepreneurs: They are generally aggressive on experimentation and cleverly put attractive possibilities into practice. An innovative entrepreneur, introduces new goods, inaugurates new methods of production, discovers new markets and reorganizes the enterprise. Innovative entrepreneurs bring about a transformation in lifestyle and are always interested in introducing innovations.
- Adoptive Or Imitative Entrepreneurs: Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. They copy and learn from the innovating entrepreneurs. While innovating entrepreneurs are creative, imitative Entrepreneurs are adoptive.
- Fabian Entrepreneurs: These entrepreneurs are traditionally bounded. They would be cautious. They neither introduce new changes nor adopt new methods innovated by others entrepreneurs. They are shy and lazy. They try to follow the footsteps of their predecessors. They follow old customs, traditions, sentiments etc. They take up new projects only when it is necessary to do so.
- Drone Entrepreneurs: Drone entrepreneurs are those who refuse to adopt and use opportunities to make changes in production.

  They would not change the method of production already introduced. They follow the traditional method of production. They may even suffer losses but they are not ready to make changes in their existing production methods.

There is another classification of entrepreneurs. According to this, entrepreneurs may be broadly classified into commercial entrepreneurs and social entrepreneurs.

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

- **Social Entrepreneurs** : They are those who identify, evaluate and exploit opportunities that create social values and not personal wealth. Social values refer to the basic long standing needs of society. They focus on the disadvantaged sections of the society. They play the role of change agents in the society. In short, social entrepreneurs are those who start ventures not for making profits but for providing social welfare.

1.19 ENTREPRENEURS vs. MANAGERS

In general it is commonly understood that entrepreneurs are always business owners, but managers are paid employees in the organisation. A clear line of demarcation can be made between entrepreneurs and managers on several parameters as detailed below:

Point for Distinction	Entrepreneur	Manager
1. Goal Management	An entrepreneur starts a venture by setting up a new enterprise for his personal gratification.	But the main aim of a manager is to render his service in an Enterprise already set up by someone.
2. Status	Entrepreneur is the owner of Enterprise.	A manager is the servant in the Enterprise.
3. Risk	An entrepreneur bears all risks and uncertainty involved in the Enterprise.	A manager being a servant does not bear ay risk involved in the Enterprise.
4. Rewards	Entrepreneur for his risk bearing role he receives profits. It is not only uncertain and irregular but can at times be negative.	A manager receives salary as reward for service rendered which is fixed and regular can never be negative.
5. Innovation	As an innovator he is called as change agent who introduces goods and services to meet changing needs of the customer.	A manager executes the plans of the entrepreneur. Thus a manager translates the ideas into practice.

1.20 MEANING OF INTRAPRENEUR

An intrapreneur is an employee who is tasked with developing an innovative idea or project within a company. The intrapreneur may not face the outsized risks or reap the outsized rewards of an entrepreneur. However, the intrapreneur has access to the resources and capabilities of an established company.

- An intrapreneur works inside a company to develop an innovative idea or project that will enhance the company's future.
- The intrapreneur is generally given autonomy to work on a project that may have a considerable impact on the company.
- Over time, an intrapreneur may turn into an entrepreneur.

How does a Intrapreneur works?

Intrapreneurs are employees of a company who are assigned to work on a special idea or project. They are given the time and freedom to develop the project as an entrepreneur would.

However, they are not working solo. Intrapreneurs have the resources and capabilities of the firm at their disposal.
Intrapreneurs and entrepreneurs have different objectives. An entrepreneur envisions creating a company from the ground up. An intrapreneur has a broader vision for an established company. This vision may involve radical changes to company traditions, processes, or products. The intrapreneur typically has directly applicable skills and experience to bring to the job.

Advantages of Intrapreneur
An entrepreneur starts a company as a means of providing a good or service. An intrapreneur explores policies, technologies, or applications that will help improve the performance of an existing company. Inevitably, as an intrapreneur develops the skills needed to recognize and solve important problems, that intrapreneur may turn into an entrepreneur.

An intrapreneur can expect to be given the freedom and autonomy needed for such a project. Day-to-day deliverables are generally not demanded. The intrapreneur is expected to analyze and understand the trends necessary for planning the company's future. Intrapreneurs synthesize their findings and make proposals for staying ahead of their competitors.

Intrapreneurs often become a company's executive leaders over time. They move the business forward and rise to the top with a deep understanding of the business from all levels.

When intrapreneurs work at solving problems, they foster the growth of other talented intrapreneurs and integrate more new ideas for the good of the entire company.

1.21 DIFFERENCE BETWEEN ENTREPRENEUR AND INTRAPRENEUR

Basis of difference	Entrepreneur	Intrapreneur
Dependency	An entrepreneur is independent in his operation.	But an intrapreneur is dependent upon the entrepeneur i.e the owner.
Raising of Funds	He/she himself raises the funds required for the enterprise.	Funds are not raised by the intrapreneur.
Risk	He/she bears the risk associated with the enterprises.	He/she does not fully bears the risk associated with the enterprises.
Operation	He/she operates from the outside.	He/she operates within the organisation itself.

Orientation	An entrepreneur start its business in a newly setup entreprise.	An intrapreneur set up his own entreprise after working at someone else's entreprise.
Experience	As an entrepreneur establishes a new business ,he does not possess any previous experience over the business.	An intrapreneur establishes his own business after gathering experience through working in other organization.

1.22 LET US SUM UP

An entrepreneur is an agent of change who plays a vital role in the economic development process .In fact he is an organiser who combines various faction of production to produce a socially viable product or service and user his initiative, skill and motivation aspiring for high achievements. All entrepreneur posses certain important quality, skill and characteristics so as to emerge successful in their respective ventures .The entrepreneurs are broadly classified in to four types, namely ,imitative, innovative, fabien and drone entrepreneurs .Entrepreneur and entrepreneurship are two sides of the same coin, while an entrepreneur is an individual who creates and establish a businessmen , entrepreneurship is the process adapted by an entrepreneur to do so. An entrepreneur differs from a manager on various counts. While the entre happens to be the owner of a businessmen, the manager happen to be a paid employee .The entrepreneur emerging from within the confiners of organisation are called "Intrapreneurs" .The scope of entrepreneurship is tremendous country like India with problem of population and huge unemployment.

1.23 KEY TERMS

- **Orientation**: familiarization with something.
- **Risk**: a situation involving exposure to danger.
- **Innovator**: a person who introduces new methods, ideas, or products.
- **Optimistic**: hopeful and confident about the future.
- **Privatisation**: the transfer of a business, industry, or service from public to private ownership and control.
- **Mobility**: the ability to move or be moved freely and easily.
- **Perception**: the way in which something is regarded, understood, or interpreted.
- **Paucity**: smallness of quantity; scarcity; scantiness.

1.24 FURTHER READINGS

- Desai V. The Dynamics of Entrepreneurial Development and Management, Himalaya Publishing House, Mumbai.

- Ray, R. Entrepreneurship, Oxford University press, Neco Delhi.
- Lall, M. and Sahai, S, Entrepreneurship, Excel Book s, New Delhi.
- Khanku, S S, Entrepreneurial Development. S Chand & Company Ltd, New Delhi.
- Sharma, S. Mathur, R. and Triatic, N. Entrepreneurship Development, Vikas Publishing House Pvt Ltd, New Delhi.
- https://link.springer.com/referenceworkentry/10.1007%2F978-1-4614-3858-8_7
- https://openstax.org/books/entrepreneurship/pages/4-2-creativity-innovation-and-invention-how-they-differ

1.25 MODEL QUESTIONS

Q 01: Define entrepreneurship and its element.
Q 02: Discuss the factors that influencing the growth of entrepreneurship.
Q 03: Discuss the risks associated with entrepreneurship.
Q 04: Discuss the barriers to entrepreneurship.
Q 05: What in meant by intrepreneur? How will you distinguish intrepreneur from entrepreneur?
Q 06: Mention some of the important characteristics of successful entrepreneurs.
Q 07: Why creativity and innovation is considered to be important for entrepreneurs to succeed in life and career ?
Q.08: State the importance of Entrepreneurship.
Q.09: How does a Intrapreneur Works and what are its advantages?
Q.10: Explain Creative Behaviour.

UNIT 2: TYPES OF ENTERPRISES

Structure

2.0 LEARNING OBJECTIVES

After studying this unit, the learners will be able to:

- Understand the evolution of Entrepreneurship,factors affecting growth of Entrepreneurship in India
- Understand the government approach towards the promotion and development of MSMEs;
- Explain the various policies of the government for the development of MSME sector;
- Evaluate each policy of government on various parameters/components; and
- Choose the relevant policy for the establishment of enterprise.

2.1 INTRODUCTION

Today, many more Indian entrepreneurs are emerging in the business world. Astonishingly enough, they are quite different from when they first appeared over twenty years ago. In the 1980s, the Indian economy was greatly bogged down by an atrocious socialistic ideology, whereby a rigid license raj and corrupt bureaucratic control was how businesses were conducted. It began when Jawaharlal Nehru, India's first Prime Minister, wanted to tailor the Indian economy after the Soviet Union's socialistic economic structure. In his mind, he strongly believed that the state should control every aspect of the Indian economy, and thus, a planned economic growth could be achieved. His idea revolved around issuing licenses to a worthy few who were selected based on their credentials and the existing market economies of operation. Although Nehru had good intentions, the way he executed his plan proved to be counterproductive. Nehru strongly believed that entrepreneurs should focus their efforts on nation building rather than selling products or competing with each other, because he felt that it did not directly contribute to this cause. To ensure that nation building was properly enforced by all business owners, Nehru made sure that every entrepreneur received a "certified nation building" license from the relevant license officer. He also put forth a rule stating that only two to three companies could be granted a license within the same industry, greatly limiting the possibility of establishing competition.

In addition, Nehru wanted industries to be located all over India, rather than be positioned at select industrial hubs, a strategy which he theorized would ensure a balanced industrial growth. During this license raj, most highly qualified young Indian graduates had no family connections nor were interested in influencing excise officers. Therefore, many of them immigrated to the United States to avoid such red tape and to gain economic freedom. Realizing that the existing economy was in dire crisis, Indian business practices began changing for the better in 1991 after extensive economic reforms. By ridding the old socialistic license raj system, Indian entrepreneurs no longer needed to worry about excise officers in order to achieve their business goals. This encouraged them to start focusing on expanding their markets and acquiring more customers.

Today's promising market conditions have been very encouraging to many young graduates who strongly believe that they have the technical knowledge and skills to attract new customers. These young Indian entrepreneurs are not the typical and conventional business entrepreneur. They are the children of many business professionals. As elite graduates of IITs, National Institutes of Technology, Indian Institute of Science, and the IIMs, this new young breed of worthy entrepreneurs have targeted their efforts on innovative ways to technologically address the genuine needs of millions of people. The rapid success of Indian American entrepreneurs has led to vast angel investments in India. Organizing themselves into angel confederacies after the Band of Angels in the Silicon Valley, each member diligently researches and pools their own capital for each prospective investment. Being known for founding and establishing well-known companies such as Symantec, Logitech, National Semiconductor, Sun Microsystems, Hewlett Packard, and Intuit, etc., these angel investors like to invest their time and money into new, cutting edge, start-up companies. This trend has boasted the pace at which new start-ups are being established in India.

2.2 EVOLUTION OF ENTREPRENEURSHIP

The earliest definition of entrepreneur was given by Marco polo. He had established a trade route to the far East. He used to sign a contract with a venture capitalist to sell his goods. The capitalist was the risk bearer. The merchant took the role of trading . After his successful selling of goods and completing his trips, the profits were shared by the capitalist and the merchant.

Middle Ages : In the Middle Ages ,the term entrepreneur was referred to a person who was managing a large number of project . He used to manage the projects using the resources provided. An example is a cleric who is in charge of great architectural works such as castles, public building, cathedrals etc.

17th century : In the 17th century ,an entrepreneur was a person who used to have a contractual arrangement with the government to perform a service or to supply some goods .The profit or loss was borne by the entrepreneur.

18th century : It was Richard Cantillon, a French Economist, who applied the term entrepreneur to business for the first time. He is regarded, by some, as the founder of the concept of entrepreneurship. He defined an entrepreneur as a person who buys service at certain prices with a view to sell them at uncertain prices in the future.

19th century: In the 19th century, the entrepreneurs were not distinguished from managers. They were viewed mostly from the economic perspective . An entrepreneur was the one who assumes risk, contributes his own initiative and skills, plans, organizes and leads his enterprise.

20th century : During the early, Dewing considered entrepreneur as a businss promoter and viewed the promoter as the one who transformed ideas into a profitable venture. It was Josheph Schumpeter who described that an entrepreneur is an innovator who develops untried technology.

21th century : According to some research scientists like Live De Bone to be an entrepreneur it was not necessary that an individual generates an entirely new idea, but if he is adding incremental value to the current product or service, he can rightly be called an entrepreneur.

2.3 EMERGENCE OF ENTREPRENEURIAL CLASS

The emergence of entrepreneurial class can be studied under two headings:
A) Theoretical perspectives for the analysis of entrepreneurial growth in different societies.
B) Entrepreneurial scene in India.

A) Theoretical Perspectives

The historical development of entrepreneurship in different communities and societies was governed by various factors. This is discussed in the following way:

- ***Impact of Ethical System of Entrepreneurial Growth*** : Max Weber was first to point out the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends on a rationalised technology, acquisition of money and its rational use for productivity and multiplication of money. These elements depend upon a specific value orientation of individuals. Weber found a relationship between protestant ethic and the spirit of capitalism. According to him, this tendency also existed in other communities like Hindu, Jain and Juda. He held that Protestants made progress fast in bringing capitalism because their ethical value system provided them with rational economic attitude. Robert Kennedy and Yale also held the view that entrepreneurship developed rapidly in those societies where ethical values provided independent capacity of decision-making. No doubt, this view has some truths but it was not accepted universally.

- ***Impact of Minority Group on Entrepreneurial Growth*** : Hagen (1962) was of the view that the disadvantaged minority group is mostly the source of entrepreneurship. Several other scholars like Frayer etc. also tried to explain the morale. Similarly, Park (1950) and Stonequist (1937) have indicated that technological innovations are caused more by the culturally marginal person than others. Similarly, McClelland (1971) also held that Jains were more commercialized because of their consciousness of minority group and superior group which motivated high degree of need achievement in them.

- ***Impact of need for Achievement Motivation on Entrepreneurial Growth*** : McClelland assumes that achievement motivation is the immediate cause of the origin of entrepreneurship. He explained entrepreneurial growth in terms of need for achievement motivation. Thus, he found high correlation between need for achievement and successful economic activities.

- ***Impact of Exposure to New Ideas and Opportunities on Entrepreneurial Growth*** : Some studies propound that it is the exposure to new ideas and opportunities which leads to entry in manufacturing and industrial activities. Tripathy, in his study of entrepreneurial growth in India observed that "not religion, but exposure to new ideas and values was the real factor which led Parsi and Hindu entrepreneurs to manufacturing activities".

- ***Impact of Political System on Entrepreneurial Growth*** : Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Boulding held that political structure was the deciding factor in entrepreneurial growth of France and Russia. Similarly, Hoselitz argued that France lagged behind economically because her social structure did not provide sufficient incentives and security to entrepreneurs.

Medhora also concluded that the entrepreneurial growth in India was delayed not because of lack of entrepreneurial motivation but due to non-commitment of the political structure. A.K. Sharma and Mishra also explored the impact of public policies on entrepreneurial growth in India.

- ***Impact of Regional Industrial Climate on the Growth of Entrepreneurship*** : Many studies have pointed out that Gujarat and Marwari Vaisyas had dominated, after Parsian businessmen, the entrepreneurial activities in India and the reasons for their success were seen as religious values and certain group characteristics. But a researcher, Pandit (1957) challenged this thesis and held that the real reason of industrial dominance of Gujarat and Marwari Vaisyas were regional factors, i.e., industrial climate in these regions. She pointed out that Gujarat had a climate favourable to business and industry. According to her argument, even the Parsis showed higher entrepreneurship because they belonged to Gujarat. Thus, the industrial climate may have a very significant impact on the repose of entrepreneurs. However, the group factors, as emphasised by various studies, can not be ignored altogether.

B) Emergence of Entrepreneurial Class in India

In ancient India, some kind of entrepreneurship was found among the artisans in the cities like Banaras, Allahabad, Gaya, Puri and Mirzapur. These towns were established on the bank of rivers which facilitated transportation system. But artisan entrepreneurs could not progress properly due to lack of initiative from the colonial political power and the infrastructural problems.

Business entrepreneurs were also in abundance in ancient India. But large number of traders and money lenders migrated to various countries such as Burma, Malaysia, Singapore and Kenya with the object of trading. These traders made extensive trade relations with China and Hong Kong. The entrepreneurship did not grow early in India. The reasons for this slow progress were:

- lack of capital;
- lack of political unity;
- network of custom barriers;
- existence of innumerable system of currency;
- regional markets;
- taxation policies;
- low prestige of businessmen.

Manufacturing entrepreneurship emerged in India with the arrival of East India Company. It promoted Indian businessmen in the field of international trade. There were three major effects of rapid industrial growth:

- A few entrepreneurs belonging to particular social strata like Parsis and Vaisyas dominated Indian industrial scene.
- Industrial growth was localized in a few industrial centres like Mumbai, Ahmedabad, Kolkata and Kanpur.

- Only those industries grew fast which met the needs of the war. With the result, the over all industrial growth was restricted. After independence, the Govt. of India tried to promote balanced growth of industries through mixed economy.

To achieve this purpose, three measures were taken:
- to encourage a proper distribution of income among various sectors;
- to promote industrialization by spreading entrepreneurship;
- to spread entrepreneurship to a large number of people having industrial potential.

To achieve these objectives, the government promoted the growth of small scale units in cities, towns and villages. Under the five year plans the government started to provide capital, technical know-how, markets and land to potential entrepreneurs. Several institutions were also established by the government to motivate new entrepreneurs. As a result, small scale units emerged rapidly in India. In India, the modern entrepreneurship has reached the present position after passing through the various changes of trade, commerce and industrialisation. It has the advantages of rapidly expanding trade and industry. It was found that once the roots of industrialisation were laid, the enterprising units permeate among people from other occupations also.

2.4 FACTORS AFFECTING GROWTH OF ENTREPRENEURSHIP IN INDIA

Entrepreneurship is a complex phenomenon influenced by the interplay of a wide variety of factors. The entrepreneurial activity at any time is dependent upon a complex and varying combination of economic, social, political, psychological and other factors. These factors may have been both positive and negative effluences on the emergence of entrepreneurship. Positive influences constitute facilitative and conductive conclusive for the emergence of entrepreneurship whereas negative influences create inhibiting milieu to the emergence of entrepreneurship. Following factors contribute to the success of entrepreneurship:

1. Personality Factors: Personality traits such as inner desire for control of their activities, tolerance for risk, high level of tolerance to function in adverse situations and background experiences such as the family environment, level of education, age and work history tolerance for ambiguity are important personal characteristics that affect entrepreneurship. Individuals who are desirous of working independently; willing to work for long hours and assume risk; are self-confident and hard-working are likely to be more successful as entrepreneurs than those who do not posses these qualities

Personal factors, becoming core competencies of entrepreneurs, include:
(a) Initiative (does things before being asked for)
(b) Proactive (identification and utilization of opportunities)

(c) Perseverance (working against all odds to overcome obstacles and never complacent with success)
(d) Problem-solver (conceives new ideas and achieves innovative solutions)
(e) Persuasion (to customers and financiers for patronization of his business and develops & maintains relationships)
(f) Self-confidence (takes and sticks to his decisions)
(g) Self-critical (learning from his mistakes and experiences of others)
(h) A Planner (collects information, prepares a plan, and monitors performance)
(i) Risk-taker (the basic quality).

2. Environmental Factors: These factors relate to the conditions in which an entrepreneur has to work. If the environment that a individual is working in is unsatisfactory, that is, not conducive to his growth needs, it is likely that the individual will quit his job and start his own business as an entrepreneur. Unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.

3. Political : Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Political stability in a country is absolutely essential for smooth economic activity. Frequent political protests, strikes, etc. hinder economic activity and entrepreneurship. Unfair trade practices, irrational monetary and fiscal policies, etc. are a roadblock to the growth of entrepreneurship.

4. Socio-Economic Factors : The entrepreneurial activity at any time and place is governed by varying combination of socio-economic factors. The empirical studies have identified the following socioeconomic factors:

- Cast/religion
- Family background
- Level of Education
- Level of perception
- Legitimacy of Entrepreneurship
- Migratory character
- Social Mobility
- Social Security
- Investment capacity
- Ambition/motivation

5. Economic Factor : Factors such as availability of finance, labour, land, accessibility of customers, suppliers are the factors that stimulate entrepreneurship. Capital is one of the most important prerequisites to establish an enterprise. Availability of sufficient capital affects the introduction, survival and growth of a business enterprise. Capital is regarded as lubricant to the process of production. If we increase in capital investment, capital output ratio also tends to increases. This results in increase in profit, which ultimately goes to capital formation. Due to this capital supply increase, entrepreneurship also increases.

6. Other Factors

Entrepreneurial Education : More and more people with high academic attainments started joining the ranks of industrialists, especially the professionals holding qualifications in engineering, law, medicine, cost and chartered accounting. The newer entrepreneurs have a larger proportion of their floatation in the traditional sector, but these professionals have by and large preferred to make their investments in modern sector. The technicians in particular among both old and new entrepreneurs have entered industries in the modern sector having a bearing of their academic qualifications. Many universities and institutes are nowadays offering entrepreneurship education. A number of institutes have set up successful entrepreneurship centres, which provide help to budding entrepreneurs by conducting formal training and structured mentoring programs.

Impact of Services Sector:Increase in per capita income leads to a greater share of the services sector in the national economy. The average size of firm's many sections of the services sector are relatively small. This in turn promotes entrepreneurial activity across a number of service sector industries. Even for some developing countries such as India, services account for over half of the total GDP. Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.

Increasing Demand for Variety :Increased wealth has led to increase in the demand for variety. The increasing demand for new products is of advantage to smaller firms. A number of studies have shown the comparative advantage of smaller firms in being innovative and coming up with new products. If the products has unmet demand, it will create a market for itself. The success of entrepreneurship is, therefore, dependent upon the extent to which the product is in demand. Changes in consumer tastes are a major reason for growth of entrepreneurship. People are, inclined to products that are specifically designed to meet their special needs. Mass produced homogenous goods do not enjoy as wide an appeal anymore.

Impact of Ethical Value System: Max Weber was first to point out that the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends upon a rationalized technology, acquisition of money and its rational use for productivity and multiplication of money. These elements depend upon a specific value orientation of individuals. Entrepreneurship develops rapidly in those societies where ethical values provided independent capacity of decisionmaking. No doubt, this view has some truth but it is not accepted universally.

Internal Control System : Entrepreneurship largely depends upon the control systemdesigned for controlling the business activities. If the control system is effective they will result in optimal inventory, good quality products and high profit margins. This will have a positive effect on the success of entrepreneurship.

2.5 THE INDIAN STARTS-UPS: PAST AND PRESENT

The accelerated boom of entrepreneurs, massive funding raised by start-ups and their reported astounding valuations validates that this is probably the best time for the start-up ecosystem in India. Numbers do the telling: The rapid growth of start-ups in India. The 2014 NASSCOM start-up report has found India to be the fastest growing and third largest start-up ecosystem is in the entire planet. The current scenario is considered to be the most viable for start-ups. The technological advances, more accessible resources, knowledge pool, massive funding, emerging global standards and thriving domestic markets are fuelling start-ups and creating conducive environment for their growth.

2.6 INDIAN START-UPS: PRE-INDEPENDENCE TO PRESENT

The colonial era saw entrepreneurship to be confined by the boundaries of social, cultural and religious rigidities. Further, the colonial rule brought in an array of political and economic factors that were non-conducive for entrepreneurship. The volatile political environment, lack of favourable laws, harsh tax policies restricted the surge of entrepreneurship. The education system did nothing to encourage emergence of start-ups during this period. Slowly, the social reforms, rising nationalism and betterment of education brought steady change in the scenario.

In spite of these drawbacks, the East India Company, deliberately or accidentally, seems to have played a vital role in the emergence of Indian entrepreneurs. The popularity of swadeshi campaign, a campaign focussed on the use of indigenous goods by locals, is also believed to have played a significant role in the growth of start-ups in the country.

The period between the world wars was marked by the visible growth of entrepreneurship in India. The emergence of the Managing Agency System played a significant role in growth of entrepreneurship during this period. The following decades brought many opportunities for business that was effectively capitalised by entrepreneurs. This coupled with the society attitude broadened the vision for the Indian business class. This remained to be the backdrop for the growth of Indian entrepreneurship after Independence. Independence was marked by significant shift in the entrepreneurial sector. With the new found freedom, entrepreneurs gained the confidence and belief to pursue their entrepreneurial dreams. Need of employment and regional development paved way for start-ups. However, during this period policies were not formulated with any special emphasis on entrepreneurship. Development of industries on large scale was still the focus.

2.7 ENTREPRENEURS AND SOCIETY

Entrepreneurs have much to give to society. Their contribution to the welfare of society is of high order. A business person apart from making money for him or herself also helps the society in many ways financially and socially. Financially, of course the respective organization benefits by the business carried out by entrepreneurs. At the same time many of the welfare activities of the businessman improve the living conditions of the people of that particular society.

How does an entrepreneur help the society?

An entrepreneur helps the society in the following manner:

1. Donations
2. Charitable institutions
3. Sponsorship
4. Welfare programs
5. Advisors to respective government

Business is essential for the progress of a nation. A successful businessman or woman is an asset to the society. He or she can contribute to the wellbeing of a society in several ways that improve the living conditions of the people.

2.8 OVERVIEW OF MSMEs

Micro, Small and Medium Enterprises (MSMEs) consist of those enterprises which are engaged in production of goods which pertains to any industry and are specified in the first schedule of Industry Development & Regulation Act, 1951. These enterprises can be further classified as registered and unregistered Enterprises.

Registered Enterprises and Unregistered Enterprises

Registered enterprises are those enterprises which are registered with some government department or board. Fourth All India Census on MSMEs defines registered enterprises as; those enterprises which are registered permanently with the state directorate of Industries/ District Industries Centres (DIC) and Unregistered enterprises are those enterprises which are not registered with directorate of Industries or DIC.Further these registered and unregistered MSMEs are subdivided in to those enterprises which are engaged in manufacturing activities and service providing activities on the basis of the amount of Investment. Investment amount means;amount invested in the plant and machinery in case of manufacturing sector and investment in equipments in case of service sector.

2.9 DEFINITION OF MSMEs

As per MSME Development Act, 2006, following are the classification of MSMEs on the basis of their investment in plant & machinery and equipments:

Manufacturing Sector

A. Micro enterprise: An enterprise is classified as micro enterprise under manufacturing sector where Investment in plant and machinery is up to Rs 25 lakhs.
B. Small enterprise: An enterprise is classified as small enterprise under manufacturing sector if investment in plant and machinery is more than Rs 25 lakhs but less than Rs 5 crore.
C. Medium enterprise: An enterprise is classified as medium enterprise under manufacturing sector, if investment in plant and machinery is more than Rs 5 Crore but is less than Rs 10 crore.

Service Sector

A. Micro enterprise: An enterprise is classified as micro enterprise under service sector if investment in equipment does not exceed Rs 10 lakhs.
B. Small enterprise: An enterprise is classified as small enterprise under service sector, if investment in equipment is more than Rs 10 lakhs but less than Rs 2 crore.
C. Medium enterprise: An enterprise is classified as Medium enterprise under service sector, if investment in equipment is more than Rs 2 crore but less than Rs 5 crore.

Earlier, the MSMEs were defined on the basis of investments put in, now the revised definitions will also include turnover of the company.

- **Micro Units:** MSMEs will now be called Micro units if they have investments upto Rs 1 crore and turnover of less than Rs 5 crore. The definition earlier was on investment criteria of up to Rs 10 lakh for Service MSMEs earlier and Rs 25 lakh or manufacturing.
- **Small units** For an MSME to be defined as a Small unit, its investment limit has been raised from Rs 5 crore to Rs 10 crore with a turnover of less than 50 crore. This applies to all MSMEs including the Service enterprises wh
- **Medium units** Enterprises with investments up to Rs 20 crore with a turnover of less than Rs 100 crore will now be called Medium units. Earlier, the investment limit for Medium units was up to Rs 10 crore and Service enterprises up to Rs 5 crore.

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

2.10 POLICY INITIATIVE BY THE GOVERNMENT OF INDIA FOR MSMEs

MSMEs which play such a pertinent role in the economic development have been plagued with number of problems and challenges. Majorities of enterprises under MSMEs are tiny and micro enterprises and these enterprises face problems of labour, credit, shortage of market, low remunerative prices for the products, etc. These enterprises are prone to internal and external challenges like competition from big industries both domestic and International. Poor Quality and low standard of the product are another weak area apart from various threat posed by policies of liberalisation and Globalisation. In light of the above, Government of India have initiated plethora of reforms and policies for the growth and development of these enterprises and entrepreneurs. Some of the major policies and reforms are as follow:

The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1991:

In all the policy resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resource of capital and skills. The micro, small and medium enterprises development organization [earlier known as small industries development organization (SIDO)] was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the national small industries corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority Sector Lending Programs of commercial banks, excise exemption, reservation under the Government Purchase Programs and 15% price performance in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME- Development Institutes [earlier known as Small Industries service Institute

(SISI)] were set up all over India to train youth in skills/entrepreneurship and Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill - training. At the State level, District Industries Centers were set up all over the country.

1991- 1999:
The new policy for small, tiny and village enterprise of august 1991 laid the framework for Government support in the context of Liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing centers were set up for quality certification and new tool rooms as well as sub-contracting exchange were established. The small industries development bank of India (SID-Bl) and a technology development and modernization fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an industrial infrastructure development (IID) scheme was launched to set mini industrial estates for small industries.

1999 onwards:
The ministry of MSME came into being from 1999 to provide focused attention to the development and promotion of the sector. The new policy package announced in august 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively. A credit liked capital subsidy scheme was launched to encourage technology up gradation in the MSE sector and a credit guarantee scheme was started to provide collateral - free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of central excise duty was raised to Rs. I crore ($0.25 million) and a market development assistance scheme for MSEs was introduced. At the same time, consolations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the micro, small and medium enterprises act. In march 2007, a third package for the promotion micro and small enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises , particularly in view of the fast changing economic environment, wherein to be competitive is the key of success (MSMEs in India an overview, 2007).

Some of the recent policy reforms for the MSME sector in India are as follows:

- National Manufacturing Competitiveness Council (NMCC) was set up to energies and sustains the growth of the manufacturing industry. New Promotional Package for MSMEs, and focus on accelerating development of clusters.
- A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the MSME sector - Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into effect from October 2006.

- Revised strategy of lending and introduction of newer measures, such as the scheme to establish Small Enterprises Financial Centres (SEFC) for strategic alliance between branches of banks and SIDBI located in 388 clusters identified by ministry of SSI.
- Promotion and financial support for Credit-cum-Perfor-mance Rating in MSME sector in India, to facilitate greater and easier flow of credit from the banking sector to SMEs.
- The National Commission for Enterprises in the Unorganized Sector (NCEUS) has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.
- Facilitation of technology transfer through the Technology Bureau for Small Enterprises (TBSE)
- Accelerating initiatives to address various developmental needs for MSMEs in the 11th Five Year Plan.
- Guarantee coverage under Credit Guarantee Fund for Small Enterprises expanded substantially.
- Credit Linked Capital Subsidy Scheme for Technological Up gradation.
- New legislation on Limited Liability Partnerships being worked on.
- Merger of the Ministry of SSI with the Ministry of ARI (India at 60 & beyond, 2007).
- Package for Promotion of Micro and Small Enterprises (MSEs): in order to assist the MSEs in fully harnessing their potential by enhancing their competitiveness to face the challenges of stiff competition and in availing opportunities generated by trade liberalization, the Government in its NCMP declared that a "major promotional package" will be announced for this segment to provide full support in the areas of credit, technological up-gradation, marketing and infrastructure up-gradation in industrial infrastructure.
- Filing of Entrepreneurs' Memorandum by Enterprises: In pursuance of Section 8 of the MSMED Act, 2006, an entirely new process of filing of Entrepreneurs' Memorandum (EM) by Micro, Small and Medium Enterprises (MSMEs) has been put in place.
- Steps Taken to Discourage Delayed Payments to MSEs (MSME, 2007-08).
- Notification for Authority for receiving Memoranda for Micro and Small Enterprises (MSEs): All States & UTs except Meghalaya and Mizoram have issued the Notifications nominating authority for receiving Entrepreneurs Memorandum for MSEs (MSME, 2009-10).

2.11 ROLE AND PERFORMANCE OF ENTREPRENEURSHIP ON MSMEs SECTOR IN INDIA

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India. According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes i.e. Manufacturing Enterprises and Service Enterprises. The enterprises are further categorized based on investment in equipment ad annual turnover.

Market Size

India has approximately 6.3 crore MSMEs. The number of registered MSMEs grew 18.5% Y-o-Y to reach 25.13 lakh (2.5 million) units in 2020 from 21.21 lakh (2.1 million) units in 2019. The Indian MSMEs sector contributes about 29% towards the GDP through its national and international trade.

According to data shared by the MSME Minister in the Rajya Sabha, the registered MSME is dominated by micro enterprises at 22.06 lakh (2.2 million) units in 2020 from 18.70 lakh (1.8 million) units in 2019, while small enterprise units went up from 2.41 lakh (0.24 million) units to 2.95 lakh (0.29 million) units. Midsized businesses only increased from 9,403 units to 10,981 units during this period.

MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Marketplace (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement. The platform has recorded transactions worth Rs. 55,048 crore (US$ 7.5 billion) until September 2020.

Domestic business requires a strong financial stimulus with concessional working capital loans to ensure adequate liquidity is maintained in business operations from the government and financial institutes.

Statutory Bodies

MSME Ministry has four statutory bodies namely, Khadi and Village Industries Commission (KVIC) who is responsible for promoting and developing khadi and village industries for providing employment opportunities in rural areas, thereby strengthening the rural economy, Coir Board in charge of promoting overall development of the coir industry and improving living conditions of workers in this industry, National Small Industries Corporation Limited (NSIC) responsible for promoting, aiding and fostering growth of micro and small enterprises in the country, generally on commercial basis, National Institute for Micro, Small and Medium Enterprises, (NI-MSME) incharge of enterprise promotion and entrepreneurship development, enabling enterprise creation, performing diagnostic development studies for policy formulation, etc. and lastly, Mahatma Gandhi Institute for Rural Industrialisation (MGIRI) responsible for accelerating rural industrialisation for sustainable village economy, attract professionals and experts to Gram Swaraj, empower traditional artisans, encourage innovation through pilot study/field trials and

R&D for alternative technology using local resources. New online system of MSME/Udyam Registration launched by the Union MSME Ministry, w.e.f. July 01, 2020, successfully registered >1.1 million MSMEs until November 2020.

Government Policies

The Government of India has designed various policies for the growth of MSMEs in the country.

- To provide reliable measures and set benchmark to boost and strength the MSME sector in India, TransUnion CIBIL, in partnership with the Ministry of Statistics & Programme Implementation (MoSPI), launched the MSME Credit Health Index on November 2, 2020.
- In October 2020, the Ministry of MSME in a major initiative onboarded the latest IT tools of Artificial Intelligence (AI) and Machine Learning (ML) for providing assistance and solutions to the Micro, Small, and Medium Enterprises (MSMEs). The ministry has implemented AI & ML on its robust Single Window System 'Champions', which was launched by the Prime Minister Mr. Narendra Modi on June 1, 2020.
- In September 2020, the Government of India constituted five ministerial task forces to make India's MSMEs future-ready and formulate a concrete strategy towards making the country a leading exporter.
- Udyog Aadhaar Memorandum: Udyog Aadhaar Memorandum (UAM) is a one-page online registration system for MSMEs based on self-certification. The information sought is on a self-certification basis and no supporting documents are required at the time of online filing of UAM.
- MSME DataBank: MSME DataBank enables the Ministry of MSME to streamline and monitor the schemes and pass on the benefits directly to MSMEs. It is helpful for MSME units that can update their enterprise information as and when required without visiting any government office and updating information about their products/services. Until May 2019, more than 6.1 lakh MSMEs registered in the databank.
- My MSME: In order to facilitate the enterprises to enjoy benefits of various schemes, the MSME office launched a web-based application module in the form of a mobile app called My MSME. This allows enterprises to make their applications and check for schemes on their mobile phone using the app.
- MSME Sampark: Launched in 2018, the MSME Sampark portal is a digital platform wherein jobseekers and recruiters can register themselves for mutual beneficial interactions.
- Digital Payment: As part of the Digital India initiative, the Ministry of MSME has taken numerous initiaves to digitally enable the entire MSME ecosystem all MSME offices have been digitally empowered, efforts have been taken to spread awareness on the benefits of digital mode of payment such as BHIM, UPI and Bharat QR Code.

To encourage local production, the government is working on policies to increase MSME exports and lower imports. In addition, Rs. 200 crore (US$ 28.4 million) scheme has been sanctioned to set up 12 technology centres, which are expected to be completed by 2021.

Achievements in the Sector

The Ministry of MSME runs numerous schemes targeted at providing credit and financial assistances, skill development training, infrastructure development, marketing assistance, technological and quality up gradation and other services for MSMEs across the country.

Road Ahead

The Government of India has envisioned to double the Indian economy to US$ 5 trillion in five years. In order to achieve this goal, career opportunities for the young population has been generated and MSMEs have the potential to serve as a key employment generator. Therefore, the government has taken up promotion of MSMEs in order to create new jobs in the sector. Further, the government aims to enhance MSME’s share in exports and its contribution to GDP.

In order to achieve these targets, the government should invest in providing more back-end services to improve performance of the MSME sector as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R&D activities are bottlenecks hindering the sector to become competent. Globally available technology could be subsidised by the government so that the product quality of MSME players can be improved using the existing resources. This also requires the help of academic institutions in the form of providing research and development (R&D) services for product innovation.

As reported by Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MOSPI), the Share of MSME in All India GDP during 2015-16 and 2016-17 and 2017-18 has been 29.5% and 29.3% and 29.7%, respectively. As reported by Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of MSME related products in total exports during 2016-17, 2017-18, 2018-19 and 2019-20 (Apr-Aug,2019) has been 49.69%, 48.56%, 48.10% and 49.66%, respectively.

Under the Prime Minister’s Employment Generation Programme (PMEGP), the estimated employment generated (number of persons) in micro enterprises during the years 2016-17, 2017-18 and 2018-19 has been 4.08 lakh, 3.87 lakh and 5.87 lakh, respectively.

The Ministry of Micro, Small and Medium Enterprises (MSMEs) implements various schemes to support promotion & development of MSMEs. These include Prime Minister’s Employment Generation Programme (PMEGP), Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), Scheme for Promotion of MSMEs in North Eastern Region and Sikkim, Tool Rooms and Technology Centers, Mission Solar Charkha (MSC), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Procurement and Marketing Support Scheme, Entrepreneurship & Skill Development Programme (ESDP), Credit Guarantee Scheme for Micro and

Small Enterprises (MSEs) and Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS).

The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 contains provisions to address the issue of delayed payment to Micro and Small Enterprises (MSEs). In line with this, Ministry of MSME has launched MSME Samadhaan Portal to ease filing of application under Micro and Small Enterprise Facilitation Council (MSEFC), set up in States for settlement of disputes related to delayed payments. In order to support traditional industries, Ministry of MSME implements Scheme of Fund for Regeneration of Traditional Industries (SFURTI). Employment generation in Micro, Small and Medium Enterprises per investment is more than that in large enterprises.

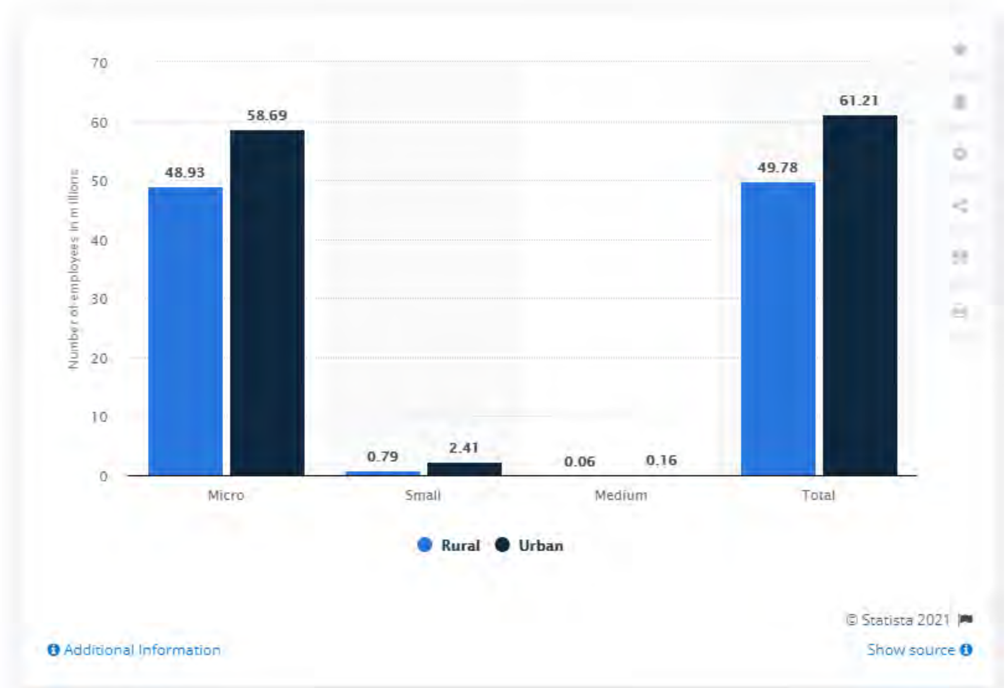


Image Source: https://www.statista.com/statistics/718319/india-number-of-employees-msmes-by-type/

DISTRIBUTION OF EMPLOYMENT

(in lakhs)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
Total	**1076.19**	**31.95**	**1.75**	**1109.89**	**100**

Source: Annual Report 2019 – 20, Ministry of Micro, Small and Medium Enterprises

MSME Development Act 2006 (MSMEDA 2006)

Before the MSME Development Act 2006 (MSMEDA, 2006), micro, small and, medium enterprises were considered as individual enterprises and there were different rules and regulation for them.Though the need of all three were same but they did not get appropriate attention from the policy makers .These enterprises were in lacklustre, only limited to rural areas, and were on verge of extinction. In order to promote, to enhance competitiveness, to provide market and to integrate these three tiers of enterprises, MSME Development Act 2006 was enacted. The MSME Development Act 2006 came into effect on 2nd October 2006. Since the enactment of law, both the Central and State Governments have taken effective steps towards implementation of the Act. Government has also set up a separate Ministry of Micro, Small, and Medium Enterprises.

Objective of the Act: MSMEDA, 2006 was enacted with the objective of promotion and development of MSMEs along with promoting competitiveness.

The Important features of MSME act are as follow:

1. The term “Enterprise” was suggested to be used in place of the term “Industry”.
2. Definitions of Micro, Small & Medium Enterprises in manufacturing and service category on the basis of investment in plant & machinery and equipment.
3. Providing the credit support for prospective entrepreneurs through various credit schemes.
4. Treatment of each category of enterprise on the basis of their requirements.

National Board for MSME

Under MSME Development Act 2006, it was suggested to constitute a National Board for Micro, Small and Medium Enterprises .The important functions of this board will be:

i) Critically review the various policies and programmes of the government.

ii) Examine the various factors which hinder the promotion and development of MSMEs.

iii) Suggest the measures which can lead the promotion and development of these enterprises along with enhancing their competitiveness.

iv) Provide suggestions to the central government to use the fund or different funds which are constituted under section 12 of MSME act, 2006

Reservation of Products

To provide assured market for the products produced by MSME enterprises and to counter the challenges and competition offered by the process of liberalization and globalization, government framed the policy for reservation of products which are exclusively manufactured by Micro, Small and Medium Enterprises (MSMEs). The policy of reservation of products for micro and small enterprise sector started in 1967. The main consideration behind the this policy was to counter the challenges of regional industrial imbalances, employment generation through self-employment ventures, etc. Initially 821 items were reserved under the reservation policy.Subsequently the number was reduced to 799 items in 2001-02, and then the list was further reduced to 20 items and in year 2015, remaining 20 items reserved exclusively for MSMEs were de-reserved.

National Manufacturing Competitiveness Programme (NMCP)

For the long term survival of MSMEs in global competitive environment and for the better adjustment of MSMEs in the competitive era of LPG, government of India in the Budget of 2005-06, announced formulation of a National Manufacturing Competitiveness Programme (NMCP). There are eight components under NMCP, which are given below:

i) Support for Entrepreneurial and Managerial Development of Small and Medium Enterprises (SMEs) through Incubator (INCUBATOR).
ii) Building Awareness on Intellectual Property Rights (IPRs).
iii) National Programme for Application of Lean Manufacturing (LEAN).
iv) Enabling Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools (QMS/QTT).
v) Technology Upgradation and Quality Certification Support to SMEs (TEQUP).
vi) Marketing Assistance for SMEs and Technology Up gradation Activities (MARKETING).
vii) Design Clinic Scheme to bring Design expertise to the Manufacturing Sector (DESIGN)
viii) Promotion of ICT in Indian Manufacturing Sector (ICT).

Prime Minister's Task Force on Micro, Small and Medium Enterprises

The Government of India constituted a Prime Minister's Task Force on Micro, Small &Medium Enterprises (MSME) on 2ndSeptember, 2009, which subsequently submitted its report on 30th January, 2010. The task force was constituted to discuss and reflect on the various issues which were raised by various associations and other stakeholders involved in these enterprises. The report made recommendations related to policy/programme support, institutional matters and legal/regulatory measures for the growth of MSMEs in the country. The areas on which recommendation were made include credit, marketing, labour issues, rehabilitation, exit policy, infrastructure/technology/skill development, taxation and special measures for North-Eastern Region and Jammu & Kashmir. The Task Force in its report recommended for expanding the coverage and for strengthening the schemes/programmes of the Ministry of MSME.

Rajiv Gandhi UdyamiMitraYojana (RGUMY)

With the objective of providing support and guidance to the entrepreneurs, government launched Rajiv Gandhi UdyamiMitraYojana (RGUMY) in 2008. Under this scheme, financial assistance is provided to selected lead agencies called UdyamiMitras. This scheme provides assistance and support to the first generation entrepreneurs. First generation entrepreneur are those entrepreneurs who have ventured into business for the first time. A toll free helpline 'Udyami Helpline'(1800-180-6763) is created to provide support, guidance, and assistance to first generation entrepreneurs as well as other existing entrepreneurs regarding various promotional schemes which are run by the Government. Government also providesinformationwhich is necessary for running enterprises through Udyami

Helpline.

Public Procurement Policy

To provide government support, government of India notified Public Procurement Policy for Micro & Small Enterprises (MSEs) which is applicable for every Central Ministry, department, andPSU. This scheme came into force from 1st April, 2012. Under Public Procurement Policy for MSEs, out of total procurement of every Central Ministry, department, and PSU, they should procure minimum 20 per cent fromMicro and Small Enterprises (MSEs). In order to provide further leverage to MSEsrun by SC/ST people, under the above policy out of 20% target of annual procurement from MSEs, a subtarget of 4% is earmarked for procurement from MSEs owned by Scheduled Caste (SC)/ Scheduled Tribe (ST) entrepreneurs. Further to support MSEs and to reduce transaction cost of doing business,

MSEs are facilitated by providing them tender sets free of cost, exempting them from payment of earnest money, adopting e-procurement to bring in transparency in tendering process.

Credit Guarantee Fund Scheme (CGFS) for Micro and Small Enterprises

One of the major problems faced by these enterprisesis lack of credit. Non availability of credit at reasonable rate has been a main hurdle in the path of success of these enterprises. To solve this problem, Government of India launched Credit Guarantee Fund Scheme on August 30, 2000. This scheme aims to provide credit without the need of keeping collateral to the micro and small enterprises. To facilitate this scheme,Ministry of MSME and Small Industries Bank of India established a trust called Credit Guarantee Trust for Micro and Small Enterprises. Under this scheme, the eligible candidates can borrow for both term loans and working capital facility up to Rs.100 lakhs per borrowing unit, which is extended further without any collateral security or third party guarantee, to a new or existing micro and small enterprise.

Quality Upgradation

MSME are often criticized for not having good quality products, this is one of the main obstacle for the marketing of the products. Realising the given facts and to give boost to quality improvement and for technology up gradation, government launched a scheme to provide incentive to those enterprises which have acquired ISO 9000/ISO 14001/HACCP certifications. The scheme envisages reimbursement of charges of acquiring ISO-9000/ISO - 14001/HACCP certifications to the extent of 75% of the expenditure, which is subject to a maximum of Rs. 75,000/ in each case. This scheme is to encourage these enterprises to go for certification. Earlier, main problem for certification was a bit expensive process of certification in terms of cost. So, with this policy, these enterprises are motivated to get certification and that to at a subsidized price.

Credit Linked Capital Subsidy Scheme

The shortage of capital is another hurdle in the growth and development of MSMEs. The credit linked capital subsidy scheme try to remove this hurdle by providing capital subsidy to these enterprises.

Under this scheme, capital subsidy is provided to entrepreneurs for modernisation of their production equipments and techniques.Further under this scheme, a capital subsidy of 12 % is provided on the institutional finance availed by them for introduction of upgraded/modern technology in the selected sub-sectors or products which are approved under the scheme. Under this scheme, actual loan amount should not exceed Rs 40 lakhs. Since 2004-05, this scheme is revised and now the ceiling for loan is raised to Rs. 1 crore from Rs 40 lakhs and rate of subsidy now stand 15 %.

Fiscal Support

Government of India (GOI) provides various fiscal supports to small, medium, and large enterprises considering the different factors and unique nature of this sector. These fiscal measures include:

i. Increase in General Excise Exemption (GEE) limit as well as eligibility limit for GEE.
ii. Liberal time for payment of statutory due like excise duty by extending the time.
iii. Extension of GEE benefits upon upgradation of small enterprise into medium enterprise up to a fixed time period.

Cluster Development Programme

Due to globalization, it is difficult for small type enterprises to survive in isolation in this competitive environment. Government of India, taking lead from UNIDO"s cluster development programme had launched Small Industries Cluster Development Programme (SICDP). This programme is now renamed considering the relevance of this sector as Micro and Small Enterprises Cluster Development Programme (MSECDP). The basic aim of this programme is overall development of cluster, development of Common Facility Centres (CFC), developing plot/sites for enterprises, upgrading industrial infrastructure, arrangement of exhibition halls, and creation of need based infrastructure.

Technology Related Support

Government at various levels tries to provide technological supports to micro, small, and medium enterprises to enable this sector to compete in the global economy. Technology is a sound measure of competitiveness and survival in the competitive world. Government made various provisions for the upgradation of technologies of small enterprises:

i. Development of four Training-cum-Product Development Centres (TPDC) for agro and food processing units at Small Industries Service Institutes (SISIs) to facilitate the promotion of MSEs in the food processing sector.
ii. Establishment of Central Footwear Training Institute (CFTIs) to strengthen, expand, and assist micro and small enterprises.
iii. Extension and promotion of eco friendly technology for bricks manufacturing and electric pumps manufacturing enterprises to make them energy efficient and eco friendly.
iv. Establishment of Technology Mission to assist Micro, Small, and Medium Enterprises (MSMEs).

