Subject: Entrepreneurial Development

Code: CP-401 **Updated by: Dr. M.C. Garg**

Lesson : 1

ENTREPRENEUR AND ENTREPRENEURSHIP

STRUCTURE

1.0 OBJECTIVE

After reading this lesson, you should be able to

- Understand the meaning of entrepreneur and entrepreneurship.
- Explain the characteristics of entrepreneur and entrepreneurship.
- Discuss the different types of entrepreneurs.
- Highlight the entrepreneurial traits.

1.1 INTRODUCTION

The concept of entrepreneurship has been around for a very long time. In the last decade it has resurged as if a new discovery has been made. Usually anyone who runs a business is called an entrepreneur. The more precise meaning of entrepreneur is one who creates his own business i.e. a person who organizes, operates and assumes the risk of a business venture. An entrepreneur is a person who perceives a need and then brings together manpower material and capital required to meet that need.

The concept of entrepreneurship is an age-old phenomenon that relates to the vision of an entrepreneur as well as its implementation by him. Entrepreneurship is a creative and innovative response to the environment. It is also the process of setting up a new venture by the entrepreneur. Entrepreneurship is a composite skill that is a mixture of many qualities and traits such as imagination, risk-taking, ability to harness factors of production i.e. land, labour, technology and various intangible factors.

Entrepreneurship culture implies a set of values, norms and traits that are conducive to the growth of entrepreneurship. It is the organizational culture that focuses on new opportunities and creation of a set-up where these opportunities can be perused earnestly. An entrepreneur seeks the opportunities, looks for ways and means to capitalize on the newer opportunities by organizing the structure and the resources and gaining control on them. As against this, a manager in a non- entrepreneurial culture is primarily concerned with the resources under his control, the relation between the market and the

structure of his organization. He is also concerned with matching the opportunities with organizational abilities. The entrepreneurial managers are driven by the perception of opportunities. They seek changes in the political rules, social values, consumer preferences, technology etc. On the other hand resources like money, manpower and material they control, drive the administrative managers.

1.2 DEFINING ENTREPRENEUR

The word 'entrepreneur' is derived from French word 'entrepreneur'. In early 16th century it was applied to those who were engaged in military expeditions. In 17th century the word 'entrepreneur' was used for civil engineering activities such as construction and fortification. It was applied to business for the first time in 18th century, to designate a dealer who buys and sells goods at uncertain prices.

Entrepreneurship started catching up in 1980s just as professionalism in management caught up during 1970s. However, confusion still prevails as to what exactly we mean by the term 'entrepreneur'. An attempt, therefore, has been made here to define entrepreneur.

There is generally no accepted definition or model of what the entrepreneur is or does. In the past decade, a number of trends have emerged which distinguish between individual entrepreneurship and corporate entrepreneurship and entrepreneurs and small business owners. The literature abounds with criteria ranging from creativity, innovation, risk taking, high need achievement, etc. to personal traits such as appearance and style. Models of the entrepreneurial leaders are almost as plentiful as the number of authors who write about them.

The French economist Cantillon, the first to introduce the term entrepreneur, defined him as an agent who purchased the means of production for combination into marketable products. Furthermore, at the moment of the factor purchases, the entrepreneur was unaware of the eventual price which he would receive for his product.

Entrepreneurs perform a vital function in economic development. They have been referred to as the human agents needed to "mobilize capital, to explore natural resources, to create markets and to carry on trade". It might well be said that the entrepreneurial input spells the difference between prosperity and poverty among nations.

According to Say, the entrepreneur's functions to combine the productive factors, to bring them together. Carrying out of new combination of productive factors is called 'enterprise' which, in fact, is fundamental phenomenon of economic development. The individual whose function is to carry them out is 'entrepreneur'.

Many theories in economics emphasize the significant role played by individual entrepreneurs as they combine talents, abilities and drive to transform resources into profitable undertakings. Schumpeter, the first major writer to highlight the human agent in the process of economic development believed that the economy was propelled by the activities of persons "who wanted to promote new goods and new methods of production, or to exploit new sources of materials or new market" not merely for profit but also for the purpose of creating.