Enterprising and Management Support

Government also provide entrepreneurial and managerial support to MSMEs through the following policy measures:

i. Organising Entrepreneurial Development Programmes (EDPs) for entrepreneurs from socially deprived classes and physically challenged persons.
ii. Special training to entrepreneurs in the area of information technology, catering, food processing, and other emerging fields like biotechnologies, etc.
iii. Financial assistance to business schools and other selected institutes to run special need based courses for entrepreneurs.
iv. Special scheme launching capacity building programme, strengthening data base of MSME sector.
v. Need assessment of enterprises to enhance the competitiveness of micro, small, and medium enterprises.

Other Measures

Government is also providing support to MSME sector through other policy measures:

i) Marketing support.
ii) Empowerment of women owned enterprises.
iii) Strengthening of Prime Minister's RozgarYojna (PMRY), etc.

2.12 LET US SUM UP

Today's promising market conditions have been very encouraging to many young graduates who strongly believe that they have the technical knowledge and skills to attract new customers. These young Indian entrepreneurs are not the typical and conventional business entrepreneur.

Micro, Small, and Medium Enterprises have emerged as an important segment of Indian economy over a period of time. These enterprises have potential solutions to the growing problems in rural and industrial sectors. On the one hand, they are important source of generating employment in rural areas and on the other hand, they are acting as major check on the problem of migration of people from rural to urban areas. Low cost, labour intensive nature, production& manufacturing techniques, and uniqueness of product produced in MSMEs gives these enterprises niche over the other enterprises.

Despite of such immense contribution and important role, these enterprises have to face many challenges and problems like lack of credit, problem of labour, out-dated technology, and various marketing and financial constraints. To solve these problems and safeguard MSME sector, Government of India have drafted and implemented many schemes and policies for the welfare of these enterprises and entrepreneurs.

2.13 KEY TERMS

- **Evolution of entrepreneurship –** It refers to the emergence of entrepreneurs with reference to the demand of the eco-system.
- **Growth and development -** Economic growth is generally a short run concept while economic development is a long time commitment.
- **Growth of entrepreneurship -** It is all about the identification of an opportunity, creation of new organization, and pursuing new ventures.
- **Start-Ups -** These are entrepreneurial ventures typically describing newly emerged, fast-growing business.
- **Venture -** a business enterprise, typically one that involves risk.
- **Ethical -** relating to moral principles or the branch of knowledge dealing with these.
- **Industrialization -** It is the process by which an economy is transformed from a primarily agricultural one to one based on the manufacturing of goods.
- **Subsidy -** a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.

2.14 FURTHER REFERENCES

- Desai, V, The Dynamics of Entrepreneurial Development and Management , Himalaya Publishing House ,Mumbai.
- Ray, R, Entrepreneurship Oxford University press, New Delhi.
- Lall, M, and Sahai, S, Entrepreneurship, Excel Books, New Delhi.
- Khanka, S.S., Entrepreneurial Development, S. Chand & Company Ltd, New Delhi.
- Sharma, R, Mathur, S, and Tripathi, N Entrepreneurship Development, Vikas Publishing House Pvt Ltd, New Delh
- https://scielo.conicyt.cl/scielo.php?script=sci_arttext&pid=S0718-27242011000100007

2.15 MODEL QUESTIONS

Q 01: Discuss the theoretical perspective of Emergence of Entrepreneurial Class.
Q 02: State the factors affecting the growth of entrepreneurship in India.
Q 03: Mention the points how an entrepreneur help the Society.
Q 04: Define MSMEs as per manufacturing sector and service sector.
Q 05: Differentiate between RegisteredEnterprise and Unregistered Enterprises.
Q 06: State some of the recent policy reforms for the MSME sector in India?
Q 07: Discuss the importance features of MSMEDA,2006.
Q 08: Mention the eight components under NMCP.

UNIT-3 ROLE OF FAMILY BUSINESS IN INDIA

Structure

3.0 LEARNING OBJECTIVES

After studying this unit ,learners will be able to:

- Understand the various forms of business ownerships; the factors affecting choice of forms of business ownership.
- Explain business philosophy and its importance
- Meaning of entrepreneurial orientation, its dimensions
- Understand conflicts in Family business its sources, resolution and conflict handling situations.

3.1 INTRODUCTION

"The various forms of business ownership are as such children whose father is Economic Expediency and whose mother is the Law."- *L.H. Haney*

To initiate any entrepreneurial activity, an entrepreneur has to select a form of business ownership. In other words, one of the first decisions that an entrepreneur has to take as owner is, how the enterprise should be structured or through which form of ownership it would operate? The forms of businesses are associated with ownership which determines the authority and responsibility of the owners. In practical, the forms of business ownerships are those legal forms according to which an enterprise/business is organised and run. Hence, the legal form of business ownership is called the form of business ownership. The other parties recognise an enterprise and its existence through its form. Choosing the appropriate form for any entrepreneurial activity is very crucial as the success of enterprise depend on the selection of form of business ownership. The form of business ownership defines the rights and liabilities of entrepreneur(s), control, life span, and financial structure, etc.

3.2 FORMS OF BUSINESS OWNERSHIP

The above description indicates that an enterprise can be run through various forms/modes. Some businesses are operated and managed by a single person and some by many people. Beside this, some businesses are run in private sector, while others are in the public (government) sector, and some are in joint (public and private). Under entrepreneurship, an entrepreneur can run his enterprise in following forms:

i) Sole Proprietorship or Sole Trade
ii) Joint Hindu Family Business/Firm
iii) Partnership Firm
iv) Limited Liability Partnership (LLP)
v) Joint Stock Company (Public and Private)
vi) One Person Company
vii) Cooperative Society/Enterprises

Sole trade, Joint Hindu Family business, and partnership firm can be categorised as non-corporate and others (LLP, Joint Stock Company, One Person Company, and cooperative enterprise) can be categorised as corporate forms of ownerships. The basic difference between these two categories is legal formalities. Non- corporate form of business may be started without any legal formalities while corporate forms of business ownerships can be started and run only after completing legal formalities as prescribed under the governing laws of respective forms of business ownerships.

3.3 DETERMINANTS OF CHOICE OF FORM OF BUSINESS OWNERSHIP

Although it is the sole decision of the entrepreneur to choose the form of ownership for his entrepreneurial activity but following are the factors that affect the choice of form of business ownership:

- **Nature of Business:** The selection of an appropriate form of business ownership depends upon, to a great extent, the nature of the proposed business itself. For example, the business that requires personal attention and skill for their success are usually organised as and proprietary concern. Business requiring pooling of funds and skills are generally run as partnership firm. For business involved in large scale production, the company form of business ownership is preferred.
- **Area of Operations:** If the operation of a business is confined to an area or locality only, the appropriate form of ownership will be proprietorship/partnership. On the contrary, if the area of operation is widespread catering to national or international markets, the suitable form of business ownership may be company.
- **Degree of Control:** In case, direct control over business operations is required, the suitable form of ownership may be proprietorship or partnership. In case direct control over business operations is not needed, the suitable form of ownership may be a company.
- **Capital Requirements:** If a business requires a small amount of capital, the best form of ownership may be either proprietorship or partnership. In case of huge capital requirements, the company form of ownership will be the best.
- **Duration of Business:** If business is proposed for a definite duration and on ad-hoc basis, proprietorship or partnership are better forms of business ownership. The reason is that they are easy to form and dissolve. In case, the business is to be run on permanent basis, it can be organised as company or a co-operative because they enjoy perpetual succession.
- **Extent of Risk and Liability:** Business involves risk. If an entrepreneur is ready and capable to bear risk involved in business, he can organise his business on proprietorship or partnership. But if the entrepreneur is hesitant to bear the risk involved in business, he can go for a company where individual risk is limited.
- **Govt. Regulation:** If an entrepreneur does not like much government involvement in his business, he can select proprietorship or partnership as the form of his business ownership instead of a company or co-operative where the government rules and regulations apply more.

3.4 JOINT HINDU FAMILY BUSINESS / FIRM

A business enterprise which is run by the group of people belonging to the same family is known as Joint Hindu Family Business. This form of business is operated according to Hindu Law, where all the family members including unmarried daughters and wives are the members of the business. In simple terms, Joint Hindu Family Business is that form of business which is carried by all the members of Joint Hindu Family under the control of Mukhiya (Head of the family). Mukhiya or Manager is known as Karta and members are known as Co-parceners. This form of business ownership is based on the two facts:

1) **Coparcenary**: It means common ownership in the ancestral property. As per Coparcenary, an individual have a right in the family property and can ask for his/her share. This individual is known as Coparcener.
2) **Common Property**: According to Hindu Law, Joint Hindu Family possesses a common property which is used for the welfare of all the members of the family.

Common property includes; ancestral property, property created through ancestral property and personal property treated as family property. According to Hindu Law there are two community controlling Hindu families; Mitakshara and Dayabhag. Mitakshara is popular in the country except Assam, Bengal and Some parts of Orissa. Under this community, with the birth, a son gets rights in the ancestral property. Dayabhag community exists in Assam, Bengal, and some parts of the Orissa. Under this community, a son gets rights in the ancestral property only after the death of the father.

Characteristics of Joint Hindu Family Business

Following are the characteristics of Joint Hindu Family Business:

i) Joint Hindu Family Business is operated according to Hindu Law.
ii) This form of business is controlled and managed by Karta.
iii) The liability of all the members (coparceners) except Karta is limited up to the individual's interest in the ancestral property. The liability of the Karta is unlimited.
iv) This form of business is easy to start as there is no need of any registration.
v) Shares of the family members may increase or decrease with the birth of new member or death of existing member.
vi) This is more permanent form of business than sole trade as there is not effect of any death on the business.

3.4.1 Advantages of Joint Hindu Family Business

- Karta has the right to take decisions without any interference of others.
- A Hindu joint firm need not to dissolve due to insanity or death of any member.
- There is an assured profit for every coparcener irrespective of their contribution in the successful running of the business.
- All the members have limited liability except the Karta.
- It acts an insurance cover for maintaining the children, widows and invalid members of the family.
- It ensures proper maintenance of secrecy, prompt decision and flexibility.
- This form of organisation has better credit worthiness than the sole trader.

3.4.2 Disadvantages of Joint Hindu Family

- This form of organisation has lack of motivation.
- The continuity of firm depends upon the continuity of joint family.
- In this type of organisation the resources are limited.
- It is sometimes unfair to coparceners as they are their initiative and sincerity is not given scope.

3.5 BUSINESS PHILOSOPHY

A business philosophy may also be called the:

- Company vision
- Mission statement

The philosophy of any company serves as its blueprint for operation. This statement outlines the overall purpose of the business, along with its goals. A business philosophy might also list the company values that are important to the founders, executives, and employees. The philosophy of a company reflects its leaders' values, helping the business to feel more personal.

Some of the business philosophies of large companies are well-known. For example, Google has several well-known attributes in its philosophy, including:

- You can make money without doing evil.
- It is best to do one thing really, really well.

After creating the business philosophy, the next step is articulating and communicating that philosophy to the company's employees. When business owners group_practices, aims, principles, and beliefs_together, this group creates the philosophy. This philosophy may pertain to:

- Profitability
- Customers
- Employees
- Services
- Products

3.5.1 Meaning of Vision

The vision is the source and the main idea of a company. Vision refers to what an organization aspires to be in future. It acts as a company’s roadmap and depicts what a company wants to become. Nanus, (1992) defines vision as realistic, credible, attractive future for an organization. Over decades the management researchers and practitioners have argued that vision is important to leadership, strategy implementation and organizational change. Clarifying the vision of the company and communicating it to the employees of an organization can have powerful results. Visionary organizations are capable of leading change, when the leaders realize that their visions of the future are not firmly fixed and remain flexible to accommodate change.

A **vision statement** of the organization is in written format. Vision statement of an organization should be inspiring and provide a base to frame strategy for achieving the ultimate vision of the organization. The normal life span of a vision statement is 10 to 20 years and it articulates the ultimate long-range goal of an organization.

3.4.2 Meaning of Mission

Mission gives the answer of why organization exists and also defines the path to achieve vision of an organization. Mission statement is written process that communicate why organization exist. A firm's mission describes the organization in terms of business it is in, the customers it serves, and the skills it intends to develop to fulfill its vision.

In other words, the mission statement is the heart of a company. The mission statement guides the actions of employees, partners, and management. The mission statement tries to answer the following questions

- What do we do today?
- For whom do we do it?

What is the benefit? For example, the mission of ITC is "To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value." Similarly the mission of Harley Davidson is "We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments." Coca Cola puts its mission as "To refresh the world..., to inspire moments of optimism and happiness..., to create value and make a difference.

3.6 IMPORTANCE OF BUSINESS PHILOSOPHY

Every business leader knows to make certain that the company mission and vision statement are clear and well-defined. It is the business philosophy that defines why you are doing things the way you are doing them. Your philosophy of business could be an unwritten attitude or a specifically-written philosophy that defines how your people will act and interact with each other and the general public.

For example, a business leader could impart a "Whatever it takes" philosophy by putting in additional hours, constantly asking employees to do more in terms of performance, and expressing absolutist ideas such as, "We're closing this sale, no matter what." Even though this isn't defined in any mission statement or core value in the employee handbook, it clearly becomes part of the set expectations that leaders have regarding employees' performance.

Some good business philosophies are being given as under:

- Aafreen Ansari – "Nothing or nobody else except you can stop you from being an entrepreneur"

- Sachin and Binny Bansal, Flipkart – "The core of any business is to earn money. You have not done your job well until you find a stranger who is willing to open his/her wallet to give you money for the service/products that you are offering."
- Ritesh Agarwal, OYO Rooms – "It is extremely important to build something that a 100 people absolutely love using rather than make something that a 1000 people would just, kind of, like."
- Kunal Shah, FreeCharge – "If you fully accept the worst that can ever happen in your journey, fear won't ever be an obstacle in starting-up."

There are a huge number of entrepreneurs doing very well for them as well as for the economy. Before details of some selected entrepreneurs are given.

3.7 LET US SUM UP

To initiate any entrepreneurial activity, an entrepreneur has to select a form of business ownership. In other words, one of the first decisions that an entrepreneur has to take as owner is, how the enterprise should be structured or through which form of ownership it would operate? The forms of businesses are associated with ownership which determines the authority and responsibility of the owners. There are various determinants for choosing a form of business.

A business philosophy might also list the company values that are important to the founders, executives, and employees. The philosophy of a company reflects its leaders' values, helping the business to feel more personal. Every business leader knows to make certain that the company mission and vision statement are clear and well-defined.

- EO refers to the processes, practices, and decision-making styles of organizations that act entrepreneurially.
- Conflict is unavoidable in family businesses as it is an amalgam of individuals (family and non-family members) who are more likely to hold different opinions on a matter that result in disagreements on strategic or tactical issues.

3.8 KEY WORDS

- **Limited Liability** – is a type of legal structure for an organization where a corporate loss will not exceed the amount invested in a partnership or limited liability company (LLC)
- **Philosophy –** a theory or attitude that acts as a guiding principle for behaviour.
- **Orientation** – a course, programme, lecture, etc, introducing a new situation or environment

3.9 FURTHER REFERENCES

- Desai, Vasant. Dynamics of Entrepreneurial Development and Management. Mumbai, Himalaya Publishing House.
- Plsek, Paul E. Creativity, Innovation and Quality (Eastern Economic Edition), New Delhi:Prentice - Hall of India. ISBN-81-203-1690-8.
- Singh, Nagendra P. Emerging Trends in Entrepreneurship Development. New Delhi: ASEED.
- Entrepreneurship Development and Business Ethics - M K Nabi, K C Rout, Vrinda Publications (P) Ltd
- https://www.businessmanagementideas.com/business/role-models/contemporary-role-models-in-indian-business/18182
- https://www.upcounsel.com/business-philosophy-definition
- https://newsletters.isb.edu/FamilyBusiness-Newsletter/File/Article_Summary_03_Nov_2015.pdf
- https://courses.lumenlearning.com/suny-orgbehavior/chapter/10-4-conflict-management/

3.10 MODEL QUESTION

Q.1: State the determinants for the choice of form of Business Ownership.

Q.2: What is a Joint Hindu Family Business? What are its advantages and disadvantages?

Q.3: Explain the following with reference to Business Philosophy

(a) Vision (b) Mission

UNIT 4: CONTEMPORARY ROLE MODELS IN INDIAN BUSINESS

Structure

4.1 LEARNING OBJECTIVES

After studying this unit ,learners will be able to:

- Understand conflicts in Family business its sources, resolution and conflict handling situations.

4.2 CONTEMPORARY ROLE MODELS IN INDIAN BUSINESSES AND THEIR VALUES, BUSINESS PHILOSOPHIES AND BEHAVIOURAL ORIENTATION

1. Reliance Industries Limited

Reliance Industries Limited is a Joint Hindu Family form of business organisation. It is a company headquartered at Mumbai & was founded by Dhirubhai Ambani. This company is engaged in businesses like textiles, energy, petrochemicals, telecommunications & retail.

Son of Dhirubhai Ambani, Mukesh Ambani is the present Karta of the company. He is current chairman & managing director of the Reliance Industries Ltd. His wife Nita Ambani is non-independent Director of the companies. Their children are also members of business & are managing their affairs.

Their Values:

i. Customer Value
ii. Excellence
iii. Integrity

iv. Ownership Mindset
v. One TEAM
vi. Respect

Their Business Philosophy
"If You Don't Build Your Dream, Someone Else Will Hire You to Help Them Build Theirs".– Dhirubhai Ambani
"Think big, think fast, think ahead. Ideas are no one's monopoly". – Dhirubhai Ambani

Their Behavioural Orientation
i. Shareholders interest
ii. People care
iii. Excellence in Education
iv. Team work
v. Proactive Innovation
vi. Leadership by Empowerment
vii. Social responsibility
viii. Respect for competition

2. Tata Sons Private Limited
It is a joint Hindu family business which is headquartered in Mumbai. It was founded in 1868 by Jamsetji. His generations are toady managing the business. It is a company which is engaged in businesses like automobiles, telecommunication, airline, power & chemicals. Natarajan Chandrasekaran is present chairman of Tata sons. At present, Jamsetji generations are the major stakeholders in the company and managing the whole business. The whole family is running the business.

Their values:
i. Integrity
ii. Responsibility
iii. Excellence
iv. Pioneering
v. Unity

Their Business Philosophy
Vision: To be globally significant in each of our chosen businesses by 2025.
Mission: To be the most reliable global network for customers and suppliers, that delivers value through products and services. To be a responsible value creator for all our stakeholders.
"Business, as I have seen it, places one great demand on you: it needs you to self-impose a framework of ethics, values, fairness and objectivity on yourself at all times."
- Ratan N Tata, 2006

Their Behavioural Orientation
The code of Conduct serves as the ethical road map for Tata employees and

companies, and provides the guidelines by which the group conducts its business

i. Highest moral and ethical standards.
ii. Good corporate citizenship
iii. Economic development of the communities of the countries and regions we operate in, while respecting their culture, norms and heritage.
iv. Not compromise safety in the pursuit of commercial advantage.
v. Act with professionalism, honesty and integrity, and conform to the highest moral and ethical standards.
vi. Respect the human rights and dignity of all our stakeholders.
vii. Strive to balance the interests of our stakeholders, treating each of them fairly and avoiding unfair discrimination of any kind.
viii. Shall not engage in any restrictive or unfair trade practices.
ix. Shall provide avenues for our stakeholders to raise concerns or queries in good faith, or report instances of actual or perceived violations of our Code.
x. We shall strive to create an environment free from fear of retribution to deal with concerns that are raised or cases reported in good faith.
xi. Expect the leaders of our businesses to demonstrate their commitment to the ethical standards set out in this Code through their own behaviour and by establishing appropriate processes within their companies.
xii. Shall comply with the laws of the countries in which we operate and any other laws which apply to us.

3. Kiran Mazumdar Shaw:

"I really believe that entrepreneurship is about being able to face failure, manage failure and succeed after failing."

Kiran Mazumdar is an Indian entrepreneur. She is the Chairman & Managing Director of Biocon Limited a biotechnology company based in Bangalore. Kiran Mazumdar-Shaw was born on March 23, 1953 in Bangalore, India.

Mazumdar-Shaw completed her schooling from the city's Bishop Cotton Girl's High School (1968). She wanted to join medical school but instead took up biology and completed her BSc Zoology Honors course from Mount Carmel College, Bangalore University (1973). She later did her post-graduation in Malting and Brewing from Ballarat College, Melbourne University (1975).

She worked as a trainee brewer in Melbourne and as a trainee maltster in Australia. She also worked for some time as a technical consultant at Jupiter Breweries Limited, Calcutta and as a technical manager at Standard Makings Corporation, Baroda between 1975 and 1977.

She started Biocon in 1978 and spearheaded its evolution from an industrial enzyme manufacturing company to a fully integrated bio-pharmaceutical company with a well-balanced business portfolio of products and a research focus on diabetes, oncology and auto-immune diseases. She also established two subsidiaries- Syngene in 1994.

Her pioneering work in the sector has earned her several awards, including the prestigious Padma Shri in 1989 and the Padma Bhushan in 2005 from the government of India. She was recently named among TIME magazine's 100 most influential people in the world. She is on the Forbes list of the world's 100 most powerful women and the Financial Times' top 50 women in business list. She is also a member of the board of governors of the prestigious Indian School of Business and Indian Institute of Technology Hyderabad.

Her Values:

i. Belief in herself
ii. Leadership
iii. Vision
iv. Go-getter spirit
v. Not afraid of failures

Her Business Philosophy:

i. Ethics in business
ii. Precision in work
iii. Quality

Her Behavioural Orientation:

i. Courageous
ii. Undeterred by set-backs
iii. Corporate citizenship

4. Dr. Swati Piramal:

Swati A. Piramal is the Vice Chairperson of Piramal Life Sciences Limited and Director of Piramal Healthcare Limited.

Dr. Piramal received one of India's highest civilian honour's, the Padmashri award, by the President of India, Ms. Pratibha Patil on 4th April, 2012 She has been nominated as one of the 25 Most Powerful Business Women in India eight times and is now a member of the Hall of Fame of the Most Powerful Women. She was the first woman in 90 years to head the Apex Chamber of Commerce ASSOCHAM in 2009-10. She has contributed towards innovations in Public Health Services and other projects.

She has been a part of public policy related to health care which led to major policy changes that help reduce the spread of life-threatening diseases. Dr. Swati Piramal also serves on Indian Government public policy expert committees for trade, planning, environment, arts, women's entrepreneurship, national integration and regional development. Dr. Piramal is a member of many Indian and foreign business councils, and has received numerous Indian and international awards.

Her Values:

i. Doing good for society

ii. Extending helping hand
iii. Courtesy & humility

Her Business Philosophy:

i. Innovation as mantra of success
ii. Ethical business

Her Behavioural Orientation:

i. Hard working
ii. Persistence
iii. Enthusiasm
iv. Self confidence

5. Mahindra & Mahindra Limited

This is a car manufacturing business headquartered at Maharashtra, Mumbai. It was established in 1945 in Ludhiana. Initially, its name was Muhammad & Mahindra. Later on, it was renamed as Mahindra & Mahindra.

Its founders were 2 brothers Kailash Chandra Mahindra and Jagdish Chandra Mahindra and Malik Ghulam Muhammad. Anand Mahindra, the grandson of Jagdish Chandra Mahindra is the chairman of Mahindra group. Generations of its founders are today managing the whole business.

6. Haldiram's Private Limited

Haldiram is a Joint Hindu family business which was founded in Bikaner, Rajasthan, India. It has its headquarter in Nagpur, Maharashtra, India. It is an industry which is engaged in the production of food products. It was founded by Shri Ganga Bhishen Agarwal in 1937. It was initially started as a sweet & namkeen shop in Bikaner, Rajasthan.

Rajendra Agarwal is the present chief executive officer of haldiram. Generations of its founders are today the major stakeholders in the company.

4.3 MEANING OF ENTREPRENEURIAL ORIENTATION

Entrepreneurial orientation (EO) is a key concept when executives are crafting strategies in the hopes of doing something new and exploiting opportunities that other organizations cannot exploit.

EO refers to the processes, practices, and decision-making styles of organizations that act entrepreneurially (Lumpkin & Dess, 1996). Any organization's level of EO can be understood by examining how it stacks up relative to five dimensions:

(1) Autonomy,
(2) Competitive aggressiveness,
(3) Innovativeness,

(4) Pro-activeness,
(5) Risk taking.

These dimensions are also relevant to individuals.

4.4 DIMENSIONS OF ENTREPRENEURIAL ORIENTATION

(1) Autonomy: Autonomy refers to whether an individual or team of individuals within an organization has the freedom to develop an entrepreneurial idea and then see it through to completion. In an organization that offers high autonomy, people are offered the independence required to bring a new idea to fruition, unfettered by the shackles of corporate bureaucracy. When individuals and teams are unhindered by organizational traditions and norms, they are able to more effectively investigate and champion new ideas.

(2) Competitive aggressiveness: It is the tendency to intensely and directly challenge competitors rather than trying to avoid them. Aggressive moves can include price-cutting and increasing spending on marketing, quality, and production capacity.

(3) Innovativeness: It is the tendency to pursue creativity and experimentation. Some innovations build on existing skills to create incremental improvements, while more radical innovations require brand-new skills and may make existing skills obsolete. Either way, innovativeness is aimed at developing new products, services, and processes. Those organizations that are successful in their innovation efforts tend to enjoy stronger performance than those that do not.

(4) Pro-activeness: It is the tendency to anticipate and act on future needs rather than reacting to events after they unfold. A proactive organization is one that adopts an opportunity-seeking perspective. Such organizations act in advance of shifting market demand and are often either the first to enter new markets or “fast followers” that improve on the initial efforts of first movers.

(5) Risk taking: It refers to the tendency to engage in bold rather than cautious actions. Starbucks, for example, made a risky move in 2009 when it introduced a new instant coffee called VIA Ready Brew. Instant coffee has long been viewed by many coffee drinkers as a bland drink, but Starbucks decided that the opportunity to distribute its product in a different format was worth the risk of associating its brand name with instant coffee.

4.5 CONFLICT IN FAMILY BUSINESS

Meaning: Conflict is unavoidable in family businesses as it is an amalgam of individuals (family and non-family members) who are more likely to hold different opinions on a matter that result in disagreements on strategic or tactical issues. In fact, if there is no conflict, it reflects that people are not either thinking or trying to improve or have no power to assert. All of which are not good signs for a family business. In order to effectively deal with conflict it is important to understand the source of the conflict first. All businesses have conflict. It can be a good thing or it can be a bad thing.

Positive or constructive conflict can be beneficial to a family business when it increases opportunity recognition, produces high-quality decisions, encourages growth, strengthens groups and individuals, increases the learning necessary for entrepreneurial behaviour, and increases the levels of commitment to the decisions being made. An example of positive conflict is a disagreement between family members on the strategic direction of the family business, the result being a much-needed rethinking of the business plan and a new agreed-on vision for the company. By contrast, ***negative or destructive conflict*** can hurt a business by damaging the harmony and relationships of family members in the family business, discouraging learning, causing ongoing harm to groups and individuals in the business, frustrating
adequate planning and rational decision making, and resulting in poor quality decisions. “The absence of good conflict makes it that much harder to accurately evaluate business ideas and make important decisions…But conflict does not mean browbeating.” An example of a negative conflict would be arguments over the successor to the business. Ultimately, the failure to adequately control negative conflict may contribute to the high mortality rate of family-owned businesses.

Because of the clash between business and emotional concerns in a family business, the potential for negative conflict can be greater than for other businesses. The tension that exists among the personal lives and career pursuits of family members creates an ***inter-role conflict*** (occurring when a family member has simultaneous roles with conflicting expectations) in which the role pressures from work and home are incompatible. This conflict is difficult—if not impossible in some instances—to resolve. “Due to the interconnection and frequent contact among family members working in the business with those who are not but may still have an ownership stake, recurring conflict is highly probable in family firms.

4.6 SOURCES OF CONFLICT

1. ***Direction for the business*** - Lack of commonly shared vision and values often leads to disagreements among family members. If the business is not directed towards a set of shared strategic goals, conflicts are bound to arise.
2. ***Decision-making*** - Another major source of conflict is lack of clarity on the decision making process and the authority over decisions that respective family members have. In addition, lack of a conflict resolution mechanism in cases of disagreements over major decisions aggravates the situation.
3. ***Roles and responsibilities*** - Lack of clarity on the roles and responsibilities of individual members and their understanding of the same are potential sources of conflict. Role-overlaps and poorly described performance expectations also become

potential sources of conflicts.

4. ***Compensation/benefits*** - Remuneration and rewards are among the most frequent sources of conflict. If these are perceived to be unjust or inequitable, a solid ground for potential conflicts is generated, especially among next generation members.

5. ***Ownership*** - Family ownership of business is a major responsibility. The actual ownership of the stake and the terms of its transfer to the next generation need to be clearly documented and communicated to family members. Failure in doing so can result in conflicts.

6. ***Distributions to non-employee shareholders*** - Shareholders expect fair treatment and distribution of dividends and earnings. Inequitable distributions are invitations to conflicts.

7. ***Personality Differences*** - Family businesses that fail to acknowledge and accommodate differences in the personalities of individuals involved are more prone to conflict.

8. ***In-laws*** - In-laws and spouses may have different perspective and interests. In some instances, they may unknowingly generate conflict. It is important to clarify their terms of engagement with business.

9. ***Accountability*** - Family members need to be accountable and perform as per expectations. Disciplining may be needed if resentments grow into confrontations.

10. ***Succession*** - Clear and mutually agreed decision regarding the successor is important to save family business from conflicts in leadership transition stage. Everyone must be taken into confidence regarding the transition process and time.

11. ***Sibling Rivalries*** - It is natural for siblings to vie for parents' attention in childhood. However, if these rivalries continue even after growing up life stages and into the business, these can result into bitter conflicts. Parents need to treat children equally and help them resolve differences.

12. ***Entry/Exit Rules*** - Entry in the family business must be based on merit and not considered to be a birth right. Clear rules of entry and exit can reduce conflicts in family businesses.

13. ***Communication*** - Unclear, infrequent, partial communication leads to gaps in understanding and create conflicts. Family businesses must devise forums for open communication where members can say what they need to say to others.

14. ***Estate Plans*** - Lack of clarity on the estate plan formulated by the senior generation raises anxiety among other members. If family members do not have a clear idea of what will be their share in the inheritance, conflicts are bound to arise.

15. ***Finances*** - Money matters often become major sources of conflict among family members. These differences are compounded in cases where there is no or little distinction between individual and business funds. A financial management mechanism that takes care of needs of all family members must be devised in a way that does not over burden the business.

4.7 RESOLUTION OF CONFLICT

(a) Hire wisely.

As much as possible, you should avoid hiring someone from the family. There's a big difference being around your in-laws as part of your family connections and in hiring them as company employees, especially when they have little or no knowledge at all as to how the business operates.

(b) Have family meetings.

One could use family meetings either as a preventive measure when he/she notice that conflicts are starting to build up or as a regular company event.

Either way, family meetings provide a venue for everyone to share relevant information or updates on business projects; plan for the future; and voice out their concerns on issues that are affecting them and the company.

(c) Establish shared family values, goals, and objectives.

The key to a harmonious working relationship with your family is to make sure that everyone understands what you're trying to achieve and how meeting that goal can benefit your family individually and as a business unit.

It's also important to share the same family values with one another and that there's an attempt to stay away from misconduct that will not contribute to your goals.

(d) When conflicts arise, take a structured approach to resolution.

Conflicts are part of any business, whether family-owned or not. This means that you could take after conflict resolution processes being adopted by many companies, which may include setting up a grievance committee or council. This group can provide a proper forum that can facilitate a safe, organized method of resolving issues through dialogue.

(e) Seek the help of mediators.

Some conflicts cannot be resolved among your family members, so it might be best to bring in experts to help you reach an agreement through a formal mediation process. Expert mediators have an objective view of the issue and can use their training to lead your family through initial talks until you reach a final resolution.

4.8 CONFLICT HANDLING SITUATION

Individuals vary in the way that they handle conflicts. There are five common styles of handling conflicts. These styles can be mapped onto a grid that shows the varying degree of cooperation and assertiveness each style entails.

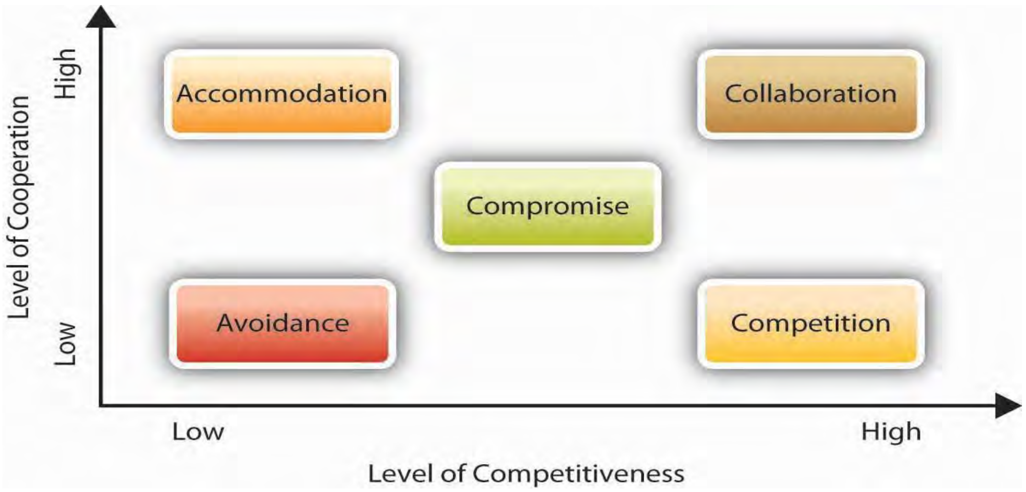


Image Source: /saylordotorg.github.io

1. Avoidance

The avoiding style is uncooperative and unassertive. People exhibiting this style seek to avoid conflict altogether by denying that it is there. They are prone to postponing any decisions in which a conflict may arise. People using this style may say things such as, "I don't really care if we work this out," or "I don't think there's any problem. I feel fine about how things are." Conflict avoidance may be habitual to some people because of personality traits such as the need for affiliation. While conflict avoidance may not be a significant problem if the issue at hand is trivial, it becomes a problem when individuals avoid confronting important issues because of a dislike for conflict or a perceived inability to handle the other party's reactions.

2. Accommodation

The accommodating style is cooperative and unassertive. In this style, the person gives in to what the other side wants, even if it means giving up one's personal goals. People who use this style may fear speaking up for themselves or they may place a higher value on the relationship, believing that disagreeing with an idea might be hurtful to the other person. They will say things such as, "Let's do it your way" or "If it's important to you, I can go along with it." Accommodation may be an effective strategy if the issue at hand is more important to others compared to oneself. However, if a person perpetually uses this style, that individual may start to see that personal interests and well-being are neglected.

3. Compromise

The compromising style is a middle-ground style, in which individuals have some desire to express their own concerns and get their way but still respect the other person's goals. The compromiser may say things such as, "Perhaps I ought to reconsider my initial position" or "Maybe we can both agree to give in a little." In a compromise, each person sacrifices something valuable to them.

4. Competition

People exhibiting a competing style want to reach their goal or get their solution adopted regardless of what others say or how they feel. They are more interested in getting the outcome they want as opposed to keeping the other party happy, and they push for the deal they are interested in making. Competition may lead to poor relationships with others if one is always seeking to maximize their own outcomes at the expense of others' well-being. This approach may be effective if one has strong moral objections to the alternatives or if the alternatives one is opposing are unethical or harmful.

5. Collaboration

The collaborating style is high on both assertiveness and cooperation. This is a strategy to use for achieving the best outcome from conflict—both sides argue for their position, supporting it with facts and rationale while listening attentively to the other side. The objective is to find a win–win solution to the problem in which both parties get what they want. They'll challenge points but not each other. They'll emphasize problem solving and integration of each other's goals.

4.9 KEY WORDS

- **Professionalism** – the competence or skill expected of a professional.
- **Estate -** all the money and property owned by a particular person, especially at death.

4.10 FURTHER REFERENCES

- Desai, Vasant. Dynamics of Entrepreneurial Development and Management. Mumbai, Himalaya Publishing House.
- Plsek, Paul E. Creativity, Innovation and Quality (Eastern Economic Edition), New Delhi:Prentice - Hall of India. ISBN-81-203-1690-8.
- Singh, Nagendra P. Emerging Trends in Entrepreneurship Development. New Delhi: ASEED.
- Entrepreneurship Development and Business Ethics - M K Nabi, K C Rout, Vrinda Publications (P) Ltd
- https://www.businessmanagementideas.com/business/role- models/contemporary-role-models-in-indian-business/18182
- https://www.upcounsel.com/business-philosophy-definition
- https://newsletters.isb.edu/FamilyBusiness-Newsletter/File/Article_Summary_03_Nov_2015.pdf
- https://courses.lumenlearning.com/suny-orgbehavior/chapter/10-4-conflict-management/

4.11 MODEL QUESTION

Q.1: Mention the values, Business Philosophy and Behavioural Orientation of the following:

(a) Reliance Industries Ltd

(b) Tata Sons Private Ltd

Q.2: What is meant by Entrepreneurial Orientation? Also State its dimension.

Q.3: Mention the sources of conflict.

Q 4: Discuss the conflict handling situation.

BLOCK- 2

SOURCES OF BUSINESS IDEAS

UNIT 5: SOURCE AND SIGNIFICANCE OF BUSINESS PLAN

UNIT 6: TEST OF FEASIBILITY

UNIT 7: DESIGNING BUSINESS PROCESSES

UNIT 8: PREPARATION OF PROJECT REPORT

UNIT 5: SOURCE AND SIGNIFICANCE OF BUSINESS PLAN

Learning Objectives:

After completion of the unit you should be able to:

- Describe the meaning and concept of a business plan.
- Explain the need and purpose of preparing a business plan.
- Describe the stakeholders who are addressed through a business plan.
- Describe what information is required to prepare a business plan.
- Sections / Components of a Business Plan
- Explain why entrepreneurs have to go for project financing.
- Identify the major sources of financing available to first generation entrepreneurs.
- Know and understand the difference between equity funding and debt financing
- Know the difference between a business angel and a venture investor.
- Explain why an initial public offering (IPO) is an important milestone in an entrepreneurial venture.
- Explain the advantages of leasing for an entrepreneurial venture.

Structure

5.1 INTRODUCTION

Planning is essential for the success of any undertaking. Planning comprises of goals and decisions for the future of the enterprise or venture. There are a number of factors which must be addressed and answered critically when an entrepreneur plans to start a business. These are:

1. Realistic Goals- goals should be Specific, Measurable and framed within finite time parameter.

2. Commitment – The proposed venture must be understood and supported from all who are involved in it like partners, consultant, employees and team members, and family.

3. Milestones – Since it is necessary to have finite time parameter, all the sub goals should be set for continuous evaluation at specific time points.

4. Flexibility – Obstacles should be anticipated and evaluated in advance and alternate strategy in such contingency.

Thus for any entrepreneur planning to start a business, writing a **business plan** is a helpful way to obtain clarity on the business goals and how to reach them. Comprehensive Business Plan is the result of discussions and reflections on the direction of the venture. **Business plans** are considered a mandatory step for entrepreneurs seeking funding from venture capitalists or banks.

5.2 DEFINITIONS

1. **Business plan –** A business plan is a written document that gives details of all aspects the proposed venture, it describes the current status, expected requirements and projected results of the new venture.

2. E**xecutive Summary** – An executive summary is a short document or section of a document, produced for business purposes, that summarizes a longer report or proposal or a group of related reports in such a way that readers can rapidly become acquainted with a large body of material without having to read it all.

3. **Proforma Balance Sheet-** Proforma means projected, thus proforma balance sheet projects what the financial condition of the project will be at a particular time in the future.

4. **Cash Flow statement -** In financial accounting, a cash flow statement, also known as statement of cash flows, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities.

5. **Profit and Loss Account -** A profit and loss statement (P&L) is a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal quarter or year.

6. **Break Even Point Analysis-**The break-even analysis lets you determine what you need to sell, monthly or annually, to cover your costs of doing business—your break-even point. The break-even analysis table calculates a break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.

7. **Milestone Schedule -** It is a step by step approach to illustrating accomplishments on the project on a piecemeal basis.

8. **Project Financing** –

9. **Family/Friends Financing -** Money, usually in the form a loan, that a business owner gets from either family members or friends in order to help finance their startup or growing business.

10. **Angel Investment**

11. **Venture Capital (VC) -** is funding provided, in exchange of equity, by private investors (the venture capitalists) or specialized financial institutions (venture capital firms) in a startup enterprise that offers the probability of profit along with the possibility of loss.

12. **Debt financing**- means borrowing money and not giving up ownership. Debt financing often comes with strict conditions in addition to having to pay interest and principal at specified dates.

13. **Equity financing -** is the method of raising capital by selling company stock to investors. In return for the investment, the shareholders receive ownership interests in the company.

5.3 NEED AND BENEFITS OF A BUSINESS PLAN

The entire business planning process compels the entrepreneur to analyze all aspects of the venture in order to be able to prepare an effective strategy that is able to deal with all the challenges and uncertainties that arise in the course of establishing the venture. Thus a good business plan helps in avoiding a venture from failure or doom. It is important for the entrepreneurs to be involved themselves when the business plan is being developed.

Need for a good business plan:

- The time, effort and discipline required to formulate a business plan compels the entrepreneur to evaluate all the aspects of the venture critically
- To set the quantifiable goals for the ventures.
- To act as a blueprint of the proposed venture.
- To get overview of the Competitive, economic and financial analyses related to the venture
- To put in black and white the assumptions made while planning the venture
- To act as a communication tool with all the stakeholders like financial institutes, other financial sources and government.

5.4 FOR WHOM SHOULD THE BUSINESS PLAN BE PREPARED

Majority of investors agree that only a well conceived and well developed Business Plan can gather support for financing. A business plan should present simple yet clear picture of the new venture with complete accuracy.

It is therefore important to understand the audience for whom the business plan is written. All the people who have an interest in your business venture represent different audiences for your business plan.

1. Active venture capitalists – venture capitalist who are looking actively for opportunities of investment see many business plans and reject or select them depending on the initial attention that the plan can draw. It_s essential, that the plan make the right impression fast. A good summary and explanation of the basic business concept is essential.

2. Bankers- they tend to be more formal than venture capitalists and more concerned with financial strength than with exciting concepts and impressive resumes. For these readers, plan should include extra attention to balance sheets and cash-flow statements.

3. Prospective Partners –want to know not only about the details of the venture but their standing and role and authority in the venture. So plan presented to them should deal with the ownership structure and clearly list matters of control and accountability.

4. Suppliers - have a lot of interest in any new venture. They look at the market and financial aspects to ensure that new venture will succeed and they will get timely payments. They are interested in knowing the growth prospects.

5. Strategic partners– provide specific benefit like technology, distribution, complementary customer sets, etc. which is critical for the success of the venture. So they stress on aspect of operation.

Thus a primary business plan sometimes has to be customized to suit the need of the audience group. It means adding additional information to the plan foe the target audience being addressed. In doing so the entrepreneur should not present different figures to different groups.

5.5 VARIOUS COMPONENTS OF A BUSINESS PLAN

A detailed business plan usually has EIGHT sections. Ideal recommended length of a plan is 50 pages, although it may vary depending on the type and scale of the project.

Outline of a Business Plan

Section I: Executive Summary
Section II: Business Description

A. General Description of the Business
B. Industry background
C. Goals of the Business
D. Uniqueness of the business / Product / Service

Section III: Marketing

A. Research and Analysis
1. Identified Target Market
2. Market Size & Trends
3. Competition
4. Estimated Market Share

B. Marketing Plan
1. Market Strategy- Sales and Distribution
2. Pricing
3. Advertising and Promotion

Section IV: Operations

A. Identify Location
1. Advantages
2. Zoning
3. Taxes

B. Proximity to Suppliers
C. Logistics Details

Section V: Management

A. Management Team- Key Personnel
B. Legal Structure-equity agreements, employment agreements, ownership
C. Board of Directors, Advisors and Consultants

Section VI: Financial

A. Financial Forecast
1. Cash Flow
2. Profit and Loss
3. Break-even Analysis
4. Cost Controls

Section VII: Critical Risk
A. Potential Challenges
B. Obstacles and Risks
C. Alternative Course of Action

Section VIII: Milestone Schedule
A. Timing and Objectives
B. Deadlines
C. Relationship of Events

Appendix

I. The Executive Summary – Majority of the audiences (bankers, venture capitalist, investors) who read the business plan, would first like to see the summary of the plan that features the important aspects or parts. Such a summary is written to give them an overview of the business plan. The executive summary is often the most important part of your business plan. Found at the front of the document, it is the first - and might be the only - part to be read. Your plan might be placed into a 'worth considering' or 'discard' pile by lenders or investors based on this section alone. The executive summary is a synopsis of the key points of your entire plan. It should include highlights from each section of the rest of the document. Its purpose is to explain the basics of your business in a way that both informs and interests the reader. If, after reading the executive summary, an investor or manager understands what the business is about and is keen to know more, it has done its job.

It should be concise - no longer than two pages at most - and interesting. You should write this section of your plan after you have completed the rest. The executive summary is:

- A brief description of the business and its products. It's a synopsis of the entire plan.
- An extended table of contents. This makes for very dull reading. You should ensure it shows the highlights of the plan, rather than restating the details the plan contains.
- While the executive summary should excite the reader enough to read the entire plan, it should not hype the concept which can undermine the plan's credibility.

II. Business Description – first step is the identification of the name of the venture. This section presents

- Industry background by elaborating on the current status of the industry, growth trends seen in the past and expected future trends.
- It is to necessary to discuss important developments that have the potential to effect the plans positively or negatively.
- The new venture should be discussed in full details along with proposed or anticipated potential.
- Description of all key terms, functional specifications, relevant drawings and photographs should be provided.
- Potential as well as unique advantage that the new venture possesses over the existing competitors should be discussed in detail.

III. Marketing Segment – In this section entrepreneur must convince the investors about the existence of the market and sufficient demand in the identified market. It has to be exhibited that Sales projections can be achieved and competitors can be beaten. It is a difficult section, yet one of the most critical sections of the business plan since it forms the basis of financial projections and operation planning. Following aspects of marketing should be addressed with care while preparing this section :

- How the product or service will be positioned in the market place?

- Who are the target customers? Includes details of customers who have shown an interest in the proposed product or service and explain the plan to attract new customers.

- What is the pricing policy? Will there be different pricing for different group of customers i.e. business buyers, retail buyers, online buyers etc.?

- What will be the promotion plan for new product or service?

- What are the identified sales process methods, e.g. direct marketing, advertising, PR, email, e-sales, social marketing?

- What channels of distribution will the business use? Which partners will be needed in distribution channels?

- What are the proposed sales plan?

IV. Operations Segment - It starts with the discussion on the location of the new venture. It should present the cost data associated with the operations. Appropriateness of the chosen site is decided in terms of

- Suitability for construction of the plant as per specifications
- zoning specification
- availability of power and water
- availability of skilled and unskilled labor at reasonable rates
- community support
- proximity to suppliers and target market
- transport facilities from and to the plant
- cost of transportation
- repair and maintenance of equipment, office assets and vehicles
- warehouse and offices
- local taxes

V. Management Segment –There key personnel associated with the new venture, their position and responsibilities, experience and qualification for the role assigned are presented. This section also outlines the role of the entrepreneur in the project. Details of any other experts who would be associated with the project in the capacity of advisors, consultants or board members should also be provided. In short the reader should be able to understand

- Organizational structure
- Management team and its key personnel
- Experience and technical capabilities of the key personnel

- Ownership structure of the new venture
- Identity of the board of directors
- Outside consultants and advisors.

VI. Financial Segment - this segment should demonstrate the potential viability of the venture. There is need to provide a set of financial forecast for the proposed venture. This will include:

- capital requirement through external funding
- the security being offered to the lenders
- repayment plan for the borrowings
- sources of revenue and income
- personal finances of the entrepreneur

Cash-flow statements–for a new venture this may be the most important document since it sets forth the amount and timing of expected cash inflows and outflows. The cash balance and monthly cash flow patterns for at least the first 12 to 18 months are necessary. The aim is to show that the business will have enough working capital to survive. It should be constructed with care and due diligence. Given the level of projected sales and capital expenditures in a specified period, the cash flow forecast will highlight the need and time for additional financing, peak requirement of working capital . Based on this financing decisions can be taken

Profit and loss forecast - a statement of the trading position of the business it shows the level of profit expected to be made and the costs of providing goods and services along with the overheads.

Break Even Analysis – This is representation of the level of sales required to cover all the costs. This includes costs that vary with the level of production as well as the costs that do not change with production level.

VII. Critical Risk Segment –All potential risks and threats are identified and spelled out in this section. It is good practice to show that all risks to the new venture have been reviewed. Risks can include:

- unfavorable trends in the industry
- change in manufacturing costs
- competitor action
- commercial issues - sales, prices, deliveries
- operations - IT, technology or production failure
- staff - skills, availability and costs
- acts of God - fire or flood

VIII. Milestone Schedule Segment –

It provides the investor and other audiences with the time table of various activities to be accomplished. It is important to show that realistic time frames have been planned diligently. It is a step by step approach to illustrating accomplishments on the project on a piecemeal basis. Milestones can be represented as quarterly, monthly or fortnightly basis and are coordinated with the following activities :

- o Incorporation of the venture

- Product / service design and development
- Completion of prototype
- Hiring of key personnel employees
- Appointment of channel partners
- Promotion and display of product
- Sales projections
- Production and operations scheduling
- Receipt of first order
- Time of first delivery
- Time of first accounts receivable

5.6 CHARACTERISTICS OF A GOOD BUSINESS PLAN

1. It should have clear, unambiguous and realistic Financial Projections. They should be in a standard format and presented clearly.

2. Detailed Market Research reflecting the market knowledge of the entrepreneur

3. Detailed Competitor Research. To be able to deal with them effectively.

4. Strong management team who exhibit the potential of carrying the project to success.

5. A crisp Executive Summary with a statement of what the company is seeking (goals, a business loan, an equity investment, etc.), clear description of the market, the company's management and products and financial projections.

6. A good business plan should provide proof of Vision of the entrepreneur to the audiences

7. Well Written plan which is interesting to read, and well-organized.

8. Keep the Plan Short. Fewer than 50 pages is a good goal.

It should clearly explain the intentions, goals, need for financing, kind of financing best suited, and how the bank or investor would be repaid

5.7 FINANCING ENTREPRENEURIAL VENTURE: AN INTRODUCTION

Most of the new entrepreneurs believe that arranging the initial capital for their new venture is the main hurdle in starting any business. Entrepreneurs planning to start a new venture are invariably faced with the question of finding the start up capital for the business. If they are aware of various sources of funding the venture through the Government Schemes or private sector then the stress of starting a new venture would reduce considerably. Therefore for entrepreneurs who are thinking of beginning a new venture it is extremely important to understand various sources of capital. Not finding an appropriate source or combination of sources may leave them frustrated and demotivated.

There are different sources of finances, it is important to get the right financial mix for any new venture in order to ensure timely, cost effective and hassle free finances.

5.8 NEED FOR STARTUP FUNDING

Any venture to be started from scratch requires investment of capital. The capital has to be made available at regular interval during the entire cycle of project planning, commissioning and initial operations .As a new entrepreneur, a young person seldom has his/her own capital reserves from which the project can be financed. Even if the family, friends and relatives give support to start the business it is rarely sufficient to fulfill all the requirements. In such cases after some time the sparse reserves dry up and the venture is doomed to failure due to inadequacy of finances.

Hence every new entrepreneur apart from deploying personal sources should look for outside sources for funding the new venture. Use of external sources serves following broad purposes:

1. Preserving one‗s own resources for contingency
2. Larger capital requirement which cannot be met by personal reserves
3. To ensure timely availability of funds, once the terms and conditions of financing are finalized
4. The cost of capital is less as compared to opportunity cost of personal funds

5.9 TYPES AND SOURCES OF FINANCING FOR START-UPS

Financing is needed to start a business and lead it towards profitability. There are several sources to consider when looking for start-up financing. Today the variety of financing options available for new ventures or startups is larger as compared to a decade ago. However every source of financing is bundled with certain obligations that the entrepreneur has to understand and fulfill before raising capital from that source.

Following are the major sources of start up funding available in the entrepreneurial ecosystem today:

1. Personal Finances
2. Borrowings from family and friends
3. Angel investors
4. Venture capitalist
5. Debt financing
6. Equity financing

There are both advantages and disadvantages associated with each of the source mentioned above. An entrepreneur with the help of financial expert has to weigh the pros and cons of each source and finalise the Financing Mix suitable for the proposed new venture. We will study the details of every source with the associated advantages and disadvantages, but first thing that the entrepreneur needs to answer is ―How much money does he need for the start up and when would this be needed?‖The financial needs of a business will vary according to the type and size of the business. For example, processing businesses are usually capital intensive, requiring large amounts of capital. Retail businesses usually require less capital.

1. Personal Finances

When the entrepreneur(s) reach into their own savings and other assets to provide the startup funding for their new venture it is said to be funded through Personal Finances. It is generally employed in the initial phases of the business, where entrepreneur can quickly start the business. If an individual is starting the business at later stage in life there is a possibility of reasonable accumulated reserves which can be put to use in the new enterprise. In majority cases when young entrepreneurs deploy personal finances, then they bootstrap (work with little/no pay, build the product themselves instead of hiring) to finance the company.

Advantages of using personal finances

- Acquisition cost and time are minimized
- Entrepreneur keeps control on the business
- Display commitment to other prospective investors

- Low startup costs which does not require large capital
- As the founder, lend the money to the startup to earn returns at later stage

Disadvantages of using personal finances

- Personal finances may not be sufficient to let the business sail smoothly through first few uncertain phases
- Risk of losing all the personal savings
- Putting personal and family‗s future at risk in case of accrued losses
- Some assets, such as EPF accounts, are safe from creditors and bankruptcy courts; placing such assets at risk may not be good

2. Borrowings from Family and Friends

Family and friends are important sources for financing startups in India and the world over. Many successful ventures raise their first capital from family and friends. It is also considered to be one of the easiest and quickest methods for obtaining startup finance, generally takes not more than two months to complete the process and all the formalities. But well meaning, but inexperienced, new entrepreneurs often end up treating their friends and family investors unfairly. Over valuation, unfounded enthusiasm, improper planning and inadequate legal formalities may result in losses to the family and relative lenders. On the other hand such friends and relatives may resort to interference in the business as a right since they have lent money. Thus after initial funding, entrepreneur should be quick to return the borrowed amount and resort to more formal means of funding for the long run.

Advantages and disadvantages of borrowing from friends and relatives are largely the same as enumerated in case of personal finances. But there is a checklist of precautions that an entrepreneur should take while borrowing from this source:

- Ask for a specific amount to meet a specific milestone
- Offer a formal agreement at the time of borrowing
- Let them see your own investment and commitment.
- Build a prototype first on your own time and money.
- Communicate the plan and the risks up front.
- Tie re-payments to revenue growth in the startup.

3. Angel Investors

Angel investments are usually the earliest equity investments made in startup companies in exchange for an equity ownership interest. This is anywhere between 10% to 30% stake in the venture. Angel investors are almost always wealthy individuals who form a network in the startup investment ecosystem. Often these networks are based on regional, industry, or academic affiliation. Angel investors are often former entrepreneurs themselves, who enjoy working with startup companies at the earliest stages of business formation.

An angel investor would like to see an executive summary a presentation, a prototype or working model of the proposed product or service and the early adopters or customers. If satisfied with these they study the business plan in detail and go through several rounds of meetings with the entrepreneur to understand quality, passion, commitment, and integrity of the founders, the market opportunity being addressed and any early evidence of obtaining traction toward the plan, interesting technology or intellectual property involved, appropriateness of valuation and the viability of raising additional funds.

Advantages of Angel Investors

- Being successful entrepreneurs themselves, they bring expert advise for the entrepreneur without any additional fee
- They are geography or sector specific investors
- More permissive in nature
- Prefer startups at early stage and seek smaller deals
- They are usually part of a network which is useful in case of requirement of additional funds

Disadvantages of Angel Investors

- They lend little or no follow on money
- They insist on a say in the management of the company
- Since agreements are largely informal and less comprehensive they may turn the founder out of the company.
- They are generally region specific hence do not have a national image to leverage

4. Venture Capital -

Start up or growth equity capital or loan capital provided by private investors (the venture capitalists) or specialized financial institutions (development finance houses or venture capital firms). Also called risk capital.

Venture capital is a type of funding for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios. With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup. This is most commonly found in high growth technology industries like biotech and software.

A person who deals in venture capital is a venture capitalist, and usually works for a venture capital firm.

Read more: http://www.businessdictionary.com/definition/venture-capital.html The first step for any business looking for venture capital is to submit a business plan, either to a venture capital firm, or to an angel investor. If interested in the proposal, the firm or the investor must then perform due diligence, which includes a thorough investigation of the business model, products, management and operating history, among other things. Once due diligence has been completed, the firm or the investor will pledge an investment in exchange for equity in the company. The firm or investor then takes an active role in the funded company. Because capital is typically provided in rounds, the firm or investor actively ensures the venture is meeting certain milestones before receiving another round of capital. The investor then exits the company after a period of time, typically 4 to 6 years after the initial investment, through a merger, acquisition or initial public offering (IPO)

Advantages of Venture Capital

- Since VC funding is not a loan scheme, there is no repay schedule.
- VCs have consultants and professionals on their staff with knowledge of specific markets. These experts help the business to avoid many of the pitfalls usually associated with start-ups.
- Since VCs will hold a percentage of equity in the business they have a say in the management compensating for the inexperience of the new entrepreneur
- VCs often provide HR support to hire right talent who can manage various functions in the company.
- Because VC firms are under strict supervision by regulatory bodies, there are very few or no unscrupulous VCs.
- VC firms are very easy to locate because they are documented in business directories.

Disadvantages of Venture Capital

- Some VC firms require higher ROI which can amount to e as much 60 percent of the equity. That makes VC the owner of the company..
- Usually, VC firms will want to add a member of their team company_s management team which can create internal problems.
- All key decisions have to be informed to the VC who have the power to override such decisions.

- VC firms usually refuse to sign a non-disclosure agreement this can put your ideas at risk.

- Venture capitalists take very long to decide whether to invest in your business or not since they are looking for big profits.

- Most VC firms release funds in stages with an eye on the expansion this approach may not be suitable for company_s funding plans and cause disruptions

- Usually, VC firms want their investment back within three to five years. For a business with longer gestation VC funding may not be suitable.

5. Debt Financing

Many entrepreneurs discover that Debt financing is essential for a new Venture. Short term borrowing for one year or less is required for working capital; this is then repaid from the sales proceeds. At the same time long term debt is used to finance purchase of assets like property, equipment or machinery. Here the purchased assets serve as collateral for the loans. This long term debt can be term loan of one to five years or long term loans maturing after five years.

Commercial banks, Insurance companies, and non banking financial companies are the most common source of debt financing. They usually forward loans secured by assets, receivables and inventories. They require collateral against the loan forwarded consisting of stocks, machinery, equipment, real estate etc. A systematic repayment plan of accrued interest along with the principal is set in the terms and condition of the loan disbursal.

To secure loans from these institutions entrepreneur has to submit the business plan and answer the following questions:

- What does he plan to do with the money?
- How much money is needed?
- When is the money required?
- For what duration is the money required?
- How does the entrepreneur propose to return the money and pay the interest charges at regular interval?

Advantages of Debt Financing

- No relinquishment of ownership
- More borrowing allows for greater return on equity
- Borrowing cost is low during periods of low interest rates,

Disadvantages of Debt Financing

- Regular interest payments are required
- Cash flow can come under duress due to payback commitment
- Heavy use of debt can inhibit growth and development
- Non-payment of interest and principal can result in account being termed as NPA

6. Equity Financing

As opposed to the debt financing, equity transfers the risk from the entrepreneur to the investor. Equity financing is money invested in a venture with no legal obligation for the entrepreneur to repay the principal amount or the interest on it. Here repayment is not required but sharing of the ownership and profits with the funding source is mandatory. Thus it is deemed to be safer than the debt financing. Yet entrepreneur should take conscious and educated decision about sharing the ownership in return of the funding. Here entrepreneurs raise money by selling Common or preferred stock to the investors.

Equity can be raised through Public Stock Offerings or by Private Placements, but both are governed by the Securities Exchange Board of India (SEBI), and must meet the stringent regulations laid by SEBI. The entire process can be difficult, expensive and time consuming. But successful stock offering can help a new and fledgling venture to raise a great deal of money.

Advantages of Equity Financing

- With equity financing, there is no loan to repay thus there is lesser financial burden on the business.

- Since there isn_t monthly payment to the financing institution, entrepreneur can channel more money into growing the business.

- If the entrepreneur does not have a credit standing due to poor history or lack of a financial track record—equity can be preferable or more suitable than debt financing.

- With equity financing, partnerships can be formed—informal with more knowledgeable or experienced individuals to bring benefits to the business.

Disadvantages of Equity Finding

- Share profit with the investors , thereby reducing the liquidity of the business

- The price to pay for equity financing and all of its potential advantages is that entrepreneur has to share control of the company.

- Sharing ownership can result in potential conflicts with others could lead to some tension and even conflict if there are differences in vision.

- There is a possibility of hostile takeover by others.

Government Schemes

Though the small and medium enterprises are the backbone of Indian economy, as an entrepreneur starting a new venture in these sectors, most owners face a lot of problem due to the non-availability of timely and adequate credit at the reasonable rate of interest. In addition, arranging collateral security or third party guarantee is the tough proposition for them. The financing constraints are due to a number of reasons, including stringent policies, legal/regulatory framework, institutional weaknesses, and lack of reliable credit information. A business loan provided under a government scheme or program is always favorable due to its lower interest rates. Besides, government loan schemes help to fulfill day-to-day business funding requirements. In India, both state and central government have framed various policies and schemes to cater to the financial requirement of small businesses across the country. Many public sector banks like State Bank of India (SBI), Andhra Bank, Canara Bank, Allahabad Bank and Bank of Baroda offer various financial schemes to small business owners. These schemes help the entrepreneurs obtain financial products and services according to their business requirements.

LIST OF GOVERNMENT LOAN SCHEMES FOR SMALL BUSINESS IN INDIA

1. The Credit Guarantee Fund Scheme for Micro and Small Enterprises

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to provide collateral-free credit to Indian MSMEs. Both the existing and the new enterprises are eligible for the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) established a trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the scheme.

The scheme provides credit facilities in the form of term loans and working capital facility of up to Rs. 100 lakh per borrowing unit. The amount is contributed by the Government and SIDBI in the ratio of 4:1, respectively. The scheme also offers rehabilitation assistance to sick units covered under the guarantee scheme. To know more about the scheme, click here.

2. Credit Link Capital Subsidy Scheme for Technology Upgradation

Upgradation of the process as well as the corresponding plant and machinery is important to help SMEs reduce the cost of production and remain price competitive in the global market. To help SMEs flourish in international trade markets, the Ministry of Small Scale Industries (SSI) runs a scheme for technology upgradations of Small Scale Industries. Known as the Credit Linked Capital Subsidy Scheme (CLCSS), it aims at facilitating technology upgradations by providing an upfront capital subsidy of 15% (limited to maximum Rs.15 lakhs) to SSI units for credit availed by them for the modernisation of their plant and machinery. All sole proprietorship, partnership firms, cooperative, private and public limited companies are eligible for this scheme. Since the inception of this scheme, more than 28,287 units have availed subsidy of Rs.1619.32 crore. To know more about the scheme, click here.

3. Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) started its small business funding programs way back in 1990. Established by an act of Parliament, SIDBI is now one of the most illustrious names among the government financial institutions. This loan has played an active role in the promotion and development of the small business industry. Various schemes provided by SIDBI are enlisted below:

Direct Assistance Scheme
Indirect Assistance Scheme
Promotional and Development Activities
National Equity Fund, Scheme
Technology Development and Modernization Fund Scheme
Single Window Scheme
Mahila Udyam Nidhi (MUN)
Scheme and Equipment Finance Scheme
Integrated Development of Leather Sector Scheme (IDLSS)
FPTUFS – Scheme for Food Processing Industries

4. National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation Limited (NSIC) came into effect in the year 1999 with an objective of encouraging the small scale industries in the country. The prime feature of NSIC is to import machines on hire-purchase terms. It lay emphasis on supplying and distributing both indigenous and imported raw material as well as on exporting the products of small business units. Besides, it also creates awareness of advancements occurring in the field of small scale industries. To know more about the scheme, click here.

5. National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development or NABARD came into existence mainly for promoting agriculture-based rural business enterprises. NABARD mostly offers financial assistance to small scale industries viz; cottage and village industry.

6. Market Development Assistance Scheme for MSMEs

To help Indian manufacturing SMEs gain traction in the international markets, the Market Development Assistance Scheme for MSMEs offers funding for participation in international trade fairs and exhibitions under MSME India stall. It also offers funding for sector-specific market studies by industry associations, export promotion councils, and FIEO. This scheme offers reimbursement of 75% of a one-time registration fee and 75% of annual fees (recurring) paid to GSI by SMEs for the first three years for the bar code.

7. Technology and Quality Upgradation Support to Micro, Small and Medium Enterprises

This scheme aims at sensitizing the manufacturing MSME sector to use energy efficient technologies and manufacturing processes in order to reduce production cost and emissions of harmful gasses. The scheme also aims to improve the product quality of MSMEs to encourage them towards becoming globally competitive. For this, the Government of India provides financial support to the extent of 75% of the actual expenditure to help to manufacture MSMEs buy energy efficient technologies for production. To know more about the scheme, click here.

8. Mini Tools Room and Training Centre Scheme

To assist state governments set up Mini Tool Room and Training Centres, the Government of India provides financial assistance in the form of one-time grant-in-aid. The financial aid equals to 90% of the cost of machinery/equipment (maximum to Rs. 9 crores) in case new Mini Tool Room has to be created and 75% of the cost (maximum to Rs. 7.50 crore) in case an existing room has to be upgraded. The main objective of this scheme is to develop more tool room facilities in order to provide technological support to the MSMEs and training facility in tool manufacturing and tool design to create a workforce of skilled workers, supervisors, engineers/designers, etc.

Both government and public sector banks play significant roles in funding the small scale and rural business industries in India. According to the industry and specific funding requirement entrepreneur should choose the right Government loan schemes for their business.

5.10 LET US SUM UP

Every entrepreneur aspiring to start a new venture should devote time and efforts to create a business plan. Business Plan is useful in a number of ways:

- Defines the objective and focus of the venture
- Presents systematic analysis of all information and data available or gathered by the entrepreneur
- It is a tool to showcase the project to different audiences

- It gives detailed description of all the internal and external elements involved in starting a new business

- Business plan can reveal or uncover the omissions or weaknesses in the planning process
- It acts as a guideline for short term and long term decision making

A good business plan is essential for the success of the business. It should be well researched and well presented. All the elements and segments of the business plan should be connected to each other. No section should be prepared in isolation.

A business plan is seen by many different group of audiences, every group looks for information pertinent to their area. Thus the primary business plan should be fortified with extra information that is of relevance to the audience group it is being presented to. But this should not change the forecast and financial numbers, they should remain same in all versions.

Project financing or startup funding helps an entrepreneur to arrange for capital required to start and operationalize the new business venture. Both government and non-government sources are available to finance the venture of a new entrepreneur. Lack of awareness of these sources and the procedure to obtain funding from them makes an entrepreneur face trouble in obtaining finances. It is therefore important to study these sources and the associated advantages & disadvantages in detail to chalk out the right funding mix.

A well prepared Business plan always helps in obtaining startup funding for the new entrepreneur. It should be remembered that at different stages of a venture entrepreneur may have to deploy different sources of finance. Personal finances, family and friends, angel investors, Venture capital, debt, equity and Government schemes are major sources of finance.

5.11 KEY TERMS

- Business plan
- Executive Summary
- Marketing Segment
- Operational Segment
- Financial Plan
- Project Financing
- Startup funding
- Personal sources of Funding
- Angel Investment

- Venture Capital
- Debt and equity funding
- Government schemes
- Commercial Banks
- Bootstrapping

5.12 SELF-ASSESSMENT QUESTIONS

1. What do you mean by a _business plan_? Why is it considered important?
2. A standard business plan has got eight components/sections. Explain.
3. For whom should the business plan be prepared?

5.13 FURTHER READINGS

1. Naresh K. Malhotra, Fundamentals of Marketing Research, Pearson Education, Asia.

2. Paul E. Green & Donald S. Tull, Research for Marketing Decisions. PHI Learning Private Limited, New Delhi, 2009

3. Donald R. Cooper & Schindler, Marketing Research: Concepts & Cases, Tata McGraw-Hill Publishing Company Limited, New Delhi.

4. S.C. Gupta, Marketing Research, Excel Books India.

5.14 MODEL QUESTIONS

1. Identify the benefits of a business plan to the entrepreneur in launching a new venture.
2. What are the most important characteristics of a good business plan?
3. Mention the various sources of financing for start-up business.

UNIT 6: TEST OF FEASIBILITY

Learning Objectives:

After completion of the unit you should be able to:

- Explain what a feasibility analysis is and why it‗s important.
- Discuss the proper time to complete a feasibility analysis when developing an entrepreneurial project.
- Describe the purpose of market feasibility analysis and the two primary issues to consider in this area.
- Explain the steps undertaken to assess the technical feasibility of the proposed project.
- Explain the importance of financial feasibility analysis and list the most critical issues to consider in this area.

Structure

6.1 Introduction
6.2 Definitions
6.3 The concept of feasibility Study
6.4 Why new ventures fail?
6.5 Fundamentals of a feasibility analysis
6.6 Market feasibility
6.7 Financial feasibility
6.8 Technical feasibility
6.9 Let‗s sum up
6.10 Key Terms
6.11 Self Assessment questions
6.12 Further Readings
6.13 Model Questions

6.1 INTRODUCTION

A feasibility assessment often referred to as a feasibility analysis or a feasibility study, can be broadly defined as a preliminary evaluation of your business idea to see if it's worth pursuing. A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" (www.liraz.com). Most feasibility studies represent the first look at the enterprise in the business planning process. If the project is deemed feasible, much of the information gained during the feasibility study phase is used in developing the business plan itself. It is a detailed process of investigation and measurement in several areas to assess whether the project at hand will meet your expectations.

Planning is one of the most important parts of running a business, no matter whether it is a large multinational corporation trying to plan an expansion or a small business launching an exciting new product. It is easy to start a project, but without careful planning it is like setting off on a journey to an unknown destination without a roadmap. You might manage to make it to your destination eventually, but don't be surprised if you get really lost on the way! As a small business owner it is very tempting to neglect planning altogether, especially if you are the only person in the company. After all, planning can be a time-consuming process and for small business owners time spent planning is likely to be time when they are not earning any money. But the benefits of good planning will far outweigh any temporary loss of earnings.

The great thing about a business plan is that it can provide a reference point for you to return to at any point during the project. Just looking at a plan and seeing how far you have come is a great motivational tool. It can help you determine whether you have drifted too far away from your original vision and allow you to get back on track once again. Writing a business plan will also help you to think more analytically than ever before about your industry and the role of your business within it. It will help you to see correlations between the different parts of your business e.g. how decreasing the cost of a particular process will affect your overall profit margin. The value of a business plan simply cannot be overstated. Putting ideas and concepts down on paper is invaluable and the act of researching and compiling data about your competitors and the market will prove to be very useful in the years to come.

Before starting a small business, it is helpful to incorporate a different perspective which is beyond simply developing an idea and putting it to work. Take for example, a proposed project for a small business in the form of a bed and breakfast. It could be said that the problem, in this case, would be a lack of lodging in a certain geographical area. The solution to this problem would be the idea of developing a bed and breakfast in this area to create more lodging opportunities. Feasibility would cover the necessity for the bed and breakfast, practicability, profitability/return on investment (ROI), and personal competence. Based on these topics, a decision can be made regarding the justifiability of the investment. The necessity of the project is the demand in the market indicating the possibility of the project's utilization. Practicability would mean that development of such a project is technically practical. Profitability is the level where the project will meet all of its operating expenses, debt servicing, depreciation and tax, and earn profit. Granted, the factor or returns on investments tested for feasibility will vary depending on the proposed small business idea, but they will all aid in arriving at the same conclusion; Will it work or not?

6.2 DEFINITIONS

Feasibility Analysis - An analysis and evaluation of a proposed project to determine if it is technically feasible, is feasible within the estimated cost, and will be profitable.

Market Feasibility Study– It determines the depth and condition of a particular real estate market and its ability to support a particular development. The key concern of a market feasibility study for multifamily development is a project's ultimate marketability

Financial Feasibility - A study to determine the financial viability of a venture on whether the borrowed capital and expected cash flow, are sufficient to complete the project and to cover annual debt service requirements. If revenues cover the costs of the project, then the project is viable.

Technical Feasibility or Operational feasibility - is a measure of how well a proposed system solves the problems, and takes advantage of the opportunities identified during scope definition and how it satisfies the requirements identified in the requirements analysis phase of system development.

Test marketing- is an experiment conducted in a the test market, comprising of actual stores and real-life buying situations, without the buyers knowing they are participating in an evaluation exercise. It simulates all the components of the proposed market-mix to ascertain consumer reaction.

Pricing policy refers to the way a company sets the prices of its services and products basing on their value, demand, cost of production and the market competition.

Undercapitalization- When a company does not have sufficient capital to conduct normal business operations and pay creditors. This can occur when the company is not generating enough cash flow or is unable to access forms of financing such as debt or equity.

Break-even point (BEP) Analysis - break-even level represents the sales amount, in either unit (quantity) or revenue (sales) term, which is required to cover total costs, consisting of both fixed and variable costs to the company. Total profit at the break-even point is zero.

6.3 CONCEPT OF FEASIBILITY STUDY

A feasibility Study, often referred to as a feasibility analysis or a feasibility Assessment, can be broadly defined as a preliminary evaluation of a business idea to see if it‗s worth pursuing. A feasibility study involves three distinct parts for answering the question, ―Should this business idea be pursued or not?

- Gathering of information related to the identified business
- Analysis of the gathered information and data
- Evaluation of results

Most feasibility studies represent the first look at the enterprise in the business planning process. If the project is deemed feasible, much of the information gained during the feasibility study phase is used in developing the business plan itself. It is a detailed process of investigation and measurement in several areas to assess whether the project at hand will meet the entrepreneur‗s expectations.

Three parts of Feasibility Analysis translate into the following actionable steps, Think about the problem that this idea may be solving. Think of it as a science experiment involving the following components:

1. Define the idea for a small business
2. List the critical aspects for success of this idea (technological, financial, market related, manpower related)
3. Gather Information to find answers to these aspects
4. Conclusion (Should one go into business or not?)

Common feasibility factors tested in most small business feasibility assessments include the following:

- *Personal Feasibility*
- *Market Feasibility*
- *Financial Feasibility*
- *Economic Feasibility*
- *Technical Feasibility*
- *Location Feasibility*
- *Legal Feasibility*

Feasibility assessments will provide a series of checks and balances to determine the viability of a small business proposal, covering all or at least some of areas listed above.

Be aware of the myths that surround feasibility studies. For instance, many believe that there are no negative feasibility studies. This is not true. Studies have been and will continue to be done in the future where projects are determined to be unfeasible as a result of insufficient demand, poor site location in relation to the market generators, or insufficient income generation. It is important to be aware of the fact that a feasibility study can produce negative results so that an entrepreneur does not take emotional decisions. To an untrained eye all feasibility studies may look alike; this is because there is a structure in which the study should be performed. Otherwise when studied in depth each feasibility report is unique and throws light on factors which are relevant to the given business idea.

6.4 WHY NEW VENTURES FAIL?

Entrepreneurial success is not the result of a single person‗s efforts. There is always a team involved. The team is made up of other investors, working partners, employees, vendors, and clients. All play an important part in the success of the enterprise. Although other people are involved, there is a tendency to believe that they play far less important roles and are easily replaced. At the end of the day, success or failure of the enterprise will be largely attributed to the entrepreneur.

Because of limited resources, high levels of uncertainty and inexperienced management and employees, new ventures suffer from a very high rate of mortality-much higher than that of larger, well-established firms. There are a number of reasons for failure of a **new venture**, which are discussed below. Usually, there is a combination of reasons rather than one single reason.

1. Lack of Experienced Management:

One of the main problems faced by new enterprises is that the management team is usually very new to this role. The entrepreneur and his/her top management usually have no prior record of being in charge of the fortunes of a whole company. Even in some rare cases, when the management has some individuals who have led a company in the past, they are now faced with a new situation where the company itself has no previous track record. It is a very different kind of situation.

2. Few Trained or Experienced Manpower:

Shortage of skilled and experienced manpower is faced by new ventures, which represent a riskier job opportunity. Most people prefer to work with a well-established organization employing hundreds of employees and having a stable track record. New ventures are also reluctant to use manpower for and to invest in training. Lack of experienced and skilled manpower can lead to a general drop in productivity and quality of output. The absence of quality manpower is particularly felt during a crisis.

3. Poor Financial Management:

Operational issues keep an entrepreneur busy and as a result, financial management is likely to get neglected. Often, the entrepreneur may find the technicalities of accounting and finance intimidating and avoid looking deep into it. Common errors in financial management can be bad receivables management, unproductive investments, and poor budgeting decisions.

4. Rapid Growth:

Sudden unplanned growth is not always a desirable situation. Higher growth will mean greater stress on production facilities, manpower, and marketing channels. Sometimes, these will not be designed to cater to the rise in volumes and might need further capital investments. It will lead to a stage of continuous fire-fighting and ultimately, many things may not keep pace with the growth. Most commonly, the organization may run out of money.

5. Lack of Business Linkages:

Existing working relationships with vendors, customers, and others is a huge advantage to established businesses. A new venture will have to forge new relationships and work hard at strengthening them before coming to an equal footing with the entrenched players. Such business linkages help in smooth conduct of business and are invaluable at times of distress.

6. Weak Marketing Efforts:

Entrepreneurial firms are very reluctant to spend on marketing efforts. Investing in a marketing campaign is not going to give you assured returns and the link between the marketing expenditure and the sales is not very easy to establish. An investment of Rs. X in raw material will give you a very tangible Y kg of output but a similar investment of Rs. X in a newspaper insert will not give you a sale of Y units, which you can demonstratively tie into the newspaper insert.

7. Lack of Information:

Even in this era of free-flowing information, the quality of information available to large corporations is far superior to that available to new small entrepreneurial ventures. There is a cost to information and small ventures may not be able to invest so much in getting the high-quality information. For example, before entering a new market, the new venture may send some salespersons to interview some customers, shopkeepers, and wholesalers. On the other hand, the large corporation may engage the services of a market-research firm and carry out a thorough investigation of the potential and the problems of the new market.

8. Incorrect Pricing:

An entrepreneur does not pull the pricing out of thin air, but it may not be very rigorously thought-out either. The price is most likely close to that of the competition and takes care of costs leaving a modest or seemingly generous margin. There are many sophisticated pricing policies a new venture can adopt, taking into account its cost structure, nature of demand, and extent of competition. The entrepreneur can introduce new innovative pricing systems too. For example, Deccan Airways revolutionized airline pricing in India by introducing low-priced seats and yield management techniques are being used by low-cost earners in Europe and the USA.

9. Improper Inventory Control:

Improper inventory control can lead to myriad problems. Production can be halted due to insufficient inventory, whereas excess inventory can lead to wastages and damages. In case of perishable goods, high inventory can lead to expiration of stock. In high-tech industries or industries influenced by fads, goods become obsolete very soon. Inflated valuation of inventory can give a very wrong picture of the financial position of the firm.

10. Short-term Outlook:

A number of small new ventures face huge problems on a regular basis. In the early days of a firm, these problems can threaten the very existence of the venture. In such circumstances, the management and employees of the venture focus on surviving the immediate crisis and the long-term vision and strategy of the firm are soon forgotten. If this continues for long, the danger is that long-term plans are discarded as impractical or irrelevant. Ultimately, the firm acquires a shape very different from what was originally envisaged by the entrepreneur.

Every year large amounts are spent on starting new businesses. A small percentage of new enterprises succeed, many of these vanish within a year or two of establishment. The studies on reasons of high incidences of failure among new ventures, reveal that majority of the reasons of failure are well within the control of the entrepreneur. Lack of prior assessment of the challenge results in the inability of the entrepreneur to address the problem when it surfaces. It is a clear indication that either feasibility analysis is not carried out before operationalising the idea or the results of the feasibility analysis have not been studied well.

Reasons for failure of new ventures can be categorized as follows:

1. Product / Market problems

- Poor timing resulting in premature launch of the product/ service
- Delayed entry in highly competitive market
- Poor product design
- Inappropriate distribution strategy
- High dependence on small niche market
- Wrong assessment of the completion
- Wrong estimation of demand

2. Financial Difficulties

- Problem in obtaining financing after initially deploying personal finances
- Initial undercapitalization resulting in inadequate working capital and cash flow problems
- Assuming large debt too early
- Problems with the Angel investors or Venture capitalist
- Funds not released by VC in response to missed milestones

3. Managerial Problems

- Inappropriate inexperienced people hired
- Costly hiring
- Hiring and responsibility allocation on the basis of personal relationship rather than experience and qualification
- Bootstrapping due to lack of funding
- Retention and employee morale issues
- Interference by VC or other investors
- Ineffective leadership

4. Production / operations Problems

- Inadequate and irregular supply of raw material
- Quality control issues
- Lack of warehousing and storage
- Non availability of skilled and unskilled labor
- Water and power shortages
- Plant located in undeveloped zone
- Shipping and transport challenges

5. General macroeconomic and regulatory problems

- Poor economy or recession
- Change in government policies
- Inflation
- Liberalization of imports bringing cheaper substitutes

6.5 FUNDAMENTALS OF FEASIBILITY ANALYSIS

To avoid any failure or setback, entrepreneur should undertake the critical task of conducting a non-biased analysis and evaluation to assess the feasibility or viability of the product/service idea before getting off ground. Entrepreneurs should subject their ideas to ruthless scrutiny in order to discover smallest of flaw in their business plan. In the event of being overlooked or brushed aside as irrelevant, these flaws can prove to be fatal.

Many important evaluation-related question and be ready to look at the results with detachment and objectivity. The flaws revealed by such analysis should be corrected and if they are intrinsic to the idea then the venture should be shelved. Being protective and defensive at this stage may turn out to be a costly mistake. Some evaluation related questions are listed below:

1. Is the idea/product or service unique and capable of giving significant advantage over the existing competitors? Can it be patented or copyrighted?
2. Has the prototype been developed and tested by independent testers? Have the weak points been corrected? Will the product/service stand in the market and draw attention of the customer? Will the customer pay her hard earned money for the product/service?
3. Has it been tested in the market or at the trade fairs? What were the reactions of the target test audiences?
4. Is the product/service easily understood by the customer, investors, bankers, lawyers, accountants and insurance agencies?
5. What are the identified target market and its size? Who is servicing it currently? How different and better is your product/service offering?
6. What is the rate of growth of the identified market? How will the market be serviced? What are the proposed promotion plans?
7. How will the product be made? What will be the cost of production? What is the breakeven point?
8. What will be the pricing policy? What are the profit margins envisaged?
9. Does the venture have necessary talent in all the areas to operate the business?
10. Is the economic environment and government policy conducive to support business?

Table A: Specific **Activities of Feasibility Analyses**

TECHNICAL FEASIBILITY	MARKET FEASIBILITY	FINANCIAL FEASIBILITY	ANALYSIS OF ORGANIZATIONAL

ANALYSIS	ANALYSIS	ANALYSIS	CAPABILITIES
Crucial technical specifications	Market potential Identification	Required financial resources	Personnel requirements
Design Durability	Potential market Share (as affected by competitive situation)	Financing of Current assets	Managerial Requirements
Standardization Engineering requirements	Potential sales volume	Necessary working Capital	Determination Of individual Responsibilities
Machines Tools Instruments	Sales price projections	Available financial Resources	Determination Of required Organization Structure
Work flow	Market testing	Required borrowing	Organizational relational
product development Blueprints	Selection of test	Potential sources for funds	Potential Organizational Development
Models Prototypes	Actual market test	Cost of borrowing	Competitive analysis
Product testing Lab testing Field testing	Analysis of market	Repayment conditions	
Plant location	Marketing Planning issues	Operation cost	
Desirable characteristics of plant site (proximity to suppliers, customers), environmental regulations	Preferred channels of distributions	Variable costs	
	Impact of promotional efforts	Projected cash flow	
	Required distribution points (warehouses)	Projected profitability	
	Packaging considerations		
	Price		

	differentiation		

6.6 MARKET FEASIBILITY

A market feasibility study determines the depth and condition of a particular real estate market and its ability to support a particular development. The key concern of a market feasibility study for multifamily development is a project's ultimate marketability.

Assembling and analyzing relevant information about the marketability of a new venture are vital for judging its potential success. A market feasibility assessment asks questions such as: Does anyone want this product or service? Does the product or service have any features that would persuade someone to choose it ahead of currently available products? You need to test your product or service in the market that you choose to target. Often times, especially with small businesses, markets are very dynamic with unforeseen changes such as the addition of new businesses in the same field, or a downturn in the local economy. Even changes in transportation patterns can have a devastating effect on a small business' future operating performance (Stephen, 1996).

Most market feasibility assessments look at three major areas on the basis of which the product or service is launched:

1. Investigating the total market potential and identifying customers (or users) for the goods or service
2. Analyzing the extent to which the enterprise might exploit this potential market
3. Using market analysis to determine the opportunities and risks associated with the venture.

To address these, a variety of informational sources must be found and used. For a market feasibility analysis, general sources would include the following:

General economic trends: various economic indicators such as new orders, housing starts, inventories, and consumer spending

Market data: customers, customer demand patterns (for example, seasonal variations in demand, government regulations affecting demand)

Pricing data: range of prices for the same, complementary, and substitute products; base; and discount structures

Competitive data: major competitors and their competitive strength

Entrepreneur should look at all these aspects of the marketing environment, and then perform assess his opportunity. A good idea does not automatically ensure success. There is need to take advantage of the opportunities that are present in the operating environment.

Primary task of marketing feasibility is to reveal these opportunities and threats in the environment. There is no business that has no competitors; there will always be both direct and indirect competitors. The direct competitors will be satisfying customers with a product or service similar to yours. Indirect competitors will be satisfying customers with products or services which can act as substitute.

A good start to market feasibility is the well-known SWOT analysis which helps match the organization‗s internal resources and its external environment.

6.7 FINANCE FEASIBILITY

Finance problems affect a wide variety of small businesses every year in countries all around the world. It is a known fact that financial challenges are the biggest obstacles that haunt the entrepreneurs. For any entrepreneur to engage in a new investment project, the project has to be financially viable. Invested capital must show the potential to generate an economic return at least equal to that available from other similarly risky investments. In other words the return on investment needs to be equal or higher. Reasons to conduct a financial feasibility study:

- Gives focus to the project and explore alternatives
- Identifies reasons not to proceed with the project;
- Enhances the probability of success by addressing and mitigating problem areas early
- Provides quality information for decision making
- Provides documentation that the business venture was thoroughly Investigated
- Helps in securing funding from lending institutions and other monetary Sources
- Helps to attract equity investment.

Financial feasibility analysis is usually done during the project planning process and the results indicate how the project will perform under a specific set of assumptions regarding technology, market conditions and financial aspects. Determining early that a business idea is not financially feasible can prevent loss of money and waste of valuable time. If the results of the analysis show that the proposed project does not meet the return on investment requirements of the investor, the business idea is discarded. It is therefore very important to regularly update the analysis and verify that, given the change in environment the project is financially feasible.

Hofstrand and Holz-Claus suggest using the following outline while conducting financial feasibility analysis:

i. **Estimate the total capital requirements –** seed capital, capital for facilities and equipment, working capital, start-up capital, contingency capital, etc.

ii. **Estimate equity and credit needs -** identify equity sources and capital availability, identifies credit sources, assess expected financing requirements, and establish debt to equity levels.

iii. **Budget expected costs and returns of various alternatives –** estimate expected cost and revenue, the profit margin and expected net profit, the sales or usage needed to break-even, the returns under various production, price and sales levels.

The financial feasibility analysis of a project should provide the following information to the entrepreneur and the potential investors:

1. Full details of the assets to be financed
2. The liquidity status of these assets
3. Rate of conversion to cash i.e. how easily can the various assets be converted to cash?
4. Project's funding potential and repayment terms.
5. Sensitivity in the repayments capability with respect to Time delay, slowdown of sales, large increase in cost and adverse economic conditions.

6.8 TECHNICAL FEASIBILITY

Technical Feasibility or Operational feasibility is a measure of how well a proposed system solves the problems, and takes advantage of the opportunities identified during scope definition and how it satisfies the requirements identified in the requirements analysis phase of system development.

Technical feasibility answers the following question: Can a product be made, or if it is a service, can it be delivered using currently available technology? To prove the technical feasibility of a small business idea, it is necessary to first have a clear description of the product or service range to be offered and how it would be produced or delivered? . It is possible that the entrepreneur has a great idea for a small business and at the same time, has no background in the particular field to which that small business applies. Technical feasibility analysis establishes the technical credibility of the proposed idea. This is especially important in case of innovations or inventions which have not been produced earlier.

In case small business idea which involves something that needs to be manufactured, the project should proceed cautiously until there is some confidence that the product can actually be produced and have the appropriate performance. Innovations involving service products can fail for similar reasons.

In case of a service the evaluation should not be on the basis for the technical feasibility alone, it should be proven that the delivery can be replicated. Those employees will be able to deliver the service effectively. It is therefore important to evaluate the feasibility of training the manpower in case of services.

A great way to answer most of the questions pertaining to technical feasibility is to develop a prototype. Reducing an idea to a small model is critical. It proves the concept is workable and helps the entrepreneur to make improvements in function or design that never considered being necessary. It is far better and cheaper to find out about miscalculations while developing a model for a small business idea rather than the product failing in the market after launch. The technical feasibility is often performed by a consultant, if the idea involves a great deal of new technology or any type of complex organization.

The evaluation of a new-venture idea can never be complete without assessing the technical requirements, for producing or delivering the service that will satisfy the expectations of potential customers. Most important of these are:

1. Functional design of the product/service and attractiveness in appearance
2. Availability of technology to produce the product or service the costumer
3. Suitability of scaling up the technology to commercial production levels
4. Availability of machines and equipment to support the technology for commercial purposes
5. Availability of skilled manpower to operate the technology or the ease of training new people
6. Ease and cost of maintenance
7. Availability of durable and suitable raw material at optimum cost of procurement
8. Standardization through elimination of unnecessary variety
9. Safety norms vis-à-vis product as well as production procedure

6.9 LET’S SUM-UP

Most feasibility studies represent the first look at the enterprise in the business planning process. If the project is deemed feasible, much of the information gained during the feasibility study phase is used in developing the business plan itself. It is a detailed process of investigation and measurement in several areas to assess whether the project at hand will meet your expectations.

Common feasibility factors tested in most small business feasibility assessments include the following:

- *Personal Feasibility*
- *Market Feasibility*
- *Financial Feasibility*
- *Economic Feasibility*
- *Technical Feasibility*
- *Location Feasibility*
- *Legal Feasibility*

Feasibility assessments will provide a series of checks and balances to determine the viability of a small business proposal, covering all or at least some of areas listed above.

6.10 KEY TERMS

Feasibility Study
Market feasibility
Test Market
Market Share
Pricing
Competitors
Suppliers
Distribution Channel
Advertising and promotion
Financial feasibility Study
Total Capital Requirement
Borrowed capital
Budget
Revenue
Break even Analysis
Viability
Technical feasibility
Prototype
Model
Replicability of service

6.11 SELF ASSESSMENT QUESTIONS

1. What do you mean by the term ‗feasibility study‗?
2. Identify the reasons for which new ventures fail.

6.12 FURTHER READINGS

1. Naresh K. Malhotra, Fundamentals of Marketing Research, Pearson Education, Asia.

2. Paul E. Green & Donald S. Tull, Research for Marketing Decisions. PHI Learning Private Limited, New Delhi, 2009

3. Donald R. Cooper & Schindler, Marketing Research: Concepts & Cases, Tata McGraw-Hill Publishing Company Limited, New Delhi.

4. S.C. Gupta, Marketing Research, Excel Books India.

6.13 MODEL QUESTIONS

1. A good start to market feasibility is SWOT analysis which helps match the organization‗s internal resources and its external environment‖. Explain.

2. Why technical feasibility is considered important along with economic feasibility?

UNIT 7 DESIGNING BUSINESS PROCESSES

Learning Objectives:

After completion of the unit you should be able to:

- Understand the meaning of a Project Report
- Understand the significance of a Project Report
- Know the features of a good Project Report
- Know and list the content of a Project Report
- Understand the common pitfalls or errors made while preparing a project report

Structure

7.1 INTRODUCTION

After a positive outcome of Feasibility Study (Marketing, Financial and Technical) and subject to affirmative response from the investors the proposed project moves into the second phase of the life cycle of a new venture. Detailed Project Report (DPR) is the outcome of the Design Phase of the second phase of any new venture. All aspects of a project viz., location and layout of the project, specification of plant and machinery, environmental impact, operational planning, marketing and commercial aspects, financial aspects, HR planning and socio economic aspects are presented in complete details in the Project Report.

7.2 DEFINITION

Startup Company is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing or offering an innovative product, process or service.

Project Life Cycle refers to a series of activities which are necessary to fulfill project goals or objectives. This is known as a four-phase life cycle and the phases are usually referred to as Project Initiation, Project Planning or design, Project Execution and Project Closure.

Detailed Project Report – is the final appraisal report on the proposed new venture, it is the blue print for execution and operation. It enumerates the programme schedule, roles and responsibilities, all activities to be carried out, resources requirement, associated risks and mitigation measures for the venture.

Promoter – is the one who conceives an idea for setting-up a particular business at a given place and performs various formalities required for starting a company?

Investor - An individual or an organization which commits money in a venture proposed by other individuals (s) or institutions with the expectation of financial return.

M**arketing Plan** is a business document written for the purpose of describing the current market position of a business and its future marketing strategy for the period of one to five years .

Demand Forecasting-is the process of predicting the future demand for the firm‗s product or service in the identified market under both controllable and non-controllable factors.

Market share- represents the percentage of an industry or market's total sales that is earned by a particular company over a specified time period.

Gantt chart - is a type of bar chart, devised by Henry Gantt in the 1910s, that illustrates a project schedule, showing the start and finish dates of the terminal elements and summary elements of a project.

Project Schedule - It is the tool that communicates what work needs to be performed, which resources of the organization will perform the work and the timeframes in which that work needs to be performed, it also reflects all of the work associated with delivering the project on time.

Environmental Impact Assessment (EIA)- is a process of evaluating likely beneficial and adverse impacts of a proposed project or development on the environment by, taking into account inter-related socio-economic, cultural and human-health implications or effects.

Human Resources Planning- is a process that identifies current and future human resources needs for an organization to achieve its goals.

Vendor Management- is a discipline that enables organizations to control costs, drive service excellence and mitigates risks to gain increased value from their vendors throughout the project life cycle, it involves identification, selection, appointment and termination of the vendors as required for optimizing the performance of the project.

7.3 UNDERSTANDING THE CONCEPT OF PROJECT REPORT

Business Plan helps an entrepreneur to firm up the fuzzy concept that he has for starting or setting up a new venture. It also acts as a visiting card to approach different groups of audiences (investors, lawyers. Accountant, customers, prospective partners etc.) to showcase the concept. The Feasibility Analysis study helps in knowing the viability of the project from different perspectives (Marketing, Financial, Technical, Legal etc.). Feasibility report helps the investors in taking affirmative or negative decision about investment.

After being assured of the viability f the project and of raising the required capital to set up the venture, an entrepreneur has to carry out detailed planning of actual design, execution, and operationalization of the new venture. Detailed Project Report (DPR) is nothing but a very elaborate plan of the venture. It enumerates the program me schedule, roles and responsibilities, all activities to be carried out, resources requirement, associated risks and mitigation measures for the venture.

Detailed plan is the blue print of what needs to be done to convert the project idea of the entrepreneur into a successful business enterprise. Hence it is laid out in great details in black and white so that everybody involved in the execution and operations of the project refer to it while carrying out their designated activity. The black and white compiled detailed plan of the new project is the Project Report. It is the single most important document in the life cycle of the project. Since it incorporated all the aspects of the project in great detail it is referred to as the Detailed Project Report (DPR).

7.4 IMPORTANCE OF A DPR FOR A NEW VENTURE

The importance of DPR can never be overemphasized. It provides guidelines for timely and efficient execution of the project. DPR is the reference point for answers while executing the project. Success of the new venture depends on the accuracy of plan laid out in the DPR Hence a. DPR contains plans that are supposed to make a project successful so that all Critical questions asked at the end of execution have affirmative answers. These questions used for the assessment of any project are:

1. Was the project completed on time
2. Was the project completed within the cost projections made at the planning stage
3. Does the final quality of product/rendered service conform to the expectation of the target customer
4. Does the level of production meet the breakeven point is the product / service profitable
5. Whether the gestation period of the project is well within the planned period.

From the parameters contained in the critical questions above it is easy to assess the importance of the DPR.

1. It takes a relook at the financial planning in much greater details incorporating the system for monitoring and control of financial progress of the project.

2. It covers the marketing strategy and demand forecasts. This is done to ensure that marketing activities result in gaining the planned market share in stipulated time.

3. DPR contains the description of the plant / facility so that it is able to deliver the required quality and quantity of product/service to the target market.

4. DPR provides specifications of choice of technology, technological collaborations, plant, and machinery.

5. Location of the plant and all associated considerations (proximity to suppliers to market, power-water-labor availability, regulatory framework, warehousing support, logistics etc.) are dealt in detail.

6. Since project depend on raw materials for production, DPR presents the statistics of materials requirement at different levels of output, so that shortages or overstocking can be avoided.

7. Key human skills required for the smooth execution of project from commission to operation are presented in the DPR.

The company seeking financial assistance for implementation of its business idea is required to prepare a Project Report covering certain important aspects of the project as detailed below:

- Promoters background/experience
- Product with capacity to be built up and processes involved
- Project location
- Cost of the Project and Means of financing thereof
- Availability of utilities
- Technical arrangements
- Market Prospects and Selling arrangements
- Environmental aspects
- Profitability projections and Cash flows for the entire repayment period of financial assistance

Spreadsheets formats attached with this document will help you prepare a Detailed Project Report for your Bank. You may omit the manufacturing related information in case you are applying for a non-manufacturing project.

Since the appraisal of the Project involves evaluation of the Project in the following areas, your company/you would be required to submit certain documents/information in the matter.

Management Evaluation

- Memorandum and Articles of Association : Object, authorised and paid-up share capital, promoter_s contribution, borrowing powers, list of directors on the Board, terms of appointment of directors

- Your company as the Promoter : Corporate plan of the Company, projects promoted/implemented/under implementation, Bankers' report on dealings and repayment of past loan assistance, details of group companies, operations, balance sheet and profit & loss account of the promoter company

- New Promoters : Educational background, any industrial experience, family background, sources of income, details of personal properties, banker's reference, income tax/ wealth tax returns

- Management and Organisation set up: Broad composition of the Board, details of full time directors and their responsibilities, details of Chief executive and functional executives including qualification, experience, organisation set-up for existing company and during project implementation for new company.

Technical Feasibility

- Technology and manufacturing process : Proven/new technology, basis of selection of technology, competing technologies, performance data of plants based on the technology, details of licensor of technology, process flow chart and description

- Location of the Project : Locational advantage, availability of raw material and other utilities, infrastructure facilities, availability of labour, environmental aspects

- Plant and Machinery : List of machinery & equipment, details of suppliers, competitive quotations, technical & commercial evaluation of major equipment

- Raw material, Utilities and Manpower: Details of raw materials and suppliers, electricity and water supply, basis of manpower estimates, details of manpower eg. managerial, supervisory, skilled/unskilled, training needs

- Contracts : Agreement with contractors detailing on know-how, engineering, procurement, construction, financial soundness and experience of contractors

- Project monitoring and implementation : Mode of implementation, details of monitoring team, detailed schedule of implementation.

Environmental Aspects: Air, Water and Soil Pollution, list of pollutants / Hazardous substances, their safety, handling and disposal arrangements, compliance with national and International Standards, Clearances and No objection certificates required and obtained etc.

Commercial Viability

- Existing and potential market demand and supply for the proposed product in respect of volume and pattern
- Share of the proposed product of the company in the total market through marketing strategy
- Selling price of the product and export potential, if any.
- Buy-back arrangements, if any.

Financial Appraisal

- Cost of the Project: This includes the cost of land & site development, building, plant & machinery, technical know-how & engineering fees, miscellaneous fixed assets, preliminary & preoperative expenses, contingencies, margin money for working capital. Your company is expected to submit realistic estimates and reasonableness of the cost of the project will be examined with reference to various factors such as implementation period, inflation, various agreements, quotations etc.

- Means of Financing: Means of financing shall have to conform to proper mix of share capital and debt. This includes share capital, unsecured loans from Promoters/associates, internal accruals, term loans, Government subsidy/grant. Reasonableness of Promoters' contribution in the form of equity and interest-free unsecured loans, if any, is ascertained in view of commitment to the Project.

- Profitability Projections: Past records of financial performance of Your company will be examined. Your company needs to submit profitability estimates, cash flow and projected balance sheet for the project and for the Company as a whole. Based on the projections, various financial ratios such as Debt -Equity ratio, Current ratio, Fixed asset coverage ratio, Gross profit, Operating profit, Net profit ratios, Internal rate of return(over the economic life of the project), Debt Service Coverage ratio, Earning per share, Dividend payable etc. would be worked out to ascertain financial soundness of your Project.

Economic Viability

- Your company will have to take real value of input as against the value accounted in financial analysis for the purpose of economic evaluation of the project.
- Your company should carry out social cost benefit analysis as a measure of the costs and benefits of the project to Society and the Economy.
- Economic analysis is therefore aimed at inherent strength of the Project to withstand international competition on its own.

7.5 FOR WHOM IS A DPR MADE?

A Detailed Project Report is necessary to firm up the necessary permissions, agreement with outside parties, capital cost, financial viability of the project, the financing pattern, project facilities, marketing strategy, Human resource planning and completion schedule of the proposed venture.

Therefore a DPR is not made for any specific stakeholder. It is a common document that is referred by many institutions and individuals in varying capacities at different points in time during the lifecycle of the project. DPR is generally seen and used by following :

1. **The Promoting Entrepreneur And Partners**– as primary investors and risk takers they should be aware of smallest of details of the project. Project report serves as a point of reference for the owners while communicating with other stakeholders directly or indirectly involved in the project.