Schumpeter used the word innovation and emphasized innovation as the function .of an entrepreneur. Schumpeter's entrepreneur is highly specialized concern. The entrepreneur in

Schumpeter's theory sees the potentiality, profitable opportunities and exploits them. The entrepreneurs' motivation for profit is based not merely on his desire to raise consumption standard, but also on such non-hedomistic goals as the desire to find a private dynasty- the will to conquer in the competitive battle and the job of creating, i.e. he tries to maximize his profits by innovations. His unique characteristic is that he gets satisfaction by using his capabilities in attacking problems.

The entire change and development to the civilization to a large extent is the result of trade, commerce and industrialization. In this development the human resource in general and entrepreneur in particular plays a pivotal role. McClelland has rightly hypothesized that the need for achievement in individuals, i.e. the entrepreneurial potential is the psychological factor which engenders economic growth and decline. The sense of high need achievement and motivation introduced by entrepreneurs bring about the required necessities in a class of society which transform the perception of the economic thinking, which is necessary to bring about the economic development. The importance of entrepreneurs to progress cannot be more succinctly expressed than Zinkin's statement, "No entrepreneur, no development". According to Kilby, the entrepreneur performs following four major tasks:

(i) Exchange relationship,
(ii) Practical administration,
(iii) Management control, and
(iv) Technology.

These four tasks consist of

(1) Exchange relationship

(a) Perceiving opportunities in market.

(b) Gaining command over scarce resources.

(c) Purchasing inputs.

(d) Marketing of products and responding to competition.

(ii) Practical administration

(a) Dealing with public bureaucracy.

(b) Management of human relations with in the venture.

(c) Management of customer and supplier relations.

(iii) Management Control

(a) Financial Management

(b) Production Management.

(iv) Technology

(a) Acquiring and overseeing assembling of the factory.

(b) Industrial engineering.

(c) Upgrading process and product quality.

(d) Introduction of new production techniques and products.

All above fields of activities involve entrepreneur in decision-making under conditions of uncertainty. Thus, entrepreneur within Kilby's proposed framework would have: (i) a determination of the types and degrees of uncertainty confronting the performance of a particular operation, and (ii) the ability to make the appropriate decision necessary for the goal attainment.

By nature an entrepreneur is neither a technician nor a financier, but he is considered an 'innovator'. Entrepreneurship is neither a profession nor a permanent occupation and, therefore, it cannot formulate a social class like capitalists or wage earners.

According to Harbison, an entrepreneur is not an 'innovator' but an 'organisation builder' or one who has the skill to build an organization and who must be able to harness the new ideas of different innovators to the best of the organization.

During early twentieth century, Dewing equated entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. In enumerating the characteristics of a successful entrepreneur, Dewing wrote of the qualities of imagination, initiative, judgment and restraint.

ILO describes that entrepreneur are people who have the ability to see and evaluate business opportunities; to gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.

Casson in his work, having considered both functional definition and an indicative definition describes an entrepreneurs as 'someone who specializes in taking judgemental decisions about the co-ordination of scarce resources'.

In Danhof's analysis an entrepreneur "is primarily concerned with changes in the formula of production ... over which he has full control .... He devotes correspondingly little time to the carrying out of a specific formula". Danhof divides the functions of the entrepreneur into three major roles: obtaining relevant information, evaluating the information with regard to profit, and setting the operation in motion. Major emphasis in Danhof's definition is decision-making, or judgement under alternative choices.

Cunningham and Lischerson in their work have described six possible schools of thought on entrepreneurship. The first school of thought, i.e. 'Great Person School' says that an entrepreneur is born with an intuitive ability- a sixth sense and this sense helps him in start up stage. The second school of thought, i.e. 'Psychological characterises of school' explains that entrepreneurs have unique value attitudes, and needs which drive them and help them especially in start-up stage. The third school, i.e., 'Classical School of Thought' says that central characteristic of entrepreneurial behaviour is innovation. This characteristic helps the entrepreneur much in start-up and early growth. 'Management School' is the fourth school of thought and it says entrepreneurs are organizers of economic venture and they organize, own, manage and assume its risk. Such functional orientation helps them in early growth and maturity. The fifth school of thought is the 'Leadership School'. According to this school entrepreneurs are leaders of people and they have the ability to adopt their style to the needs of people. Such leadership personality suits them most during early growth and maturity situations. 'Intrapreneurship School' is the sixth school of thought. Intrapreneurship is the act of developing independent units, to create market and expand services within the organization. Intrapreneurship is needed by an entrepreneur during the situation of maturity and change.

Whatever be the definition, across the world entrepreneurs have been considered instrumental in initiating and sustaining socio-economic development. There are evidences to believe that countries which have proportionately higher percentage of entrepreneurs in their population have developed much faster as compared to countries which

have lesser percentage of them in the society. They discover new sources of supply of materials and markets and establish new and more effective forms of organizations. Entrepreneurs perceive new opportunities and seize them with super normal will power and energy, essential to overcome the resistance that social environment offers.

1.3 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur is a highly achievement oriented, enthusiastic and energetic individual, who has following characteristic:

1. Entrepreneurs are action oriented, highly motivated individuals who takes risks to achieve goals.
2. Entrepreneurs will have unwavering determination and commitment. They are creative and result-oriented. They work hard in return for personal and financial rewards.
3. Entrepreneur accepts responsibilities with enthusiasm and endurance.
4. Entrepreneur have self-confidence, they are dedicated, setting self determined goals and markets for their ideas responding to existing market.
5. Entrepreneurs are thinkers and doers, planners and workers.
6. Entrepreneurs can for see the future, as a salesman's persuasiveness, a financial talent for manipulating funds, as auditor's precision etc.
7. Entrepreneur depends on the intelligence, imagination and strength of purpose of the individual.

1.4 CONCEPT OF ENTREPRENEURSHIP

The term "entrepreneurship" is often used synonymously with the "entrepreneur". Though they are two sides of the same coin, conceptually they are different. The entrepreneur is essentially a business leader and the functions performed by him are entrepreneurship. Arthur H. Cole has stated that entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services. The following table can be given to distinguish the entrepreneur from entrepreneurship.

Entrepreneur	**Entrepreneurship**
Refers to a person	Refers to a process
Visualiser	Vision
Creatore	Creation
Organiser	Organisation
Innovator	Innovation
Technician	Technology
Initiator	Initiative
Decision-maker	Decision
Planner	Planning
Leader	Leadership
Motivator	Motivation
Programmer	Action
Risk-taker	Risk-taking
Communicator	Communication
Administrator	Administration

From this table it is clear that entrepreneurship refers to a process of action an entrepreneur undertakes to establish his enterprise. It is a creative and innovative response to the environment. It is thus a cycle of actions to furthern the interests of the entrepreneur.

From the classical economists to the modern theoreticians, the topic of the entrepreneur has been analysed and several observations and pronouncements have been put forward. Both pure economists and social theorists are included in the economists who have advanced their opinion on the entrepreneur and his activity. At present these is no consensus, as to what constitutes the essential activity which makes the entrepreneur a crucial figure in the economic game. Prof. James K. Omps is of the view that limited natural resources, food shortages, over population, energy shortages and lack of technology are the factors that are being cited for today's problems. But he opines that the critical factor whose shortage is bothering the present day nations is the "dire shortage of the appropriate economic innovator and implementer ..... the Entreprenologists."