2. **Bankers and other Investors** – Financial institutions and investors agree to provide the capital by studying the business plan, feasibility report and discussions with the entrepreneur, but disbursement of the capital takes place only after the DPR is presented to them.

3. **Government and its Regulatory Bodies** – A business, depending on its nature, requires many approvals and licenses from the Government and its regulatory Bodies. DPR has to be submitted to obtain proper permissions to operate in the market.

4. **Key Personnel of the Venture** – an entrepreneur requires team of experienced key personnel in every department for project execution. DPR acts as a road map for these managers to remain on track.

5. **Technology Providers**–if the production requires sophisticated technology then DPR is the primary tool for agreements with the vendors of technology and machinery.

6. **Service Providers**- during the execution stage and later in the life cycle of the project professional services are required by the business from lawyers, Accountants, Experts, Consultants etc. They all are addressed through the DPR.

7.6 FEATURES OF A GOOD PROJECT REPORT

Every year a large number of project reports are prepared, each report has specific purpose or objective that it is expected to serve. Some of them are intended to document the progress of some activities, feasibility reports, investment decision support document, some of the reports are for monitoring purposes, some are evaluation reports. A DPR on the other hand serves all these purposes. Therefore only a diligently developed DPR will do justice to its purpose in a new venture scenario. Some of the features that make a DPR effective are :

1. **Reader Friendly –** Readers are various stakeholders who receive the DPR for various reasons, if DPR is reader-friendly, it is likely to be read, remembered and acted upon.

2. **Simple and unambiguous Language –** DPR, primarily is an information tool, therefore language should not be flowery and confusing. Repetition and redundancy should be avoided at all cost in a DPR.

3. **Organized and Well Structured –** A well organized report where it is easy to locate relevant information without wasting time or any hassle. The Index of the report should list smallest of detail included in the report.

4. **It Should Be Factual**: Every report should be based on well researched projections, facts, verified information, and valid proofs as applicable to different sections. There should be no attempt to fudge the findings, analysis results or facts as the case may be.

5. **Measurable Results or Outcome Oriented–** DPR should clearly point to the final outcome of every section (Marketing, Finance, Operations, Environmental, HR etc.) so that the users and stakeholders can easily evaluate the progress at any time.

6. **Prepared Timely –** It should be available to the concerned stakeholder (Government, Bank, Financial Institution, Investor, Technology Partner, Vendor, Service Provider) at the stipulated time.

DPR should not be just an enlarged version of the Business plan and feasibility report presented earlier, it should take a relook at the figures presented earlier in light of various terms and conditions laid down by the investors and others.

7.7 FORMAT OF A DPR FOR NEW BUSINESS

<u>Contents of Detailed Project Report</u>

Cover Page

Index

1. General Information

1.1 Name
1.2 Constitution & Sector
1.3 Location
1.4 Nature of Industry and Product
1.5 Promoters and their contribution
1.6 Cost of Project and means of finance

2. Promoter's Details

3. Marketing Planning

3.1 Demand Forecasting
3.2 Target Market Decision
3.3 Market Share Estimation
3.4 Marketing Strategy
3.5 Marketing Mix
3.6 Product Launch Strategy
3.7 Marketing Schedule
3.8 Marketing Organization
3.9 Nontraditional channels of Distribution

4. Technical Arrangements 4.1 Choice of Technology
4.2 Technology Collaboration
4.3 Equipment& Process Technology Details
4.4 Layout of the Project
4.5 Plant& Equipment Specification

5. Production Process

5.1 Location of the Project
5.2 Capacity Planning
5.3 Operations Planning
5.4 Material Requirements
5.5 Input-Output Decisions
5.6 Quality parameters
5.7 Operations Costing
5.8 Plant organization & Personnel
5.9 Vendor Management
5.10 Transportation & Storage
5.11 Plant Safety

6. Environmental Aspects

6.1 Base Level environmental Parameters
6.2 Impact on Air, Water & Soil
6.3 Laws and Compliance

7. Schedule of Implementation

7.1 Phases of the Project
7.2 Deliverables in Each Phase
7.3 Major Activity of Each Deliverable
7.4 Key Milestones
7.5 Responsibility Allocation
7.6 Gantt Chart for Project Scheduling

8. Financial Aspects of the Project
8.1 Cost Projection
8.2 Revenue Projections
8.3 Working Capital Requirement
8.4 Interest Components
8.5 Phased Requirement of Funds
8.6 Pre-operative & Preliminary Expenses
8.7 Projected Tax Calculations

9. Means of Finance
9.1 Internal Sources of Funds
9.2 Promoter_s Funds
9.3 External Sources of Fund
9.4 Provision for Contingency

10. Profitability Estimates and Appraisals
10.1 Assumptions
10.2 Projected Income Statement
10.3 Projected Balance Sheet
10.4 Projected Cash Flow Statement
10.5 Appraisal based on Profitability statement

11. Human Resources Planning
11.1 Key Personnel Requirement
11.2 Hiring or Contractual Arrangement
11.3 Training

12. Socio -Economic Considerations

13. Appendices

13.1. Estimates of cost of production
13.2. Calculation of depreciation
13.3. Calculation of working capital and margin money for working capital
13.4. Repayment/Interest Schedule of term loan and bank finance
13.5. Calculation of tax
13.6. Coverage ratios

7.8 DPR – DESCRIPTION OF VARIOUS SEGMENTS

I. General Information

The information provided in this section, as the title indicates, general in nature. Name of the industrial concern , the proposed Constitution of the company (for e.g. whether it is public or private limited), specific sector in which the product/service fall, general description of the industry, its current status in terms of revenue and installed production capacity, name of the promoters and their contribution to the proposed project are given in this section.

This section also includes the total estimated cost of the venture and very briefly dwells on the means of financing identified or agreed upon for the project.

II. Promoter's Details

The business and family background of the promoter(s) are mainly discussed under this heading. Their previous business experience and performance, if any, will be explained here. The auditor(s) report of the previous business and the reason for closure will also be clarified. Whether, the proposed venture is related with existing business and will help them do better, will also be noted here.

III. Marketing Planning

Starting point, or the stage of conception of any idea in the mind of an entrepreneur, is invariably a ‗felt need waiting to be satisfied. Logically therefore, the very first step in the design of project is to establish that the need really exists and understand the nature of this need. This is the process of Demand Forecasting, which validates the requirement of proposed product/service in the real market and by real customers.

Market Planning Section is the soul of any DPR since all the projections are based on the perceived need of the proposed product/service in the market. Demand forecasting reveals the total demand of the product/service under consideration, however this broad figure is not sufficient to plan the new venture. It is necessary to identify who are the current suppliers in the market and what part of total demand is being met/serviced by them. This would indicate probable market share that the new venture is likely to capture.

It is important to broadly decide the marketing mix with which the company will enter the identified target market. Once the possible market share is figured out, it is important to design marketing strategies, promotion plan, communication strategy , channels of distribution, sales strategy and pricing strategy to capture this market share in the defined target market.

DPR should give adequate focus on the required structure of the Marketing organization, so that there is no time lag between production and first sales.

IV. Technical Arrangements

First decision is to make or buy the product, following this details of technical infrastructure required to start the project start emerging. Whether the promoters have any foreign collaboration(s) for the project will be explained here. The cost of buying or installing technical infrastructure and whether it is cost effective, will be clarified under this heading.

V. Production Process

DPR has to consider the design or layout issues of the plant with respect to its location. Location decision are governed by variety of parameters : proximity to the raw material suppliers or the finished goods market, availability of vital inputs like power and water, availability of manpower for the production plant, and environmental laws in the area. This section explains in detail, the technical process proposed to be employed, requirement of all the materials in the process of production and what is the balance of material that the company will have to maintain at a given level of production. Enclose copy of the process flow chart with material balance, utilities and process parameters.

For the material balance and labor requirements to be planned effectively, capacity of the plant, phase wise production schedule of least 3 quarters have to be projected. Quality and safety parameters are to be set here.

Identification of vendors for various purposes, warehousing facilities for finished goods and dispatch methods are studied for their advantages and disadvantage to make prudent choice.

VI. Environmental Aspect

The impact of discharging effluents of the production process in the environment, as well as, precautions that have to be taken will be dealt with, in this area of the report

Furnish details of the nature of atmospheric, soil and water pollution. Indicate whether necessary permissions for the disposal of effluents have been obtained

Enclose copy of approval from concerned authorities

VII. Schedule of Implementation

This section describe the phase bound plan of how design engineering, erection, installation and commissioning of the project will be carried out. This should also present all the phases on a Gantt Chart so that overlapping of activities can be seen clearly.

The section is important because it lists the milestones of the project which are always linked to disbursement of funds from the investors or lending institutions. If there is an inaccuracy in the scheduling plan it will reflect adversely on all other aspects of the project.

VIII. Financial Aspects of the Project

The detailed break up of all costs related with the project, has to be listed, here this would include Land, Site development , Buildings and other civil works , Plant and machinery , Technical know how fees ,Expenses on technicians ,Miscellaneous Fixed Assets (MFA) ,Preliminary expenses, Preoperative expenses , Provision for contingencies , Margin money for working capital .

Revenue projections are made based on sales forecasts for determining the profitability of the venture. Here the other deduction like taxes, depreciation, various fees etc, are also projected and taken in to account to know the fund flow likelihood of the project.

IX. Means of Finance

The break up and sources of funds for the project are discussed Equity of the Promoters, Venture or Angel investor contribution, Debt / Equity from Financial Institutions, Public holdings, Preferred Shares , Subsidy (if any), Term loans, Debentures ,Unsecured loans and deposits ,Deferred payments , Internal accruals, Bank borrowings and any other means deployed to finance the project .

X. Profitability Estimates and Appraisals

DPR provides projections for The Profit and loss Statement, Balance Sheet and Fund Flow Statement. These help in evaluation of the profitability and viability of the proposed venture. This section is called the Acid test of DPR.

XI. Human Resources Planning

DPR gives a snapshot of the organizational structure of the venture. With this in hand a preliminary Manpower plan is drawn up in a phase-wise manner. Qualification, experience and expertise of manpower to be hired over a period if time is decided.

Here training requirement of frontline staff is also chalked out.

XII. Socio-economic Considerations

Till recently very less attention was paid to the socio-economic consideration. But with the need for developing sustainable businesses has become widely recognized in the industry, social and economic impact of the proposed project in the immediate surroundings and community need to be assessed. It is important since support / hostility of the local community may prove to be the deciding factor in the success or failure of the new venture. It is emphasized that a new venture should have provisions to plough back the advantages to the local community. It should bring prosperity to the surrounding areas and not adversely affect it.

XIII. Appendices

All worksheets of detailed calculations, flowcharts, projections etc are to be included here. Checklist is provided in the structure of DPR.

7.9 COMMON ERRORS MADE WHILE PREPARING DPR

Before dwelling into the mistakes that render a DPR ineffective, it is important to know and discuss some more relevant points. A question often presented in front of the entrepreneur is ―Who prepares a DPR? By now it is clear that expertise in a number of fields is required to compile various aspects of a new venture into a meaningful DPR. A number of decision presented in the DPR are mutually related. For example Sales projection is directly related to the production planning, which in turn depends on plant getting operational and availability of manpower and raw material.

Similarly phasing of finance and project milestones are intertwined.

The stipulated quality of service cannot be achieved without training plan to the new workforce.

Thus DPR preparation is a complex task, which requires deployment of expertise from different fields. There are highly specialized Agencies who undertake the work of DPR preparation for their clients. The general procedure for engaging the services of such agencies is:

- Look for an agency that has expertise in the same sector
- Evaluate the earlier work done by them
- Check for the credibility in the market

- Enter into a contractual agreement with the agency / consultant
- Provide all inputs to the agency and explain the concept in detail
- Decide the time and deadline for completing the DPR
- Keep a watch on the progress of the consultant while the necessary studies are being conducted
- Thoroughly evaluate the draft submitted by the agency add, delete or modify as the need be
- See that all the modifications are incorporated in the final DPR

While the process outlined above may appear one of common sense and extremely simple, here is where most of mistakes occur which cost the entrepreneur dear. Such common mistakes are listed below :

1. Entrepreneur decides to prepare the DPR on his/her own with some help from friends to save the expenses. It may seem to be a good bet since it is (s)he who understands the concept best. But that is where the expertise ends. The entrepreneur does not have knowledge and experience of numerous other things.

2. If entrepreneur involves him(her)self fulltime in preparing the DPR, the more important tasks like liaison with investors and regulatory agency, refining the prototype etc. are neglected. The project is likely to get delayed in such cases.

3. Borrowing or copying DPR of some other project similar in nature to save time and money. Every new project is unique in its circumstances hence this may result in doom.

4. Appointing the Consultancy firm or individual on hunch or hearsay without due diligence in the field.

5. Not signing a legally binding agreement with the agency or individual. This should include strict timeline and resulting penalty clause for non compliance.

6. Not having confidentiality clause in the agreement. An entrepreneur shares his/her life time dream with the consultant. The idea has to be protected against any breach.

7. Not sharing all the details of the proposed project with the Consultants. This will weaken the foundation on which entire DPR would be constructed.

8. Resorting to false facts and figures or window dressing the DPR to make it attractive to certain section of stakeholders.

9. Not presenting the realistic and true picture ,

As per the statutory compliances are concerned, finally it is the responsibility of the entrepreneur to see that a good DPR is prepared and presented. The owner and his appointed manager should have appropriate mechanism to keep check on the quality of work.

7.10 LET'S SUM UP

Detailed Project Report (DPR) is a very elaborate plan for the execution and evaluation of the new venture proposed by an entrepreneur and approved by some investors for funding. DPR provides details of resource requirement, plant location and layout, manufacturing process and technology choice, set of various activities to be performed simultaneously, roles and responsibilities if people and agencies involved in the project, marketing plan , demand forecasts, environmental impact assessment etc.

With such elaborate and complex requirements, the task of preparing the DPR is generally entrusted to a specialized agency or an individual. But the final responsibility of the project always rests with the owner or the entrepreneur; hence they have to keep a watch on the quality of work being carried out by the hired agency. Owners should pose questions from time to time to the agency, these are

- Sources of critical data and information

- Extent to which vision of the owners and the proposed strategies of the management are reflected in the DPR. If there is a change, is it well justified and substantiated with evidence?

- What is the methodology followed for analysis of the gathered information and data

- Have applicable rules/Government Norms/ policies/ statutory compliances being taken into account while suggesting any plan.

- Have potential challenges, bottlenecks and problems been identified for every section separately rather than presenting as a single item.

7.11 KEY TERMS

- Project or Startup Venture
- Project Life Cycle
- Project Report

- Detailed Project Report
- Promoters
- Cost of project
- Means of Finance
- Investors
- Market Planning
- Demand Forecasting
- Market Share estimation
- Marketing Strategy
- Material flow
- Input Output decisions
- Technology Collaboration
- Plant location
- Plant Layout
- Gantt Chart
- Project Scheduling
- Milestones
- Environment Impact Assessment
- Vendor Management
- HR Planning
- Consultant

7.12 SELF ASSESSMENT QUESTIONS

1. What is the significance of planning in the life cycle of the Project?
2. Describe what is a DPR?
3. Why is DPR important in execution and evaluation of any project?
4. What are the major segments of ant DPR for a new project or Venture?
5. Why is it not advisable for the entrepreneurs to prepare the DPR themselves?
6. Who are the major audiences of any DPR? How does the perspective of a banker differ from that of a government official while reading a DPR?

7.13 FURTHER READINGS

1. Various guidelines and material issued by Ministry of MSME, Government of India
2. Learning material on Projects from National Institute of Micro, Small and Medium Enterprise Hyderabad
3. National Institute of Entrepreneurship and Small Business Development, Noida – NCR, Document on preparation of Project report
4. Guidelines of Startup India Initiative

5. IDBI Publication on Project Financing.

7.14 Model Questions

1. Decisions which are made while designing and planning a new venture have major implication on the entire life cycle of the project. Do you agree / disagree with this statement? Justify

2. All projects should be made to meet the needs of the customers in the market should all other functions of a project align themselves to the Market Planning?

3. Give the format in which DPR should be prepared and presented.

4. All the stakeholders look at the DPR from different perspective. Should different DPRs be prepared for every group? Why/ why not

5. What are the characteristics of a good DPR? What are most common pitfalls that can plague a DPR? How can these be avoided?

UNIT 8 PREPARATION OF PROJECT REPORT

Learning Objectives:

After completion of the unit, you will be able to:
1. Understand the concept of Project:
2. Differentiate between Project and Programme:
3. Explain the criteria for appraisal of a Project:
4. Discuss various techniques of Project Appraisal

Structure

8.1 INTRODUCTION

In the previous unit you have read about project formulation. This unit deals with the project appraisal techniques. Projects often provide the base for sustainable development intervention. Project appraisal is a generic term that refers to the process of assessing, in a structured way, the case for proceeding with a project or proposal. It often involves comparing various options, using economic appraisal or some other decision analysis technique. A good appraisal justifies spending money on a project. It is an important tool in decision making and lays the foundation for delivery and evaluation. Appraisal asks fundamental questions about whether funding is required and whether a project offers good value for money. It can give confidence that public money is being put to good use, and help identify other funding to support a project.

8.2 PROJECTS: MEANING AND CONCEPT

What are Projects?

Projects are the cutting edge of development. Projects are an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time.

UNIDO defines a project as a proposal for an investment to create and develop certain facilities in order to increase the production of goods/services in a community during a certain period of time.

The Chartered Management Institute define a project as –an activity that has a beginning and an end which is carried out to achieve a particular purpose to a set quality within given time constraints and cost limits”.

A project may be defined as an activity for which money will be spent in an expectation of returns and which logically seems to lend itself to planning financing and implementation as a unit. It is the smallest operational element prepared and implemented as a separate entity in a national plan of programmes of development.

A project is also defined as a proposal for an investment to create, expand and develop certain facilities in order to increase the production of goods and services in a community during a certain period of time. Furthermore, for evaluation purposes, a project is a unit of investment, which can be distinguished technically, commercially and economically from other investments.

8.3 DIFFERENCE BETWEEN A PROJECT AND A PROGRAMME

Many people are uncertain about the difference between a project and a programme. A project is a temporary entity established to deliver specific (often tangible) outputs in line with predefined time, cost and quality constraints. Whereas, a program is a portfolio comprising of multiple projects that are managed and coordinated as one unit with the objective of achieving (often intangible) outcomes and benefits for the organization. Table 3.1 summarizes the main areas of differences between a project and a programme.

Table 1: Difference between Project and a Programme

Parameter	Project	Programme
Objectives	Outputs are tangible; relatively easy to describe, define and measure; tending towards objective.	Outcomes are often intangible; difficult to quantify; benefits often based on changes to organizational culture and behaviours; introducing new capabilities into the organization; tending towards subjective.
Scope	Strictly limited; tightly defined; not subject to change during the life of the project.	Not tightly defined or bounded; likely to change during the life cycle of the program.

Duration	Relatively short term; typically three to six months.	Relatively long term typically eighteen months to three years.
Risk profile	Project risk is relatively easy to identify and manage. The project failure would result in relatively limited impact on the organization relative to programme risk.	Program risk is more complex and potentially the impact on the organization if a risk materializes will be greater relative to project risk. Programme failure could result in material financial, reputational or operational loss.
Nature of the problem	Clearly defined.	Ill-defined; often disagreement between key stakeholders on the nature and definition of the problem.
Nature of the solution	A relatively limited number of potential solutions.	A significant number of potential solutions with disagreement between stakeholders as to the preferred solution.
Stakeholders	A relatively limited number of potential solutions.	A significant number of potential solutions with disagreement between stakeholders as to the preferred solution.
Relationship to environment	Environment within which the project takes place is understood and relatively stable.	Environment is dynamic; and programme objectives need to be managed in the context of the changing environment within which the organization operates.
Resources	Resources to deliver the project can be reasonably estimated in advance.	Resources are constrained and limited; there is competition for resources between projects.

8.4 CRITERION FOR PROJECT APPRAISAL

After a project has been prepared, it is generally appropriate for a critical review or an independent appraisal to be conducted. This provides an opportunity to reexamine every aspect of the project plan to assess whether the proposal is appropriate and sound before large sums are committed. The appraisal process builds on the project plan, but it may involve new information if the specialists on the appraisal team feel that some of the data are questionable or some of the assumptions faulty. If the appraisal team concludes that the project plan is sound, the investment may proceed. But if the appraisal team finds serious flaws, it may be necessary for the analyst to alter the project plan or to develop a new plan altogether.

If a project is to be financed by an international lending institution such as the World Bank or by a bilateral assistance agency, such an external lender will probably want a rather careful appraisal even if it has been closely associated with earlier steps in the project cycle. The World Bank, for example, routinely sends a separate mission to appraise proposed projects for which one of its member governments intends to borrow.

The preparation of a project entails consideration of many aspects. The major aspects to be considered during the appraisal of the project are:

1. Technical
2. Institutional
3. Organizational
4. Managerial
5. Social
6. Commercial
7. Financial
8. Economic
9. Sustainability

Let us now discuss each of these criterions of project appraisal.

1) Technical Aspect

The technical aspect of any project considers the technical feasibility of any project. It concerns with the technical aspect of a project form both input supply side and output delivery side. For example if you want to take up a metro project in a urban region, you may have to examine the soil type of the region for pillar strength, urban population to be benefited, availability of land, route etc. Such information can be collected through surveys.

2) Institutional Aspect

The institutional aspect of a project deals with the framework within which the project will have to operate. A complete knowledge of the institutional aspect helps identifying the components of institutional framework that will have a bearing on the project. Some of the elements that constitute the institutional framework include government institutions, project authority, corporate bodies, land systems, banking and credit institutions, religious customs, practices and social mores. There is a need to understand the administrative system of the region where the project has to be undertaken.

3) Organizational Aspect

Here the term organization refers to the structure if the body that would undertake the task of project execution. The proposed organization must have the capacity to carry out the assignments given to it. Some of the basic principles to be followed include:

1. There must be clear lines of authority running from top to bottom of the organization and the chain of command should be clear.
2. The responsibilities of each authority should be clearly defined in writing.
3. The decision making power should be placed as near as possible to the scene of action.
4. The number of levels of authority should be kept at minimum.
5. The organization should be kept as simple as possible and should be flexible to adjust to changing conditions.

4) Management Aspect

The main task of management is to implement the project objectives within the framework of organizational structure. For good management, a clear definition of functions and activities are required. There is also a need for allocating responsibilities to various agencies for various project activities. A suitable mechanism for coordination of the activities of participating agencies should also be developed. Besides, proper staffing also comes under the purview of the management.

5) Social Aspect

It is very important to assess the social patterns, customs, culture, traditions and habits of the clientele. Various aspects like changes in living standards, material welfare, income distribution etc. In selecting some projects, weights are assigned for income distribution so that the projects which benefit the lower income group are benefitted. The adverse effect of the project on particular group is also examined. Preserving the environment and wildlife habitats is given high priority.

6) Commercial Aspect

The commercial aspects of a project involves the arrangements of marketing the output produced by the project and ensuring supply of inputs needed for the project to operate. There is a need to assess the effective demand of the project output and the prices that may prevail under the demand and supply situations. The analyst also needs to cautiously evaluate the impact of product supply on the price of the product and the viability of the project under such changed price situation.

7) Financial Aspect

Decisions about undertaking any project depend a lot on financial analysis of a project. As there could be many beneficiaries/participating agencies of any project, there is a need for separate financial analysis each.

8) Economic Aspect

The economic aspect is very important to be taken into consideration while appraising a project proposal. If it is a developmental project aims at improving the quality of life of the people in the project area, then what will be its economic impact in terms of raising income and standard of living of the people is essential.

9) Sustainability Aspect

Donor agencies are emphasising on the sustainability of the project after the intervention is withdrawn from the project area. While appraising the project proposal the reviewer must see that adequate attention has been given to the sustainability of the project by enquiring several questions i.e. How will the project to be sustained after the project activities are withdrawn? Who will sustain it, both financially and technically? and What endeavour has been made by the proposer while proposing the project? and so on.

Check Your Progress 1

Note: a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit

1. What are projects? How do they help in development?

....
....
....
....
....
....

2. Describe with an example the technical aspects to be considered while preparing a project?

....
....
....
....
....

8.5 PROJECT APPRAISALTECHNIQUES

Project appraisal is the effort of calculating a project‘s viability. Appraisal involves a careful checking of the basic data, assumptions and methodology used in project preparation, an in-depth review of the work plan, cost estimates and proposed financing, an assessment of the project‘s organizational and management aspects, and finally the viability of project. The project appraisal criteria can be divided under two heads:

1) Non-Discounting Technique

- Urgency

- Payback Period
- Accounting Rate of Return
- Debt Service Coverage Ratio (DSCR)

2) Discounting Criteria Technique
- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Benefit Cost Ratio (BCR)
- Annual Capital Charge

Now we will discuss the techniques in detail

8.5.1 Non-Discounting Techniques

i) Urgency

According to this criterion, the projects that are more urgent get preference over those that are less urgent. However, one of the problems in using this criterion is to judge the urgency of any project. The decision taken may be subject to the personal bias of the decision maker. In view of this limitation, it should not be used for investment decision making.

ii) Payback Period

In simple terms, the payback period is the length of time required to recover the initial cash outlay on the project. If the cash inflows are constant, then the payback period is calculated by dividing the initial outlay by the annual cash inflow. For example, a project which has an initial cash outlay of Rs 10,00,000 and a constant annual cash inflow of Rs 2,00,000 has a payback period of : 10,00,000/ 2,00,000 = 5 years.

If the cash flow is not constant, e.g. if a project involves a cash outlay of 6,00,000 and generates cash inflow of Rs 1,00,000, Rs 1,50,000, Rs 1,50,000 and Rs 2,00,000 in the first, second, third and the forth years respectively, its payback period is four years because the sum of cash inflow during four years is equal to the total outlay.

Decision making: According to the payback period criterion, the shorter the payback period, the more desirable is the project. Firms using this criterion, generally specify the maximum acceptable payback period.

Evaluation of this method:
- It is simple in concept and application.
- It favours those projects that generate substantial inflows in earlier years and discriminate against projects that bring substantial cash flows only in later years.
- As this criterion emphasises on earlier cash flows, it may be a good criterion when the firm is pressed with the problem of liquidity.

- It fails to consider the time value of money thus violating the most basic principle of financial analysis which says that cash flows occurring at different points of time can be added or subtracted only after suitable compounding and discounting.
- Since payback period is the measure of a project's capital recovery, it may divert attention from profitability.

In spite of the shortcoming of not using the time value of money, payback period is used with advantage in apprising investments for the following reasons:

- The payback period may be considered roughly as the internal rate of return when annual cash flow is constant and the life of the project fairly long.
- The payback period is somewhat akin to the breakeven point.
- The payback period also gives information about the rate at which the uncertainty associated with the project is resolved. The shorter the payback period, the faster the uncertainty associated with the project is resolved.

iii) Accounting Rate of Return

The accounting rate of return or the simple rate is the measure of profitability which relates income to investment, both measured in accounting terms. As there are various ways of measuring income and investment, there are a large number of measures for accounting rate of return. The commonly used ones are given:

1) $\dfrac{\text{Average income after tax}}{\text{Initial investment}}$

2) $\dfrac{\text{Average income after tax}}{\text{Average investment}}$

3) $\dfrac{\text{Average income after tax but before interest}}{\text{Initial investment}}$

4) $\dfrac{\text{Average income after tax but before interest}}{\text{Average investment}}$

5) $\dfrac{\text{Average income before interest and taxes}}{\text{Initial investment}}$

6) $\dfrac{\text{Average income before interest and taxes}}{\text{Average investment}}$

Decision making: The higher the accounting rate of return, the better the project.
Evaluation:

- It is simple to calculate.
- It is based on accounting information which is readily available.
- It considers benefits over the entire life of the project.
- Though the income data of the entire life of the project is required, one can work

out accounting rate of return even if the complete income data is not available by taking income from a typical year.

Disadvantages of accounting rate of return:

- It does not take into account the time value of money.
- There are numerous measured of accounting rate of return which can create confusion.

iv) Debt Service Coverage Ratio (DSCR)

The debt service coverage ratio is generally used to find the financial worthiness of the projects which need long term financing. The formula is [net profit + interest (on long term loan) + depreciation] / [interest (on long term loan) + principal loan].

Decision Making: Generally, the financial institutions regard a debt service coverage ratio of 2 as satisfactory.

Drawback:

In DSCR, both the numerator and the denominator consist of a mixture of post tax and pre tax figures (profit after tax in the numerator and loan repayment instalment in the denominator are post tax figures and interest in both numerator and denominator is pre tax figure). It is difficult to interpret a ratio that is based on a mixture of post tax and pre tax figures.

8.5.2 Discounting Techniques

i) NPV

The difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyze the profitability of an investment or project.

NPV analysis is sensitive to the reliability of future cash inflows that an investment or project will yield.

The formula for NPV is:

$$\text{NPV} = \sum_{t=0}^{n} \frac{(\text{Benefits} - \text{Costs})_t}{(1+r)^t}$$

where:

r = discount rate

t = year

n = analytic horizon (in years)

Decision making:

If the NPV of a prospective project is positive, it should be accepted. However, if NPV is negative, the project should probably be rejected because cash flows will also be negative.

Features of NPV:

- The NPV is based on the assumption that the intermediate cash inflows of the project are re-invested at a rate of return equal to the firm‘s cost of capital.
- The NPV of a simple project decreases as the discount rate increases, the decrease in NPV however is at a decreasing rate.

Merits of NPV

- It takes into account the time value of money.
- It considers the cash flow stream in its entirety.
- The NPV‘s of various projects can be added. The NPV of a scheme consisting of two projects A and B will simply be the sum of NPV‘s of these projects individually.

  NPV (A+B) = NPV(A) + NPV(B).

To illustrate the calculation of net present value, consider a project which has the following cash flow stream:

Year	Cash Flow
0	-10,00,000
1	2,00,000
2	2,00,000
3	3,00,000
4	3,00,000
5	3,50,000

The cost of capital k for the firm is 10 percent. The net present value of the proposal is:

$$\text{NPV} = \frac{10.00,000}{(1.10)^0} + \frac{2,00,000}{(1.10)^1} + \frac{2,00,000}{(1.10)^2} + \frac{3,00,000}{(1.10)^3} + \frac{3,00,000}{(1.10)^4} + \frac{3,50,000}{(1.10)^5}$$

$$= -5273$$

Since the decision rule associated with the net present value is to accept the project if the net present value is positive and reject if it is negative, in this example, the decision should be to reject the project.

ii) IRR

The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project‘s internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first.

IRR is sometimes referred to as ―economic rate of return (ERR)". It is the discounted rate in the equation:

$$0 = \frac{CF_0}{(1+r)^0} + \frac{CF_1}{(1+r)^1} + \dots + \frac{CF_n}{(1+r)^n} = \sum \frac{CF_t}{(1+r)^t}$$

$CF_{t=}$ cash flow at the end of the year t

r = discount rate

n = life of the project

In the internal rate of return, we set the net present value equal to zero and determine the discount rate which would also be the internal rate of return.

E.g. Consider the cash flow of a project

Year	Cash Flow
0	-1,00,000
1	30,000
2	30,000
3	40,000
4	45,000

The internal rate of return is the value of r which satisfies the following condition.

$$1{,}00{,}000 = \frac{30{,}000}{(1+r)} + \frac{30{,}000}{(1+r)^2} + \frac{40{,}000}{(1+r)^3} + \frac{45{,}000}{(1+r)^4}$$

The calculations of r consist of a process of trial and error. We try different values of ‗r‘ till we find that the right hand side of the above equation is equal to the left hand side. By putting the value of ‗r‘as 12 we get 1,07,773, for 14 it is 1,03,046, for 15 it is 1,00,802 and for 16 it is 98,641. Since at 16 percent, the value is less than 1,00,000, we conclude that the value of ‗r‘ lies between 15 % and 16%.

A 1 percent difference (between 15 and 16 percent) corresponds to a difference of

2161 (1,00,802 – 98,641). The difference between the net present value at 15% (1,00,802) and that at present target value (1,00,000) is (1,00,802 – 1,00,000) is Rs.802. This difference will correspond to a percentage difference of 802/2131 = 0.37.

Adding this number to 15 percent we get the value as 15.37 percent.

You can think of IRR as the rate of growth a project is expected to generate. While the actual rate of return that a given project ends up generating will often differ from its estimated IRR rate, a project with a substantially higher IRR value than other available options would still provide a much better chance of strong growth.

IRRs can also be compared against prevailing rates of return in the securities market. If a firm can‗t find any projects with IRRs greater than the returns that can be generated in the financial markets, it may simply choose to invest its retained earnings into the market.

The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project‗s internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first.

iii) Benefit-Cost Ratio (BCR)

A Benefit Cost Ratio is an indicator, used in the formal discipline of cost-benefit analysis, that attempts to summarize the overall value for money of a project or proposal. A BCR is the ratio of the benefits of a project or proposal, expressed in monetary terms, relative to its costs, also expressed in monetary terms. All benefits and costs should be expressed in discounted present values.
The benefit-cost ratio (BCR) represents the ratio of total benefits over total costs, both discounted as appropriate. The formula for calculating BCR is:

$$BCR = \frac{PV_{benefits}}{PV_{costs}}$$

where:
$PV_{benefits}$ = present value of benefits
PV_{cost} = present value of costs

In other words, since the present value of costs is nothing but the initial investment, the BCR may be defined as the ratio of present value of benefits to initial investment.

To illustrate the calculation of this measure, let us consider a project which is being evaluated by a firm that has a cost capital of 12 percent.

The initial investment in the project is Rs1,00,000.

Year	Benefits
Year 1	25,000
Year 2	40,000
Year 3	40,000
Year 4	50,000

The benefit cost ratio of this project will be

$$BCR = \frac{\frac{25{,}000}{(1.12)} + \frac{40{,}000}{(1.12)^2} + \frac{40{,}000}{(1.12)^3} + \frac{50{,}000}{(1.12)^4}}{1{,}00{,}000}$$

$$= 1.145$$

Decision making: If BCR is >1, the project should be accepted and would be beneficial.
If BCR =1, we interpret it as being indifferent.
If BCR <1, the project should be rejected.
The BC ratio is preferable to NPV as this criterion measures per rupee of outlay and it can discriminate between large and small investments.

Check Your Progress 2
Note: a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit

1) What are the advantages of payback period?
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

2) What is Benefit Cost ratio? What is the decision making criteria while using BC ratio?
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

…………………………………………………………………………………………

8.6 LET US SUM UP

In this unit we read about the meaning of projects. The unit also discusses the various aspects to be considered while preparing the project. Many people are uncertain about the difference between a project and a programme. In this unit we have discussed in detail the difference between a project and a programme. The various criterion for project appraisal, discounting and non-discounting techniques of project appraisal have also been discussed.

8.7 REFERENCESAND SELECTED READINGS

Baum W.C and Tolbert S.M. (1985) *Investing in Development: Lessons of the World Bank Experience*, Oxford: Oxford University Press.

Choudhary, S. (1988) *Project Management*, New Delhi: Tata McGraw Hill.

Harrison, F.L. (1992), *Advance Project Management, Metropolitan*, New Delhi.

Kohli, K. N (1993), *Economic analysis of investment projects: a practical approach,* Oxford University Press.

Lavagnon A. Ika, Amadou Diallo, Denis Thuillier, (2010) ―Project management in the international development industry: The project coordinator‘s perspective", *International Journal of Managing Projects in Business*, Vol. 3 Iss: 1, pp.61 – 93

Layard, R. and Stephen Glaister, (eds) *Cost-Benefit Analysis, Second edition,* Cambridge.

Prasanna Chandra (1988), *Projects, Preparation, Appraisal, Budgeting and Implementation*, Tata McGraw Hill, New Delhi.

Sapru R.K., (1994), *Development Administration*, Sterling, New Delhi.

United Nations Industrial Development Organisation (1998), *Manual For Evaluation of Industrial Projects*, Oxford and IBH New York.

8.8 CHECKYOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1) Projects are the cutting edge of development. Projects are an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time.

2) The technical aspect of any project considers the technical feasibility. It concerns with the technical aspect of a project form both input supply side and output delivery side. For example if you want to take up an agricultural project in a region, you may have to examine the soil type of the region, water availability, crops grown, livestock breed suitable for the area, pests prevalent in the area etc.

Check Your Progress 2

1) Payback period is used with advantage in apprising investments for the following reasons:

- The payback period may be considered roughly as the internal rate of return when annual cash flow is constant and the life of the project fairly long
- The payback period is somewhat akin to the breakeven point.
- The payback period also gives information about the rate at which the uncertainty associated with the project is resolved. The shorter the payback period, the faster the uncertainty associated with the project is resolved.

2) A BCR is the ratio of the benefits of a project or proposal, expressed in monetary terms, relative to its costs, also expressed in monetary terms. The benefit-cost ratio (BCR) represents the ratio of total benefits over total costs, both discounted as appropriate.

BLOCK- 3

PUBLIC AND PRIVATE SYSTEM OF STIMULATION

UNIT 9: SUPPORT AND SUSTAINABILITY OF ENTREPRENEURSHIP

Learning Objectives

After completion of the Block, you should be able to

- Know types and sources of finance.
- Identify the methods of resource generation.
- Understand the nature of venture capital and venture capital process
- Advantage, problems and future of venture capital.

Structure

When you want something, all the universe conspires – in helping you to achieve it.

Paulo Coelho

9.1 INTRODUCTION

You already know that Entrepreneur

- Takes **initiative** to do something
- Searches for **opportunity**
- is **persistent** not disheartened by failures
- is **committed** to work
- is a **problem - solver**
- is an **assertive** person who knows what to say, how to say and whom to say
- is an **effective strategist** who monitors work for performance and promotes interest of business and organisation.

He requires finance for starting new business or venture and for modernisation and expansion of existing business/industry. He must know types and sources of finance.

9.2 TYPES OF INSTITUTIONAL FINANCE

Depending on the nature of activities, the entrepreneurs require three types of finance:

Short Term	
Period	Purpose
One year or less	Seasonal / Working Capital requirements
Medium Term	
One year to 5 years	• Expansion, • replacement, • permanent working capital
Long Term	
More than 5 years	• Establishment of new business, • Substantial expansion of existing businesses • Modernisation

<u>Short Term</u>

- Commercial businesses
- Trade Credit
- Advances from customers and dealers
- Private Financiers

<u>Medium Term</u>

- Loans from banks & financial institutions
- Public deposits
- Issue of shares
- Issue of debentures
- Utilisation of profit (for existing concerns)

<u>Long Term</u>

- Issue of shares
- Issue of debentures
- Loans from financial institutions
- Utilisation of profit (for existing concerns)

The purpose for fund is

- Fixed Assets: Land, Building, Plants and Machinery – normally available as medium term loan from banks and financial institutions.
- Working Capital – Purchase of raw materials, wages and salaries, electricity, rent, and other expenses.

Inventories consisting of raw materials, working process and _____ block fund.

Finance

Fixed Investment
Working capital

9.3 SOURCES: INTERNAL

Internal	**External**
Paid up Capital	**Borrowings**
• Ordinary Shares • Preference Shares • Deferred Shares	• From Banks • From financial institutions like IDBI, ICICI, IFCI, IDCs • From Govt. And Semi-Govt. Agencies • others
Reserve Surplus	**Trade Dues**
• Capital Reserves • Developmental Reserves • Rebate Reserves	• Sundry Creditors • Others
Provisions	
• Taxation • Depreciations	

1 Short term finance:

Diagram-1: Short term finance.

Working capital finance:

Commercial banks sanction short term finance in the form of:

- Cash credit
- Over draft
- Demand loan
- Purchasing and discounting of bills.

Cash credit:

Cash credit is running account in the name of the borrower who is permitted to withdraw fund maximum upto their C.C. limit. The limit is sanctioned on the basis of annual turnover and various other parameters which will be discussed in a separate chapter. The borrower provides suitable bank security in the form of hypothecation of stocks, guarantee and /or movable properties. The loan is normally for a period of one year which is also renewed. The interest is charged on the fund actually drawn, not on the sanctioned limit.

Merit:

i) Flexibility: The borrower enjoys flexibility of withdrawing upto actual requirement only.
ii) Interest: Interest is changed on amount withdrawn, not on the sanctioned limit. This reduces cost of borrowing.
iii) Convenience: All transactions are routed through loan account. It is convenient for the borrower. Bank can also know financial health of the unit through debits and credits to account. This helps renewal of account year after year as it indicates health of the account.
iv) Renewal: Though the loan is for one year, the account I renewed on examination of financial accounts of financial accounts and state of cash credit account. So, the loan I rolled over or enhanced/ reduced from year to year.

Demerit:

i) Borrower‘ freedom: Borrower freedoms to borrow any amount (within the limit) creates problem for credit planning by banks. The borrower may or may not utilize the limit. Then, bank cannot divert the fund for any other use. It is wastage of credit. Borrowers may draw funds but may not deposit sale proceeds. Bank will conduct annual review. By that time, funds might have been diverted by the borrower for personal/unproductive uses.
ii) Inefficiency: With cash credit loan, the borrower may increase inventory which may not be good for him and the country in the long run.
iii) Cash management: The bank undertakes cash management of the unit. But the borrower is tree to deposit any amount, though he is supposed to deposit entire sales proceeds. So when loan becomes bad, when borrower sustains loss due to inefficiency of management or diversion of funds for their personal use or to other units promoted by them, Banks cannot take deterrent action. Bank can know after the event. Then recovery of loan becomes problematic.

Overdraft:
This facility is given in current account by allowing the borrower to overdraw by allowing them to overdraw their credit balance. This is given on clean basis and on the basis of security. It saves time of the borrower and the bank.

Merit:
i) Convenient: The entrepreneur does not have to submit financial statements and large number of paper relating to the financial health of the unit.
ii) Use for temporary period: to meet emergency needs of business.

Demerit:
i) Clean overdraft often becomes bad loan as no security backs it. Loan:

It is lending of a fixed amount, repayable on demand and in periodical installments. Personal loans like Vehicle loan, Housing loan etc are given on this basis. The repayment period is fixed. The borrower can pay back the loan earlier also. The interest is on reduced balance.

Merit-
i) Convenience: Both borrower and bank are benefitted. Borrower knows the installment and bank can know health of account when one or two installment are not repaid.

Demerit:
i) Inflexibility: Borrower cash of change of amount of loan or monthly repayable amount midway.
ii) Misuse of funds: A dishonest borrower may not utilize the fund for stated purpose. Hence, there would be bad loan and non-repayments.

Purchase and discount of bills:
Bills are drawn against genuine trade transactions. The seller/supplier of goods draws a bill on the purchaser who accepts it and returned to the seller. On the date of maturity (usually 30 to 90 days), the seller presents the bill to purchaser for making payments. The bills are purchased or discounted to provide credit to the seller. They present the bill on due date and get payments from the buyer.

Merit:
Safety of funds: The purchaser makes payment on due date. Otherwise, bank has documents of title to the goods and can take possession of these.

Liquidity: Entrepreneurs can reduce their trade dues by drawing bills. So, their liquidity improves. Their fund is not locked for a period of 30 to 90 days.

Demerit:

i) False document: A dishonest borrower can give false documents of title to goods and obtain finance. Such amounts are irrecoverable.

ii) Rigidity: Borrower has to pay on due date. Otherwise, they would have to face legal problems. Such rigidity affects their liquidity in business.

iii) Costly: The bills are subject to stamp duty and comprehensive documentation. This adds to the cost of borrowing.

Trade credit: Trade credit is credit granted by the supplier of goods.

Merit:
i) No security
ii) No interest payable.

Demerit:
Less flexible:
Inter-corporate deposit: A deposit made by one company to another is known as inter-corporate deposit. It is a period deposit. It is a period not exceeding six months.

This option is not normally open to small entrepreneurs.

Factoring: Factoring is an agreement in which receivable arising out of the sale are sold by a firm to the factor (a bank). The factor maintains accounts, collects debts of the firm and help enterprise financially. The enterprise's money is not locked in receivables. Factoring business is on account of credit sales. If there is a cash sale, there is no need for factor.

Merit: Improves liquidity and profitability of the enterprise.

Demerit: It adds to cost. Collection service and administrative service is to be done by the factor (bank) and this adds to the cost of the enterprise.

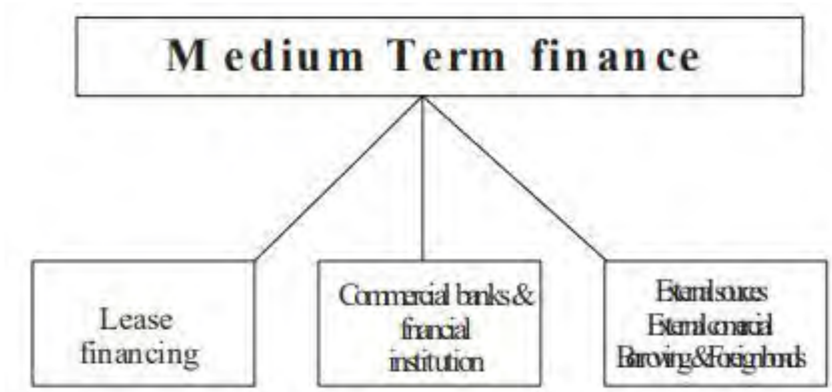
Commercial paper: Commercial paper is an unsecured money market instrument issued in the form of a promissory note.

Merit:
i) High credit rating: Merit: It is available only to a company with high credit rating.
ii) Flexibility: It reduces dependence on bank loan to some extent.

Demerit:
Limited applicability: It is not available to new enterprises and usually small and medium enterprise.

Medium Term finance:

Diagram-2: Medium Term finance



Commercial banks: & financial institutions:

They finance medium term loan. Assessments of loan and security requirements are described in Course-6, Block-2.

Lease financing: It is a contact under which the assets are purchased by the lessor (leasing company) and leased to the user (Lessee Company) who pay a specified rent at periodic interval.

Merit:

i) The lessee does not have to block funds for purchase of machineries. They pay rents only for use.
ii) Better liquidity

Demerit:

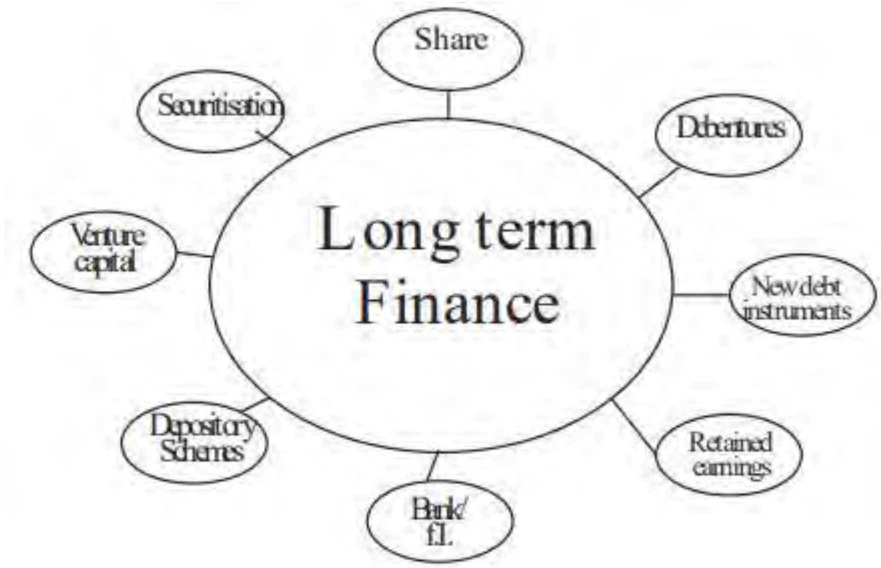
i) Higher fixed cost per month.
ii) More expensive than purchase over years.

External commercial borrowing (ECB) and Foreign bonds:

They offer increased liquidity and availability of funds at a lower rate compared to the domestic rate. But they are tied to international economy and political considerations, to some extent.

Long Term Finance:

Long term finance has such components as share, debenture, debt instruments, retained profit, venture capital and securitisation.



Shares:

Equity shares, preference shares

Debentures: Acknowledgement of indebtedness issued by a company giving an undertaking to repay the debt at specified date. This reduces dependence on bank loan to some extent. The cost of interest is also low.

New debt instruments: Zero interest bond, deep discount bond etc are debt instruments to raise money from the market. Normally, no new or small enterprise can raise fund through the issue of such bonds. Well established company or the companies backed by famous brands such as Tata, Reliance etc., can raise fund in this manner. The cost of borrowing is generally lower than bank loan.

Retained earnings or plough back profit: This is cheaper than raising equity in the market or bank loan. Ownership is not also not diluted. The demerit is: It is limited finance, not enough for modernisation.

Depository Receipt: Global Depository Receipts, American Depository Receipts and Indian Depository Receipts help company to raise fund in Indian or abroad.

Venture capital: The venture capital firms and angle investors help new firms, high technology firms and small scale enterprises by participating in their equity. Their way of financing enterprises and merit / demerit are discussed.

Securitization: Securitization is a process in which illiquid assets are pooled into marketable securities that can be sold to investors. This infuses liquidity. But, cost to the company is a disadvantage.

Bank / F.I. loan: Long term loan is obtained for expansion of enterprise from bank/ FI. Usually, banks do not go for long term loan except agro industries, housing and such other projects.

Merger and acquisitions:
Two or more companies combine and are company or one acquires another. e.g. Tata acquiring Corus. This bolsters the new company's capital base, strengthens their economies of scale and geographical advantage.
But there can be problems. The culture of two companies may not match.
Labour problem often vitiates the functioning of new company.

9.4 FINANCIAL STAGES

1 Financial statements:

Financial statements of the enterprise- Its analysis and interpretation- is useful for various stakeholders.

Stakeholders	What they learn
• Business:	Financial health of the enterprise
• Executives:	Profit to plan for its future operation
• Bankers:	Financial requirement-working capital and term loan required to carry on operations.
• Investors':	Lending the firm or takeover of the firm
• Regulator:	To know the correct position about the enterprise.
• Income Tax:	Proper and suitable accounting records helpful for all concerned.

2. The principal financial tools are-

i) Ratio analysis.
ii) Break even analysis
iii) Fund flow analysis
iv) Cash budget.
v) Trend analysis.

The Ratio analysis helps management in planning, forecasting and control.

These are:
Balance sheet Ratios:
i) Current Ratio

ii) Liquidity Ratio
iii) Debt to Equity Ratio
iv) Asset to Equity Ratio

Revenue Statement Ratio:
i) Gross profit Ratio
ii) Operating Ratio
iii) Expenses Ratio
iv) Net Profit Ratio
v) Turnover of inventory

Composite Ratio:
i) Return on own funds
ii) Turnover of debtors
iii) Turnover of fixed assets.

These ratios tell:
i) State of health of the enterprise
ii) Type of business.
iii) Scope of operations.
iv) Amount of capital fund required.
v) Continuity of the concern.

Break even analysis is Cost Volume Profit analysis. It determines the level of activity where total cost is equal to total sales, the point of zero profit and zero loss. It determines the probable profit at any level of activity.

Merits:

- It aids planning capitalization of the business.
- It helps in deciding whether to acquire assets involving fixed cost.
- Cost-output-profit relationship indicates activity.

Fund flow analysis indicates fund flow planned for the current year., Cash flow budget analysis indicates cash flow which is very important in seasonal industries like sugar, tea etc. Trend Analysis outlines the trend in production, sales, profit and indicates the quantum of finance. Profitability policy indicates the level of business and profit. All these statements help in identifying quantum of finance required for running business or expansion of business.

3 Working capital assessment:
Working capital is quantum of funds required to carry the required level of current assets to enable a business to carry out its operations at the expected level uninterruptedly. It is the excess of current assets over current liabilities. Current assets are those assets which will be converted into cash within a year. Current liabilities are

those liabilities which will be paid within reasonable short time (usually a year) out of the current assets or income of the business. Working capital required is proportional to.

i) The volume of activity.
ii) Level of operations (Production and sales)
iii)The type of business carried on (manufacturing process product else)

Factors affecting working capital requirement:

1. Nature of business: Eatery, Saloon requires less capital than Hotel Dry Cleaning Units.
2. Growth of the Business: Modernisation and expansion mean more working capitals.
3. Production policy: If production is based on specific order only, the requirement would be less than when they produce, store and sell after a time lag.
4. Seasonality: Products like umbrella have seasonal demand. The unit requires capital for a particular period.
5. Selling policy: If there is more credit sales, more working capital will be required.
6. Period of conversion: The time taken for converting raw materials to finished product and time taken to sale added to it determines the requirement.
7. Profit policy: If a unit ploughs back profit into the unit for business, there will be less requirement of working capital from external sources like Bank, Fls.
8. Government Policy: Government policy on import of raw materials and holding inventory of goods determine the quantum of working capital.

Methods for assessment:
Banks and financial institutions adopt the following methods:
i) Projected Balance sheet method:
Under this method, the assessment of working capital is computed on the basis of the unit‘s projected balance sheet, the fund flow plant for the current/following year and examination of profitability, financial parameters etc. This indicates the projected level of liquidity and financial support required. This method is adopted in large units requiring more than Rs.5 Crore.

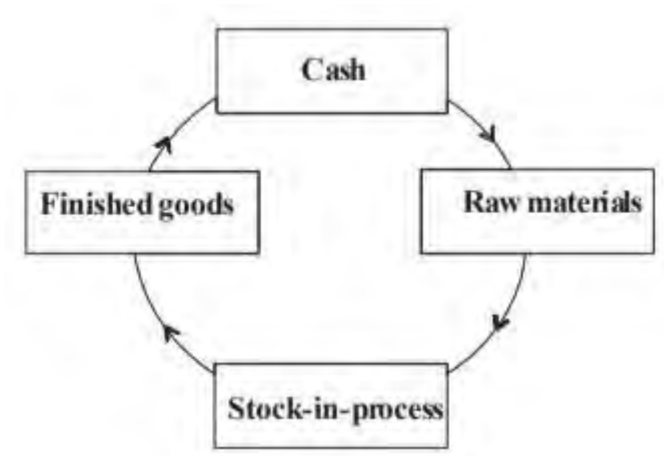
ii) Cash Budget Method:
Cash Budget Method is adopted in seasonal industries like sugar, tea, coffee etc. and for construction activity. The required finance is calculated not from the projected level of current Assets and Liabilities but from the projected cash flows.

iii) Operating cycle method:
Manufacturing activity is run by a cycle of operations consisting of purchase of raw material for cash, conversion into finished goods and realising by sale of the finished goods. This is known as cash to cash cycle. This indicates how cash is converted into

raw materials, stock in-process, finished goods, receivables and cash. The operating cycle consists of:

i) Time taken to acquire raw materials and average period of store.
ii) Conversion process time.
iii) Average period for which finished good are in store.
iv) Average collection period of receivable(Sundry debtors)

Diagram: 4



Working capital is total cash circulating in this cycle.

iv) Turnover Method:
Under this method, working capital is a minimum 25% of the projected turnover out of which 20% will be provided by Bank and the balance 5% represents borrower‘s margin. The unit has to contribute 5% of the turnover as its stake. This is popularly known as Nayak Committee recommendation to small scale business/ industry. This is adopted for proposals upto Rs. 5 crores and covers large percentage business/Industries Conduct.

4 Term Loan: Units require term loan for purchase of assets. The loans are for 3-7 years except home loan where the period is 15-25 years. Term loans are apprised on the following considerations:

Managerial competence:
- Background of promoter.
- Qualification in the line.
- Experience in the line.
- Reputation and integrity.
- Succession planning if the unit is a family business

Technical feasibility:

- Location.
- Manufacturing process.
- Product.

Regulatory clearances like Registration, licenses, approval by different government bodies like District Industries Centre, Weights and Measure Dept, Pollution Board, Labour, and Sales Tax Depts.

Commercial viability:

- Market survey to find out current demand and supply position of the product.
- Consumers needs and preferences.
- Marketing and sales strategy.
- Delivery channel.

Financial viability:

- Break even level.
- Overall financial position of the unit.
- Whether adequate profit will be generated for repayment of debt.

Tools of analysis:

1. Break Even Analysis
2. Ratio Analysis-
   Debt service coverage ratio, interest coverage ratio important.
3. Sensitivity Analysis. If volume of sales reduces by 5% or 10% whether loan can be repaid or not.

(N.B.: Discussion on financial analysis is briefly given here. In Block-2 credit management and tools are described at length)

9.5 EXTERNAL RESOURCE GENERATION

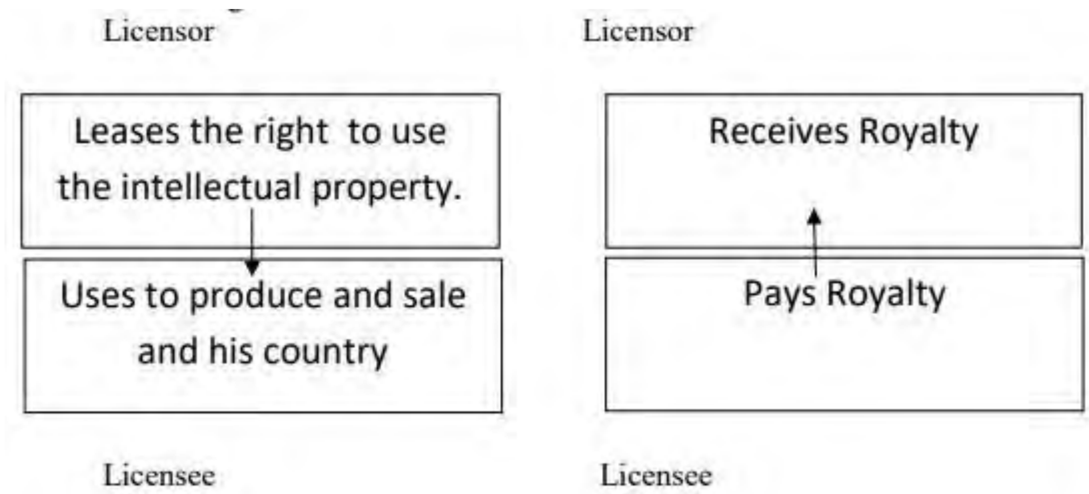
External Resources are generated depending on the mode of entering business e.g. Licensing, Franchising, Strategic Alliances, Joint Venture, Merger, Private Placement.

1 Licensing

The Licenses gets the right to use intellectual property of the Licensor e.g. Technology, Patents, Copyright, brand names etc on payment of royalty. Ranbaxy Laboratory Ltd has a license agreement with K.S. Biomedix Limited, (UK Company) for marketing transmid, a product for treatment of brain cancer.

Advantages

- Low investment on the part of entrepreneur (Licensee) on research and development.
- Low investment on the part of Licensor for development of market.



In all these collaborations, the advantages are:

- Well known brand already recognized in the market.
- No investment by domestic entrepreneur on Research and Development.
- Low financial risk.
- Cheap finance available in international market.

2 Franchising

The Franchiser provides

- Trademark
- Operating System
- Brand Reputation
- Employee Training, Advertising
- The Franchisee pays a fixed amount and royalty based on the sales to franchiser e.g. Mc Donald.

Advantages

- Franchisee gets the benefit of Research & Development
- Franchisee does not have risk of product failure
- Franchiser can enter other markets with low investment and low risk.

Disadvantages

- Scope for misunderstanding between two parties
- Problem of leakage of trade secrets
- The agreement reduces opportunity for both the franchiser and franchisee.

3 Strategic Alliances:

Strategic Alliances like Joint venture and merger are collaborative approaches to achieve the larger goals of extended market and increased profit.

Joint Venture

Two or more firms join together to create a new business entity that is legally separate from its parents. e.g. Texmaw Ltd‘s agreement with United Group Ltd (Australia) for Manufacturing Wagon in West Bengal.

Advantages:

- Joint Venture has large capital investment.
- The entrepreneur may bring his technical skills or markete ing skills. The other party may bring their technology or expertise.

Disadvantages:

- Conflict between the parties
- Entry of new competitors may kill joint venture.

4. Management contracts:

The entrepreneurs with low level of technology and management expertise can enter contact with international company on payment of fee or percentage of sales revenue.

Advantage:

1. Low investment by the domestic entrepreneur on Research and Development.
2. Shine with the reputation of the international company.

Disadvantages:

1. Leakage of secrets of technology.
2. If the quality of product is not maintained, both parties suffer
3. Access to information many not be fully given by either party, creating either party, creating misunderstanding and even legal problems.
4. Incompatibility of parties in their financial position, management style, and culture may result in break-up.

5 Merger and Acquisition:

A company may merge with or acquire another company. This approach extends market and holds good for large markets e.g. Mittal Steel merger with Arcellor SA to foreign giant Arcelor Mittal Steel

Advantages:

The new company gets the ownership and controls, factories, employees, technology, brand name and distribution network.

Disadvantages

It is a complex task involving Bankers, Lawyers, Chartered Accountants, Merger and Acquisition specialists.

9.6 JOINT VENTURE

Venture capital is a type of private equity, a form of financing provided by firms to small, early stage merging firms that shows growth (on term of revenue and class on employs or that are deemed to have high growth potential). They finance risky start-up with the hope that these firms will be successful. They invest in-exchange of equity an ownership stake- In the firms they invest in. The startups are :

High technology industries e.g. information technology, biotechnology.

Based on innovative technology or business models.

Thus, venture capital investment offers the potential for above average returns. The principle is ―No return without risks and greater the risk‖ greater will be the returns‖. The venture capitalist does not demand collateral or any other security and the new venture is not a position to provide all these in the initial years.

The new startups are :

i) new without history of past achievement).
ii) too small to raise capital in the market at early stage.
iii) not able to secure a bank loan without proper collaterals.
iv) too risky for banks to invest in the initial stage.

The venture capitalist gets

i) High returns
ii) a voice is the management
iii) Involved in strategy consultant to the venture. He not only provides finance but also technical expertise, marketing know how and mentoring the start ups.

Equity capital offers the significant advantage of having no interest charges . It is patient capital, getting return through long term capital gains.

HISTORY:

Private equity in the first half‛s of 20^{th} Century was the domain of wealthy individuals or families. The Rockfellers, Wallenbergs, were the investors in private comprises like Eastern Airline, ABB & Ericsson respectively. The tribe is known as Angel investor or business angel in Europe a small group organize into angel groups pool their investments. Usually they provided funds for high growth startups in health care services, medical devices and equipment, software and biotech in that order in USA. Before world War-II, money orders or development capital was the domain of wealthy families After war, two firms notably American Research and Development Corporation (ARDC) and JH Whitney and Co. came into being. George Dariot, the father of venture capitalism along win others started ARDC to fund business owned by solders returning from the Second World War. ARDC was the first Institutional firm to raise capital firms sources other than wealthy families. ARDC having invested in over 150 companies merged with Textron. During the 1960s and 1970s venture capital was financing Electronic, Medical and Data processing and was considered equivalent to technology 1978 was venture capitals major fund raising year. The down term came in 1987 after the stock market crash. Corporations that have sponsored in house venture investment firm like General Electric closed the venture capital unit and some others shifted focus to more mature companies . 1990's saw in a boom period and firms on Sand Hill Road in Menio Park and Silicon valley saw investments in a big way. The Nasdaq crash and technology slump in 2000 caused venture capital firms to write off large proportion of their investments. Served. Internet- driven environment revived venture capital in 2007. Still venture capital would not reach the peak of 2000 level after a decade.

The National Venture capital Associated 2016 year book provides a summary of venture capital activity in U.S.
V.C. funds in US (2015)

No. of. V.C. firms	798
VC Capital raised ($B)	28.2
Average VC fund size to date ($m)	135
Average VC fund size raise ($m)	119.6

3709 Companies received venture funding in 2015, 1444 received it for the first time. California – domiciled firms managed the largest proportion of capital (55%).

9.7 VENTURE CAPITAL IN INDIA :

The need for Venture capital was recognized in the Seventh Five Year palm and long terms fiscal policy. Ir. 973, a committee on Development of small and medium enterprises recommended VC as a source of funding new entrepreneurs. The first VC promoted by ICICI and UTI was Technology

Development and Information company of India. (TDICI) Credit Capital Venture fund was the first private VC fund sponsored by Credit Capital. Finance Corporation & Bank of India. Asian Development Bank (ADB) a Common Wealth Development Corporation. (CDC).

9.8 TYPES AND CLASSIFICATION.

i) VCFS promoted by Central Government Financial Institutions –

Name	Promoter :
TDICI	ICICI
Risk Capital and Technology Financial Corporation (RCTFC)	IFCI
Risk Capital fund	IDBI

ii) VCs promoted by State Financial Corporations.

Name	Promoter
Andhra Pradesh Venture capital Ltd. (APVCL)	APSFC
Gujarat Venture Finance	Gujarat Industrial Investment Corporation(GIIC).

iii) VCs promoted by public sector banks,

SBI Cap – SBI
Cainfina -- Canara Bank

iv) VCFs promoted by foreign banks or Private Sector Companies.

Indus Venture Fund, Credit Capital Venture Fund, Grindlay's India Development fund

Domestic Funds and Offshore Funds:

Most of the domestic venture capital funds are governed by Indian Trust Act, 1882. An Asset management company (AIMC) acts as trustee to the fund. Some domestic Funds have three tier structure with AMC and a separate trustee company. Vc funds U.S. and U.K. are operated under Partnership Act. Offshore funds are set up in many countries, particularly in tax havens of Mauritus. The Mauritus Based companies are totally exempted from paying capital gains tax.

Table – 2 : Domestic and Offshore funds.

	Head	Domestic	offshore.
1.	Location	India	Mauritius. Hongkong
2.	Corpus size	Small Upto Rs.30crores	Larger in size
3.	Size of investment	Averages Rs.50 lakh to Rs.2.5 Crore	Average Rs.8 Crore
4.	Invested Companies	Small & medium companies.	Existing large Enterprises
5.	Structure	Registered with SEBI as Trustee Follow SEBI guidelines	Registered Follow SEBI Registered with SEBI Guide lines.

Private & Public Vcs :

Private Vcs are more aggressive in capture of business and management of companies they assist as board member Besides finance, they after, technical and management impact.

9.9 CHARACTERISTICS :

The venture capitalist provides finance through equity, quasi- equity, conditional loan and income notes. All vcs provide equity capital which is generally lower than promoters equity so that majority ownership and control rests with the promotes.

The quasi-equity instruments, like convertible debenture and convertible preference shares are converted into equity at a later date.

Conditional loans are really no loans, as there is no repayment of principal or interest. It is repayable in the form of royality ranging between 2 to 15% depending on the gestation period, cash flow, risk and a host of other conditions.

In come note, is a hybrid of simple loan and conditional loan. The entrepreneur pays both interest at low rate and royalty on sales.

9.10 ROLES

Position	Role
Venture Capitalist background	Operational background, Investment Or Corporate Experience.
General Partners	They make investment decisions.
	They put in personal capital of 1-2% of the Venture capital fund.
Principal	Mid-level investment professional position.
Associate	Junior apprentice – worked for 1-2 years in investment banking
Entrepreneur In Residence	Expert in a particular industry- performs due diligence.
(ER)	Hired temporarily to develop startup ideas.

9.11 STRUCTURE

Life - 10 years
Investing cycle - 3 to 5 years, the focus on existing portfolios.
Funds : Traditional
Investors invest with equal terms.
Different investors have different terms
Vcs get : Managements fees up to 2% of the committed funds.
Carried Interest : A share of profits up to 2% paid as performance incentive.

9.12 VENTURE CAPITAL FINANCING PROCESS:

The financing process by Vcs is in 5 stages.

- The seed stage
- The startup stage
- The second stage
- The third stage
- The fourth stage – pre – public stages.

- The seed stage. This is financing at the idea generation stage with high risks. It is not known whether the idea/product wise click or not. If the idea is not considered feasible, Vc may not, invest.

The startup stage : The business plan is available. Early stage firms require the finance for marketing and product development stage. Vc examines progress of market research.

The Second Stage : In early stage. Vc companies are selling product but not yet turning profit. The firm‘s standing and product quality are known. So also their management capability, how the firm is on its own, Why and how they face international competition. The Vcs monitor management capability of the firm.

The third stage : The Vcs increased market share this needs strong link with sailing and marketing companies. The life cycle of existing product / service is examine. The Vc firm monitors objectives mentioned in the second stage.

Financial Stage	Period funds locked for years)	Risk perception	Activity to be financed
Seed money	7-10	Extreme	Supporting idea
Start up	5-9	Very high	Developing prototypes
1st – stage	3-7	High	Starts commercial production and marketing
2nd stage	3-5	Self	Expands market
3rd Stage	1-3	Medium	Market expansionfor Profit making company
4th Stage	1-3	Low	Facilitates public issue

The bridge stage: As the firm gains maturity, it eliminates competition by takeovers / merges / acquisition of another company. The stage is set for public issue. The purpose is to examine product positioning and introduce follow up product / services. Risks are not completely eliminated but. After public issue stage, risks are substantially reduced.

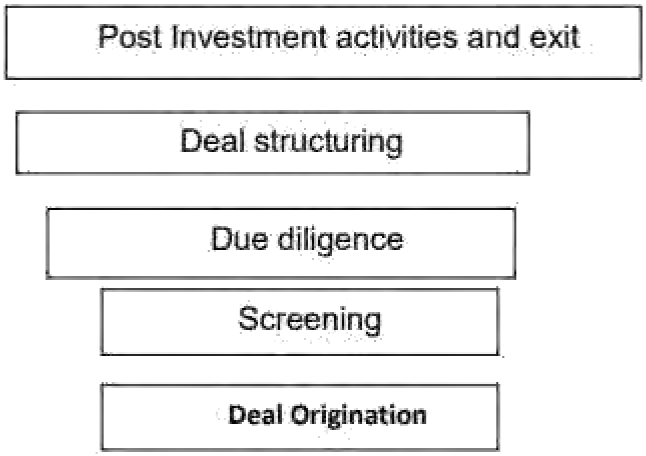
Stages and risk of financing

Venture capital process

Investment activities of Vc is in five stages

- Deal origination
- Screening
- Evaluation or due diligence
- Deal structuring
- Post investment activities and exit.

Post investment activities and exit.



Deal origination : Deals may be referred to the VCs through their organization, trade partner, industry associations etc. consultancy firms like MC Kinsey and Arthur Anderson have conducted business plan competitions and have direct interaction with Premier educational and research institutes to source new ideas.

Screening : VC funding is channelized in familiar areas in terms of product, and technology. Location and size of investment may be screening criteria.

Due Diligence : After initial screening, the project goes through due diligence. VCs evaluate the quality of entrepreneurs, before examining products, market or technology. They examine business plan to asses possible risk and return on the project. Vcs direct conduct detailed evaluation as the entrepreneurs lack experience in the line of business. Vc examines

- Back ground
- Market and competitors
- Marketing and Sales Strategy
- Organisation and Management
- Finance and legal aspect.

The investment valuation process evaluates acceptable price for the deal. On projected revenue and profitability, market capitalization and expected returns, the valuation process is carried out. Economic scenario, founder‘s track record, reputation, innovation, size of potential market and such other economic consideration, are taken into account.

Deal structuring:

Once evaluation of the venture is completed Vc and the company negotiate amount, form and price of the investment, in deal structuring. Vc‘s right to control the investing the company, buy back arrangement, marketing initial public offering (IPO)
and other details are worked out at this stage. The company and VC negotiate return commensurate with risk and the latter influences the firm through board membership including the right to replace management in case of managerial failures. The efforts are always to balance venture capital‘s return and entrepreneur‘s profitability.

Post investment activities & exit :

Vc has controlling interest in management and extents influence in improving the quality of marketing, finance and management functions. But he should not be involved in day-to-day operations. He assumes the role of collaborator or partner, allowing the entrepreneur freedom to manage the venture for profit, may be after time lag. VC will aim at medium / long term capital gains. Venture capitalist looks for

- Return commensurate with risk
- Minimizes tax.
- Influencing the firm through Board membership
- Assuring investment liquidity
- Right to replace management in case of poor performance.

The following exit routes are available:

Initial public Offer (IPO) – The investing company goes through stock exchange, raises money and VC exit.

Trade sale: VC sells their stake to a strategic buyer who owns a similar/ complementary business.

Promoter buy back: The promoters buys back the stake or VC at a predetermined price.

Company buys back: The company buys back VC‘s stake by a predetermined price.

Management buy out : The operating management group acquires the business by a by the promoter‘s equity.

Venture capital is invested in India in

- It and IT enabled services
- Software products
- Telecom / Semi conductor
- Banking
- PSU divestments
- Media
- Biotechnology
- Pharmaceuticals
- Electronic Manufacturing
- Retail

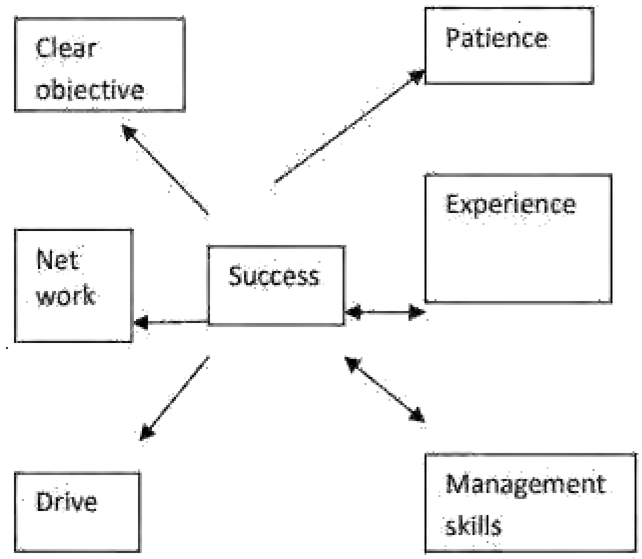
City	Sector
Mumbai	Software Service BPO, Media, Animation, Computer Graphics.
Bengaluru	IT & ITES, Biotechnology,
Delhi	Software Services, Telecom
Chennai	IT, Telecom
Hyderabad	IT & ITES, pharmaceuticals
Pune	Biotechnology, IT, BPO

During the period 2004-2008, the industry growth rate was the fastest globally. A study based on investment cycle in entirety, involving 1503 firms, found that Vc investments were in the late stage financing and took place many years after the incorporation of investing company. The industries saw short duration of the investments. Vc should be acting as long term investment agency.

India has also emerged as one of the largest marketplaces for social venture investing, An analysis of 523 deal in 212 companies found several characteristics such as smaller investment size, early, stage investing, and longer investment duration. The scale of Microfinance Company was an important criterion for investment. A study of 1059 incubatees, from 40 incubators found that Universities played an important role – 67% of the incubators are based in University. Most of the venture fund and private equity investments are seen in metro cities whereas in the incubation, most of the incubation centers and incubates are located in the non-metro cities. Vc & Pc investments are largely driven by the public sector which plays an important role in incubation support and financing.

Key factors for the success of the investing companies are:

- Clear and objective thinking.
- Operational experience in a set up.
- People management skills.
- Wide network of contacts
- Knowledge of all facets of business - marketing, finance and HR.
- Patience to pursue the final goal.



What does venture capital look for :

- A growing market . A unique product
- An acquisition target
- Second business plan.
- Significant gross profit Margin.

Advantages :
From point view of economy:

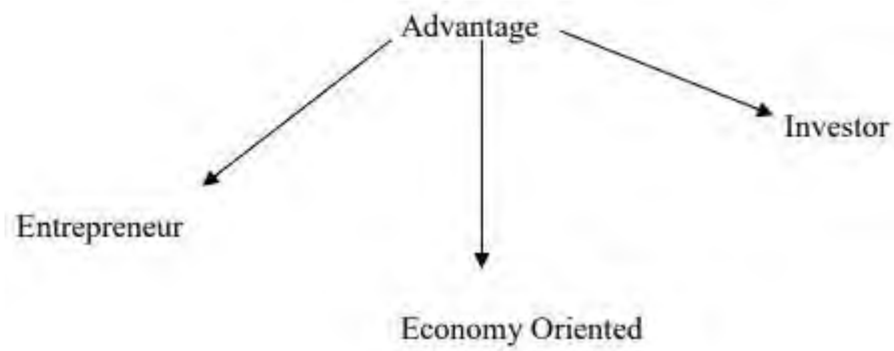
- Helps industrialization
- Helps technological development
- Generates employment
- Develops entrepreneurial skill.

From Point of view of investors:

- Profit to venture capital company
- Employs their idle fund in productive channels
- Less risk to investors as they are invited to invest after company earns profit.

From point of view of entrepreneur :
Finance : The Vc gives long term equity finance necessary for economic growth on a sound basis.
Mentoring: Vc provides strategic, operational and financial advice to the investing company.
Alliances :
Vc has a network of contacts in the country and outside. He can introduce strategic partners and bring co-investment with other Vc Firms.

Business partners: Vc is rewarded by business success, apart from capital gains.



9.13 PROBLEMS AND PROSPECTS:

1. Taxation offshore funds which invest in large Industries are exempted from tax . Domestic funds which invest in small and medium industries are tax.
2. **Service Sector:** The provisions of section 10 (23) F of the income Tax Act restricts Venture capital in the Service Sector except IT.
3. **Tech Industries :** Tech industries such as telecommunication, project consultancy, testing services, tourism related services, health released services should qualify for exemption under Income Tax Act.
4. **Income Tax :** Under the Act, V.C. funds are to invest in equity instruments. In other countries, convertible preference share and partly convertible debentures finance Vc company.
5. **Lengthy and complex process:** Need detailed business plan, financial projections etc.
6. **Legal and accounting fees :** In the deal negotiation stage, the interesting companies have to pay these fees which add to cost.
7. **Loss of autonomy or control:** Investors become part owners, the founder loses autonomy or control some extent.

Alternatives:

Venture capital is not suitable for all business

- Not for average company.

Venture capitals look for company with superior products or services.

- Qualities of management.

Venture capitalist look for quality and depth of management which is not very much is evidence in micro and small scale enterprises.

- **Exit**

Ease of doing business is low in India. Vcs find if difficult to invest when they do not have any means to exit.

- Entrepreneurs seek funding from angel investors who are not as rigid as Vc and who invest in speculative opportunities.

Bootstrapping : many startups seek self finance sweat equity until they approach Vc or angel investors.

Equity crowdfunding: It is an alternative to traditional Vc. Crowdfunding is appealing to large number of ordinary people for small donations. This applied in charities has been in use by the entrepreneurs. The cost of fund is low.

Vulture Capitalist :

There are vulture capitalist who invest in distressed firms on the verge of bankruptcy. They reduce cost by firing workers and reducing benefits, raise share price and sell the venture with increased profit. As they add to of cost of unemployment to the society, they are said to be vultures preying the weak firms in distress.

Sweat equity :

Some investing firms offer sweat equity to their employees who as opposed to financial equity will receive stock or stick options with a less than currently prevailing salary, sometimes zero wages. Sweat equity in a party‘s contribution to a project in the form of efforts. They offer similar conditions to venture capitalists. This is also known as books trapping.

Venutre leasing :

A leasing arrangement in which the lessor provides both the asset and equity capital to the lessee is venture leasing.

Advantages :

- Start-ups minimise initial investment.
- Rentals may be linked to cash, profit and lessee is benefitted.
- Asset risks is borne by the lessor, not lessee.

Disadvantages :

- Depreciation tax-shield is enjoyed by the lessor
- Lower debt capacity for the lessee

9.14 LET US SUM UP

Finance is required for starting new business or venture and for expansion / modernisation of existing business / industry.

There are 3 types of finance – short term, medium term and long term. Sources of finance are:-

- Internal – Paid up capital reserve surplus and provisions
- External – Borrowing from commercial banks, financial institution, govt and other trade dues.

The purpose is working capital and/or term loan for acquisition of land and building, plant and machinery.

Venture Capital helps starting and expanding business/industry. No return without risk and greater the risk, greater will be the returns is the philosophy. Venture capitalists play dual role that of strategic advisor and financial partner.

The modes of external resource generation are Licensing, Franchising, joint ventures and merger and acquisitions. These help both the parties involved for geographical extension of market and increased profit.

Financial statements:- analysis and interpretation helps in securing working capital and term loan. The principal financial tools like Ratio Analysis, Break Even Analysis, Fund Flow Analysis, Cash Budget and Trend Analysis indicates financial health of the unit and quantum of finance required for their operation/ modernisation. Factors affecting working capital requirement are nature of business, growth of business. production policy, period of conversion, profit policy and Government policy. They methods of working capital assessment are:

1. Projected balances sheet method.
2. Cash budget method
3. Operating cycle method
4. Turnover method.

- Term loans are assessed on the basis of managerial competence, technical feasibility, commercial viability and financial viability. The tools of analysis are: Break Even Analysis, Ratio Analysis and Sensitivity Analysis.Venture capital is a type of private equity, a form of financing provided by firms to small, early, stage, emerging firms that shows growth or that are deemed to have high growth potential. The venture capitalist does not demand collaterals and works on the principle _no return without risk's and greater the risk, greater will be the return'. Wealthy individuals or families were offering private equity. By

  2013, the number of Vc firms in U.S. rose to 79. They raised capital of $28.2 billion's In India, there are venture capital funds promoted by all Indian and state financial institutions e.g. TDICI, RCTFC and RCF promoted by ICICI,, IFCI, and IDBI respectively. SBI Cap, Canfina have ban promoted by SBI and Canara Bank respectively. Offshore funds are set up in tax havens like Mauritus where the companies are exempted from passing capital gains tax. Private Venture funds are more aggressive in capture of business.
- Vcs Provide finance through equity, qulasi-equity, conditional loan and income notes. The venture capitalists usually have operational's investment background. There are general partners, principals, associates and ER with different background this is gate upto 2 percent of the committed funds as management fish. And 20% share up profits as performance incentives.
- The financing process by Vc is in five stages.
- The seed stage, the startup stage, the second stage, the third stage and the fourth stage.

- The investment activity is also in five stages. Deal origination, screening evolution or due diligence, deal structuring and post investment activities including exit.

- Venture capital in India is invested in IT & enabled services, software products, telecom, banking, media, biotechnology, pharmaceuticals and retail.
- **Advantages of Vc** are **:** Generating employment, helping industrialisation, developing entrepreneurial skill, providing strategic, operational and financial advice, to the entrepreneur, Vcs have problems of taxation and Income tax act restricts Vc in the service sector except IT. The firms have to Pray the legal and accounting fees which adds to their cost. The financed firms lose autonomy or control to some extent.
- Venture leasing is a leasing arrangement in which the lessor provides both asset and equity capital to the lessee. venture teasing. Thereby, the startups gain initial investment.
- There are alternatives to venture capital.
- Entrepreneurs seek seed funding from angel investors. They raise funds by bootstrapping equity crowd funding or sweat equity investment.

9.15 KEY TERMS :

- **Short Term Finance: -** Funds required for a period of 1 year or less, basically for working capital.
- **Medium Term Finance: -** Period of 1 years to 5 years for expansion, replacement, purchase of machinery.
- **Long Term Finance: -** Period exceeding 5 years for substantial expansion of business/industry, modernisation.
- **Venture Capital: -** Venture Capitalist provides an agreed proportion of the equity of the company in return for requisite funding.
- **Licensing: -** The Licensor permits licensee the right to use certain intangible properties and assets owned by the venture against payment of royalty or licensed fees.
- **Franchising: -** A specialised form of licensing in which the franchisor sells franchisee the use of intangible property while operationally assisting the business on a continuous basis.
- **Strategic Alliance: -** Alliance like merger and joint ventures for growth and profit of both the concerned parties.
- **Joint Venture: -** The alliance for newer brand Product/Services/Technology for geographical expansion and profit.
- **Merger & Acquisition: -** Two organisations combine to become bigger entity with geographical expansion economy of scale and added profit.
- **Private Placement: -** An offer and acceptance of equity or other securities to a limited number of high worth individuals or financial institutions.**Venture Capital :** Venture capital is a type of private equity, provided to small, early stage emerging firms that so growth or that are deemed to have high growth potential.
- **Conditional Loan :** It is really no loan, it is repayable in the form of royalty, depending on the gestation period.
- **Income note :** It is a hybrid of simple loan and conditional loan.

- **Entrepreneur in residence (ER) :** Experts in a particular industry perform due diligence.
- **Due Diligence :** Vcs evaluate product, market and technology and above all, the quality of entrepreneur. They examine business plan to assess possible risk. The process is known as due diligence.
- **Exit Route :** Initial public offer (IPO) Trade sale, Promoter buy back, Company buy back
- **Offshore funds :** Funds generally set up in tax havens like Mauritius.
- **Bridge Stage :** It is the fourth stage of Vc financing process. The firm gains maturity. It eliminates competition by takeover/ acquisition of another company. The stages is set for public issue.
- **Crowd funding :** Appealing to large number of ordinary people for small donations.
- **Sweat equity :** Offered to employees as stock option without wages or with low wages / salary.
- **Trade Sale :** Vc sells their stake to a strategic buyers who owns a similar/complementary business.
- **Venture Leasing :** A leasing arrangement in which the lessor provides both asset and equity capital to the lessee.
- **Vulture Capitalist :** These who prey on the weak firms in distress.

9.16 SELF ASSESSMENT QUESTIONS

1. How is Short Term Finance different from Long Term Finance for Industry / business.
2. What are components of short term finance for enterprises?
3. What is Licensing? How is it different from Franchising?
4. What are the advantages and disadvantages of Joint Venture?
5. What is venture capital ?
6. Explain various types of venture capital ?
7. Explain
   i) Alternatives to venture capital funds.
   ii) Screering in capital process
   iii) Seed stage of financing process
   iv) Offshore funds
   v) Conditional loans

9.17 FURTHER READINGS

1. Pandey I.M., Venture capital : The Indian experience, Prentice Hall, New Delhi
2. SEBI – SEBI (venture capital funds)Regulations, 1996.
3. Sahay A and Sharma V, Entrepreneurship and new venture creation, Excel, New Delhi.
4. Desai V., The Dynamics of Entrepreneurial Development and Management, Himalaya

9.18 MODEL QUESTIONS

1. Explain the sources of finance for industry / business.
2. Write merits and demerits of Licensing and Franchising.
3. How does Joint Venture help business / industry?
4. Is Merger and Acquisition is beneficial? Examine from the viewpoints of the involved parties, government and economy as such.
5. Explain venture capital process. How to approach a venture capitalist ?
6. Explain venture capital functioning process
7. State benefits of venture capital fund. Why is venture capital not suitable for all businesses ?
8. Examine exit routes for venture capital.

UNIT-10 ENTREPRENEUR'S ASSOCIATIONS AND SELF-HELP GROUP

Learning Objectives

After completion of the unit, you should be able to:

- Understand the definition of Small Scale Enterprises.
- Know the role of Small Scale Enterprises.
- Make out the classification of Small Enterprises.
- Understand the problems of Small Scale Enterprises.
- Appreciate the recent initiatives by the Government.
- Understands; concept of self-help group

Structure

10.1 INTRODUCTION

The industrial policy resolutions have given special role to the small scale sector. The small scale sector plays a pivotal role in the Indian economy in terms of employment, output and exports. The growth in this sector has resulted into wider dispersal of industrial and economic activities and ensures better use of local resources. The small sector covers a wide spectrum of industries and small scale services and business enterprises and thus is referred to as small scale Enterprises (SSEs). SSEs include modern small scale industries (SSIs), tiny enterprises, small scale service enterprises and village and cottage industries.

10.2 DEFINITION OF SMALL SCALE ENTERPRISES (SSES)

The definition of SSEs is based on the criterion of value of plant and machinery which has been revised over the years. At present the small industrial unit has been classified as follows:

i) **Small Scale Industrial Units** (SSI) units having investment in plant and machinery upto Rs.1 crore.
ii) **Ancillary Industrial Units** having investment in plant and machinery upto Rs.1 crore. Such an undertaking must sell not less than 50 percent of its output to other industrial undertakings.
iii) **Export-oriented Units** having investment in plant and machinery upto 1 crore. The unit must export at least 30 percent of its output by the end of three years from the date of commencement of production.
iv) **Tiny Units** having investment in plant and machinery upto Rs.25 lakhs irrespective of location.

The investment limit in plant and machinery in case of specified Hi-tech and export oriented units has been raised to Rs. five crore to ensure suitable technology up gradation and to enable them to attain competitive edge.

Definitions of Micro, Small & Medium Enterprises under Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

In accordance with the provision of **(MSMED) Act, 2006** the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951)**.** The Manufacturing Enterprise are **defined in terms of investment in Plant & Machinery.**

b) Service Enterprises: The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.**

Thus the new definition have clearly included industrial as well service into Small Scale Enterprises(SSEs).The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as under:

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector	
Enterprises	**Investment in equipments**
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees.

(Self Test Questions)

1. What is the significance of Small Scale Enterprises?

____

____

____

____

2. Explain the following terms:

a) Ancillary units

____

____

____

____

b) Export-oriented units

____

____

____

____

c) Tiny units

____

____

____

____

10.3 MODERN VS. TRADITIONAL COTTAGE SSEs

Traditional SSEs are labor-intensive, requires specialized skills and craftsmanship which are often handed down from one generation to another. The cottage industries are generally located in the rural areas, mostly make use of local resources and cater to the local demands. These industries involve the production of conventional goods.

Modern SSEs are capital-intensive and involves high-tech in the production. These are generally concentrated in the urban areas and may procure raw materials from distant places and produce sophisticated goods that are sold both in national and international markets. These industries produce sophisticated goods.

10.4 ROLE OF SSEs

SSEs have acquired prominent role in the industrial and economic development. It has contributed significantly to the socio-economic welfare of the country. The SSEs continue to be a vibrant sector of the Indian economy. It contributes significantly to the growth of Gross domestic product (GDP), employment generation, exports and creation of entrepreneurial base. These are discussed as follows:

1. **Employment Generation:** The small scale sector contributes about four-fifth of manufacturing employment in India. The SSEs are generally labor-intensive and thus create more employment for the given amount of capital. SSEs provide employment to locally available semi-skilled and unskilled workers who would otherwise be unemployed.

Further, SSEs develop self-employment and entrepreneurial base in the country. Given the acute unemployment problem in India, creation of employment opportunities largely depends upon the development of SSEs.

During Xth plan period (2002-07), SSEs register around 4.57 percent growth in employment where as large industries growth was around 0.85 percent. It is the segment which provides employment next to agriculture. The growth in employment in this sector is much above the population growth of India (i.e1.5 percent) The employment intensity of this sector can be judged from the fact that 1 person is employed for every Rs.1.49 lakh rupees invested in fixed assets of SSEs as against 1 person for every Rs. 5.56 lakh in the large organized sector.

2. **Equitable distribution of Income and wealth:** The equitable distribution of income and wealth occurs as the large numbers of SSEs are dispersed in wide range of regions and is held by large number of people. The number of SSEs account for more than 95 percent of total industrial units in the country. Large scale industries on the other hand are owned by few big owners and so led to concentration of income and wealth in the hands of few. Further, SSEs possess much larger employment potential as compared to large enterprises. Small sector thus enable a vast majority of people to derive the benefits of economic development.
3. **Mobilization and utilization of local latent resources:** SSE mobilizes the latent i.e. unused or idle resources in terms of surplus labor, idle capital and deploys these resources in the productive activity. The SSEs provide opportunities to develop entrepreneurial skills and encourage the innovations at the grassroots level. It provides large amount of supply links by sourcing inputs from the local areas and so have greater local multiplier effect than large enterprises. This is a definite gain to the society as a whole.

4. **Regional Dispersal of Industries:** SSEs are dispersed across wide range of areas and regions. The large scale industries are concentrated in big metropolitan cities as these cities provide an easy access to the basic facilities of power, transport, roads, banking etc. as such it resulted into regional disparities with already well-off states developed faster than other. The small scale industries with localized operations spread in the remote corner of the economy. These industries can be easily set up in different parts of the country and energizes the village industries. This led to reduction of regional economic disparities.

5. **Contribution toward GDP and output growth:** SSEs contribute around 39 percent of gross manufactured output. The output in Xth plan recorded a growth rate of 8.87 percent p.a.

6. **Contributes towards Foreign Exchange:** SSEs hold a significant share in exports earnings. The products like handicrafts, gems, jewelry, carpets, carpets, silk which is a forte of SSEs possess huge demand in foreign market. These products require low import-content. Further, the financial constraints and small size of SSEs inhibit the sourcing of raw inputs from abroad and greater use of local resources and save foreign exchange. Thus SSEs contribute to the precious foreign exchange of the country. The direct exports from SSEs accounts for nearly 34 percent of total exports.

Besides direct exports SSEs indirectly contribute to the export earnings in terms of production of parts or components for use in exportable goods or export order from large units. Further, the non-traditional products account for more than 95 percent of total SSEs exports. The products groups' where SSEs dominates are sports goods, readymade garment, processed food and leather products.

7. **Arrest Rural-Urban Migration:** The rapid increase of population and lack of enough job opportunities in the rural areas has caused migration of rural population to urban areas. This excessive migration has resulted into problems like housing shortage, low level of civic facilities, growth of slums and additional social problems like theft etc. The development of SSEs in the rural areas can provide employment opportunities near the homes of rural people and so reduce rural migration.

(Self Test Questions)

1. How small scale enterprises create more quantum of employment generation?

____

____

____

____

2. Explain how mobilization and utilization of local latent resources are done by SSEs?

____

____

____

____

10.5 PROBLEMS OF SSEs IN INDIA

Concurrent with an impressive growth SSEs face number of problems which are manifested in such a way that this sector fails to achieve the required amount of dynamism and growth. The problems of SSEs are discussed as follows:

1. **Financial Problems:** Finance is the most important aspect for any industrial development. The scarcity of finance and credit is the main obstacle in the growth of SSEs. These enterprises are generally organized in sole-proprietary and partnership concerns and so have no access to the capital market. There exists insufficient equity type institutional support. Delays in institutional finance, unhelpful attitude of banks are the common problems of SSEs. The delay in sanctions of loans occur due to lengthy procedural formalities, insistence upon certificate from local authorities such as village office, block development officers etc and over-emphasis on collateral security. Banks generally avoid financing smaller SSEs due to high mortality rate, low overall recovery performance and high cost of servicing SSEs loans. In this scenario SSEs have to depend upon high interest non-institutional finance.
2. **Slow Technological Progress:** Paucity of funds is the major area for the slow adoption of innovative practices in the business. The unsatisfactory technology

delivery mechanism such as arrangement for demonstration of cost and use of new technology also cause low technical progress in SSEs. SSEs especially the cottage and village industries have to depend upon outdated and obsolete production technique. This adversely affects the quality of output and increases manufacturing cost.

3. **Marketing –Related Problems:** The problem of marketing products of SSEs generally arise due to small scale production causing high product cost, lack of standardization of product, adequate marketing research, competition from big industrial units and insufficient research and holding capacity. Another related problem is the weak bargaining power of tiny and village industries vis-à-vis large buyers which is causing long overdue from these buyers. SSEs thus fail to obtain fair and timely price for their products. Lack of proper marketing is an important factor causing sickness in SSEs. The inadequate organized marketing support for cottage and village industries also causes low promotion of their products.
4. **Lack of Proper Planning:** Planning comprises of the outlay of the quantum of output, time framework of implementation, product and marketing strategies. The performance feasibility study are often neglected by SSEs due to time and cost factors. As a consequence, SSEs face large sickness at early stage of their operation.
5. **Sickness:** There exists large level of sickness amongst SSEs. The incipient sickness (ie. Sickness at an early stage of existence) is largely due to lack of planning, professional management and financial problems. The sickness causes wastage of large amount of finances that remain locked into these units. Further, sickness also leads to various socio-economic problems such as lower production, employment and exports.
6. **Shortage of Raw Material:** Raw material scarcity caused disruption in the production process. SSEs fail to make bulk purchases and thus have to pay higher price for inputs. The suppliers of scarce raw material give preference to buyers. SSEs have to depend upon low quality localized high price raw material. Further, SSEs fail to make alternative arrangements for critical inputs such as power due to financial constraints. These factors adversely affect product quality and cost of production.

10.6 GOVERNMENT MEASURES

An important place is assigned to SSEs sector in the development policy of the country. Till 90‘s Government focused more on protectionist policy towards SSEs. The shift in policy paradigm towards this sector occurred since1991 to impart more vitality and growth-impetus to the sector. The sector has been substantially delicensed. The regulations and procedures have been reviewed and modified to instill competition and efficiency in this sector. The policy initiatives adopted to promote this sector are discussed below:

1. **Reservation:** The policy of reservation was initiated in 1967 primarily as a promotional and protective measure for exclusive production in SSEs. The number of items reserved is continually revised by Government. In 1967, 47 items were reserved for exclusive production by SSEs which expanded to 873 in October 1984. The rationale of reservation policy was to expand employment opportunities through setting up of SSEs and to protect them from competition by large enterprises. In the new global scenario with WTO agreement Government is required to remove quantitative restrictions on imports of items. A large number of items exclusively reserve for SSEs can now be freely imported. Thus the reservation has cost its relevance so **the government has drastically reduced the number of items reserved for exclusive manufacture by micro small and medium enterprises (MSME). As on March 2007, the list of items for exclusive production contains 114 items which was further reduced to 35 in February 2008. Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations.**

2. **Financial Support:** Government has made efforts to ensure adequate and timely availability of financial assistance to SSEs. RBI has issued guidelines to public sector banks to ensure 20 percent growth in credit to SSEs. Small Industries Development Bank of India (SIDBI) which is an apex institution and coordinates the financial assistance availability to SSEs has scaled up and strengthens its credit operations to this sector. The branch network of SIDBI has been increased. In order to improve an access to the capital market, the equity participation by other industrial undertaking not exceeding 24 percent of total shareholding has been allowed. The legislative changes are under way to allow limited liability partnership for SSEs. This would limit the financial liability of some partners who have invested capital. Risk capital fund has been created to provide equity-type long term loans to SSEs. The credit guarantee fund scheme is launched by government in 2000 to allow collateral free credit to SSEs.

3. **Fiscal Support:** Government has allowed tax concessions in terms of lower excise duty on production, lower sales tax on sales, tax-holiday and extended the time limit for payment of excise duty by SSEs.

4. **Marketing Support Measures:** In order to provide market support to SSEs, Government has taken following measures:

Preferential Purchases and Price Preferences by Government: **The Government** organizations are statutorily required to make specified level of purchase from SSEs and the same has to be disclosed in their annual reports. At present the number of items for exclusive purchase from SSEs stood at 358. Government also provides price preference to SSEs in their purchases over large scale units.

i) **Financial Assistance** is allowed for participation in the international trade fair by representatives of SSEs.

ii) **Training Programmes** on various aspects of marketing like marketing management, export marketing etc are conducted by Government.

iii) **Institutional Marketing Support** is provided by National Small Industries Corporation (NSIC) and Small Industries Development Organization (SIDO).

5. Institutional Support: Government has established various organizations to help SSEs. These institutions assist SSEs in purchase of raw material, marketing of goods, technological and skill improvement and arranging credit. The important organization established are Khadi and Village Industries Commission and commodity specific organizations such Handloom Board, Cottage Industries Board, Coir Board etc. Specialized financial and consultancy institutions such as SIDBI, NABARD (for supporting rural industries), SIDOs, NSIC has been established to provide financial, marketing and managerial assistance to SSEs.

6. Raw Material Assistance: The institutional support is provided to allow availability of raw material (both indigenous and imported) at fair price. The centers have been established to distribute scarce raw material to SSEs. Buffer stocks are maintained for raw materials. This has helped SSEs to focus on production of quality products.

10.7 RECENT INITIATIVES BY THE GOVERNMENT

In view of liberalization and globalization and reduced Government intervention in market-driven economy the protectionist policies has been replaced by supportive policies. The recent measures adopted by government are as follows:

i) Legislative Measures: Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development of SSEs. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first-ever legal framework for recognition of the concept of ―enterprise‖ (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. The basic purpose is to develop the consultative mechanism at the national level that represents stakeholders from three classes of enterprises. The act provides for the establishment of specific funds to support SSEs. The progressive credit policy with targeted growth of credit to SSEs has been incorporated in the Act. The mechanism has been designed to reduce the problems of delayed payment to SSEs.

ii) Support for Cluster-Based Development: The holistic approach is adopted to develop cluster of SSEs so as to provide common facilities in these clusters. The existing industrial infrastructure will be upgraded and new facilities will be created in the public-private partnership mode.

iii) Technology and Quality Up Gradation: The support is provided by establishing training-cum product development centres.

iv) Strengthening of Entrepreneurial and Managerial Development Programmes: Financial assistance is provided to B-schools to conduct tailor- made management courses for SSEs. Entrepreneurial clubs are established in the Colleges or Universities.

v) Empowerment of Women-Owned Enterprises: The concessions, marketing and credit facilities on priority basis are provided to enterprises owned and managed by women.

vi) Strengthening of Data base for SSEs: It is decided to collect database on SSEs through annual sample surveys and quinquennial (i.e. happening every five years) census so that policy decisions can be framed for SSEs based on systematic data that provides inputs for systematic policy initiatives.

10.8 SELF-HELP GROUP

Meaning

Self-help Groups (SHGs) are informal associations of people who come together to find ways to improve their living conditions. They are generally self-governed and peer-controlled.

People of similar economic and social backgrounds associate generally with the help of any NGO or government agency and try to resolve their issues, and improve their living conditions.

10.9 THE EMERGENCE OF SELF HELP GROUPS

Origin and Development in India

- The origin of SHGs in India can be traced back to the establishment of the Self-Employed Women's Association (SEWA) in 1972.
- Even before, there were small efforts at self-organising. For example, in 1954, the Textile Labour Association (TLA) of Ahmedabad formed its women's wing in order to train the women belonging to families of mill workers in skills such as sewing, knitting, etc.
- Ela Bhatt, who formed SEWA, organised poor and self-employed women workers such as weavers, potters, hawkers, and others in the unorganised sector, with the objective of enhancing their incomes.
- NABARD, in 1992, formed the SHG Bank Linkage Project, which is today the world's largest microfinance project.
- From 1993 onwards, NABARD, along with the Reserve Bank of India, allowed SHGs to open savings bank accounts in banks.
- The Swarn Jayanti Gram Swarozgar Yojana was introduced in 1999 by GOI with the intention of promoting self-employment in rural areas through formation and skilling of such groups. This evolved into the National Rural Livelihoods Mission (NRLM) in 2011.

10.10 EVOLUTION STAGES OF SELF HELP GROUPS IN INDIA

Every Self-help group usually goes through 3 stages of evolution stated below:

1. Formation of group
2. Funding or Formation of Capital

3. Development of required skills to boost income generation for the group

Many self-help groups are formed with the assistance of Self- help to promote agencies.