Entrepreneurship can be defined as an ability to discover, create or invent opportunities and exploit them to the benefit of the society, which, in turn, brings prosperity to the innovator and his organization. From the social and macro-economic perspective, it is held that the economic development of any nation is a direct function of the number of high quality innovators and entrepreneurs it supplies. This, in turn, is dependent upon the desire for new and better products that the society demands and accepts. A vicious circle is thereby created resulting in all-round economic development and improved standard of life. With liberalization and global competition being the governing

societal paradigm and with the acknowledgement that wealth creation is indeed of paramount importance, the concept of entrepreneurship is receiving closer attention than hitherto from business management scholars and social scientists.

Entrepreneurship means the function of creating something new, organizing and co-ordinating and undertaking risk and handling economic uncertainty. D.C. McClelland has identified two characteristics of entrepreneurship. Firstly, doing things in a new and better way. Secondly, it is decision-making in conditions of uncertainty; Benjamin Higgins has defined entrepreneurship as, "entrepreneurship means the function of foreseeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and selecting top managers for the day-to-day operation of the enterprise".

According to Peter F. Drucker; "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what contributes knowledge in practice is largely defined by the ends, that is, by the practice". In Drucker's view, entrepreneurship is considerably less risky, if the entrepreneur is methodical and does not violate elementary and well known rules. There is no doubt that entrepreneurship is a complex phenomenon. But a systematic and disciplined approach can help entrepreneurship to grow and develop. Modern writers have identified the following three phases in entrepreneurship development:

(a)	Initial Phase	Creation of awareness about the entrepreneurial opportunities based on survey.
(b)	Development Phase	Implementation training programmes to develop motivation and managerial skill.
(c)	Support Phase	Infrastructural support of counselling- assisting to establish a new enterprise and to develop existing units.

1.5 CHARACTERISTICS OF ENTREPRENEURSHIP

Above study of entrepreneurship has shown that the process of entrepreneurship is indeed complex and also when we say entrepreneur is what an entrepreneur does. Experts have enlisted the characteristics of entrepreneurship as follows:

1. *Ability to create enterprise:* Entrepreneurship is primarily an economic activity because it involves creation and operation of an enterprise. It is basically concerned with satisfying the needs of customer with the help of production and distribution of goods and services.

2. *Organising function:* An entrepreneur brings together various factors of production for an economic use. He co-ordinates and controls the factors of production, efforts of the persons engaged in his enterprise.

3. *Innovation:* Entrepreneurship is an automatic, spontaneous and creative response to changes in the environment. It involves innovation of something new to cause dynamic change and spectacular success in the economy, and create conditions for growth of the economy.

4. *Risk bearing capacity:* Risk is an inherent and inseparable element of entrepreneurship. He assumes the uncertainty of future. An entrepreneur guarantees rent to the landlord, wages to employees and interest to the investors in the hope of earning more than the expenses.

5. *Managerial and leadership functions*: An industrial entrepreneur must have additional personality traits such as managerial and leadership skills. Managerial and leadership qualities predominant orientation in the direction of productivity, working relation and creative integration along with desire to make profit. Entrepreneurship demands tactful handling of risk and uncertainties because new commodity and its acceptability are uncertain.

6. *Gap filling:* The gap filling between human needs and the available products and services leads to entrepreneurship. An entrepreneur identifies the gap and takes necessary corrective measures to fin the gap, to achieve his action oriented motive in the enterprise as an entrepreneur with the help of entrepreneurship process.

1.6 TYPES OF ENTREPRENEURS

Schumpeter made the entrepreneur the adventurous innovator who acting on his own account, introduces changes that others do not dare to experiment with. Other writers have, however, identified other categories of entrepreneurs.

Arthur H. Cole distinguishes between empirical, rational and cognitive entrepreneurs. The empirical entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb. The rational entrepreneur is well informed about the general economic conditions and introduces changes that look more revolutionary. The cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of things.

Another classification of entrepreneurs is between private and public entrepreneurs. Private entrepreneur is motivated by profit and as such would not enter those sectors of the economy in which prospects of monetary rewards are not bright. General infrastructure industries fall under this category. For example electricity generation and distribution is Government owned. This forces the Government to take the initiative to start enterprises in these sectors. Thus, we have the category of public entrepreneurs. In the less developed countries the entrepreneurial functions of the Government has greatly widened due to the lack of sufficient private entrepreneurs.