The various types of Self-help promoting agencies are stated below:

1. Non-governmental agencies
2. Government
3. Poverty management programmes
4. State & commercial banks
5. Microfinance institutions
6. SHG Federations
7. SHG leaders/Entrepreneurs

10.11 FUNCTIONS OF SELF HELP GROUPS

- They try to build the functional capacity of poor and marginalised sections of society in the domain of employment and income-generating activities.
- They offer collateral-free loans to sections of people that generally find it hard to get loans from banks.
- They also resolve conflicts via mutual discussions and collective leadership.
- They are an important source of microfinance services to the poor.
- They act as a go-through for formal banking services to reach the poor, especially in rural areas.
- They also encourage the habit of saving among the poor.

10.12 NEED FOR SELF HELP GROUPS

- One of the chief reasons for rural poverty is the lack of access or limited access to credit and financial services.
- The Rangarajan Committee Report highlighted four major reasons for lack of financial inclusion in India. They are:
    - Inability to give collateral security
    - Weak credit absorption capacity
    - The insufficient reach of institutions
    - Weak community network
- It is being recognised that one of the most important elements of credit linkage in rural areas is the prevalence of sound community networks in Indian villages.
- SHGs play a vital role in giving credit access to the poor and this is extremely crucial in poverty alleviation.
- They also play a great role in empowering women because SHGs help women from economically weaker sections build social capital.
- Financial independence through self-employment opportunities also helps improve other development factors such as literacy levels, improved healthcare and better family planning.

10.13 ADVANTAGES OF SELF HELP GROUPS

- Financial Inclusion – SHGs incentivise banks to lend to poor and marginalised sections of society because of the assurance of returns.
- Voice to marginalised – SHGs have given a voice to the otherwise underrepresented and voiceless sections of society.
- Social Integrity – SHGs help eradicate many social ills such as dowry, alcoholism, early marriage, etc.
- Gender Equality – By empowering women SHGs help steer the nation towards true gender equality.
- Pressure Groups – SHGs act as pressure groups through which pressure can be mounted on the government to act on important issues.
- Enhancing the efficiency of government schemes – SHGs help implement and improve the efficiency of government schemes. They also help reduce corruption through social audits.
- Alternate source of livelihood/employment – SHGa help people earn their livelihood by providing vocational training, and also help improve their existing source of livelihood by offering tools, etc. They also help ease the dependency on agriculture.
- Impact on healthcare and housing – Financial inclusion due to SHGs has led to better family planning, reduced rates of child mortality, enhanced maternal health and also helped people fight diseases better by way of better nutrition, healthcare facilities and housing.
- Banking literacy – SHGs encourage people to save and promote banking literacy among the rural segment.

10.14 PROBLEMS OF SELF HELP GROUPS (SHGS)

- Need for extending this idea into the poorest families, which is not necessarily the case at present.
- Patriarchal mindset prevailing which prevents many women from coming forward.
- There are about 1.2 lakh branches of banks in rural areas as opposed to 6 lakh villages in the country. There is a need to expand banking amenities further.
- Sustainability and the quality of operations of such groups have been questionable.
- There is a need for monitoring cells to be established for SHGs across the country.
- The SHGs work on mutual trust. The deposits are not safe or secure.

10.15 WAY FORWARD FOR EFFECTIVE SELF-HELP GROUPS

- The Government should create a supportive environment for the growth and development of the SHG movement. It should play the role of a facilitator and promoter.
- SHG Movement should be expanded to Credit Deficient Areas of the Country – such as Madhya Pradesh, Rajasthan, States of the North-East.

- Financial infrastructure should be expanded (including that of NABARD) by adopting extensive IT-enabled communication and capacity building measures in these States.
- Extension of Self-Help Groups to Urban/Peri-Urban Areas – efforts should be made to increase income generation abilities of the urban poor as there has been a rapid rise in urbanization and many people remain financially excluded.
- Government functionaries should treat the poor and marginalized as viable and responsible customers and as possible entrepreneurs.
- SHG monitoring cell should be established in every state. The cell should have direct links with district and block level monitoring system. The cell should collect both quantitative and qualitative information.
- Commercial Banks and NABARD in collaboration with the State Government need to continuously innovate and design new financial products for these groups to meet their needs.

10.16 SELF HELP GROUPS IN INDIA

1. **Kudumbashree in Kerala**

The Kudumbashree project was started in Kerala in 1998, as a community action to eradicate poverty. It has become the largest women-empowering project in India. There are 3 components namely, microcredit, entrepreneurship and empowerment. Kudumbashree is a government agency.

2. **Mahila Aarthik Vikas Mahamandal (MAVIM) in Maharashtra**

SHGs in Maharashtra were unable to cope with the growing volume and financial transactions and needed professional help. Community managed resource centre (CMRC) under MAVIM was launched to provide financial and livelihood services to SHGs. CMRC is self-sustaining and provides need-based services.

10.17 LET'S SUM-UP

SSEs enjoy inherent advantages over their larger counterparts in terms of generation of employment opportunities, equality of income and wealth and greater export potential. The globalize economy has ushered in greater accessibility to the market, need of greater linkage of SSEs with larger companies and improved manufacturing techniques. The measure adopted by Government have been attempted to alleviate the problems of SSEs. The recent initiatives have changed the outlook of business from protection to liberalization. It has created a sense of competition amongst SSEs.
The women SHGs have enhanced the status of women as participant decision makers and beneficiaries on the democratic, economic, social and cultural spheres of life and sensitised the women members to take active part in socio-economic progress of rural India.

10.18 KEY TERMS

Small Scale Industrial Units are the units having investment in plant and machinery up to Rs.1 crore.

Ancillary Industrial Units having investment in plant and machinery up to Rs.1 crore. Such an undertaking must sell not less than 50 percent of its output to other industrial undertakings.

Export-oriented Units having investment in plant and machinery up to 1 crore. The unit must export at least 30 percent of its output by the end of three years from the date of commencement of production.

Tiny Units having investment in plant and machinery up to Rs.25 lakhs irrespective of location.

Cluster-Based Development is the holistic approach to provide common facilities to all the small scale enterprises within the cluster.

Self-help Group try to build the functional capacity of poor and marginalised sections of society in the domain of employment and income-generating activities.

10.19 SELF-ASSESSMENT QUESTIONS

1. Distinguish between Small Scale and Cottage Industries.
2. Explain the role and importance of Small-Scale Enterprises in Indian Economy.
3. What are the problems facing SSEs in India?
4. Discuss Indian Government's measures to improve the development of SSEs.
5. Explain the advantages and problems of SHGs.

10.20 FURTHER READINGS

1. Desai, V, *The Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing House, Mumbai.
2. Ray, R, *Entrepreneurship* Oxford University press, New Delhi.
3. Lall, M, and Sahai, S, *Entrepreneurship,* Excel Books, New Delhi.
4. Khanka, S.S., *Entrepreneurial Development,* S. Chand & Company Ltd, New Delhi.
5. Sharma, R, Mathur, S, and Tripathi, N *Entrepreneurship Development,* Vikas Publishing House Pvt Ltd, New Delhi.

10.21 MODEL QUESTIONS

1. How does a small scale enterprise contribute towards socio-economic welfare of the country?
2. Explain the role of Small-Scale Enterprises in relation to the export-oriented units.
3. What are the major differences between the modern and traditional SSEs in India?
4. Discuss about the recent initiatives by the Government to improve upon the SSEs.

UNIT 11: BUSINESS INCUBATOR'S ROLE AND FUNCTIONS

Learning Objectives:

After completion of the unit, you should be able to:

- Understand the definition of a bank.
- Know the functions of RBI.
- Make out the classification of banks.
- Understand the functions of commercial banks.
- Appreciate the role of commercial banks in the economy.

Structure :

11.1 INTRODUCTION

In the earlier lessons, we discussed the definition and characteristics of an entrepreneur, how ideas can be generated and how they can then be translated into successful business, resources required and the ways to mobilise them. You have also understood the entrepreneurial eco- system and institutional support and government schemes for them.

In this unit, you will learn that besides government schemes, there are incubators which help the entrepreneur to start abusiness. You will know the role and importance of incubators and get insights into some key incubators in India.

In India, the definition of the business of banking has been given in the Banking Regulation Act, (BR Act), 1949. According to Section 5(c) of the BR Act, 'a banking company is a company which transacts the business of banking in India.' Further, Section 5(b) of the BR Act defines banking as, 'accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable, by cheque, draft, order or otherwise.' This definition points to the three primary activities of a commercial bank which distinguish it from the other financial institutions. These are: (i) maintaining deposit accounts including current accounts, (ii) issue and pay cheques, and (iii) collect cheques for the bank's customers.

11.2 MEANING

A business incubator is an organisation established to accelerate the growth and success of an entrepreneur through various kinds of support. An incubator provides resources and services including physical space, capital coaching, common services and networking connections. Incubators mentor as well as provide business assistance and monitor services. The new ventures are facilitated by making them aware of risks and minimising the potential cost of failures. Business incubators play a key role in providing assistance to nascent entrepreneurs particularly at the initial stages. Hence, they play the role of an accelerator for start-up ventures. The concept of business incubation emerged in the United States of America in 1942 when it was realised that due to excessive transaction cost and low social networking among innovators, many inventions could not be converted into useful products. This led to the establishment of the first business incubator, Student Agencies Inc, in Ithaca.Thereafter in 1946, an alumnus of MIT started an incubator, American Research Development(ARD).Since then, the concept of Business Incubators has rapidly spread across the world. Some of the top business incubators are in Silicon Valley, NewYork, Berlin and Singapore. The US-based International Business Innovation Association estimates that there are about 7,000 to 15,000 incubators worldwide. Incubation activity has not been limited to developed countries.Incubation environments are now being implemented in developing countries and are raising interest for financial support from organisations such as UNIDO and the World Bank.

Definitions of Business Incubation

The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development.Sherman and Chappell have defined business incubators as,"an economic development tool primarily designed to help create and new businesses in a community. Business incubators help emerging businesses by providing various support ervices, such as assistance in developing business and marketing plans, building management teams, obtaining capital, and access to a range of more specialised professional services. They also provide flexible space, shared equipment and administrative services."

11.3 ROLE OF BUSINESS INCUBATORS

(i) Physical facility support: Business incubators provide a) Physical facility eg. rentalspace, electricity, high speed internet access, market research facilities, conference hall facilities.

(ii) Support service: Business incubation as business support service like

(a) They provide Marketing assistance.

(b) Providing access to bank loans, loan funds and guarantee.

(c) Incubators help with presentation skills.

(d) They link to higher education resources.

(e) They link to strategic partners.

(f) They provide Access to angel investors or venture capital.
(g) They organise comprehensive business training programmes.
(h) They act as Advisory boards and mentors.
(i) They help in Management teamidentification.
(j) They help with business etiquette.
(k) They provide technology commercialisation assistance.
(l) They help with regulatory compliance.
(m) They provide Intellectual property management.
(n) Incubators help in accounting facilities/financial management
(o) Incubators help in Market Research

(iii) Networking facilities: Business incubators provide networking facilities to the members. It encompasses a set of relationships with various agents or organisations. Building networks shortens and accelerates the firms' learning process.

As the phrase itself implies, business incubators are programmes intended to help small businesses get off the ground. They almost always provide both services and rental space to fledglings. The services typically include administrative help, consulting and referral. Incubator programmes are managed by public and private agencies. Business incubators are perceived to be a mainstay of economic development programmes. They create value by combining the entrepreneurial drive of a start-up with resources generally not available to new ventures. The primary objectives of business incubators arecreating employment opportunities in the local economy and commercialising technologies.

A non-business organisation incubator or an academic institution incubator is not for profit. They have an objective of promoting an enterprise and facilitating the implementation of the process of creating an enterprise. The role of these incubators has been to create some kind of forum whereby science and technology researchers as well as students and entrepreneurs come together to create an enterprise.

The other models of incubators comprise those supported by organisation such as Microsoft,Infosys, Wipro, Intel etc. They promote their own employees to spin off an idea and create new products or change an existing set up. If the idea is successful, the company goes ahead, giving the founders a return on their innovation. There are certain venture capitalists that run their own incubators themselves. The major benefit of an incubator is that it insulates the entrepreneur from the impact of the macro and micro business environment.

11.4 ADVANTAGES OF INCUBATORS

Given the myriad advantages associated with membership in an incubator programme, small business consultants often counsel their clients to at least investigate the possibility of securing a spot in one. Strengths of incubators include:

1) Shared Basic Operating Costs

Tenants in a business incubator share a wide range of overhead costs, including utilities, office equipment, computer services, conference rooms, laboratories and receptionist services. Basic rent costs are usually below normal for the region in which the fledgling business is operating, which allows entrepreneurs to realise additional savings. It is worth noting, however, that incubators do not allow tenants to remain in the programme forever; most lease agreements at incubator facilities run for three years, with some programmes offering one or two one-year renewal options.

2) Consulting and Administrative Assistance

Incubator managers and staff members can often provide insightful advice and/or information on a broad spectrum of business issues, from marketing to business expansion financing. Small business owners should remember that the people responsible for overseeing the incubator programme are usually quite knowledgeable about various aspects of the business world. They are a resource that should be fully utilised.

3) Access to Capital

Many business incubators help entrepreneurs acquire capital by means of revolving loan and micro-loan funds, according to NBIA. They link businesses to investors by referral. They assist entrepreneurs in preparing presentations to venture capitalists and assist companies in applying for loans. Start-ups are helped in raising capital merely by having been accepted by an incubator programme. These programmes act as a qualifying filter. Those who are accepted gain legitimacy in the business community.

4) Universality of Incubator Concept

One of the key advantages of incubators is that the concept works in all communities of all shapes, sizes, demographic segments and industries. In many cases, the incubator naturally takes on some of the characteristics of the community in which it is located. For example, rural-based incubators may launch companies based on the agriculture present in the area.

5) Comradeship of Fellow Entrepreneurs

Many small business owners that have launched successful ventures from incubators cite the presence of fellow entrepreneurs as a key element in their success. They note that by gathering entrepreneurs together under one roof, incubators create a dynamic environment wherein business owners can

(a) provide encouragement to one another in their endeavours;

(b) share information on business-related subjects; and

(c) establish networks of communication that can serve them well for years to come.

11.5 FUNCTIONS OF AN INCUBATOR

a) Act as a "safe house" for start-ups as they provide the requisite knowledge that entrepreneurs need when starting out.

b) Spurring entrepreneurial talent resulting in greater number of successful start-up ventures.

c) Central to innovation as entrepreneurs have ready to use infrastructure for their ideas.

d) Enhance probability of success of start-ups, ensuring societal andeconomic benefits.

e) Act as a centre for innovation for industries local to the area where the incubator is.

f) Create employment at lower cost per job in the region.

g) Act as a nodal point for aggregation of stake holders of the entrepreneurial eco-system – innovators, government, financial institutions, entrepreneurs, investors and mentors.

h) Act as a local/regional expert in policy framework development.

i) Promote regional growth and development.

11.6 FACTORS AFFECTING CHOICE OF INCUBATOR

Many incubators have been pivotal in nourishing small businesses to the point where they can make it on their own. But observers note that the programmes are not fool proof. Some small businesses fail despite their membership in such programmes; incubators themselves sometimes fold up, crippled by a number of factors. Entrepreneurs, then, need to recognise that some incubators are better suited to meet their needs than others. Considerations to weigh when choosing an incubator include:

Is it a true incubator: Some office building owners falsely advertise themselves as incubators to lure tenants. Entrepreneurs need to study the details of each offer to determine whether such claims are legitimate.

Length of Operation: Incubators take some time to establish their reputation unless they are sponsored by a high-profile corporation or a well-funded government agency.

Incubator Leadership: Many analysts contend that entrepreneurs can learn a great deal about the fundamental quality of an incubator programme simply by studying the programme's leadership. Is the incubator managed by people with backgrounds in business, or by general college or agency administrators? Can the managers provide long-termbusiness plans that show how they intend to guide the incubator to financial independence?

Location: Does the incubator's setting adequately address your fledgling company's needs in terms of target market, transportation, competition, and future growth plans?

Financing: Is the incubator's financial base a reliable one, or is it on shaky ground? Would-be small business owners should have a complete business plan in hand before applying for entrance into an incubator programme. Most incubators maintain a stringent screening process to ensure that their resources are put to the best possible use.

11.7 INCUBATOR NETWORKS IN INDIA

In May 2017, India had the third-highest number of start-up incubators and accelerators in the world after China and the USA, according to National Association of Software and Services Companies (NASSCOM) and Zinnov Consulting.

With 140 incubators and accelerators, India inched past Israel, whose count stood at 130. However, the gap with the top two is still huge. China and USA have over 2,400 and 1,500 incubators and accelerators, respectively.

Bangalore, Mumbai and Delhi-NCR continue to be the hubs, with more than 40 per cent of all incubators and accelerators concentrated in these areas. There has also been a steep rise in the number of incubators based in TierII cities.

An incubator typically mentors a start-up for six months to three years, providing resources such as dedicated office space, networking with investors and technical training, among other things. In comparison, an accelerator typically hand-holds for three to 12 months, providing sessions on venture capital, road shows, CEO coaching and developer tools.

Only recently, The Nudge Foundation, which is backed by Infosys co-founder Nandan Nilekani, Tata Trusts and other industry heavy weights, launched NCore, an incubator for non-profit start-ups working towards poverty alleviation. This was set up in July 2015 in Bengaluru. Chipmaker Intel India, IITBombay's Society for Innovation and Entrepreneurship and the Central Government's Department of Science and Technology came together to start a hardware incubator programme in August 2004.

Most incubators in India are run by academic institutions (nearly 51per cent) while the rest are either corporate (nine per cent), independent (32 per cent) or government-supported (eight per cent), the report shows.

Start-up Incubation (also known as start-up accelerators) hold significant importance in a country like India where entrepreneurs by the score are launching new setups and changing the game of business in minutes. For the uninitiated, **start-up incubation programmes or centres** provide support functions, mentorship and resources to individual entrepreneurs or entrepreneurial setups.

This enables them to get all the expert advice and technical guidance that they need to survive for a longer time, unlike most other entrepreneurial ventures that fizzle out within a few months of their launch.

Almost every other prestigious B-school today houses an incubation centre so that great ideas can be nurtured from their very source. There are number of incubation centres supported by the ISBA which is the apex Indian professional body supporting business incubators. Private incubators are a handful, but growing gradually.

11.8 EVOLUTION OF COMMERCIAL BANKS IN INDIA

The commercial banking industry in India started in 1786 with the establishment of the Bank of Bengal in Calcutta. The Indian Government at the time established three Presidency banks, viz., the Bank of Bengal (established in 1809), the Bank of Bombay (established in 1840) and the Bank of Madras (established in 1843). In 1921, the three Presidency banks were amalgamated to form the Imperial Bank of India, which took up the role of a commercial bank, a bankers' bank and a banker to the Government. The Imperial Bank of India was established with mainly European shareholders. It was only with the establishment of Reserve Bank of India (RBI) as the central bank of the country in 1935, that the quasi-central banking role of the Imperial Bank of India came to an end. In 1860, the concept of limited liability was introduced in Indian banking, resulting in the establishment of joint-stock banks. In 1865, the Allahabad Bank was established with purely Indian shareholders. Punjab National Bank came into being in 1895. Between 1906 and 1913, other banks like Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. After independence, the Government of India started taking steps to encourage the spread of banking in India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank taking over the Imperial Bank of India and integrating with it, the former state-owned and state-associate banks. Accordingly, State Bank of India (SBI) was constituted in 1955. Subsequently in 1959, the State Bank of India (subsidiary bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. To better align the banking system to the needs of planning and economic policy, it was considered necessary to have social control over banks. In 1969, 14 of the major private sector banks were nationalized. This was an important milestone in the history of Indian banking. This was followed by the nationalization of another six private banks in 1980. With the nationalization of these banks, the major segment of the banking sector came under the control of the Government. The nationalization of banks imparted major impetus to branch expansion in un-banked rural and semi-urban areas, which in turn resulted in huge deposit mobilization, thereby giving boost to the overall savings rate of the economy. It also resulted in scaling up of lending to agriculture and its allied sectors. However, this arrangement also saw some weaknesses like reduced bank profitability, weak capital bases, and banks getting burdened with large non-performing assets. To create a strong and competitive banking system, a number of reform measures were initiated in early 1990s. The thrust of the reforms was on increasing operational efficiency, strengthening supervision over banks, creating competitive conditions and developing technological and institutional infrastructure. These measures led to the improvement in the financial health, soundness and efficiency of the banking system. One important feature of the reforms of the 1990s was that the entry of new private sector banks was permitted. Following this decision, new banks such as ICICI Bank, HDFC Bank, IDBI Bank and UTI Bank were set up. Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. However, given the increasing sophistication and diversification of the Indian economy, the range of services extended by commercial banks has increased significantly, leading to an overlap with the functions performed by other financial institutions. Further, the share of long-term financing (in total bank financing) to meet capital goods and project financing needs of industry has also increased over the years.

11.9 CENTRAL BANKING AUTHORITY – RBI

The central bank of the country is the Reserve Bank of India (RBI). It was established in April 935 with a share capital of Rs. 5 crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of Rs. 100 each fully paid which was entirely owned by private shareholders in the beginning. The Government held shares of nominal value of Rs. 2, 20,000.

Reserve Bank of India was nationalized in the year 1949. The general superintendence and direction of the Bank is entrusted to Central Board of Directors of 20 members, the Governor and four Deputy Governors, one Government official from the Ministry of Finance, ten nominated Directors by the Government to give representation to important elements in the economic life of the country, and four nominated Directors by the Central Government to represent the four local Boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Boards consist of five members each Central Government appointed for a term of four years to represent territorial and economic interests and the interests of co-operative and indigenous banks.

The Reserve Bank of India Act, 1934 was commenced on April 1, 1935. The Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank.

The Bank was constituted for the need of following:
- To regulate the issue of banknotes
- To maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage.

Objective

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

Functions of Reserve Bank of India

The Reserve Bank of India Act of 1934 entrust all the important functions of a central bank the Reserve Bank of India.

Bank of Issue

Under Section 22 of the Reserve Bank of India Act, the Bank has the sole right to issue bank notes of all denominations. The distribution of one rupee notes and coins and small coins all over the country is undertaken by the Reserve Bank as agent of the Government. The Reserve Bank has a separate Issue Department which is entrusted with the issue of currency notes. The assets and liabilities of the Issue Department are kept separate from those of the Banking Department. Originally, the assets of the Issue Department were to consist of not less than two-fifths of gold coin, gold bullion or sterling securities provided the amount of gold was not less than Rs. 40 crores in value. The remaining three-fifths of the assets might be held in rupee coins, Government of India rupee securities, eligible bills of exchange and promissory notes payable in India. Due to the exigencies of the Second World War and the post-was period, these provisions were considerably modified. Since 1957, the Reserve Bank of India is required to maintain gold and foreign exchange reserves of Ra. 200 crores, of which at least Rs. 115 crores should be in gold. The system as it exists today is known as the minimum reserve system.

II. Banker to Government

The second important function of the Reserve Bank of India is to act as Government banker, agent and adviser. The Reserve Bank is agent of Central Government and of all State Governments in India excepting that of Jammu and Kashmir. The Reserve Bank has the obligation to transact Government business, via. to keep the cash balances as deposits free of interest, to receive and to make payments on behalf of the Government and to carry out their exchange remittances and other banking operations. The Reserve Bank of India helps the Government - both the Union and the States to float new loans and to manage public debt. The Bank makes ways and means advances to the Governments for 90 days. It makes loans and advances to the

States and local authorities. It acts as adviser to the Government on all monetary and banking matters.

III. Bankers' Bank and Lender of the Last Resort

The Reserve Bank of India acts as the bankers' bank. According to the provisions of the Banking Companies Act of 1949, every scheduled bank was required to maintain with the Reserve Bank a cash balance equivalent to 5% of its demand liabilities and 2 per cent of its time liabilities in India. By an amendment of 1962, the distinction between demand and time liabilities was abolished and banks have been asked to keep cash reserves equal to 3 per cent of their aggregate deposit liabilities. The minimum cash requirements can be changed by the RBI. The scheduled banks can borrow from the Reserve Bank of India on the basis of eligible securities or get financial accommodation in times of need or stringency by rediscounting bills of exchange. Since commercial banks can always expect the Reserve Bank of India to come to their help in times of banking crisis the Reserve Bank becomes not only the banker's bank but also the lender of the last resort.

IV. Controller of Credit

The Reserve Bank of India is the controller of credit i.e. it has the power to influence the volume of credit created by banks in India. It can do so through changing the Bank rate or through open market operations. According to the Banking Regulation Act of 1949, the Reserve Bank of India can ask any particular bank or the whole banking system not to lend to particular groups or persons on the basis of certain types of securities. Since 1956, selective controls of credit are increasingly being used by the Reserve Bank.

The Reserve Bank of India is armed with many more powers to control the Indian money market. Every bank has to get a license from the Reserve Bank of India to do banking business within India, the license can be cancelled by the Reserve Bank of certain stipulated conditions are not fulfilled. Every bank will have to get the permission of the Reserve Bank before it can open a new branch. Each scheduled bank must send a weekly return to the Reserve Bank showing, in detail, its assets and liabilities. This power of the Bank to call for information is also intended to give it effective control of the credit system. The Reserve Bank has also the power to inspect the accounts of any commercial bank.

As supreme banking authority in the country, the Reserve Bank of India, therefore, has the following powers:

a) It holds the cash reserves of all the scheduled banks.
b) It controls the credit operations of banks through quantitative and qualitative controls.
c) It controls the banking system through the system of licensing, inspection and calling for information.

d) It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

V. Custodian of Foreign Reserves

The Reserve Bank of India has the responsibility to maintain the official rate of exchange. According to the Reserve Bank of India Act of 1934, the Bank was required to buy and sell at fixed rates any amount of sterling in lots of not less than Rs. 10,000. The rate of exchange fixed was Re. 1 = sh. 6d. Since 1935 the Bank was able to maintain the exchange rate fixed at lsh.6d. Though there were periods of extreme pressure in favour of or against the rupee. After India became a member of the International Monetary Fund in 1946, the Reserve Bank has the responsibility of maintaining fixed exchange rates with all other member countries of the IMF.

Besides maintaining the rate of exchange of the rupee, the Reserve Bank has to act as the custodian of India's reserve of international currencies. The vast sterling balances were acquired and managed by the Bank. Further, the RBI has the responsibility of administering the exchange controls of the country.

VI. Supervisory functions

In addition to its traditional central banking functions, the Reserve bank has certain non- monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act, 1934, and the Banking Regulation Act, 1949 have given the RBI wide powers of supervision and control over commercial and co- operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction, and liquidation. The RBI is authorized to carry out periodical inspections of the banks and to call for returns and necessary information from them. The nationalization of 14 major Indian scheduled banks in July 1969 has imposed new responsibilities on the RBI for directing the growth of banking and credit policies towards more rapid development of the economy and realization of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

VII. Promotional functions

With economic growth assuming a new urgency since Independence, the range of the Reserve Bank's functions has steadily widened. The Bank now performs a variety of developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve Bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialized financing agencies. Accordingly, the Reserve Bank has helped in the setting up of the IFCI and the SFC; it set up the Deposit Insurance Corporation in 1962, the Unit Trust of India in 1964, the Industrial Development Bank of India also in 1964, the Agricultural Refinance Corporation of India in 1963 and the Industrial Reconstruction Corporation of India in 1972. These institutions were set up directly or indirectly by the Reserve Bank to promote saving habit and to mobilize savings, and to provide industrial finance as well as agricultural finance. As far back as 1935, the Reserve Bank of India set up the Agricultural Credit Department to provide agricultural credit. But only since 1951 the Bank's role in this field has become extremely important. The Bank has developed the co-operative credit movement to encourage saving, to eliminate moneylenders from the villages and to route its short term credit to agriculture. The RBI has set up the Agricultural Refinance and Development Corporation to provide long-term finance to farmers.

11.10 CLASSIFICATION OF BANKS

COMMERCIAL BANKS

Meaning

A banking company is one which transacts the business of banking which means accepting for the purpose of lending all investments, of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft or otherwise. There are two essential functions that a financial institution must perform to become a commercial bank. These are

a) Accepting deposit form the public
b) Lending money to the needy

Commercial banks include public sector banks, private banks and foreign banks.

Main features:

a. It accepts deposits from the public, which can be withdrawn by cheque and are repayable on demand.
b. A commercial bank uses the deposited money for lending and for investment in securities.
c. It is a commercial institution, whose aim is to earn profit.

Categorization of Commercial Banks

The commercial banking structure in India consists of:

A. **Scheduled Commercial Banks:** the Scheduled Commercial Banks are the banks, which are listed under the Second Schedule of the Reserve Bank of India Act, 1934.

- With listing in second schedule banks are conferred with some benefits in terms of access to accommodation by RBI during the times of liquidity constraints.
- The scheduled status also subjects the bank certain conditions and obligation towards the reserve regulations of RBI.

A. **Unscheduled Banks**: The banks other than the scheduled banks are Unscheduled Banks.

Criteria for inclusion in the list of scheduled banks

- Minimum paid up capital and total reserve Rs 5 lakhs
- It must be a company under Section 3 of the companies Act
- Its affairs are not detrimental to the interest of the depositors

- It must have earned profit for last three years

PRIVATE BANKS

Categorization of Private Banks

The private banks those got established after 1993 i.e. after banking sector reform bracketed as New Generation Private Sector Banks and they are well distinguished from old generation private sector banks.

Features of new generation Private sector banks

a. **Technology**- The private banks have used technology to provide quality service through lower cost delivery mechanisms.
b. **Convergence**- The new private banks are able to provide a range of financial services under one roof, thus increasing their fee based revenues.
c. **High-end Customers**- The new generation private sector banks mainly concentrate on high-end and high middle income segments.
d. **Priority sector targets -** The new generation private sector banks which rely on indirect financing to accomplish the priority sector targets.
e. **Lucrative Business Areas** – They made a strong presence in the most lucrative business areas in the country because of technology up gradation.
f. **Operating Expenses -** their operating expenses is low as compared to the PSU banks and their efficiency ratios (employee‘s productivity and profitability ratios) is also high.
g. **Value added services** to customers and they undertake all most all the modern method of banking such as the internet banking, mobile banking, etc.

Advantage over public sector banks

They took advantage of the following problems concerning the nationalized / state sector banks

1. Large number of unprofitable branches
2. Excess staffing
3. Mounting Non Performing Assets on account of intervention of Govt.
4. Laggard in technology
5. Development of innovative consumer oriented products
6. Lesser focus on marketing

They have made banking more efficient and customer friendly. In the process they have jolted public sector banks out of complacency and forced them to become more competitive.

Disadvantages of Private Banks

- Private Banks **runs like a business**. Even though, there are lots of advantages to this, the major disappointment comes on the **service charges**, which is very much higher.

- Unorganized HR System
- The minimum balance for deposit accounts is much higher than the public sector banks.
- Low focus on priority sector lending and financial inclusion.

COOPERATIVE BANKS

Meaning

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. They are often created by persons belonging to the same local or professional community or sharing a common interest.

Features

1. **Principle of self-help** - Co-operative Banks are basically organized and managed on the principle of co-operation, self-help, and mutual help and they function with the rule of ―one member, one vote‖.
2. **Customer-owned entities** - The needs of the customers meet the needs of the owners, as the members are at both the ends. Hence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.
3. **Democratic control** - Since they are owned and controlled by the members, the
4. board of directors get elected democratically by the members , usually having equal voting rights, in tune with the co-operative principle of ―one member , one vote‖.
5. **Principle of no profit, no loss** - They function with the principle of ―no profit, no loss‖ and generally do not pursue the goal of profit maximization.
6. **Profit allocation** - Here a significant part of the annual profit, benefits or surplus is usually allocated to constitute reserves and a part of this profit are also distributed to the members, through a patronage dividend,(the use of the co-operatives products and services by each member, or the interest / dividend, related to the number of shares subscribed by each member)
7. **Localized set up**- They are deeply rooted inside local areas and communities and are involved in local development as well as contribute to the sustainable development of their communities.
8. **Regulatory prescriptions**- Co-operative Banks are subject to regulatory requirements of RBI/ NABARD. However, they are allowed with preferential treatments in comparison to commercial banks.

Classifications of Co-operative Banks

1. Statutory Classifications- Some co-operative bank are scheduled banks, while others are non-scheduled banks. For instance, State co-operative banks and some

Urban co-operative banks are scheduled banks but other co-operative bank are non-scheduled banks

2. According to Terms of Lending- From Terms of lending point of view, they are of two categories :
   a. Short term lending oriented co-operative Banks – within this category there are three sub categories of banks viz state co-operative banks, District co- operative banks and Primary Agricultural co-operative societies.
   b. Long term lending oriented co-operative Banks – within the second category there are land development banks at three levels state level, district level and village level.

STRUCTURE OF COOPERATVE BANKING

The cooperative banking structure in India is divided into 4 components:

a. Primary cooperative credit society
b. Central cooperative banks
c. State cooperative banks
d. Land development banks

a) **Primary Agricultural Credit Societies (PACSs)** - A Primary agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. It gives loans and advances to needy members mainly out of these deposits.

   The Urban Co-operative Banks (UCBs) refers to primary cooperative banks located in urban and semi-urban areas.

b) **Central Co-operative Banks (CCBs)**-The central co-operative banks are located at the district headquarters or some prominent town of the district. Their main function is to lend to primary credit society and now a days they have been undertaking normal commercial banking business like - attracting deposits from the general public and lending to the needy against proper securities.

c) **State Co-operative Banks (SCBs)**-The state Co-operative Banks, finance, co-ordinate and control the working of the central Co-operative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the central co-operative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and their own share capital and reserves.

d) **Land development Banks-** The land development banks are organized in 3 tiers namely, state, central and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development bank overseas the primary land development banks situated in the districts and tehsils in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural Development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

Functions

Co-operative Banks belong to the money market as well as to the capital market and are financial intermediaries only partially, in view of limited financial products. Now days they are performing all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities.

1. Primary agricultural credit societies provide short term and medium term loans.
2. Land Development Banks (LDBs) provide long-term loans.
3. SCBs and CCBs also provide both short term and term loans.
4. The co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities
5. The co-operative banks in urban areas mainly finance various categories of people for self-employment, industries, small scale units, home finance, consumer finance, personal finance, etc.
6. Co-operative banks are playing a more proactive role than scheduled commercial banks (SCBs) in achieving financial inclusion
7. They are also playing a pivotal role in micro finance

The exponential growth of Co-operative Banks is attributed mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele.

REGIONAL RURAL BANKS

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas.

Objectives of Regional Rural Banks

Regional Rural Banks were established with the following objectives in mind:

1. Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas
2. Bridging the credit gap in rural areas
3. Check the outflow of rural deposits to urban areas

4. Reduce regional imbalances and increase rural employment generation
5. Making available institutional credit to the weaker sections of the society who had by far little or no access to cheaper loans and are forced to depend on the private money lenders.
6. Mobilize rural savings and channelize them for supporting productive activities in rural areas.
7. Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.

With these objectives in mind, knowledge of the local language by the staff is an important qualification to make the bank accessible to the people.

Nature

- Status of scheduled commercial banks
- Combines basic features of the commercial banks and cooperative societies

Amalgamation of Regional Rural Banks

The total number of Regional Rural Banks (RRBs) were 196 and now stands at 86 following the process of their amalgamation initiated by the government in 2005, so as to strengthen and consolidate RRBs. There were 196 Regional Rural Banks operating in the country as on March 31, 2004. Most of the sponsor banks were operating more than one RRB in one state and in order to give a further boost to profitability of these banks and to strengthen them further a need was felt to amalgamate more than one RRB of same sponsor bank operating in the same state.

FOREIGN BANKS

Features

1. They are operating in Urban and Metropolitan cities only with limited number of branches; catering to elite clientele
2. The foreign banks having considerable international exposure are able to launch new products besides providing better services.
3. Foreign banks tend to follow ―exclusive banking‖ by offering services to a small number of clients, instead of ―inclusive banking‖.
4. Foreign banks charge higher fees from customers for providing banking services and maintaining a bank account requires substantial financial resources.
5. These banks have been complying with the 32% requirement under Priority Sector Lending but mostly concentrate on Retail Banking.
6. The low Credit Deposit ratio indicates that more than lending to business and industry, they resort to investment operations.

Role of foreign banks

- Foreign banks play a relatively minor role in the Indian economy,
- The role of foreign banks is vital and tends to elevate the efficiency and working system of the local banking system by introducing sophisticated financial

services. Acquiring reports, SMS alerts, tele-banking, internet banking, and many more are some of the catchy services that plays a crucial role in satisfying the customers

- They cover 65% of the foreign exchange transactions in India.
- They have limited number of branches.
- They are not lending money to small and medium-sized enterprises (SMEs), small traders, informal sector and farmers.

11.11 FUNCTIONS OF COMMERCIAL BANKS

Prof. Syers, defined banks as ―institutions whose debt—usually referred to as ‗bank deposits‘—are commonly accepted in final settlement of other people‘s debts‖. According to Banking Regulation Act of 1949, ―Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise‖. From the above definitions we can analyze that the primary functions of banks are accepting of deposits, lending of these deposits, allowing deposits to withdraw through cheque whenever they demand. The business of commercial banks is primarily to keep deposits and make loan and advances for short period up to one or two years made to industry and trade either by the system of overdrafts of an agreed amount or by discounting bills of exchange to make profit to the shareholders. From the above discussion, we can say that the following are the functions of commercial banks.

I. Receiving deposits from the public - The primary function of commercial banks is receiving of deposits in the form of savings bank account, current account and term deposits from the savers usually from the public. People usually prefer to deposit their savings with the commercial banks because of safety, security and liquidity. The aggregate deposits of scheduled commercial banks in India rose rapidly from Rs. 822 crores in 1951 to Rs. 3,763 crores in 1967. The total deposits of commercial banks were Rs. 4,661 crores in 1969 that increased to Rs. 34,237 crores by 735 per cent by 1979. The total deposits of commercial banks increased in the decade of 1981 to 1991 from Rs. 40,413 crores to Rs. 2,00,569 crores by 5 times. Out of which the proportion of current, saving and fixed deposits were Rs. 6,286, Rs.11,805 and Rs. 22,322 crores which is almost 1: 2: 3 ratio increased to Rs. 30,335, Rs. 56,152 and Rs. 114082 crores i.e., almost 5 times during one decade with almost same proportion. The total deposits with commercial banks by the end of 2005 increased to Rs. 21,00,000 crores.

II. Giving loans and advances - The second major function of the commercial banks is giving loans and advances to the all types of persons, particularly to businessmen and investors, against personal security, gold and silver and other movable and immovable assets. The bank advances loans in the form of cash credit, call loans, overdraft and discounting bills of exchange to businessmen. After reforms in banking sector and establishment of new private sector banks and foreign banks, the other commercial banks also started giving loans and advances not only to their traditional businesses but also for vehicles, housing, consumer durables, etc. by increasing the base of lending activities.

III. Use of cheque system and credit cards - The commercial banks will allow the depositors of the bank to withdraw and make payment of their amount in their bank account through cheques. Now the banks are allowed to use debit and credit cards for making their payments.

IV. Credit creation - Credit creation is one of the most important functions of the commercial banks. Like other financial institutions, they aim at earning profits. For this purpose they accept deposits and advance loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account in the name of the customer and does not pay him in cash but allows him to draw the money by cheque according to his needs. By granting a loan, the bank creates credit or deposit.

V. Financing foreign trade - The commercial banks finance foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business and buys and sells foreign currency.

VI. Transfer of funds - Commercial banks will help the customers to transfer their money from one account to another account, from one place to another place through cheques. Now the transfer of funds from one place to another place, or from one party account to another party account or one bank to another bank is done through Electronic Fund Transfer (EFT). This facility helps in transferring funds from one bank to another bank or to another party account easy. The technology like MICR helps the banks to have innovative banking like anywhere banking, anytime banking, and virtual banking and so on.

VII. Agency functions - The commercial banks act as agents for customers to buy and sell shares, securities on their behalf. It pays subscriptions to insurance premiums, mutual funds, rent, water taxes, electricity bills etc on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. 8. Miscellaneous functions. The miscellaneous functions performed by the commercial banks are: it provides safety locker facility, making and receiving payments on behalf of its depositors, issuing letters of credit and traveller‘s cheques etc. Commercial Banks 33 advances. A bank makes investments for the purpose of earning profits. First it keeps primary and secondary reserves to meet its liquidity requirements. Banks invest in securities either for fulfilment of SLR/CRR requirements or for earning profit on the idle funds.

11.12 ROLE OF COMMERCIAL BANKS

Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture.

There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development. The role of a commercial bank in a developing country is discussed as under.

I. Mobilising Saving for Capital Formation:

The commercial banks help in mobilising savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilise idle savings of the few rich. By mobilising savings, the banks channelise them into productive investments. Thus they help in the capital formation of a developing country.

II. Financing Industry:

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short- term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry.

In India, the commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance. Besides, they underwrite the shares and debentures of large scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

III. Financing Trade:

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

IV. Financing Agriculture:

The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

V. Financing Consumer Activities:

People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

VI. Financing Employment Generating Activities:

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person‘s studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entrepreneurial activities in developing countries.

VII. Help in Monetary Policy:

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

Thus, the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

11.13 SUMMARY

Section 5(b) of the BR Act defines banking as, 'accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable, by cheque, draft, order or otherwise.'

The commercial banking industry in India started in 1786 with the establishment of the Bank of Bengal in Calcutta. The Indian Government at the time established three Presidency banks, viz., the Bank of Bengal (established in 1809), the Bank of Bombay (established in 1840) and the Bank of Madras (established in 1843). In 1921, the three Presidency banks were amalgamated to form the Imperial Bank of India, which took up the role of a commercial bank.

The main functions of a commercial bank can be segregated into three main areas: (i) Payment System (ii) Financial Intermediation (iii) Financial Services.

It was only with the establishment of Reserve Bank of India (RBI) as the central bank of the country in 1935, that the quasi-central banking role of the Imperial Bank of India came to an end.

State Bank of India (SBI) was constituted in 1955. Subsequently in 1959, the State Bank of India (subsidiary bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. To better align the banking system to the needs of planning and economic policy, it was considered necessary to have social control over banks. In 1969, 14 of the major private sector banks were nationalized. This was an important milestone in the history of Indian banking. This was followed by the nationalization of another six private banks in 1980.

To create a strong and competitive banking system, a number of reform measures were initiated in early 1990s. The thrust of the reforms was on increasing operational efficiency, strengthening supervision over banks, creating competitive conditions and developing technological and institutional infrastructure. These measures led to the improvement in the financial health, soundness and efficiency of the banking system.

11.14 KEY WORDS

Business Incubators: an economic development tool primarily designed to help create and new businesses in a community. Business incubators help emerging businesses by providing various support ervices, such as assistance in developing business and marketing plans, building management teams, obtaining capital, and access to a range of more specialised professional services. They also provide flexible space, shared equipment and administrative services

Capital Formation – Transfer of savings from individuals or households to the business sector, directly through investments or indirectly through bank deposits which are loaned out to firms.

Monetary Policy - Economic strategy chosen by a government in deciding expansion or contraction in the country‘s money supply. Applied usually through the Central bank, a monetary policy employs three major tools (i) buying or selling national debt, (ii) changing credit restrictions and (iii) changing the interest rates by changing reserve requirements.

11.15 FURTHER READINGS

- Harihara Krishnan – Banking India**:** Accepting deposit for the purpose of lending (Partridge India)
- IIBF – Advanced Bank Management (Macmillan)

11.16 MODEL QUESTIONS

1. What do you mean by business incubators/ Explain its advantages
2. Describe the role of business incubators.
3. Explain the functions of commercial banks.
4. Elaborate the classification of banks.

UNIT -12 MOBILIZING RESOURCES

Learning Objectives

After reading the block, you will:

1. classify various resources required in the business enterprises;
2. describe ways to mobilise the resources for the business; and
3. identify various sources of funds.Understand the role of Marketing and Technical Consultancy Institutions in central and state sectors which promote industry/businesses development and export of products.
4. Know how to take advantage of their schemes.

Structure

12.1 INTRODUCTION

Now you know, there are various forms of entrepreneurship organisations you can choose from as per the suitability of your business idea and the way to obtain registration. Once all the compliances are fulfilled and clearances are taken, you are almost set to start your profitable business.

Remember, the process of setting up an enterprise? Mere generation of million dollar business idea, successful conduct of feasibility analysis of your project, preparation of a properly analysed project report, fulfil all required legal formalities and obtaining of clearance is not enough to start your journey to be a successful entrepreneur. There are several more questions that need to be addressed. Like, what are the various resources required for starting business operations? Where can you find them? How can you mobilise them at the work place? How to fund your project? What are the various resources available to you? And so forth. In this unit we will figure out the ways and means to address these questions.

12.2 BUSINESS RESOURCES

Setting up a new business can be a big challenge for an entrepreneur. It requires a lots of efforts, money and time to get it start. The potential entrepreneur need to spend a significant time in raising funds, market research, technicalanalysis, to convert a business plan into a realistic entity. Once these studies are done, and registration process finishes, an entrepreneur needs to focus upon mobilisation of resources for bringing the enterprise into existence. Let us identify what these resources are.

- Money: Financial resources
- Manpower: Human Resources
- Machine: Physical Resources
- Material: Raw Material
- Method

In the next section, we will study them in detail and identify ways to mobile them.

12.3 MOBILISATION OF RESOURCES

Resource mobilisation refers to the coordination of all activities involved in securing new and additional resources for an organisation. It involves mobilisation of resources from outside the enterprise. Taking affective measures to make the best utilisation of existing resources is also considered as mobilisation of resources. It is often termed as new business development. Mobilisation can be explained through the five Ms. They are:

1. Money: Financial Resources

It is the most important resource and has to be arranged first to meet other resource requirements. Even the most basic form of business needs funds for getting registered and procurement of other inputs to be processed into a marketable product. Financial resources can be obtained from a variety of sources like owner's funds, finance from family and friends, borrowed funds etc.These sources can broadly be divided two categories based on their life span.

a. Long term financing sources are generally required to buy fixed assets and maintain minimum working capital like equity funds, preference shares, debentures, long term bank loan, public deposits etc.

b. Short term financing sources are used to meet short term funds requirements for example trade credit, short term bank loans etc. Thus, employment of resources completely depends on the nature of business financial needs.

2. Manpower: Human Resource

After finance, it is the most important resource which utilises other resources. The success of an organisation heavily depends upon the skills and abilities of the human resource employed by them. Thus, human resource employment decision should be taken carefully. Acquiring the right number of employees of a right type and placing the right person is the challenge which is being taken up by the entrepreneur under this category. It includes skilled as well as unskilled employees through all hierarchical rungs.

A strong team is one of the basic drivers of a successful enterprise. To select the most suitable team there are various internal and external sources available. For example, employment exchanges, contractors, advertisement in the classified section of local newspapers, online advertisements etc. Human resource management looks forward to settle the following aspects:

- Total manpower required

• Identifkey key required skills
• Need for training and development
• Legal compliances attached with mobilising human resource
• Estimation of future demand

3. Material

Without materials, human resource is redundant. Every right-thinking organisation knows that materials needed for any business or service must be in place before manpower can be of use.For example, cement factory workers waiting for limestone have nothing much to do till the supply arrives.

Supply chain departments grew out of this branch and have been a very useful and effective aspect of business management.

4. Machine: Physical resources

After acquiring the necessary funds and human resources, an entrepreneur needs to acquire physical resources like land and building, plant and machinery, furniture and fixtures, and raw material.Every entrepreneur should design and develop a suitable procedure for procurement of

business resources and its sustainability. This aspect of resource mobilisation could be costlier as it requires heavy investments to set up workplace requirements. The physical resource obilisation process development broadly depends upon the needs of business structure. Some businessesdo not require much more physical resources like a mobile app programmers whereas some manufacturing units require a huge physical resource investment like sugar industry, oil refineries etc. Also the quantum of physical resources depends on the size of the organisation too. Larger the firm, higher would be the requirement and vice versa. For example Amazon and Wal-Mart heavily rely on physical resource in terms of warehouses, stores and human resource workplaces as they are one of the biggest business giants in there industry. As far as ways to mobilisation of physical resources is concerned, the entrepreneur should realistically assess his need before making any purchase. Once analysed a simple purchase could be undertaken to fulfil the requirement. The physical resource mobilisation broadly includes considering the following aspects:

• Infrastructure
• Land and building
• Plant and machinery
• Technological know-how
• Franchise
• Lease agreement or acquisition
• Furniture and fixtures

5. Method

This is one of the crucial M's of the business resources. Method is defined as the sequence of activities designed to perform the task. In the service industry, methods include the chain of tasks required to create, design, sell, and deliver a service, as well as the systems created by the infrastructure to support the achievement of business outcomes. Technical know-how,trade secrets, business processes are some well-known methods.

12.4 DIFFERENT SOURCES OF FUNDS

Recall the financial resources we needed to start your business. In this section, we will discuss various sources of funding that you can collect finance for your firm

Marketing is about-

- Product Mix : Service, Brand, Package, Design ,Warranty etc..
- Price Mix : Price policy, Terms of credit , Discount etc..
- Promotion Mix: Personal Selling, Advertisement, Publicity , Sales Promotion etc.
- Place Mix: Distribution channels - Wholesaler , retailers ,agents, transport, inventory, warehousing.

The success of marketing depends on well- established institutional set up and financial, technical and organisation assistance in time. With this end in view, let us know the institutions which are of help to the entrepreneurs.

12.5 NSIC (NATIONAL SMALL INDUSTRIES CORPORATION)

The National Small Industries Corporation Ltd. (NSIC) was set-up by the Government of India in 1955 with the objective of promoting and developing small-scale industries in the country.

FUNCTIONS:-

- Supply and distribution of indigenous and improved raw materials.
- Supply of both indigenous and imported machine on easy hire-purchase terms.
- Marketing of Small Industries products within the country.
- Export of Small Industries products and developing export.
- Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production.
- Technical training in several industrial trades
- Development and up-gradation of technology and implementation of modernisation programmes.
- Providing of Common Facilities through Prototype Development & Training Centres.
- Setting-up Small-Scale Industries in other developing countries on turnkey basis.
- Facilities are available to the Small-scale unites registered with NSIC under the Single Point Registration Scheme under the Government Store Purchase Programme.

    i) Issue of tender sets free of cost;
    ii) Exemption from payment of Earnest money;
    iii) Waiver of Security Deposit into the monetary limit for which the unit is registered;
    iv) Price preference up to 15% over the large-scale unit.

- To develop industrial estates and testing facilities in the industrial areas. NISC, an ISO9001-2008 certified Govt. of India enterprise operates through countryside211

~~network of office and 8 Technical centres in Chennai, Howrah, Hyderabad,~~ New Delhi, Rajkot, Rajpura, Ramnagar and Aligarh. The technical centres have different focus areas:

Centre	Focus Area
Chennai	Leather footwear
Howrah	General Engineering
Hyderabad	Electronic & computer application
New Delhi	Machine Tools
Rajkot	Energy Audit
Rajpura	Domestic electrical appliances
Ramnagar	Electronic and computer hardware application
Aligarh	Lock cluster & Die & tool making

NSIC help in organising supply of raw material by mediating with Government companies like Coal India Ltd, (CIL), Steel Authority of India Ltd (SAIL), by taking orders from Govt of India owned enterprise and by setting up incubation centres.

12.6 SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)

The Organisation provide marketing assistance to small-scale units by promoting ancillarisation, marketing intelligence and information, establishing trade centres, encouraging small entrepreneurs to participate in the purchase programmes of the Central and State Governments, organising exhibitions, seminars and trading programmes in marketing and publishing information booklets etc. They promote ancillary industries to help marketing of the products of the small-scale sector in collaboration with Bureau of Public Enterprises (BPE) and other Central Government agencies. The Small Industries Services Institutes are actively engaged in identifying and promoting new times for ancillarisation, besides rendering technical and managerial assistance to the existing ancillaries. Seminars, exhibition and buyer-seller meeting are arranged to promote mutually beneficial relationship between small and large industries through ancillarisation.

They help in securing sub-contracting jobs from large and medium undertaking; SIDO established 16 sub-contracting exchanges at the SISIs. The main function of these sub-contracting exchanges are:

- To invite small-scale units to register their capacity.
- To approach large industries to find out items which may be manufactured in small-scale units;

- To render technical assistance to small-scale units in creating new capacity for specific processes or for the manufacture of item/stores which are required by large –scale undertaking; and
- To furnish information on firms from whom enquiries can either secure orders to meet their requirements or on sub-contract their requirements.

Co-ordination activity:

- To co-ordinate various programmes and policies of various State Governments pertaining to SSI.
- To maintain relation with the Central Industries Ministry, Planning Commission, State Level Industries Ministry and Financial Institutions.
- **Industrial development activities:**
- To give essential support and guidance for the development of ancillary units.
- To provide guidance to SSI units in terms of countering market competition and to encourage them to participate in the Government Stores and Purchase Tenders.
- **Management activities:**
- To provide training, development and consultancy services to SSI to develop their competitive strength.
- To provide marketing assistance to various SSI units.
- To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

12.7 KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

KVIC, a statutory body helps in creation of employment opportunities with focus on women and weaker sections of society. Along with state directorates, State Khadi and village industries Board (KVIB) and District Industrial centres in rural areas, it implements Prime Minister Employment Generation Programme (PMEGP). The maximum cost of the project admissible under manufacturing sector is Rs.25 lacs and under business/service sector is Rs.10 lacs. The beneficiary contributes 10 % of cost (5 % in case of SC/ST, women, minorities etc), KVIC gives 15 % to 25% subsidy (35 % in case of special categories), the balance is provided by banks DIC is the coordinating centre for receipt and appraisal of loan applications. Banks take credit decision and cannot insist on collateral security for projects involving Rs.10 lacs. In this respect, awareness camps are organised by KVIC. The cost of training-course materials, lodging, boarding expenses of trainees for 2 to 3 weeks etc - is borne by KVIC.

KVIC conducts, workshop with PMEGP beneficiaries and maintain Data Bank regarding products produced, service/business activity details. It provides marketing support to them in their sales outlets. It organises exhibition at National, State and District levels and helps beneficiaries in participating in International Exhibitions.

KVIC helps village industries in which per head investment of an artisan or worker does not exceed Rs. 1 lac in plain area (and Rs. 1.5 lakh in hilly area) for promotion of cluster, Rural industry service centre (RISC) has been set up They

i) Provide testing facility to ensure quality of products.
ii) Provide improved machinery equipments .
iii) Provide attractive packaging facilities for better marketing.

The industries covered are Khadi weaving, edible oil, Honey, leather, bio- fertilizer, potteries, woodwork etc.

SFURTI (Scheme of Fund for Regeneration of Traditional Industries) is promoted by KVIC in respect of Khadi and village industries. 76 clusters have come up.

Mahatma Gandhi Institute for Rural industrialisation has been set up by KVIC and IIT, Delhi at Maganwadi (Wandha) to support, upgrade and accelerate the process of rural industrialisation. It has major divisions:

- Khadi and textile industries.
- Bio processing and herbal based industries.
- Chemical industries.
- Rural crafts and engineering division.
- Rural infrastructure and energy.
- Management and systems division.

The projects are directed to interfacial working groups. There are 14 interfaces now and another 25 interfaces will be added during the next 5 years to crease a wide network in the country.

Coir Board (1953)

Coir Board is engaged in development of coir industry through research and development, quality improvement, modernisation and training, market promotion and welfare of all those who are engaged in the coir industry.

29 showrooms made a combined sale of Rs. 19.8 core (2014-15). They are to be upgraded as coir connects (CC). The movement of consignment sales through dedicated depots has not been fruitful. E- commence mode is being experimented to yield turnover of Rs.500 cores during the next 1000 days by showcasing their visibility and marketability.

12.8 STATE SMALL INDUSTRIES CORPORATION (SIC).

The State Small Industries Development Corporations(SSIDCs) established under the Companies Act,1956, are State Government undertaking, responsible for catering to the needs of the small, tiny and cottage industries . SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of small sector. At present, 18 SSIDCs are in operation.

Functions:-

- Procurement and distribution of scarce raw materials.
- Supply of machinery on hire-purchase basis,
- Providing assistance for marketing of the products of small-scale units,
- Extending seed capital assistance on behalf of the State Governments, and Construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance,
- Providing management assistance to production units.

State Financial Corporation (SFC):-

State Financial Corporation (SFCs),operating at the State-level, function with the objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, generating greater employment opportunities. At present, there are 18 SFCS in the country. Functions:-

- To provide terms loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- To promote self-employment.
- To promote industry by the rural and urban artisans.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial project.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for transport vehicles strictly for captive use , depending on the requirement of the projects.
- To provide Interest subsidy for self-employment of young persons, adoption of indigenous technology in small and medium sector.

12.9 STATE INDUSTRIES DEVELOPMENT CORPORATIONS (IDC).

The State Industries Development Corporations (SIDCs) were established under the Company Act, 1956 in the sixties and early seventies as wholly- owned State Government undertaking for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective states; The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme.

Functions:

- Grant of financial assistance to industrial units by way of loans, and guarantees.
- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance.

- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of projects ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

12.10 TECHNICAL CONSULTANCY ORGANISATIONS (TCO):-

Objective:-

- Carrying out industrial potential surveys, identification of project ideas, project formulation;
- Evaluation of projects referred to them;
- Preparation of project profiles, feasibility studies;
- Preparation of project reports and where called upon, to render turn-key services in project implementation;
- Conduct Entrepreneurship Development Programmes, entrepreneurship awareness camps, SEEUY training programmes;
- Identifying the potential entrepreneurs and providing them with technical and management assistance.
- Undertaking market research and surveys, for specific products;
- Undertaking energy audit and energy conservation assistants;
- Project supervision;
- Undertaking export consultancy and export oriented projects based on modern technology.

17 TCOS have been sponsored by financial institution such as IDBI, IFCI and ICICI.

IDBI	IFCI	ICICI
KITCO, 1972 NEITCO,1973 BITCO,1974 UPICO,1974* APITCO,1976 ORTICO,1976 J & KITCO.1977 WEBCON,1979 NECON,1979	HIMCON,1977 RAJCON,1978 MPCON,1979 NITCON,1984 HARDICON,1985	GITCO,1978 ITCOT,1979 MITCON,1982

National Institution of Design (NID,1970) along with Indian Institution Technology, Mumbai Industrial Design Centre developed courses for industrial design to serve the needs of industries. The candidates selected from backgrounds in engineering, architecture and applied art have become new cadre of fully trained Indian designers.

Programme on khadi, Garment Design, cane, bamboo, leather, glass bell metal and wider range of plastics have reduced cost, saved on materials and increased productivity of enterprises.

Science and Technology Entrepreneurship Park (STEP)

Function:-

- Conducts entrepreneurship Development programme (EDP).
- Sets up institute- Industry linkage scale.
- Sets up database and information Canter for needs of particular Industry or a cluster of units nearby.
- Provides infrastructure including Central work shop and nursery sheds e.g. Tiruchilapali NIT supported STEP.
- Develops Special process, computer added designs e.g. Harcoat Butler Technological institute, Kanpur developing fibre reinforced spun pipes made out cement.

12.11 MARKETING ASSISTANCE SCHEME

1. BACKGROUND

The Micro, Small and Medium Enterprises (MSMEs) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country.

Fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities are opened up for this sector to enhance productivity and look for new markets at national and international level, it has also, on the other hand, put an obligation to upgrade their competencies to meet the competition as new products are launched at an astonishing pace and are available world wide in short time. Micro, Small & Medium Enterprises do not have any strategic tools / means for their business/ market development as available with large industries. In the present competitive age, Marketing is one of the weakest areas wherein MSMEs face major problems.

2. MARKETING ASSISTANCE SCHEME

Marketing, a strategic tool for business development, is critical for the growth and survival of micro, small & medium enterprises. Marketing is the most important factor for the success of any enterprise. Large enterprises have enough resources at their command to hire manpower to take care of marketing of their products and services. MSME sector does not have these resources at their command and thus needs institutional support for providing these inputs in the area of marketing.

Ministry of Micro, Small & Medium Enterprises, inter-alia, through National Small Industries Corporation (NSIC), a Public Sector Enterprise of the Ministry, has been providing marketing support to Micro & Small Enterprises (MSEs) under Marketing Assistance Scheme.

Emergence of a large and diverse services sector in the past years had created a situation in which it was no longer enough to address the concerns of the small scale industries (SSI) alone but essential to include the entire gamut of enterprises, covering both SSI Sector and related service entities, in a seamless web. There was a need to provide space for the small enterprises to grow into medium scale enterprises, for that is how they will be able to adopt better and higher levels of technology and remain competitive in a fast globalizing world. Thus, as in most developed and developing countries, it was necessary that in India too, the concerns of the entire range of enterprises - micro, small and medium, were addressed and the sector was provided with a single legal framework. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues and also other issues relating to credit, marketing, technology upgradation etc concerning the micro, small and medium enterprises. The enactment of MSMED Act 2006, w.e.f. from 2nd October, 2006 has brought medium scale industries and service related enterprises also under the purview of the Ministry, accordingly the name of Ministry has also been changed.

The need of the hour presently is to provide sustenance and support to the whole MSME sector (including service sector), with special emphasis on rural and micro enterprises, through suitable measures to strengthen them for converting the challenges into opportunities and scaling new heights. Thus although the medium enterprises are also proposed to be included as the target beneficiaries in the scheme, special attention would be given to marketing of products and services of micro and small enterprises, in rural as well as urban areas.

3. OBJECTIVES:

The broad objectives of the scheme, inter-alia, include:

a. To enhance marketing capabilities & competitiveness of the MSMEs.
b. To showcase the competencies of MSMEs.
c. To update MSMEs about the prevalent market scenario and its impact on their activities.
d. To facilitate the formation of consortia of MSMEs for marketing of their products and services.
e. To provide platform to MSMEs for interaction with large institutional buyers.
f. To disseminate/ propagate various programmes of the Government.
g. To enrich the marketing skills of the micro, small & medium entrepreneurs.

4. MARKETING SUPPORT TO MSMEs

Under the Scheme, it is proposed to provide marketing support to Micro, Small & Medium Enterprises through National Small Industries Corporation (NSIC) and enhance competitiveness and marketability of their products, through following activities:

4.1 Organizing International Technology Exhibitions in Foreign Countries by NSIC and participation in International Exhibitions/Trade Fairs:

International Technology Expositions / exhibitions may be organized by NSIC with a view to providing broader exposure to Indian micro, small & medium enterprises to facilitate them in exploring new business opportunities in emerging and developing markets. These exhibitions may be organised in consultation with the concerned stakeholders and industry associations etc. The calendar for these events may be finalised well in advance and publicised widely amongst all participants/stakeholders. The calendar of events would also be displayed on the Web-site of NSIC. Such expositions showcase the diverse technologies, products and services produced/rendered by Indian MSMEs and provide them with excellent business opportunities, besides promoting trade, establishing joint ventures, technology transfers, marketing arrangements and image building of Indian MSMEs in foreign countries. In addition to the organisation of the international exhibitions, NSIC would also facilitate participation of Indian MSMEs in the select international exhibitions and trade fairs. Participation in such events exposes MSMEs to international practices and enhances their business prowess. These events provide a platform to MSMEs where they meet, discuss, and conclude agreements on technical and business collaborations.

Organizing Domestic Exhibitions and Participation in Exhibitions/ Trade Fairs in India:

In order to provide marketing opportunities to MSMEs within the country, certain theme based exhibitions / technology fairs etc. may be organized by NSIC, focused on products and services offered by MSMEs, including technologies suitable for employment generation, products from specific regions or clusters (like North Eastern Region, Food processing, Machine-tools, Electronics, Leather etc). Micro, Small & Medium Enterprises would be provided space at concessional rates to exhibit their products and services in such exhibitions/fairs. Apart from above NSIC may also facilitate participation of MSMEs in the exhibitions / trade fairs / events being organized by various State Government departments, industry associations and other institutions, all over the country to exhibit their products and services. These exhibitions may be organised in consultation with the concerned stakeholders and industry associations etc. The calendar for these events may be finalised well in advance and publicised widely amongst all participants/stakeholders. The calendar of events would also be displayed on the Web-site of NSIC. Participation in such events is expected to help the MSMEs in enhancing their marketing avenues by way of capturing new markets and expanding existing markets. This would also help them in becoming ancillaries, partners in joint ventures and sub- contracting for large companies.

Scale of Assistance:

Built up space would be provided by the implementing agency i.e. NSIC, to MSMEs in various domestic exhibitions at subsidised rates to enable them to exhibit their products and services. The rates of subsidy available on space charges would be as under:

General Category

Micro Enterprises : 75%
Small Enterprises : 60%
Medium Enterprises: 25%

Enterprises belonging to NE Region/ Women / SC/ST category

Micro Enterprises : 95%
Small Enterprises : 85%
Medium Enterprises: 50%

The budget for organising the Domestic exhibition/trade fair would depend upon the various components of the expenditure, i.e. space rental including construction and fabricating charges, theme pavilion, advertisement, printing material, transportation etc. However, the budgetary support towards net expenditure for organising such exhibition/trade fair would normally be restricted to a maximum amount of Rs. 30 lakhs. The corresponding budgetary limit for participation in an exhibition/trade fair shall be Rs. 10 lakhs. In cases exceeding the above budgetary limits, the approval of Administrative Ministry would be required.

"Techmart" exhibition by NSIC

NSIC has been organising "Techmart" exhibition every year during India International Trade Fair (IITF) in the month of November. This is an international exhibition showcasing the best MSME products, technologies and services of India. No subsidy would be available to General Category entrepreneurs participating in this exhibition. Upto 30% of the total area may be allocated for the entrepreneurs belonging to the Special Category i.e. Entrepreneurs belonging to NE Region/ Women / SC/ST category, keeping in mind the instructions and guidelines issued in this regard from time to time. The rates of subsidy available on space charges for the Special category would be as under:-

Micro Enterprises : 95%
Small Enterprises : 85%
Medium Enterprises: 50%

The total budgetary support for organizing "Techmart" would normally be restricted to Rs. 75 lakhs only. The proposal exceeding this limit would require approval of the Administrative Ministry.

Support for Co-sponsoring of Exhibitions organized by other organisations/ industry associations/agencies:

Support may be provided to various institutions, industry associations and organisations engaged in promotion & development of MSMEs, for organizing exhibitions/ fairs within the country for the benefit of MSME sector. This support would be in the form of co- sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation/agency must fulfil the following criteria/conditions:

a) The applicant organization / industry association / institution should be engaged in the development of MSMEs for at least three years and should be able to demonstrate sufficient experience and capability for holding such events.
b) The event to be organized should have at least 5000 sq ft covered area exclusively for stalls/shops and must have participation from at least 50 MSME units. The organizer shall be required to submit a blueprint / layout of the proposed exhibition along with his application.
c) The organizer would provide a stall of at least 100 sq. ft. to NSIC, to disseminate information about the promotional and other schemes of the Ministry and its organisations.
d) The name of event would be prefixed with *'NSIC'* and also display prominently that the event is for the _MSMEs' and supported by Ministry of MSME.
e) The names of NSIC and Ministry of MSME would be prominently displayed in all publications, literature, banners, hoardings etc. of the event.

4.3.1 Scale of Assistance:

The scale of assistance to the applicant organisation/agency for co-sponsoring of an exhibition/trade fair would depend on the place of the event. The budgetary support towards partially meeting the expenditure on hiring of exhibition ground/hall, erection of stalls, publicity etc. for co-sponsoring the event and would be limited to 40 % of the net expenditure (gross expenditure - total income), subject to maximum amount of -

Rs. 5 lakh in case of _A' class cities.
Rs. 3 lakh in case of _B' class cities.
Rs. 2 lakh in case of _C' class cities.
Rs. 1 lakh in case of rural areas.

The assistance towards co-sponsoring the event shall be provided to the applicant organisation on reimbursement basis after the event, on submission of event report and other relevant documents.

4.4 Buyer-Seller Meets:

Buyers-Sellers Meets are organized to bring bulk buyers / Government departments and micro, small & medium enterprises together at one platform. Bulk and departmental buyers such as the Railways, Defence, Communication departments and large companies are invited to participate in buyer-seller meets to bring them closer to the MSMEs for enhancing their marketing competitiveness. These programmes are aimed at vendor developments from micro, small & medium enterprises for the bulk manufactures. Participation in these programmes enables MSMEs to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of MSMEs for their purchases. These Buyers-Seller Meets may be organised in consultation with the concerned stakeholders, including industry associations and other agencies involved in industrial development, and the calendar for these events may be finalised well in advance and publicised widely.

4.4.1 Scale of Assistance:

No subsidy would be available to General Category entrepreneurs participating in such meets. However, the entrepreneurs belonging to North-East/women/SC/ST category, would be provided space at subsidized rates for participation in Buyer-Seller Meets as per the rates mentioned hereunder:-

Micro Enterprises :	95%
Small Enterprises :	85%
Medium Enterprises:	50%

Upto 30% of the total area in such Buyer-Seller Meets may be allocated for the entrepreneurs belonging to the Special Category i.e. Entrepreneurs belonging to NE Region/ Women / SC/ST category, keeping in mind the instructions and guidelines issued in this regard from time to time.

The budget for organising the Buyer-Seller Meet would depend upon the various components of the expenditure, i.e. space rental, interior decoration, advertisement, printing material, transportation etc. However, the net budgetary support for the Buyer- Seller Meet would be subject to the following limits:-

Rs. 5 lakh in case of the meet is held in _A‘ class cities.
Rs. 3 lakh in case of the meet is held in _B‘ class cities.
Rs. 2 lakh in case of the meet is held in _C‘ class cities.
Rs. 1 lakh in case of the meet is held in rural areas.

4.5 Intensive Campaigns and Marketing Promotion Events:

Intensive Campaigns and Marketing Promotion Events are conducted all over the country to disseminate information about the various schemes for the benefit of the micro, small & medium enterprises. They are also facilitated to enrich their knowledge regarding latest developments, quality standards etc. and improve the marketing potential of their products and services.

4.6 Scale of Assistance:

Expenditure incurred for organizing Intensive Campaigns and Marketing Promotion Events would be met out of the budgetary support provided by the Government under the Scheme, subject to a maximum limit of : -

Rs. 80,000 in case of ‗A' class cities.
Rs. 48,000 in case of ‗B' class cities.
Rs. 32,000 in case of ‗C' class cities.
Rs. 16,000 in case of rural areas.

No financial assistance would be given to the participating units for attending the event. The participating MSMEs have to attend these programmes at their own cost.

Other Support Activities:

Under the Scheme, the following activities for supporting the marketing efforts of MSMEs may be undertaken by NSIC:

- Development of Display Centres, Show windows and hoarding etc. for promoting products and services of MSMEs.
- Printing of Literature, Brochures and Product-specific Catalogues and CDs etc. and preparation of short films for disseminating information
- Development of website/portal for facilitating the marketing of MSME products and services.
- Development and dissemination of Advertising and Publicity material about various programmes / schemes for MSME sectors and events.
- Preparation and Upgradation of MSME Manufacturers/Suppliers
- /Exporters Directory.
- Documentation of the success stories of MSMEs.
- Conducting studies to explore and assess new markets/businesses and product ranges for both domestic & International markets.
- Hosting international delegations and networking events.

The maximum amount of budgetary support for such activities would be limited to 5% of the total annual budget for the scheme and for an individual proposal, the maximum permissible limit for any of the above event/activity would be Rs. 5.00 lakh only.

5. PROCEDURE FOR IMPLEMENTAION OF THE SCHEME:

Ministry of MSME shall implement the scheme through National Small Industries Corporation (NSIC), which shall carry out the various activities under the Scheme through its offices located all over the country. Funds for implementing the scheme shall be placed at the disposal of NSIC, which shall be wholly responsible for proper utilisation of the same and submission of Utilisation Certificates and other reports as required.

The applications/proposals for seeking assistance under the scheme shall be submitted directly to NSIC, with full details and justification. The consolidated proposal shall be put up before the Screening Committee, set up under para 6 of the scheme, for consideration. The Screening Committee shall examine and consider the proposals, keeping in view the eligibility conditions and other criteria laid down under the scheme. While processing the proposals preference shall be given to participants/units who have not availed of the benefits under this scheme or other such schemes of the Ministry earlier. The proposals, after processing by the Screening Committtee, shall be put up for approval by the Chairman-cum-Managing Director of NSIC alongwith its recommendations. The proposals requiring approval of the Administrative Ministry shall be forwarded by CMD, NSIC, with proper justification, for consideration and approval of the Ministry, in consultation with IFD. The assistance shall be released to the concerned applicant organisation on reimbursement basis on receipt of the event report and other prescribed documents, including feedback from the participants.

6. SCREENING COMMITTEE

The proposals received under the Marketing Assistance Scheme shall be examined by a Screening Committee headed by Director (Planning & Marketing), NSIC which shall also include representatives from Finance and Exhibitions divisions. The Screening Committee shall meet at least once every month or as and when required.

7. ADMINISTRATIVE EXPENDITURE

NSIC is the nodal agency for implementing the Marketing Assistance Scheme of Ministry of MSME. The administrative expenditure to the tune of 10% of the total expenditure of the Marketing Assistance Scheme shall be reimbursed to NSIC for implementing the scheme. The administrative expenditure includes overheads as well as the cost of the manpower and efforts put in by the NSIC for implementation of the scheme.

8. MONITORING AND EVALUATION

The progress of the scheme shall be reviewed and monitored by NSIC as well as Ministry of MSME from time to time and periodic reports on the progress shall be submitted to the Ministry. The impact and benefits of the scheme shall also be evaluated through internal studies, sample surveys, feedback reports etc. as well as study by an independent agency.

12.12 SUPPORTING INSTITUTIONS IN ODISHA

Odisha supports MSME through 5 RICS and 26 DICS operating in the state. District Industries Centres established in all districts perform the under noted functions:

- Identification of entrepreneurs.
- Motivation and training of youth for setting up of MSME.
- Facilitating clearances through a single window system.
- Extending support to enterprises including administration of incentives.
- Implementation of cluster specific development programes .
- Implementation of coir, salt and Khadi and Village Industries development schemes in potential districts.
- Managing Panchayat Samiti Industries.
- Arranging exhibition, fair and publicity and visit of industrialist to different industries in the state.
- Solving the problems of the industrial units at the district level.

The following state government organisations help MSMEs.

1. Industrial promotion and Investment corporation of ODISHA (IPICOL).
   Promotes large and medium scale industries in the state.
2. Industrial Infrastructure Development Corporation of ODISHA (IDCO). Nodal agency for providing industrial infrastructure to entrepreneurs.
3. Orissa State Financial Corporation (OSFC).
   It extends terms loan upto Rs. 1.5 core far acquiring fixed assets and provides working capital assistance under single window scheme.
4. Orissa Small Industries Corporation (OSIC) Provides marketing and raw material assistance.
5. The Agricultural Promotion and Investment Corporation of ODISHA Ltd C (APICOL)
   Provides assistance to agricultural enterprises and investors to begin, process, expand and modernise the enterprise.
6. Orissa Cooperative Coir Corporation.
   Promotions industrial fibres such as sisal, jute, keora leaf etc for marketing decorative and utility products.
7. Odisha Khadi and Village Industries Board.
   A statutory body promoting Khadi and village industries.
8. Directorate of export promotion and marketing (DEPM)
   Promoting export of goods from the state and providing marketing assistance to SSI units of the state by way of registration of industrial units, conclusion of rate contracts and controlling quality of products through testing and inspection.

The activities of some leading institutions are given as under:

IDCO: IDCO with 20 Divisional offices have set up.

- 105 industrial estates
- Industrial growth centres at Kalinganagar, Jhasuguda, Chhatrapur and Kesinga.
- IID Centres at Khurda, Paradeep and Raayagada,
- Infocity (1 & 2), Bhubaneswar

Single window:
It enables single window industrial clearances.
Investment less than or equal to Rs 50 crores at district level- chaired by District collector.
Investment >= Rs 1000 crores chaired by Chief Minister.

It has reduced time and cost of establishing/operating industries and improved investment climate.

Land Acquisition:

It identities project site and acquires land on behalf of project. A GIS based land information and management system is being developed.
OSFC (1956): It provides loan assistance to MSME. OSFC can sanction loan upto Rs.10 crores to companies and corporative societies and Rs.4 corers to proprietors/ partnership concerns as on 31 March 2015 it has sanctioned Rs 1317.17 crore loan.
OSIC (1972): OSIC is the corporation exclusively engaged in the development of MSME. It provides quality raw materials to MSMEs and arranges marketing of their produce. It provides brand marketing e.g Oditech brand for supply of agricultural implements, Odifood brand for supply of iodized salt etc. It performs product marketing: Execution of bulk orders of Government Department / Corporations, supply of pig lead and lead wood, supply of toolkits etc. Its turn over is Rs.552 crores during 2015-16.

IPICOL (1973):

Functions:

- Acts as a single window contract for information relating to setting up of large and medium industries.
- Operating state incentive schemes to large and medium industries.
- Assistance in technology outsourcing and for technology up gradation.
- Providing merchant banking services.
- Proving financial and management support for revival of risk units.
- IPICOL is associated with 285 units in the state generating an investment over Rs 3700 crore and creating employment opportunity for about 40,000 people.

12.13 LET US SUM UP:-

The success of marketing depends on institutional set up for promotion of domestics sale and export. National Small Industries Corporation (NSIC), Small Industries Developments Organisation (SIDO), state level Small Industries Corporation and Industrial Development Corporations etc. lend assistance is this direction.

Technical Consultancy Organisation provide total consultancy as a package under singe roof .
Supporting institutions in Odisha are DIC, IPICOL, IDCO, OSFC, OSIC, APICAL, OCCC, OK & VI and DEPM

12.14 KEY TERMS

National Small Industries Corporation (NSIC):- The National small Industries Corporation Ltd. (NSIC) was set-up by the Government if India in 1955 with the objective of promoting and developing small-scale industries in the country.

Small Industries Developments Organisation (SIDO):- The Organisation provide marketing assistance to small-scale units by providing promoting ancillarisation, marketing intelligence and information, establishing trade centres, encouraging small entrepreneurs to participate in the purchase programmes of the Central and State Governments, organising exhibitions, seminars and trading programmes in marketing and publishing information booklets etc.

Technical Consultancy Organisation (TCO):-TCO provide total Consultancy services_ market survey, feasibility report, project report, and study of sick units for their rehabilitation.

IPICOL- Promoters large and medium industries.
IDCO- Nodal agency for providing industrial infrastructure to entrepreneurs.
OSIC- Provides marketing and raw material assistance.
OSFC- Provides term loan and working capital assistance under single window scheme.
APICOL- Provides assistance to agricultural entrepreneurs and investors

12.15 SELF ASSESSMENT QUESTIONS:-

How is the role of NSIC is different from that of SIDO?

____
____
____
____

State the functions of Technical Consultancy Organisation?

____
____
____
____

Write short notes on

IDICO:____

APICOL:____

IPICOL:____

12.16 FURTHER READINGS

i) Desai V, The Dynamics if Entrepreneurial Development and Management, Himalaya, Mumbai.
ii) Badi R.V & Badi N.V, Entrepreneurship, Vrinda, New Delhi.
iii) Website MSME in Odisha.

12.17 MODEL QUESTIONS

1. What do you mean by business resources.
2. Write Short Notes on:

- National Small Industries Corporation Ltd. (NSIC).
- Technical Consultancy Organisations (TCO).
- What are the institutions supporting industries in Odisha? How do they help industrial development.
- How the objectives of IDCO and IPICOL are different?

BLOCK 4- BUSINESS ETHICS

UNIT 13: BUSINESS ETHICS: FEATURE, SCOPE AND TYPES

STRUCTURE

LEARNING OBJECTIVES

After completing this unit, learners will be able to:

- Explain the meaning of ethics.
- Discuss the Meaning and definition of business ethics.
- Describe the characteristics of business ethics.
- State the reasons why ethical problems occur in business.

13.1 INTRODUCTION

The term ethics is derived from the Greek word ‘ethos’, which means character. Ethics is a branch of social sciences, which deals with concepts such as right and wrong, good and bad, fair and unfair, just and unjust, legal and illegal, moral and immoral, proper and improper in respect of human actions.

Ethics is a subject of social science that is related with moral principles and social values. 'Business Ethics' can be termed as a study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities. Law often guides business ethics, while other times business ethics provide a basic framework that businesses may choose to follow to gain public acceptance. Businesses must abide by some basic principles. It should provide quality goods and services at reasonable prices to their consumers. It must also avoid adulteration, misleading advertisements, and other unfair malpractices.

A business must also perform other duties such as distributing fair wages, providing good working conditions, not exploiting the workers, encouraging competition, etc. Business ethics ensure that a certain required level of trust exists between consumers and various forms of market participants with businesses. For example, a portfolio manager must give the same consideration to the portfolios of family members and small individual investors. Such practices ensure that the public receives fair treatment.

13.2 MEANING OF ETHICS

The area of philosophy known as ethics is concerned with moral ideals, rules governing behaviour, and concepts of right and wrong. It is concerned with issues of what is morally right or wrong, just or unjust, and what deeds or behaviours are regarded as right or bad in diverse contexts. The term ethics is derived from the Greek word "ethos," which means "way of living." Ethics is a subfield of philosophy that deals with human conduct, particularly how people behave in social settings. In order to understand what is morally right or wrong, just or unjust, ethics investigates the intellectual justifications for our moral judgements.

It is a framework for assessing one's behaviour, decisions, and the effects of those actions for both individuals and societies. It aims to instruct people and communities on how to act in ways that advance the welfare and well-being of others while preventing damage or injustice.

13.3 BUSINESS ETHICS- MEANING AND DEFINITION

There are many definitions of business ethics, but the ones given by Andrew Crane, Raymond
C. Baumhart and Thomas M. Garett are considered the most appropriate ones.
According to Crane, "Business ethics is the study of business situations, ctivities, anddecisions where issues of right and wrong are addressed."
Baumhart defines, "The ethics of business is the ethics of responsibility. The business manmust promise that he will not harm knowingly."
Garett defines "Business Ethics is primarily concerned with the relationship of business goalsand techniques to specific human needs".
The concept of business ethics arose in the 1960s as companies became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes and corporate responsibility. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally versus maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.
Ethics are broadly described in the literature as moral principles about right and wrong, honourable behaviour reflecting values, or standards of conduct. Honesty, openness, responsiveness, accountability, due diligence, and fairness are core ethical principles. Ethics are moral guidelines which govern good behaviour. So, behaving ethically is doing what is morally right. Behaving ethically in business is widely regarded as good business practice.
Ethical principles and standards in business:

- Define acceptable conduct in business
- Should underpin how management make decisions

An important distinction to remember is that behaving ethically is not quite the same thing asbehaving lawfully:

- Ethics are about what is right and what is wrong
- Law is about what is lawful and what is unlawful

An ethical decision is one that is both legal and meets the shared ethical standards of thecommunity. Businesses face ethical issues and decisions almost every day – in some industries the issues are very significant. For example:

- Should businesses profit from problem gambling?
- Is ethical shopping a luxury we can't afford?
- Should fashion retailers use suppliers who don't pay a living wage?
- Should supermarkets dispose of out-of-date groceries or give them to food banks?

You will probably note the link between business ethics and corporate social responsibility(CSR). The two concepts are closely linked:

- A socially responsible firm should be an ethical firm
- An ethical firm should be socially responsible

However, there is also a distinction between the two:

- CSR is about responsibility to all stakeholders and not just shareholders
- Ethics is about morally correct behaviour

13.4 CHARACTERISTICS OF BUSINESS ETHICS

To understand business ethics, it is necessary to know its important characteristics. These are:

(i) A Discipline: Business ethics are the guiding principles of business function. It is the knowledge through which human behaviour is learnt in a business situation.

(ii) Ancient Concept: Business ethics is an ancient concept. It has its origin with the development of human civilization.

(iii) Personal Dignity: The principles of ethics develop personal dignity. Many of the problems of ethics arise due to not giving dignity to individuals. All the business decisions should be aimed by giving dignity to the customers, employees, distributors, shareholders and creditors, etc. otherwise they develop immorality in the business conduct.

(iv) Related to Human Aspect: Business ethics studies those activities, decisions and behaviours which are concerned with the human aspect. It is the function of the business ethics to notify those decisions to customers, owners of business, government, society, competitors and others on good or bad, proper or improper conduct of business.

(v) Study of Goals and Means: Business ethics is the study of goals and means for the rational selection of sacred objects and their fulfilment. It accepts the principles of "Pure goals inspire for pure means" and "Means justifies the end". It is essential that goals and means should be based on morals.

(vi) Different from Social Responsibility: Social responsibility mainly relates to the policies and functions of an enterprise, whereas business ethics relates to the conduct and behaviour of businessmen. But it is a fact that social responsibility of business and its policies is influenced by the business ethics.

(vii) Greater than Law: Although the law approves various social decisions, the law is not greater than ethics. Law is usually related to the minimum control of social customs whereas ethics gives importance to individual and social welfare actions.

Features of Business Ethics

There are eight major features of business ethics –

- **Code of Conduct** − Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- **Based on Moral and Social Values** − Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- **Protection to Social Groups** − Business ethics protect various social groups including consumers, employees, small businesspersons, government, shareholders, creditors, etc.
- **Offers a Basic Framework** − Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- **Voluntary** − Business ethics is meant to be voluntary. It should be self-practiced and mustnot be enforced by law.
- **Requires Education & Guidance** − Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.
- **Relative Term** − Business ethics is a relative term. It changes from one business to anotherand from one country to another.
- **New Concept** − Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

13.5 SCOPE OF BUSINESS ETHICS

1. **Ethics In Compliance**

   Business ethics play an efficient role in the compilation of business activities with legal rules and regulation. It ensures that business adheres to all established laws and any of its operations don't go unlawful. It reduces any chance of facing any unfavourable action by authorities like payment of fines and penalty. Business following ethics in their operations frames strategies and policies in accordance with established rules and regulations. All activities are monitored and ensured that they go in accordance with framed policies.

2. **Ethics In Human Resource**

   Human resources are the key element of every business and have an important role in its success. Ethics helps in improving the employer-employee relations and overall productivity of the business. Ethics related to human resource are introduced and implemented by Human resource management in business. HRM covers all ethical issues related to employer-employee affecting their relationship.

The various issues covered are Discrimination issues, sexual harassment, employee's privacy issues, salaries and wages issues, safety and health issues. Ethics aims at overcoming all these issues so that employees are happy and motivated towards their roles. This booms the overall performance and reduce the risk.

3. **Ethics In Finance**
   Finance is a crucial part of every business and is needed for its successful operations. Finance should be properly managed by every business otherwise it may have adverse effects. Ethics aims at controlling and handling all finance issue faced by companies and employees. The various ethical issues included are accounting related like window dressing and improper window dressing, insider trading, fake reimbursements, overbilling, bribery, kickbacks etc.
4. **Ethics In Production**
   Ethics in business helps in monitoring and controlling the overall production activities. It ensures that production processes do not adversely affect the business. Ethics frames production policies by considering organisation goals, objectives and various environmental factors.
   Attempts are made to minimise the degree of risk and danger. The various ethical issues covered are defective and dangerous products, environmental ethics and pollution issues, Issues arising out of new technologies and product testing issues. Implementation of ethics controls these issues and fosters overall productivity.
5. **Ethics In Marketing**
   Marketing is an important part of every business organisation. It is the means through which it improves the sales and profitability of the business. Marketing practices should be ethical and should avoid the adoption of any unfair means.
   Implementation of ethics ensures that all marketing programmes are moral-ethical. The various ethical issues covered are pricing issues like price discrimination and price skimming, misleading advertisements, black marketing, anti-competitive practices, wrong advertisement content etc.

13.6 TYPES OF BUSINESS ETHICS

Although there are numerous theories and varieties of business ethics, practices in corporate social responsibility, openness and dependability, fairness, and technological innovation set businesses apart.

1. **Corporate Social Responsibility**

Meeting stakeholder demands while taking into account the effects that doing so has on employees, the environment, society, and the neighbourhood in which the firm works is known as corporate social responsibility (CSR). Finances and profits are essential, but they should come after the welfare of society, clients, and staff because, according to research, good corporate governance and ethical behaviour boost financial performance.

2. **Transparency and Trustworthiness**

It is crucial for businesses to make sure they are transparently disclosing their financial performance. This holds true for all reports in general, not just obligatory financial reports. For instance, many businesses distribute yearly reports to shareholders.

The majority of these reports include information on the decisions that were made, whether objectives were fulfilled, and variables that affected performance in addition to the reports that were given to regulators. CEOs summarise the business's yearly performance and provide their projections in writing. Press releases are an additional method for businesses to be open. Regardless of whether there is good news or bad news, events that are significant to investors and customers should be published.Technological Practices and Ethics

As technology of various kinds is increasingly used in corporate operations, it is necessary for a company to guarantee that the technology and data it collects are handled responsibly. Additionally, it should make sure that the technology is as safe as possible, especially since many companies retain consumer information and gather data that might be used by people with bad intentions.

3. **Fairness**

Regardless of ethnicity, religion, beliefs, age, or identity, a workplace should be welcoming, diverse, and equitable for all of its employees. Every employee can advance, receive a promotion, and find success in their own right in a fair workplace.

13.7 TYPES OF UNETHICAL BEHAVIOURS

Oftentimes unethical behaviour occurs due to agency problem; more specifically when the manager puts her interests or that of the organisation above the goals or the fundamental rights of one or more stakeholders. Let's look at some of unethical behaviours arising out of such circumstances.

1. **Self-dealing**: It occurs when the managers find a way to feather their own nests with corporate moneys through misusing the resources of the organisation for their personal use beyond what is legal. Information manipulation: It occurs when a manager use their control and authority to hide or distort the information to gain financially. The classic case of Satyam Computers is a paragon in this regard, wherein Ramalinga Raju manipulated the financials of the company to get more funds for the company and to boost the morale of the stakeholders of the company. Eventually the surreptitious dealings were divulged to the world when it became impossible for him to carry it on any further. Many a times, information being manipulated is non-financial too. One example could be when a pharmaceutical company supresses its internal research wherein it observes long term (not life threatening) side effects of one of its best selling drugs

2. **Anti-competitive behaviour**: It covers a range of actions that exploits the current and potential competitors. One of such actions is to show monopolistic behaviour by selling goods at such a low price that all other smaller competitors are ruined with the passage of time. The similar behaviour at macro level wherein the nations are involved is known as anti-dumping.

3. **Other such action is Opportunistic exploitation**. A large company exploits the suppliers or intermediate customers in the value chain by forcing an unequitable contract having odds in favour of the company. The power to breech a contract or redefining the terms of the contract midway comes from the bargaining power lying with the company due to its large size and dynamics of the industry. Yet other action in this category is to form a collision by 2-3 largest organisations in a particular industry, when these companies decide the price of a product by illegally controlling the supply of the product or otherwise. It leaves no choice with the customers but to buy the product at artificially higher prices.

4. **Substandard working conditions**: Substandard working conditions arise when the organisation pays less than the legally set standards or under invests in the working conditions. Aforementioned Nike case falls in the same category. In India, State Governments propose Minimum Wages time-to-time, and all the firms in the organised sector are legally bound to pay more than this level of wages. Labour laws like Factories Act, 1948, Contract Labour Act, 1970, Workmen's Compensation Act, 1923 etc. help provide conducive working milieu for the employees.

5. **Environmental degradation** occurs when the products, services or direct or indirect actions of an organisation harms environment anyway. Air pollution, water pollution and soil pollution, due to inappropriate dumping of harmful chemicals; sound pollution and heat waves due to furnace and heavy machines; and deforestation resulting in soil erosion and environmental imbalance, are some types of environmental degradation. Recently observed debacles like global warming and nuclear leakages have made the governments to focus on environmental friendly policies. All the big manufacturing units were ordered to base outside Delhi, due to the increasing levels of pollutions in the Capital of India. Organisations are expected to treat the water and fumes before releasing them to the atmosphere. Certifications like ISO 14001 are getting popular day-by-day to acknowledge and encourage environment friendly and sustainable practices.

6. **Corruption as an unethical action seems self-explanatory**. Corruption can be perpetrated in zillions of ways. Managers pay bribes, manipulates financial statements, do money laundering, misappropriate funds etc. Subroto Roy aka

Sahara Shree, has been put behind the bars for misappropriating the money of the investors into undisclosed activities. Rama Linga Raju's case already discussed above can also be put into the category of corruption.

Recognizing Unethical Business Activities

Researchers from Brigham Young University tell us that all unethical business activities will fall into one of the following categories:

1. ***Taking things that don't belong to you***. The unauthorized use of someone else's property or taking property under false pretences is taking something that does not belong to you. Even the smallest offense, such as using the postage meter at your office for mailing personal letters or exaggerating your travel expenses, belongs in this category of ethical violations.
2. ***Saying things you know are not true.*** Often, when trying for a promotion and advancement, fellow employees discredit their co-workers. Falsely assigning blame or inaccurately reporting conversations is lying. Although "This is the way the game is played around here" is a common justification, saying things that are untrue is an ethical violation.
3. ***Giving or allowing false impressions***. The salesperson who permits a potential customer to believe that cardboard boxes will hold the customer's tomatoes for long-distance shipping when the salesperson knows the boxes are not strong enough has given a false impression. A car dealer who fails to disclose that a car has been in an accident is misleading potential customers.
4. ***Buying influence or engaging in a conflict of interest***. A conflict of interest occurs when the official responsibilities of an employee or government official are influenced by the potential for personal gain. Suppose a company awards a construction contract to a firm owned by the father of the state attorney general while the state attorney general's office is investigating that company. If this construction award has the potential to shape the outcome of the investigation, a conflict of interest has occurred.
5. ***Hiding or divulging information***. Failing to disclose the results of medical studies that indicate your firm's new drug has significant side effects is the ethical violation of hiding information that the product could be harmful to purchasers. Taking your firm's product development or trade secrets to a new place of employment constitutes the ethical violation of divulging proprietary information.
6. ***Taking unfair advantage***. Many current consumer protection laws were passed because so many businesses took unfair advantage of people who were not educated or were unable to discern the nuances of complex contracts. Credit disclosure requirements, truth-in-lending provisions, and new regulations on auto leasing all resulted because businesses misled consumers who could not easily follow the jargon of long, complex agreements.
7. ***Committing improper personal behaviour***. Although the ethical aspects of an employee's right to privacy are still debated, it has become increasingly clear that personal conduct outside the job can influence performance and company reputation. Thus, a company driver must abstain from substance abuse because

of safety issues. Even the traditional company holiday party and summer picnic have come under scrutiny due to the possibility that employees at and following these events might harm others through alcohol-related accidents.

8. ***Abusing power and mistreating individuals***. Suppose a manager sexually harasses an employee or subjects employees to humiliating corrections or reprimands in the presence of customers. In some cases, laws protect employees. Many situations, however, are simply interpersonal abuse that constitutes an ethical violation.
9. ***Permitting organizational abuse***. Many U.S. firms with operations overseas, such as Apple, Nike, and Levi Strauss, have faced issues of organizational abuse. The unfair treatment of workers in international operations appears in the form of child labour, demeaning wages, and excessive work hours. Although a business cannot change the culture of another country, it can perpetuate—or stop—abuse through its operations there.
10. ***Violating rules***. Many organizations use rules and processes to maintain internal controls or respect the authority of managers. Although these rules may seem burdensome to employees trying to serve customers, a violation may be considered an unethical act.
11. ***Condoning unethical actions***. What if you witnessed a fellow employee embezzling company funds by forging her signature on a check? Would you report the violation? A winking tolerance of others' unethical behaviour is itself unethical.

13.8 WHY ETHICAL PROBLEMS OCCUR IN BUSINESS

Company ethics originate at the highest level of management. The top management team, which includes CEOs, finance officers, vice presidents, and other officers, establishes the company's vision, goals, and operational tone. Top managers who are immoral or who favour unethical activities and choices portray the image that ethics do not matter. When a small business owner cheats suppliers or partners on agreements on a regular basis, firm management and employees get the notion that this is how the business operates.

Money

The great majority of unethical business decisions are motivated by money in some way. In some situations, the desire to dodge taxes and line the wallets of internal shareholders can be fatal to a corporation. In other circumstances, businesses do not participate in environmentally friendly activities due to the price of purchasing new equipment or implementing new manufacturing methods. A culture that prioritises earnings over everything else frequently leads to cost-cutting.

Unclear Policies

Managers and employees may demonstrate unethical behaviour in some circumstances because the organisation does not provide a clear model of ethics. Normally, a business policy manual and an ethical code of conduct provide ethical standards and punishments for bad decisions. Some companies lack official ethical policy guidelines and provide no guidance at all. Others have policies that are ambiguous, ambiguous, inconsistent, or inconsistently enforced.

Unethical Culture

The agreed conventions and ideals among employees comprise a company's culture. A company's ethical nature is woven into the fabric of its culture, influenced by top management and HR efforts and trickling down via frontline management ranks. Peers in several businesses expect high ethical standards and behaviours from colleagues. Employees in firms that consistently demonstrate weak ethics either condone or support poor ethical decisions, or passively condone them through inaction.

Personal gain and selfish interest

Personal gain, or even greed, can lead to ethical issues. Businesses occasionally hire persons with questionable personal principles. They will prioritise their own well-being over the well- being of their employees, the company, or society. An ethical egoist is a leader or employee who prioritises his or her own self-interest over all other concerns. Self-promotion, a preoccupation with self-interest to the point of selfishness, and avarice are prominent characteristics of an ethical egoist.

Pressure to earn more profits

When organisations are under pressure from strong competition, they may resort to unethical practices to protect their earnings. This may be especially true in organisations with existing

poor financial performance. According to research, CEOs of poor financial performers and organisations experiencing financial insecurity are more likely to commit unlawful crimes. Furthermore, increasing competition in the global marketplace has resulted in unethical behaviour, such as price manipulation, document falsification, or the use of kickbacks or bribes.

Conflicts of interest

Conflicts of interest are common sources of ethical issues in business. A potential conflict of interest happens when an individual's self-interest clashes with acting in the best interests of another, when the individual has an obligation to do so, opens a new window.

13.9 LET’S SUM UP

Ethics deals with concepts such as right and wrong, good and bad, fair and unfair. Business ethics refers to the application of ethical principles to the business. Every business has to be abided by some rules and principles. It should provide quality goods and services at reasonable prices to the customers. Business ethics has various characteristics such as it is an ancient concept, related to human concept, different from social responsibility, based on moral and social values, and offers a basic framework. It plays an important role in the success of a company. Culture of an organisation, ethics in business each have an impact on how well a business performs in the long term. Irrespective of the size of the business, organisation, ethics are one of the most important aspects of long-term success. There are various benefits of business ethics. Attract customers to the firm’s products, thereby boosting sales and profits. It makes the employee comfortable in the environment and reduces labour turnover and therefore increases productivity. It helps to attract more and more employees. There are various reasons for the occurrence of ethical problems in business. Money unclear policies, unethical culture, personal gain and selfish interest, pressure to earn more profits.

13.10 FURTHER READING

1. Prof. Dr Biswajit Satpathy: Indian Ethos and Values, Elite Publications
2. Manuel G Velasquez: Business ethics-concepts and cases Pearson.
3. Luthans Hodgetts and hompson: Social issues in business, Macmillan USA
4. A.C .Fernando: Business Ethics Pearson Education.
5. A.C. Fernando: Corporate Governance Pearson Education.
6. Adrian Davies: Strategic approach to corporate governance Gower Pub Co.
7. N.Gopalswamy: Corporate Governance a new paradigm A H Wheeler Publishing CoLtd.

13.11 REFERENCES

PGDIM (MP-12) (BLOCK-1) Business Ethics (UNIT-1) (Business Ethics: An Overview)

UNIT 14: BUSINESS ETHICS: FACTORS AND SIGNIFICANCE

STRUCTURE

LEARNING OBJECTIVES

After completing this unit, learners will be able to:

- Explain the factors of ethics.
- Learn about the purpose and elements of Business ethics
- Discuss the significance of business ethics.

14.1 INTRODUCTION

Business ethics means both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organisation. They can differ from one company to another because of differences in cultural perspectives, operational structures and strategic orientations. The guiding framework of business ethics exists at all levels of the organisation. It is all about having the wisdom to determine the difference between right actions and wrong decisions. In simple terms, business ethics fundamentally denotes the organization's codes of corporate governance. It stipulates the morality standards and behavioral patterns expected of individuals and the business as a whole. These moral benchmarks can be perceived in terms of the microenvironment and macro environment of the business.

Ethics is a set of standard, or a code value system worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical; if it does not agree, it is unethical. The previous unit discussed the concept of business ethics. In this unit, we will delve into the factors and significance of business ethics in greater detail.

14.2 PURPOSE OF BUSINESS ETHICS

The Oxford English Dictionary defines ethics as the moral principles that govern a person's behaviour, and as the branch of knowledge that deals with moral principles. Both are open to interpretation, and neither provides a practical application for business. Business ethics is not black or white. Decisions can be extremely complex and difficult to
implement. Life is filled with grey and companies are not equipped to ethically deal with grey. The trap in associating ethics with scandals like Enron or BernieMadoff, is that it can normalize lesser breaches. Just because a company does not act like an Enron doesn't make it ethical.

It's time to create a fresh, new, practical usage of business ethics that companies, boards, leaders and employees can rely on. When we choose the behaviour that for own long-term benefit, ethics are the moral principles that govern that behaviour .Therefore, ethical behaviour is the long-term benefit, which makes a sense in the long run.

Ethics therefore, is what makes sense in the long run. In the same way business ethics is what makes sense for organizations in the long run for their customers, their employees, their investors and their wider stakeholders based on the best possible rational decisions in their interests. There is a wealth of evidence and research supporting this. Therefore, many businesses operate on the false premise that business ethics may not be useful, will face failure in the long run. Very few people critically evaluate what the purpose of ethics really is; very often don't take time to reflect on what we really want. Individuals have absolute power to choose their own moral principles, and to decide how to behave. They are responsible for what they choose to do. This does not justify actions on a whim in search of short term gains in the name of ethics. Something that may appear beneficial right now often destroys value in the long run. Our busy lives force us to focus on the short term, often at the expense of the long term. But,ethical decision making allows to balance these conflicting choices. It requires self-awareness, a commitment to values, and critical thinking to ascertain what really is in the sustainable interest.

14.3 FACTORS AFFECTING BUSINESS ETHICS

Business ethics involves policies guiding acceptable behavior aligned with societal values. Ethical conduct addresses gender, diversity, discrimination, governance, bribery, responsibilities, trading, and social contributions.

Entities wield influence, necessitating ethical responsibility to prevent harm to individuals, communities, and the environment. Further, business ethics helps organizations think about the pros and cons of their rules and actions at work.