Another classification is based on the scale of enterprise is between small scale and large scale enterprises. This classification is specially relevant in the less developed countries. Private enterprise is

usually found in households, small scale and medium scale industries. The small entrepreneur does not possess the necessary talents and resources to initiate large scale production and introduce revolutionary technological changes. In the developed countries most entrepreneurs deal with large scale enterprises. They possess the financial wherewithal and the necessary expertise to initiate large scale enterprises and introduce novel technical changes. The result is the developed countries are able to sustain and develop a high level of technical progress. It is this classification which has led to the wide technological gap between the developed and the less developed countries.

Clarence Danhof classifies entrepreneurs into four types- innovative, imitative, fabian and drone. The innovating entrepreneur is one who assembles and synthesizes information and introduces noval combinations of factors. He is an aggressive figure and an industrial leader. The imitative entrepreneur is also known as the adoptive entrepreneur He simply adopts successful innovations introduced by other innovators. The fabian entrepreneur is timid and cautions. He will imitate other innovations only if he is certain that failure to do so may damage his business. Finally there is the drone entrepreneur. His entrepreneurial activity may be restricted to just one or two innovations. He refuses to adopt changes in production even at the risk of reduced returns.

This classification of Danhof brings into focus two important aspects:

(a) It shows that an economy which is making a lot of technical advancement has in its ranks a large number of innovating and adoptive entrepreneurs and less number of fabians and drones.

(b) Technological advancement may not take place even if innovators are present, if the actual control and ownership of production is in the hands of fabians or drones.

(1) The Innovative Entrepreneur: The innovative entrepreneur is essentially the creation of Joseph Schumpeter. In his opinion the most important function of an entrepreneur is innovation. The innovative entrepreneur is a key figure in the process of development. He is highly motivated and talented and is able to foresee potentially profitable opportunities. Innovations involve problem solving and the entrepreneur is a problem solver.

The innovative entrepreneur may exhibit his talents at innovation in anyone of the following forms:

1. The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product.

2. The introduction of a new method of production that has not yet been tested in the branch of manufacture concerned. This need not be a new scientific discovery and can also be a new way of handling a commodity commercially.

3. The opening of a new market, that is a market into which the particular branch of manufacture of the country in

question has not previously entered, whether or not this market has existed before.

4. The conquest of a new source of supply of raw materials or semi- finished goods, irrespective of whether this source already exists or whether it has first to be created.

5. The carrying out of a new organisation of industry, like the creation of a monopoly situation or the breaking up of a monopoly position.

This entrepreneur is not an inventor. An inventor discovers new methods and new materials. The innovator commercialises these inventions to produce better goods which yield both satisfaction and profits. The innovating entrepreneur thus implements the inventor's ideas. He converts the technical work of the inventor into economic performance. Thus, an entrepreneur as an innovator is more than an inventor because he does not only indulge in original activities but also goes much further by exploiting the invention commercially.

Among the different types of entrepreneurs, the innovating entrepreneur is the most vigorous type. But this type of entrepreneur is a rare species in developing countries. The type of entrepreneur who exploits possibilities as they present themselves are very few in number. Schumpeter emphasizes the development of entrepreneurs as the ideal panacea for all economic ills present in the developing countries. For sustained economic development the societies of developing countries must produce innovating entrepreneurs with a long time-horizon and who are capable of achieving substantial transformations.

Schumpeter's analysis of the innovating entrepreneur is particularly relevant to developing countries where innovations need to be encouraged. The transformation of an agrarian economy into an industrial economy requires a great deal of initiative and changes on the part of businessmen and managers. The innovating entrepreneur thus holds the key to transformation of developing countries into developed ones.

According to Peter F. Drucker, the innovating entrepreneur is one "who always searches for change, responds to it, and exploits it as an opportunity". For the innovating entrepreneur, innovation is a specific instrument of entrepreneurship. It creates resource because there is no such thing as a "resource" until man finds a use for something and endows it with economic value. The innovative entrepreneur increases the value and satisfaction obtained from resources by the consumer. These entrepreneurs create new values or increase the value of what already exists. They convert a material into a resource or combine existing resources in a new or more productive configuration.

While most writers treat the innovative entrepreneur as mysterious or flush of genius. Drucker treats him as a person who is disciplined and has a sound knowledge base. He opines that any entrepreneur can become an innovative entrepreneur if he is purposeful and systematic. Drucker says that entrepreneurship is not confined to big business and large establishments. It is also equally important to small business and non-economic institutions. In fact that has made possible the emergence of the entrepreneurial economy in America is the application of innovative entrepreneurial skills in a disciplined and systematic manner to small enterprises, new enterprises, non-business

sector and exploitation of new opportunities for satisfying human needs.

(2) Adoptive or Imitating Entrepreneurs: Imitative entrepreneurship is characterized by readiness to adopt successful innovation inaugurated by innovating entrepreneurs. In other words, imitators follow the innovators after carefully observing how the latter fare and to what extent their innovation has caught the imagination of the society. These groups are also revolutionary entrepreneurs with the difference that they do not innovate the changes themselves. They just imitate techniques and technology initiated by others.

Schumpeter gives this type of entrepreneurs a prominent place in developing countries. Developing countries face the problem of scarcity of innovative entrepreneurs. Moreover, there is also the problem of scarcity of capital and skilled labour which hinder innovative entrepreneurship. Adoptive entrepreneurs fill this void admirably. These entrepreneurs are most suitable for developing regions because such countries prefer to imitate the technology, knowledge and skill already available in more advanced countries. The Cochin Shipyard is a good example of the result of imitative entrepreneurship. The Shipyard has been constructed using the innovative technology provided by the Mitsubishi Heavy Industries Ltd. of Japan.

The reason for the backwardness of the underdeveloped countries lies in the fact that they are deficient in both innovating and imitating entrepreneurs. At the same time developed countries are endowed with both in plentiful supply. In fact the underdeveloped countries require more imitating entrepreneurs than innovating entrepreneurs. The less

developed countries require persons who can imitate the technologies and products to the particular conditions prevailing in such countries. These imitating entrepreneurs must have the capacity to adjust the new technologies to their special conditions. Such countries primarily need imitators who are responsible for transforming the system with the limited resources they possess.

(3) Fabian Entrepreneurs: Fabian entrepreneurship is characterized by great caution and skepticism in practicing any change. Such entrepreneurs have neither the will to introduce new changes nor the desire to adopt new methods. Such entrepreneurs are shy and lazy. Their dealings are determined by customs, religion, tradition and past practices. They are not much interested in taking risks and they try to follow the footsteps of their predecessors.

(4) Drone entrepreneurs: Drone entrepreneur is one who follows the traditional methods of production. Under no circumstances will a drone entrepreneur change the method of production he has introduced. Such entrepreneurs may even suffer losses, but even then they refuse to adopt and use new methods. They are laggards because they continue in their traditional ways of operation. Very often their products lose their marketability and their operation becomes uneconomical leading to their being pushed out of the market.

1.7 ENTREPRENEURIAL TRAITS

The true entrepreneur is one who is endowed with more than average capacities in the task of organizing and co-ordinating the various other factors of production. He should be a pioneer, a captain of industry. The supply of such entrepreneurship is, however, quite

limited and all are not endowed with such talent. The modern entrepreneur is one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic system as he deems necessary. He conceives a new industrial enterprise, displays considerable initiative, grit and determination in bringing his project to fruition. Thus, a successful entrepreneur must possess the following traits:

1. Mental Ability

Mental ability consists of intelligence and creative thinking. An entrepreneur should be intelligent and must have an analytical mind. He should have the capacity to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made.