Here are seven key factors that affect business ethics everywhere:

1. Culture

- Refers to the customs, social norms, and beliefs of a society or group.
- Has a direct impact on business ethics as it affects how people perceive and do things.
- People's background becomes a part of their personality and identity.
- Certain elements like religion, family, and education are key aspects of one's culture.
- People's rules, norms and actions largely depend on the culture they belong to.
- Business managers and promoters navigate cultural differences for ethical decisions.

Example: A good example of this is the concept of gift-giving in business. In some cultures, offering gifts is a common and accepted practice in business interactions. It's a way to build relationships, express gratitude, and show respect. However, in other cultures, elaborate gift-giving might be seen as a form of bribery or corruption, and it could be considered unethical.

So, the cultural perspective on gift-giving directly influences the ethical standards within a business context. What might be considered a thoughtful gesture in one culture could be viewed as an ethical violation in another.

2. Personal Code of Ethics

- The second important factor after culture.
- Each individual has morals that drive their behavior, decision-making and their response in a particular situation.
- People might not write it down, but each person has a personal code deeply rooted in them, shaping how they live each day.
- Personal code of ethics differ for each employee in any organization, which may lead to clashes and issues in overall business ethics. This is why personal code of ethics is an important factor impacting the ethical functioning of an organization .

Example: Let's say honesty and transparency play a crucial role in an employee's personal code of ethics. In a business context, this could mean being honest with customers about product features or potential issues, transparent with employees about company decisions, and straightforward in business transactions.

Their personal commitment to honesty might lead them to advocate for clear and truthful advertising, fair pricing strategies, and ethical decision-making within the organization.

In this way, their personal code of ethics directly influences and shapes the ethical practices within the business. It's a great example of how individual values can impact broader business ethics.

3. Legislation

- It means that the government can make rules to stop companies from doing things that are not right or fair.
- These measures shall only be taken when things get out of control and companies are doing things we can't handle.
- People and the society won't put up with a company's bad actions for too long—they'll speak out against it eventually.
- When things get really bad, governments have to make rules to fix the problem. They do it only when it's necessary and there's no other choice.

Example:

Legislation mandating transparent financial reporting compels businesses to uphold ethical financial practices. This fosters a culture of integrity, discourages fraud, and ensures accountability, aligning business behavior with ethical standards set by the law.

4. Ethical Code of the Company

- The ethics code created, shared, and applied by a company shapes its ethical atmosphere.
- The company's code of conduct, typically shared with all employees through publications like the website, guides the behavior of staff and shapes their actions within the organization.

- Employees may follow diverse ethical standards, leading to potential chaos if everyone acts based on their own principles.
- Hence, the company implements a code of conduct to unify the ethical behavior of all employees.
- From this point onwards, every employee must follow the same rules and policies to guarantee ethical behavior.

Example: A company's ethical code focusing on transparency and employee well-being cultivates a culture of integrity. This, in turn, fosters trust with customers and stakeholders, promoting ethical business practices that align with societal expectations and legal standards.

5. Government Rules and Regulations

- Set of rules and regulations imposed on the employees is another important factor driving business ethics.
- Every country has numerous laws covering business functions like working conditions, insurance, pensions, minimum wages, and the rights of employees and laborers.
- These act as a guide to companies in the formulation of their ethical code of conduct.
- They specify what's acceptable and the acknowledged benchmarks for various business aspects.
- These laws help organizations follow ethical standards, making government regulations crucial for a business's ethical operations.

6. Social Pressures

- External or societal pressures impact business ethics.
- In the rise of "cancel" culture, businesses face consequences, getting "canceled" for their beliefs and policies, just like individuals do.
- If a business sells bad products, offers poor services, or engages in unethical practices, society quickly forms a negative opinion about the company in today's world.
- This mindset turns into a decision not to buy from the company.
- In a time where a single tweet can impact a business, being extremely ethical in practices is crucial.

Example: Growing public demand for sustainable products may lead companies to adopt eco-friendly policies, aligning business practices with societal values to maintain a positive public image and consumer trust.

7. Ethical Climate of the Industry

- Refers to the norms and practices followed by other organizations in the same industry as that of the company in question.
- In a growingly competitive landscape, companies must follow industry standards to stay competitive in the long term and keep up with other businesses.
- If other companies in the industry follow strict rules, the company in question should also make sure to stick to the same high standards.
- If the organization's performance doesn't match the level of other companies

in the same industry, it will be kicked out.

Example: If an industry prioritizes transparency and accountability, businesses within it are more likely to adopt ethical practices. Conversely, in an industry where cut-throat competition is the norm, businesses may compromise ethics to gain a competitive edge.

14.4 SIGNIFICANCE OF BUSINESS ETHICS

Several factors play a role in the success of a company that is beyond the scope of financial statements alone. Organizational culture, management philosophy and ethics in business each have an impact on how well a business performs in the long term. No matter the size, industry or level of profitability of an organization, business ethics are one of the most important aspectsof long-term success.

Ethics in Leadership: - The management team sets the tone for how the entire company runs on a day-to-day basis. When the prevailing management philosophy is based on ethical practices and behaviour, leaders within an organization can direct employees by example and guide them in making decisions that are not only beneficial to them as individuals, but also to the organization as a whole. Building on a foundation of ethical behaviour helps create long lasting positive effects for a company, including the ability to attract and retain highly talented individuals and building and maintaining a positive reputation within the community. Running a business in an ethical manner from the top down builds a stronger bond between individuals on the management team, further creating stability within the company.

Employee Ethics: - When management is leading an organization in an ethical manner, employees follow in those footsteps. Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale. When employees complete work in a way that is based on honesty and integrity, the whole organization benefits. Employees who work for a corporation that demands a high standard of business ethics in all facets of operations are more likely to perform their job duties at a higher level and are also more inclined to stay loyal to that organization.

Business Ethics Benefits: - The importance of business ethics reaches far beyond employee loyalty and morale or the strength of a management team bond. As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term. The reputation of a business from the surrounding community, other businesses and individual investors is paramount in determining whether a company is a worthwhile investment. If a company's reputation is less than perfect based on the perception that it does not operate ethically, investors are less inclined to buy stock or otherwise support its operations.

With consistent ethical behaviour comes an increasingly positive public image, and there are few other considerations as important to potential investors and current shareholders. To retain a positive image, businesses must be committed to operating on an ethical foundation as it relates to treatment of employees, respect to the surrounding environment and fair market practices in terms of price and consumer treatment.

Ethics concern an individual's moral judgements about right and wrong. Decisions taken within an organization may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. The decision to behave ethically is a moral one; employees must decide what they think is the right course of action. This may involve rejecting the route that would lead to the biggest short-term profit.

Ethical behaviour and corporate social responsibility can bring significant benefits to abusiness. For example, they may:

- attract customers to the firm's products, thereby boosting sales and profits
- make employees want to stay with the business, reduce labour turnover and thereforeincrease productivity
- attract more employees wanting to work for the business, reduce recruitment costs and enable the company to get the most talented employees
- attract investors and keep the company's share price high, thereby protecting thebusiness from takeover.

Unethical behaviour or a lack of corporate social responsibility, by comparison, may damagea firm's reputation and make it less appealing to stakeholders. Profits could fall as a result.

Factors highlighting the importance of business ethics

We can cite four major factors which highlight the importance of business ethics:

1. Long-term growth: sustainability comes from an ethical long-term vision which takes into account all stakeholders. Smaller but sustainable profits long-term must be better than higher but riskier short-lived profits.

2. Cost and risk reduction: companies which recognize the importance of business ethics will need to spend less protecting themselves from internal and external behavioural risks, especially when supported by sound governance systems and independent research

3. Anti-capitalist sentiment: the financial crisis marked another blow for the credibility of capitalism, with resentment towards bank bailouts at the cost of fundamental rights such as education and healthcare.

4. Limited resources: the planet has finite resources but a growing population; without ethics, those resources are replete for purely individual gain at huge cost both to current and future generations.

The above mentioned factors have been discussed hereunder:

1. **Long-term growth**

   Large profits are always attractive, potentially allowing faster achievement of strategic goals, a greater provision against risk and a greater sense of success and stability. However, there are countless examples in corporate history of dramatic boom and bust cycles (both on a micro, corporation level and macro-economic level). Now, more than ever, we need to re-evaluate our endless search for bigger and bigger profits with the bigger and bigger risks that entails. The financial crisis which began in 2008 is painful evidence of that. Whole countries have gone to the brink of bankruptcy as a result of anunwillingness or inability to plan long-term.

More and more organizations are recognizing what most owner-run businesses have always known: that stable profits are a better bet in the long run than large profits now and an uncertain future. It is in the long term which we must focus to avoid the blindness which leads to such huge corporate collapses as Lehman Brothers (2008) and such huge risks and balance sheet holes as Morgan Stanley (as late as 2012). Even the largest remaining investment banks like Goldman Sachs are having to recognize this (if only to try and fend off more aggressive regulation) and attempting to make their bonus allocations more dependent on longer term value than the current year's performance. One can only hope that the heads of such organizations recognize the importance of business ethics and the resulting need to change to a more sustainable model of growth. Certainly, the only way to change the huge, unwieldy vessel that is global business is to focus on the business benefits. While it may seem contradictory and hypocritical to place self-interest at the heart of change for the better, it is the only conclusion that seems to offer hope.

Fundamentally, the importance of business ethics is driven by personal ethics and morality and most people are fundamentally self-interested. But, if it is in people's best interest to be ethical, this has the potential to drive real change. It is already happening in several consumer markets where demand is shifting to ethical products and social networks are instrumental in spreading stories about unethical practices. (Sadly, very rarely is positive action rewarded with the same degree of enthusiasm but with some good - but earnest - marketing, it can be given a kick start and be highly successful longterm.)

2. **Cost and risk reduction**

A precedent which argues the case made above is the Quality Management industry. In the West, this sprung up in the early 1980s, when products began to be inspected before leaving the factory in an attempt to reduce the amount of costly customer complaints. Now, most products come with at least a one-year warranty and in the case of some car manufacturers, up to five years. What started off as a self-interested need to reduce costs has led to more reliable products? Meanwhile, we offer another analogy from wider society. Just as widespread bribery and corruption in society are recognized as

being inimical to the development of a healthy economy, similarly the lack of a high standard of ethical behaviour in a company is inimical to trust and loyalty, which in turn has a detrimental effect on the health of the company over the longer term.

It may be argued that an owner can run a business in whichever way he or she wishes, and at first glance there would appear to be a case for this so long as no other shareholders are involved, and only his or her money is at risk, and of course with the acquiescence of the employees and trading partners. However, in many years of observing different standards of behaviour in different business circumstances, one recognizes the relationship between the perception of ethics which permeates an organization and the degree of trust and loyalty present among employees and between staff and management. The conclusion one reaches is that loyalty and trust have a significant value in terms of the efficiency and effectiveness with which a business can be run, and the concomitant cost of control systems needed. In other words, a highly ethical operation is likely to spend much less on protecting itself against fraud and will probably have to spend much less on industrial relations to maintain morale and common purpose. This should be motivation in itself to recognize the importance of business ethics and in still good corporate governance in any organization.

3. Anti-capitalist sentiment

The eye-watering profits of some of the world's largest corporations attract a lot of negative sentiment from those outside the world of business and finance. While clearly a result of the scale of these organizations, there is always a suspicion that these profits have been achieved through not entirely ethical means - and in some cases downright unethical means, often resulting in major public failures, most recently in Japan, where the senior management of Nomura resigned en masse after an insider trading scandal. Banks in particular receive a lot of bad publicity over profits and executive pay (especially bonuses), and while not always justified, the fact is, an industry at the centre of the credit crunch and resulting economic and financial crisis continued to produce hefty profits and bonuses even while making large numbers redundant. This is, of course, a huge generalization and simplification of the issue but it is the natural reaction of the general public, who lack such detailed information and understanding. Public sentiment cannot be ignored. This situation makes the importance of business ethics allthe more pressing in the 21st century.

4. Limited resources

One irrefutable fact is that this planet has limited resources. Probably the biggest failure in human development over the last three hundred years has been in recognizing that and attempting to minimize use and maximize reuse and recycling. While there are now global initiatives to try and reverse this trend, and much progress has been made, there is still a long way to go. In the major developing economies, especially, history is repeating itself on a massive scale. With notable exceptions, this applies not only to specific environmental and sustainability issues but to corporate governance generally and the importance of business ethics to the new high growth regions and corporations.

This is another example of short-termism prevailing over long-term vision and preservation of limited resources for future generations - and in some cases the same generation, as in deforestation driving native peoples and animal species to the point of extinction. Just as basic financial management requires planning to ensure capital reserves and so solvency, the same principles should clearly apply to the extraction and usage of natural resources. There are some notable exceptions, of course, with the likes of Sir Richard Branson (founder of the Virgin Empire) taking a keen interest in environmental affairs (as well as entrepreneurship). On a governmental level, the 2012 London Olympics are the "greenest" ever, with 40 per cent reduction in water usage (despite the record number of parks and planting) and 98 percent waste recycling.

The following points explain the need for and importance of Business Ethics:

1. Protection of Consumer Rights: Consumer is the centre of all the business activities. In fact, business is essentially meant for satisfaction of consumer wants. Unfortunately, consumers are the most neglected and exploited group. The application of business ethics willhelp to confer and implement consumer rights.

2. Social Responsibility: Business Ethics is a means of making business socially responsible for its actions. Exploitation of consumers, employees, discriminate use of natural resources, etc., is quite common in all types of business. Compliance to ethical standards will ensure (a) Protection of consumer rights (b) Public accountability (c) Protection of worker's interests, and

(d) Proper utilisation of natural resources.

3. Concept of Socialism: The Concept of Socialism in business states that gains of a business must be shared by all and not just by the owner of the business. Profit is a sign of business skill and talent. Profit is also a result of group efforts. Employees, shareholders, consumers, suppliers, and others contribute to the success of the business. Therefore, success should be shared by all concerned.

4. Interest of Industry: Business Ethics are necessary to safeguard the interests of the small- scale business firms. The tendency of big business firms is always to dominate the market and drive away the small industries out of the market. Small scale units can establish their position and fight for their right if the industry follows a code of ethics.

5. Consumer Movement: The growth in consumer movement is also another important factor that has necessitated the need for business ethics. The spread of education and awareness among consumers about their rights has made the business community to conduct business onethical principles.

6. Better Relations with the Society: Business Ethics is needed to develop good relations between business and society. The relationship of business with society has various dimensions such as its relations with shareholders, employees, consumers, distributors, competitors and government.

7. Buyer's Market: There has been a structural change in the concept of business. The concept of profit has been gradually taken over by consumer satisfaction. The large-scale production and increased competitions in the market changed the business scene from a seller's market toa buyer's market.

8. Beneficial to Business and Society: - Ethics suggests what is good and bad; right and wrong; ethical and unethical, etc. to businessmen. It also brings an element of honesty, sincerity, fairness, and human touch to business activities.

Every responsible business understands and values the need of business ethics.

Company is a legal person; therefore, it needs to work in a socially responsible manner. Therefore, every responsible and quality business believes in following business ethics.

The concept of business ethics entails the principles and values that govern the behaviour of a businessperson in the work surroundings, regardless of the fact whether the person is an employee of the business, or the owner itself.

14.5 ELEMENTS OF BUSINESS ETHICS

Throughout the business world, no trait is more important and influential to the success of a company than practicing respectable business ethics from the inside out. A solid ethics foundation has four key elements.

(i) A Strong Code of Ethics:

The Sarbanes-Oxley Act of 2002 made it important for businesses to have an ethics code, something in writing about what one ought to do, and what to strive for. This also serves to inform employees of the vision that the company’s executives have for the company’s image and goals. This helps new employees learn important aspects of how to carry out their actions at work, and provides veteran employees with something to fall back on; both as a reminder and as something to cite if they are being pressed to do something that they believe to be wrong.

(ii) Ethics Training:

Any ethics code, no matter how well written, that is not understood or followed is only on the paper or disk space it is stored on. Some companies have an in-house training department that can provide the requisite training. A trainer needs to have sufficient experience and training in the field of ethics to be most effective.

(iii) Ethics Coach:

Either in-house or out-sourced expert, who will be available as a friendly and confidential resource for employees facing complicated ethical dilemmas should be arranged in every company. This person needs to have sufficient expertise in employing ethical concepts, analytical skills and decision- making tools to facilitate an ethical resolution to the problem.

Also essential in an ethics coach is the assurance of confidentiality and also a friendly and upstanding coach who protects confidentiality, and speaks with everyone in the office at various times, not just when there is a difficulty.

(iv)Systems for Confidential Reporting:

This serves to provide employees with a means for reporting observed misconduct or violations without fear of reprisal. This serves to further discourage ethical violations, while getting everyone involved. It also provides the all important “do something about it” option. Additionally, early detection and resolution of ethical problems may save the company huge amounts of money in cases such as theft or other misconduct.

14.6 REVIEW QUESTIONS

Q1. What are factors affecting the business ethics.

Q2. Briefly explain the importance of business ethics.

Q3. What is ethics/ What are the elements of business ethics?

14.7 FURTHER READING

1. Prof. Dr Biswajit Satpathy: Indian Ethos and Values, Elite Publications
2. Manuel G Velasquez: Business ethics-concepts and cases Pearson.
3. Luthans Hodgetts and hompson: Social issues in business, Macmillan USA
4. A.C .Fernando: Business Ethics Pearson Education.
5. A.C. Fernando: Corporate Governance Pearson Education.
6. Adrian Davies: Strategic approach to corporate governance Gower Pub Co.
7. N.Gopalswamy: Corporate Governance a new paradigm A H Wheeler Publishing CoLtd.

UNIT 15: ETHICAL PRINCIPLES IN BUSINESS

STRUCTURE

LEARNING OBJECTIVE

After completing this unit, learners will be able to:

- Explain the meaning of ethical principles.
- Describe the importance of ethical principles.

15.1 INTRODUCTION

The concept of business ethics began in the 1960s as the corporations became aware of a rising consumer-based society. With the time the concept of business ethics has evolved. Ethics refers to the set of rules and regulations that an organisation should follow. In business, ethics refers to the code of conduct that businesses are expected to follow. By following business ethics businesses enjoy positive and fruitful results. Applying ethics in the business may not produce instant results, but in the long run the firm will definitely deliver better results. When the employees of a company are governed by the ethical principles, they deliver extraordinary results. This guides them in distinguishing between the wrong and the right part of the businesses. Code of conduct is a set of rules that are considered as binding by the people working in the organization. Business ethics comprises all these values and principles and helps in guiding the behaviour in the organizations. While the main objective of any business to make profit but they also have ethical responsibilities. Everyone from the bottom to the top should be involved in taking up these responsibilities. According to Dr. Jill Young, an instructor in South University's College of Business, integrity is the most important ethical concept because it covers such a broad area. "If you act with integrity, ethical behaviour is just a natural progression," she says. "Those who have integrity are guided by a set of core principles that influences their decisions and behaviours."

People with integrity value other principles, including honesty, respect, personal responsibility, compassion, and dependability. These qualities are integrated into the Six Pillars of Character offered by the Josephson Institute, a non-profit organization that develops and delivers services and materials to increase ethical commitment. The pillars are:

- Trustworthiness
- Respect
- Responsibility
- Fairness

- Caring
- Citizenship

An organisation’s environment which encourages the employee to adopt ethical practicesis a place where the actual development happens.

15.2 ETHICAL PRINCIPLES

In the business sector, ethics is extremely important. It is the study of morally right actions and decisions, as well as the investigation of what should be done. Ethics influences and shapes human behaviour. It assists employees in carrying out their responsibilities. However, we cannot in still ethics until we 'practise what we preach'. Otherwise, the effect of preaching will be as short-lived as a house of cards. Fundamental rules known as ethical principles assist people and organisations in acting honourably and justly and making morally responsible judgements. These guidelines offer a framework for determining whether a course of action is right or incorrect and encourage fairness, respect, and integrity.

Beneficence

The beneficence principle expresses a fundamental ethical notion. This simply translates to doing well for others. According to this idea, all of our thoughts and activities must be aimed towards ensuring that they benefit others. This is not difficult to accomplish. People generally care more about themselves than about others. This principle can be applied to even the smallest activities we take. Consider a person parking his or her motor vehicle, such as a car or a motorcycle. He or she must park the car such that it does not obstruct pedestrians strolling on the road, disrupt traffic flow, or obstruct another person's parked vehicle. People frequently park their vehicles on the road without regard for the inconvenience caused to others.

Least Harm

The second ethical concept to remember is that our activities must cause the least amount of harm to others. Even if we try to do good for others, there may be times when our actions bring them damage. In such a case, we must ensure that our actions inflict the least amount of harm to others. Consider the following scenario: a train collision. In such an event, it is one's responsibility to assist the injured passengers. He or she must get them out of the compartment, assist authorities in transporting the injured to the hospital, and so forth. On the other hand, it is sometimes observed that people take advantage of such occurrences to steal the belongings of the injured, helpless victims. This is what it means to cause harm. The least one can do in such situations is to prevent individuals from acting unethically. Consider another typical day-to-day incident.

Autonomy

This concept basically emphasises that we must respect the autonomy of others when carrying our actions. We must not impose our beliefs on others. This principle presupposes that everyone knows what is best for themselves. One can also consider it from the perspective of the individual conducting the action, who determines that what he or she is about to do is good for himself or herself. Consider your personal situation as an example. As a student, you may have

chosen a course because you are passionate about it. Some of you, on the other hand, may have enrolled in the course because your parents made the decision for you. They have infringed on your ability to make decisions for yourself. This is a typical occurrence, and many students end up enrolling in a course for which they have no aptitude or dislike. Consider the situation of arranged weddings in India as another example. It is not commonplace for parents to choose a mate for their children based on characteristics such as family standing or wealth,
without regard for their children's feelings or wants. This is an obvious violation of the individual's autonomy. Obtaining the consent of the children before marrying is a critical aspectin the success of marriages.

Principles of Business Ethics

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows –

- **Avoid Exploitation of Consumers** − Do not cheat and exploit consumers with measuressuch as artificial price rise and adulteration.
- **Avoid Profiteering** − Unscrupulous business activities such as hoarding, black marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- **Encourage Healthy Competition** − A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.
- **Ensure Accuracy** − Accuracy in weighing, packaging and quality of supplying goods tothe consumers has to be followed.
- **Pay Taxes Regularly** − Taxes and other duties to the government must be honestly andregularly paid.
- **Get the Accounts Audited** − Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- **Fair Treatment to Employees** − Fair wages or salaries, facilities and incentives must beprovided to the employees.
- **Keep the Investors Informed** − The shareholders and investors must know about the financial and other important decisions of the company.
- **Avoid Injustice and Discrimination** − Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.
- **No Bribe and Corruption** − Do not give expensive gifts, commissions and payoffs to people having influence.
- **Discourage Secret Agreement** − Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- **Service before Profit** − Accept the principle of "service first and profit next."
- **Practice Fair Business** − Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- **Avoid Monopoly** − No private monopolies and concentration of economic power shouldbe practiced.

- **Fulfil Customers' Expectations** − Adjust your business activities as per the demands,needs and expectations of the customers.
- **Respect Consumers Rights** − Honour the basic rights of the consumers.
- **Accept Social Responsibilities** − Honour responsibilities towards the society.
- **Satisfy Consumers' Wants** − Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have thisaim.
- **Service Motive** − Service and consumer's satisfaction should get more attention than profit-maximization.
- **Optimum Utilization of Resources** − Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- **Intentions of Business** − Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

Follow **Woodrow Wilson's** rules − There are four important principles of business ethics. These four rules are as follows –

- **Rule of publicity** − According to this principle, the business must tell the people clearlywhat it tends to do.
- **Rule of equivalent price** − the customer should get proper value for their money. Below standard, outdated and inferior goods should not be sold at high prices.
- **Rule of conscience in business** − the businesspersons must have conscience while doing business, i.e., a moral sense of judging what is right and what is wrong.
- **Rule of spirit of service** − the business must give importance to the service motive.

15.3 IMPORTANCE OF ETHICAL PRINCIPLES

The fundamental rules that direct our actions, choices, and interactions with others are ethical standards. They offer a moral framework that aids people and cultures in determining what is just and unjust, fair and unfair, and good and wrong. We may observe the significance of ethical values in many areas of our individual and societal lives, such as:

Promotes trust and credibility: Trust and credibility are fostered by ethical behaviour in interpersonal interactions as well as in work environments and institutions. It strengthens relationships and gives people a sense of security when they can count on others to act morally.

Respect for human dignity: Regardless of variations in race, gender, religion, or socioeconomic standing, ethical principles promote respect and dignity for all. They also emphasise the intrinsic value and worth of every human.

Social Cohesion: A civilization or community's shared ethical values aid in defining what is and isn't acceptable behaviour. This promotes peace in society by encouraging cooperation andunity.

Long -term sustainability: Making ethical decisions involves taking into account how choices will affect people, society, and the environment in the long run. It promotes sustainable practices and resource management in a responsible manner.

Ethical Leadership: By serving as an example of honesty, justice, and empathy, ethical leaders motivate others around them. Stronger teams, organisations, and communities can be created by these leaders.

Conflict Resolution: By encouraging people to think about what is morally correct instead ofwhat is only in their own best interests, ethical principles provide a foundation for resolving conflicts and moral quandaries.

Legal Compliance: Legal requirements and ethical standards frequently coincide, ensuring that people and organisations uphold the law and respect the rights of others.

Customer Loyalty: Customers tend to be more loyal to organisations they trust, thus ethical businesses that put a priority on customer happiness and ethical behaviour tend to do better.

Personal growth and self-awareness: As people consider their values and beliefs and work to match their behaviours with their moral compass, adhering to ethical standards can promotepersonal growth.

Global Cooperation: Ethical standards are essential for fostering understanding and cooperation among many cultures and nations, bridging divides and fostering peaceful cohabitation.

15.4 ETHICAL PRINCIPLES FOR BUSINESS

Business ethics are crucial for success in contemporary business for a number of reasons. The most significant benefit of specified ethics programmes is the creation of a code of conduct that influences behaviour among all levels of employees, from executives to middle management to the newest and youngest. When every employee acts morally, the business develops a reputation for moral conduct. As its reputation rises, it starts to gain the advantagesa moral organisation enjoys:

- brand awareness and expansion
- improved negotiating skills improved belief in goods and services
- customer loyalty and expansion
- Draws in talent and investments

Business ethics give a framework to direct organisations and their personnel in making morallyright judgements and managing operations in a way that is socially responsible. These values promote honesty, decency, and environmentally friendly business practices.

Integrity: Be sincere, open-minded, and equitable in all business relationships. When communicating with consumers, employees, suppliers, and other stakeholders, eschew dishonest tactics and uphold the truth.

Respect for Human Rights: Respect and uphold the basic rights and dignity of all people, including those who are employed, clients, suppliers, and members of the communitiesimpacted by business operations.

Fairness and Justice: Without prejudice based on colour, gender, religion, nationality, or anyother factor, treat all stakeholders fairly and justly. Ensure that employees receive fair compensation, comfortable working conditions, and opportunity for advancement.

Environmental Responsibility: Promote environmentally friendly behaviours, cut waste, save resources, and use eco-friendly technologies to reduce the negative effects of companyoperations on the environment.

Legal Compliance: Abide by all applicable laws, rules, and standards of the industry in the areas where the business works. Avoid engaging in unethical or illegal behaviour.

Social Responsibility: Act in a way that helps society as a whole and makes a positive contribution to the neighbourhood. Participate in charitable endeavours and lend support to social concerns.

Consumer Protection: Give clients' safety and wellbeing first priority by offering them high- quality goods and services, clear pricing, and accurate product information.

Data Privacy and Security: Protect the privacy of consumer and employee data by making sure that information is gathered, saved, and used in line with the law and industry standards.

Avoid Conflicts of Interest: Avoid instances where personal interests might collide with the goals of the organisation and always act in the company's and its stakeholders' best interests.

When employees or leadership of the business is able to distinguish between the wrong or right ways of conducting the business, then the business is said to be run on ethical grounds, and is considered a follower of business ethics.

Business ethics play a crucial role in developing the culture of an organization. If the leader of the organization exhibits ethical behaviour, and rewards the employees who conduct their business work in an ethical manner, then the organization will start to build ethical grounds on which they conduct business, ultimately resulting in an ethical culture of the business.

A company that believes in business management in an ethical manner, base their decisions not on the motive of earning or making money, rather every decision such company takes, is taken by keeping in mind the benefits of the stakeholders. These ways stakeholders feel a part of the company and the business develops a socially acceptable reputation.

Besides the apparent benefits of business ethics in the form of a well-developed culture, more dignified corporate values, and a satisfied customer, business ethics expands way farther. A company that believes in proper conduction and following of business ethics survives on a long run. A company that does not follow any such business ethics, and believes in solely earning money can earn money for a short time. However, when it comes to long term benefits, a business should properly believe in business ethics, with ethics a business can develop a relationship with customers, the customers become loyal, and the employees work in the most motivated manner to facilitate the customers.

In short, the above lines give a brief insight into the concept of business ethics. It should be implemented and observed by the management, followed by the employees, and with proper consideration of the customers, a business can achieve long term success with business ethics.The more inclined a business is towards ethics, the more trust of the customer, and more longevity of the business.

15.5 ETHICAL PRINCIPLES FOR BUSINESS EXECUTIVES

Ethical values, translated into active language establishing standards or rules describing the kind of behaviour an ethical person should and should not engage in, are ethical principles. The following list of principles incorporates the characteristics and values that most peopleassociate with ethical behaviour.

1. **Honesty**- Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.
2. **Integrity**- Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honourable and upright; they will fight for their beliefs. They will not sacrifice principle for expediency, be hypocritical, or unscrupulous.
3. **Promise**-Keeping & Trustworthiness- Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfil the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.
4. **Loyalty-** Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.
5. **Fairness**- Ethical executives and fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor indecent means to gain or maintain any advantage nor take undue advantage of another’s mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, and they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.
6. **Concern for Others**- Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help those in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.
7. **Respect for Others**- Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.
8. **Law Abiding**- Ethical executives abide by laws, rules and regulations relating

to their business activities.

9. Commitment to Excellence- Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavour to increase their proficiencyin all areas of responsibility.

10. Leadership- Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

11. Reputation and Morale- Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.

12. Accountability- Ethical executives acknowledge and accept personal accountability for theethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

15.6 LET'S SUM UP

Ethics refers to the study of morally right actions and decisions, as well as the investigation ofwhat should be done. It influences human behaviour. It assists people and organisations in acting honourably and justly and making morally responsible judgements. It offers a framework for determining whether a course of action is right or incorrect and encourages fairness, respect for human dignity, long term sustainability, ethical leadership, and conflict resolution. Ethical principles are essential for the success of a business. When every employee acts morally, the business develops a reputation for moral conduct. Business ethics give a framework to direct organisations and their personnel in making morally right judgements and managing operations in a way that is socially responsible. Corporate social responsibility, transparency and trustworthiness, technological practices and ethics fairness are different types of business ethics. Honesty, integrity, loyalty, fairness, concern for others, respect for others are some of the ethical principles which business executives should implement in their work culture.

15.7 CHECK YOUR PROGRESS

1. What do you mean by Ethical Principles? Why is it important?
2. What are the ethical principles that business executives should follow?

15.8 FURTHER READING

1. Prof. Dr Biswajit Satpathy: Indian Ethos and Values, Elite Publications
2. Manuel g Velasquez: Business ethics-concepts and cases Pearson.
3. Luthans Hodgetts and hompson: Social issues in business, Macmillan USA
4. A.C .Fernando: Business Ethics Pearson Education.
5. A.C. Fernando: Corporate Governance Pearson Education.
6. Adrian Davies: Strategic approach to corporate governance Gower Pub Co.
7. N.Gopalswamy: Corporate Governance a new paradigm A H Wheeler Publishing CoLtd.

15.9 REFERENCES

PGDIM (MP-12) (BLOCK-1) Business Ethics (UNIT-1) (Business Ethics: An Overview).

UNIT 16: CORPORATE SOCIAL RESPONSIBILITY

STRUCTURE

LEARNING OBJECTIVE

After completing this unit, learners will be able to:

- Explain the meaning and definition of Corporate Social Responsibility.
- Describe the evolution of Corporate social responsibility.
- Discuss the common indicators for measuring business social performance.

16.1 INTRODUCTION

The concepts of modern Corporate Social Responsibility evolved only recently. However, the idea has a long history. In both the East and West, it was called social philanthropy. Depending on its nature and context, it was divided into three broad areas. Traditionally, corporate philanthropy aimed at the welfare of the immediate members of the enterprise like staff and employees and their families. This was usually in the form of contributions by visionary business leaders to the establishment of trusts that promoted education, women's welfare, health & medical care and so on. Corporate Social Responsibility is qualitatively different from the concept of the traditional concepts of corporate philanthropy. It acknowledges the corporation's debt that the corporation owes to the community within which it operates. It regards the community as an equal stakeholder. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities.

In this age of globalization, Corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years, multinational corporations (MNCs) have played an influential role in defining markets and consumer behaviour. The rules of corporate governance have also changed. Reactions to this change have been varied. On the one hand, globalization and liberalization have provided a great opportunity for corporations to become globally competitive by expanding the production base and market share. On the other hand, the conditions that favoured their growth also placed these companies in an unfavourable light.

Labourers, marginalized consumers, environmental and social activists protested against the unprecedented (and undesirable) predominance of multinational corporations. The revolution in communication technology and the effectiveness of knowledge- based economics threw up a new model of business and corporate governance. Growing awareness of the need for ecological sustainability paved the way for a new generation of business leaders concerned about the community response and environmental sustainability. Corporate Social Responsibility (CSR) is essentially a new business strategy to reduce investment risks and maximize profits by taking all the key stakeholders into confidence.

The new generation of corporations and the new-economy entrepreneurs recognize the fact that social and environmental stability are two important prerequisites for the long-term sustainability of their markets. From the eco- social perspective, corporate social responsibility is both a value and a strategy to ensure the sustainability of business. For the new generation of corporate leaders, optimization of profit is the key, and is more important than its maximization. Hence there is a noticeable shift from accountability to shareholders to accountability to all stakeholders for the long-term success and sustainability of the business. Stakeholders include consumers, employees, affected communities and shareholders, all of whom have the right to know about the corporations and their business. This raises the important issue of transparency in the organization.

16.2 Concept and Definition of CSR

Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self -regulation integrated into a business model. CSR policy would function as a built-in, self-regulating mechanism whereby businesses would monitor and ensure their adherence to law, ethical standards, and international norms. Businesses would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision making, and the honouring of People and Profit.

The role of corporations by and large has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. As corporations have been regarded as institutions that cater to the market demand by providing products and services, and have the onus for creating wealth and jobs, their market position has traditionally been a function of financial performance and profitability.

However, over the past few years, as a consequence of rising globalisation and pressing ecological issues, the perception of the role of corporations in the broader societal context within which it operates, has been altered. Stakeholders (employees, community, suppliers and shareholders) today are redefining the role of corporations taking into account the corporates' broader responsibility towards society and environment, beyond economic performance, and are evaluating whether they are conducting their role in an ethical and socially responsible manner.

As a result of this shift (from purely economic to 'economic with an added social dimension'), many forums, institutions and corporates are endorsing the term Corporate Social Responsibility

(CSR). They use the term to define an organisation's commitment to the society and the environment within which it operates.

The World Business Council on Sustainable Development's (WBCSD) report was titled CorporateSocial Responsibility:

Making Good Business Sense and the OECD Guidelines for Multinational Enterprises which includes a discussion on how CSR is emerging as a global business standard. Further, there is a global effort towards reinforcing CSR programmes and initiatives through local and internationalschemes that try to identify best-in-class performers.

Today Businesses are an integral part of the communities. It is evident that businesses build civilizations. Corporate Sectors have a key role in the socio-economic development of any country. There are many instances where corporations have played a dominant role in addressing issues of education, health, environment and livelihoods through their corporate social responsibility interventions across the globe. It is important for the corporate sector to identify, promote and implement successful policies and practices. As per United Nations and the European Commission, Corporate Social Responsibility (CSR) leads to a triple bottom-line: profits, protection of the environment and fighting for social justice.

CSR: Definition

The totality of CSR can be best understood by three words: 'corporate,' 'social,' and 'responsibility.' In broad terms, CSR relates to responsibilities corporations have towards society within which they are based and operate, not denying the fact that the purview of CSR goes much beyond this. CSR is comprehended differently by different people.

Some perceive it to be a commitment of a company to manage its various roles in society, as producer, employer, customer and citizen in a responsible manner while for others it is synonymous to Corporate Responsibility (CR) or Corporate Citizenship or Social Action Programme (SAP). Of late, the term has also been started to link up with Triple Bottom Line Reporting (TBL) which essentially measures an enterprise's performance against economic, socialand environmental indicators.

Discourses on CSR suggest that many definitions of CSR exist within the business community, and CSR continues to be an evolving concept, with no single definition that is universally accepted.

Given below are three key definitions that have garnered wide acceptance and favour amongst business circles:

Definition # 1: Philip Kotler and Nancy Lee (2005) define CSR as "a commitment to improve community wellbeing through discretionary business practices and contributions of corporate resources" whereas Mallen Baker refers to CSR as "a way companies manage the business processes to produce an overall positive impact on society."

Definition # 2: According to the World Business Council for Sustainable Development "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

Definition # 3: Archie Carroll in 1991 described CSR as a multi-layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities.

Carroll presents these different responsibilities as consecutive layers within a pyramid, such that “true” social responsibility requires the meeting of all four levels consecutively. The model probably is the most accepted and established.
While the definitions of CSR may differ, there is an emerging consensus on some common principles that underlie CSR:
CSR is a business imperative: Whether pursued as a voluntary corporate initiative or for legal compliance reasons, CSR will achieve its intended objectives only if businesses truly believe thatCSR is beneficial to them.
CSR is a link to sustainable development: businesses feel that there is a need to integrate social, economic and environmental impact in their operation; and CSR is a way to manage business: CSR is not an optional add on to business, but it is about the way in which businesses are managed.

16.3 History and Evolution of CSR

India has the world’s richest tradition of corporate social responsibility. Though the term CSR is comparatively new, the concept itself dates back to over a hundred years. CSR in India has evolved through different phases, like community engagement, socially responsible production and socially responsible employee relations. Its history and evolution can be divided into four major phases.

PHASE 1 (1850 TO 1914)

The first phase of CSR is known for its charity and philanthropic nature. CSR was influenced by family values, traditions, culture and religion, as well as industrialisation. The wealth of businessmen was spent on the welfare of society, by setting up temples and religious institutions. In times of drought and famine these businessmen opened up their granaries for the poor and hungry. With the start of the colonial era, this approach to CSR underwent a significant change. In pre-Independence times, the pioneers of industrialisation, names like Tata, Birla, Godrej, Bajaj, promoted the concept of CSR by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. During this period social benefits were driven by political motives.

PHASE 2 (1910 TO 1960) The second phase was during the Independence movement. Mahatma Gandhi urged rich industrialists to share their wealth and benefit the poor and marginalized in society. His concept of trusteeship helped socio-economic growth. According to Gandhi, companies and industries were the ‘temples of modern India’. He influenced industrialists to set up trusts for colleges, and research and training institutions. These trusts were also involved in social reform, like rural development, education and empowerment of women. One significant aspect during this phase is the promotion of “trusteeship” that was revived and reinterpreted by Gandhiji. Under this notion the businesses were motivated to manage their business entity as a trust held in the interest of the community. The idea prompted many family run businesses to contribute towards socio economic development. The efforts of the Tata group directed towards the wellbeing of the society are also worth mentioning in this context.

PHASE 3 (1950-60 TO 1990) This phase was characterised by the emergence of PSUs (Public Sector Undertakings) to ensure better distribution of wealth in society. The policy on industrial licensing and taxes, and restrictions on the private sector resulted in corporate malpractices which finally triggered suitable legislation on corporate governance, labour and environmental issues. Since the success rate of PSUs was not significant there was a natural shift in expectations from public to private sector, with the latter getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen conducted a nationwide workshop on CSR where major emphasis was given to social accountability and transparency.

PHASE 4 (1990 ONWARDS) In this last phase CSR became characterised as a sustainable business strategy. The wave of liberalisation, privatisation and globalisation (LPG), together with a comparatively relaxed licensing system, led to a boom in the country's economic growth. This further led to an increased momentum in industrial growth, making it possible for companies to contribute more towards social responsibility. What started as charity is now understood and accepted as responsibility.

16.4 Importance of CSR

Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self -regulation integrated into a business model. CSR policy

would function as a built-in, self-regulating mechanism whereby businesses would monitor and ensure their adherence to law, ethical standards, and international norms. Businesses would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision making, and the honouring of People and Profit.

All the Business houses and corporations have been taking up social welfare activities from time to time. While CSR is relevant in business for all societies, it is particularly significant for developing countries like India, where limited resources for meeting the ever-growing aspirations and diversity of a pluralistic society, make the process of sustainable development more challenging. CSR interventions-based on commitment, mobilization of employees-voluntarism, innovative approaches, appropriate technology and continuing partnership-have been making lasting differences in the life of the disadvantaged. Further, synergy of corporate action with the government and the civil society are making the CSR interventions more effective and facilitating the corporate carrying on business in the society.

16.5 WHY TO MEASURE CORPORATE SOCIAL RESPONSIBILITY

As a result of the rise in ethical consumerism, it is obvious that determining CSR performance is not as simple as we would want. You must finish a CSR assessment to verify that your CSR ROI is where it should be. A proper corporate social responsibility assessment should consider the following:

- How well the organisation has incorporated social responsibility movements into its regularoperations?
- Which theme—environment, labour & human rights, ethics, or sustainable procurement— the CSR campaign is addressing, and how it is doing so. How exactly the company is committing to each one, if it's all of them?
- legal requirements, as appropriate.
- An explanation of what CSR means to the business.
- The participation of stakeholders.

A CSR assessment enables you to pinpoint the advantages of your work. It also aids in highlighting any shortcomings you may experience as a result of a weak CSR campaign. Social return and CSR measurements play a significant role in corporate strategy and have a significant impact on how the public perceives your firm, both positively and negatively. Corporate social responsibility assessment is an extremely necessary part of any CSR project.

16.6 WHAT TO MEASURE

ESG (Environment, Social, and Governance) is the best way to monitor and evaluate your CSR initiatives. A triple bottom line is a set of three concrete, objective metrics that businesses use to assess themselves. These numbers can be used by both consumers and investors to assess a company's impact.

Environmental

Businesses should assess their environmental impact and determine whether they are harming or polluting the environment. This could be accomplished through their supply chain, their method of product delivery, or the actual product. A corporation must take action to reduce or eliminate any harmful effects on the environment if it determines that they are being produced.

Social

Social CSR demonstrates that businesses should offer a beneficial impact on their larger community as well as give their employees fair and appropriate compensation. This could be done in a variety of ways, such as giving to charities, performing volunteer work, etc.

Governance

Internal management is referred to as governance. It demands that businesses have systems in place to ensure that the company's stakeholders are respected and fairly and equitably represented throughout business meetings, decisions, and procedures, as well as the right incentives for management.

16.7 HOW TO MEASURE CORPORATE SOCIAL RESPONSIBILITY

Set Sustainable Development Goals to achieve Benchmarks

Sustainable development goals (SDGs, also known as Global Goals) were approved by United Nations member states in 2015 as a global call to action to eradicate poverty, safeguard the environment, and guarantee that by 2030, everyone on the globe can live in peace and prosperity. The SDGs offer a special chance to advance sustainable communication. Governments have emphasised this goal through SDG 12 in recognition of the significance of corporate adoption of sustainable practices and incorporation of this data into reporting cycles. These objectives serve as helpful benchmarks for your business and may be used to direct the development of your CSR project as well as the manner in which you communicate your CSR objectives. Even if this particular piece of work is focused on one of your achievements, keep in mind your other SDGs and keep track of how your firm is contributing to them whether you are sharing or executing your goals and achievements, whether it be through video, programmes, or other efforts.

Without establishing objectives (KPIs), determining value, and monitoring outcomes, it is very challenging to accurately assess the success of a CSR programme. Consider your long-term objective when setting your goals, and then break it down into multiple more manageable objectives to guide you along the way.

Set Relevant Key Performance Indicators

Without establishing objectives (KPIs), determining value, and monitoring outcomes, it is very challenging to accurately assess the success of a CSR programme. Consider your long-term objective when setting your goals, and then break it down into multiple more manageable objectives to guide you along the way. It is more difficult to determine the worth of your CSR programme than a straight ROI. Such investments may (at least initially) yield a social return that is far greater than their financial return. Making sure the company has the right data to accomplish the CSR goals the companies set out at the beginning of the journey is all it takes to track the results. With the use of this data, you may also modify your strategy in light of what is and isn't

working. Key Performance Indicators are a vital tool for making sure you are on the right track
and keeping tabs on how successful your CSR efforts are, just like they are for any campaign a company invests itself into.
Using both short-term and long-term goals is a fantastic method to achieve this. Your long-term goals should comprise a sizable portion of your short-term ambitions. This will aid you in both moving towards your objectives and identifying any areas where you may be falling short. Monitoring the KPIs can help you improve your CSR efforts over time. Companies CSR initiatives can be measured in whatever way it chooses. Every business has a different strategy, and as long as it works for the company, it's effective. So, assessing performance will be simpler and more quantifiable if the organisation creates a list of long- and short-term goals and uses them as KPIs.

Comparison with Industry Leaders

There are numerous leaders in the corporate realm of CSR that you can go to for inspiration. The days of considering one-time or yearly donations to charities as effective CSR initiatives are long gone. Companies today need to take a more proactive approach to their CSR initiatives. Ben & Jerry's has frequently been praised for their dedication to CSR, and they make sure to collaborate with some of the leading CSR practitioners in the business. There are industry-wide standards, even though there isn't a single standard for monitoring CSR initiatives. Check where your company stands in relation to others in the same field, then imitate the leaders until you are on an equal footing. The organisation can check the current requirements using the following sites whether it is a small business or a major corporation. The existing standards can be checked withthe help of the following resources:

GRI Standards

This resource provides resources that are both general and industry-specific. It delves deeply into the potential effects you may be having in the various CSR-addressed industries, including the financial, environmental, and social ones.

SASB Standards

Utilise this vast collection of current corporate standards to compare your present standards to those of other companies in your industry.

B-Corporation Certification

The b-corporation framework is a very helpful tool for identifying what needs to be done as a group and an individual because it is one of the largest and most well-known certifications for determining who is doing what correctly.

International Framework Agreements

A global union federation has developed a framework that is used to guide people from all over the world in determining what they are doing well and whether their current practices have any gaps.

Existence of a clear goal

It can be very challenging to gauge your progress towards your CSR goals if you don't have a clear target in mind. Make sure to base your decision on information that has been thoroughly studied and community feedback. This objective should be established utilising a variety of KPIs that support the higher ideal. You should be able to work with both internal and external stakeholders for the business if you want to establish a place where you can provide social and environmental advantages.

Organisation should be aware about employees thought of CSR

A really authentic CSR programme cannot exist if employee welfare is not taken into account. Speaking with your employees and asking them about whether they feel their values align with those of the firm and whether the work they are doing contributes to their personal wellness are two great ways to gauge the success of your CSR initiatives.

16.8 COMMON INDICATORS FOR MEASURING BUSINESS SOCIAL PERFORMANCE

Assessing a company's influence on society and its stakeholders outside of merely financial measurements is part of measuring business social performance. Here are a few typical metrics and frameworks for gauging business social performance:

Corporate Social Responsibility Reports

Numerous businesses release CSR reports that detail their endeavours and advancements in fields like environmental sustainability, social initiatives, ethical business conduct, and community participation.

Triple Bottom Line Reporting

This framework uses the three criteria of social, environmental, and financial success to evaluate corporate performance. It covers social, environmental, and financial indicators like People, Planet, and Profit.

Sustainability Metrics

These metrics evaluate a company's influence on the environment, including carbon emissions, water use, waste production, and resource consumption.

Diversity and Inclusion Metrics

Companies may monitor statistics on the diversity of their workforce, the gender pay gap, the presence of underrepresented groups, and efforts to foster inclusivity.

Labor Practices

Employee satisfaction surveys, labour law compliance, and initiatives to offer fair salaries and working conditions are a few examples of metrics.

Community Engagement

This entails assessing a company's philanthropic endeavours, relationships with nonprofit organisations, and participation in the neighbourhood community.

Supply Chain Sustainability

Considering the social and environmental practices of partners and suppliers, such as fair trade, sustainable sourcing, and working conditions.

Ethical Practices

Monitoring the observance of moral principles and rules of behaviour, such as anti-corruptionpolicies and ethical marketing.

Stakeholder Engagement

Measuring the effectiveness of a company's interactions and communication with its differentstakeholders, such as its workers, clients, investors, and local communities.

16.9 REPORTING SOCIAL RESPONSIBILITY MEASURES IN ANNUAL REPORTS

A corporate social responsibility (CSR) report is a document that businesses use to explain CSR initiatives and their impact on the environment and community, both internally and externally. The four subcategories of CRS that an organisation might engage in are environmental, ethical, philanthropic, and economic. CSR reports can be printed and delivered to stakeholders in person as well as being displayed digitally for convenient dissemination. The format of a CSR report might vary from a simple text document to a customised, eye-catching packet. An organisation can inform both internal and external stakeholders of its mission, efforts, and results by publishing CSR reports. These include customers, the neighbourhood community, and society at large in addition to staff, decision-makers, and shareholders.

The publication of a firm's CSR report can serve as both a marketing and public relations tool if the company has been brave and effective in its CSR initiatives. You can utilize these reports to promote your organization's accomplishments and incorporate social responsibility into the identity of your business, especially given the lack of obligatory rules.

16.10 LET'S SUM UP

Corporate Social responsibility is qualitatively different from the concept of the traditional concepts of corporate philanthropy. The new generation of corporations and the new economy entrepreneur recognize the fact that social and environmental stability are two important prerequisites for the long-term sustainability of their markets. CSR policy would function as a built- in, self-regulating mechanism whereby businesses would monitor and ensure their adherence to law, ethical standards and international norms. CSR is the deliberate inclusion of public interest into corporate decision making, and the honouring of people and profit. The evolution of CSR can be traced through different phases like community engagement, socially responsible production and socially responsible employee relations. Measuring CSR is an essential part of the business. It enables us to pinpoint the advantages of the work. It also points out the shortcomings of a weak CSR programme.

16.11 CHECK YOUR PROGRESS

1. Explain about the evolution of corporate social responsibility.
2. What is corporate social responsibility? How are social responsibility measures reported inannual reports?

16.12 FURTHER READING

1. Prof. Dr Biswajit Satpathy: Indian Ethos and Values, Elite Publications
2. Manuel g Velasquez: Business ethics-concepts and cases Pearson.
3. Luthans Hodgetts and hompson: Social issues in business, Macmillan USA
4. A.C .Fernando: Business Ethics Pearson Education.
5. A.C. Fernando: Corporate Governance Pearson Education.
6. Adrian Davies: Strategic approach to corporate governance Gower Pub Co.
7. N.Gopalswamy: Corporate Governance a new paradigm A H Wheeler Publishing Co Ltd.

16.13 REFERENCES

PGDIM MP-12 Ethics, Governance & Social Responsibility (BLOCK-3) Corporate SocialResponsibility (Unit-I) Corporate Social Responsibility: An Overview

ଓଡ଼ିଶା ରାଜ୍ୟ ମୁକ୍ତ ବିଶ୍ୱବିଦ୍ୟାଳୟ, ସମ୍ବଲପୁର
Odisha State Open University, Sambalpur
www.osou.ac.in
e-mail: info@osou.ac.in