2. Clear Objectives

An entrepreneur should have a clear objective as to the exact nature of the business, nature of the goods to be produced and ancillary activities to be undertaken. A successful entrepreneur must have the objective to establish his product in the market, make profit and also render social service.

3. Business Secrecy

An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitors is a serious matter which should be carefully guarded against by an entrepreneur. Here the

entrepreneur should be able to make a proper selection of his subordinates.

4. Human Relations Ability

The most important entrepreneurial traits contributing to his success are emotional stability, personal relations, consideration and tactfulness. In other words maintenance of public relations or human relations most often makes the difference between success and failure of an entrepreneur An entrepreneur must have good relations with his customers in order to gain their continued patronage and win their confidence in his product. He must also maintain good relations with his employees, if he is to motivate them to higher levels of efficiency. An entrepreneur who maintains good human relations with customers, employees, suppliers, creditors and the community in general is much more likely to succeed in his endeavours than the individual who does not practise good human relations.

5. Effective Communication

The “gift of the gab” is a must for a successful entrepreneur. Good communication also means that the entrepreneur has the ability to put his point across effectively and with clarity. Communication must be to the point, crisp and convincing. Communication ability is the secret of the success of most entrepreneurs.

6. Technical Knowledge

The entrepreneurs are dealing with situations where sophisticated technology is involved. The entrepreneur must have a

reasonable level of technical knowledge. This is one trait which entrepreneurs can acquire if they try hard enough.

7. Decision making

Running a business requires taking a number of decisions. Hence, an entrepreneur should have the capacity to analyse the various aspects of the business for arriving at a decision.

8. Energy

As constant attention is required for the successful running of the business, an entrepreneur must have sufficient energy to work hard for long periods.

9. Risk-bearing

'No-risk, no business' or 'no-risk, no gains'. There is an element of risk in every business, hence an entrepreneur should be prepared to accept failure in its proper perspective and view failure as a challenge and opportunity.

Apart from these basic traits, Robert D. Hisrich has identified a few more entrepreneurial traits. In his opinion the entrepreneur must have adequate commitment, motivation and skill to start and build a business. It is his responsibility to determine if the management team has the complementary skills necessary to succeed. Hisrich feels that the entrepreneur must possess the following traits in addition to those mentioned in the preceding paragraphs:

(a) *Motivation*: An entrepreneur must built an efficient team, keep it motivated and provide an environment for individual growth and career development.

(b) *Self-confidence*: Entrepreneurs must have the mental capacity to face any situation. They should also have the ability to inspire others. They must have the confidence in themselves and the determination to achieve their goals.

(c) *Long-term involvement*: Entrepreneurs must be committed to long-term projects which require continuous and consistent involvement.

(d) *High energy level*: Success of an entrepreneur demands the ability to work long hours for sustained periods of time.

(e) *Trouble-shooter*: The entrepreneur must possess the trait of the proverbial "trouble-shooter". He must have the ability to identify where a problem is and suggest on the spot solutions.

(f) *Initiative*: The entrepreneur must have initiative, accepting personal responsibility for actions and above all make good use of resources. It is this trait which gives the entrepreneur the courage to risk and learn from failures.

(g) *Goal-setter*: An entrepreneur must be able to set challenging, but realistic goals. This personal traits can go a long way in the all round progress of a nation.

These personal traits make an entrepreneur a successful person. However, it must be stated that no entrepreneur possesses all these strengths. No entrepreneur is born with all these traits. It is possible for him to acquire these traits if the environment is suitable for this purpose.

1.8 ENTREPRENEURSHIP AS CAREER OPTION

An educated person has broadly two career options. One is called wage or salary employment, wherein people are employed in government service, public and private sectors and get fixed wage or salary. The other career option is entrepreneurial employment under which people set up their new ventures. Wage employment does not generate resources and is organized within the existing wealth. Wage employment is self-saturating.

Once availed, it blocks the employment opportunity to others for another 10 years. On the other hand, the latter contributes towards national wealth and has a unique characteristic of self-generation. This starts a chain of activities that create unending employment opportunities. Entrepreneurship promotes small saving amongst middle class individuals for investment into new ventures. It also provides an outlet that creates an urge among individuals to attain excellence in product design and related innovation. Thus, entrepreneurship provides a lasting solution to the acute problem of unemployment. The difference between wage employment and entrepreneurial employment is shown in Table 1.1.

TABLE 1.1

	Wage Employment	**Entrepreneurial Employment**
Nature	Self Satuating	Self Generating
Scope	Limited	Unlimited
Orientation	• Routine Types	• Creative
	• Status Quo	• Innovative
	• Problem Avoiding	• Problem Solving
	• Dependent	• Independent Decisions
Contribution	Consumes National Wealth	Generates National Wealth
Earning	Fixed (Subsistence)	Growing (Generating Surplus)

In the context of employment generation, the three terms i.e. Income Generation, Self Employment and Entrepreneurship are often used interchangeably. Entrepreneurship refers to identification of innovative ideas, setting up of a new enterprise. Whereas, self-employment refers to full time involvement in ones own occupation. One may or may not be bearing the risk, mobilizing inputs, organizing production and marketing the product or service. Income generating activities, on the other hand, are part time, casual and practiced with a view of raising additional income. All entrepreneurs are self-employed and income generating persons. But all self-employed and income generating persons may not be entrepreneurs.

1.9 SUMMARY

Entrepreneur is an economic agent, buys factors of production and converts it into product with a view to sell it in the market for price, through which he earns profit. The main characteristics of entrepreneurs are planning, organizing, decision-making, risk and uncertainty bearing. Entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains. Entrepreneurs may be classified into empirical, rational and cognitive, private and public, small scale and large scale, innovative, imitative, fabian and drone entrepreneurs. Entrepreneurial employment differs from wage employment on various counts.

1.10 KEYWORDS

Entrepreneur: Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovate ideas.

Entrepreneurship: It refers to a process of action an entrepreneur undertakes to establish his enterprise.

Innovative Entrepreneur: Innovative entrepreneurs are entrepreneurs who aggressively pursue innovation in new products through experimentation and search new markets.

Drone Entrepreneur: Drone entrepreneur is one who follows the traditional methods of production.

1.11 SELF ASSESSMENT QUESTIONS

1 Define entrepreneur and explain characteristics of an entrepreneur.

2. What do you mean by entrepreneurship? Discuss its main features.

3. Explain the various types of entrepreneurs giving examples.

4. "Developing countries need imitative entrepreneurs rather than innovative entrepreneurs". Do you agree? Give reasons.

1.12 SUGGESTED READINGS

1. Sharma, K.L., Entrepreneurial Performance in Role Perspective, Abhinav Publications, New Delhi.

2. Bhanushali, S.G., Entrepreneurial Development, Himalaya Publishing House, Delhi.

3. Khanka, S.S. Entrepreneurial Development, S. Chand and Sons, New Delhi.

4. Rao, N.G., Entrepreneurship and Growth of Enterprise in Industrial Estate, Deep & Deep Publications, New Delhi.

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Lesson : 2

QUALITIES AND FUNCTIONS OF ENTREPRENEURS, ROLE OF ENTREPRENEUR IN ECONOMIC GROWTH

STRUCTURE

2.0 OBJECTIVE

After reading this lesson, you should be able to

- Discuss the qualities of entrepreneurs
- Highlight the functions of an entrepreneur
- Explain the role of entrepreneur in economic growth

2.1 INTRODUCTION

Entrepreneurs play a vital role in the economic development of a country. Economic development of a country depends primarily on its entrepreneurs. An entrepreneur is very often considered as a person

who sets up his own business or industry. He has initiative, drive, skill and spirit of innovation who aims at high goals. He looks for opportunities, identifies opportunities and seizes opportunities mainly for economic gains. Entrepreneurs are action-oriented, highly motivated individuals who take risks to achieve goals.

Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production, or distribution of economic goods and services. Entrepreneurship is very often associated with adventurism, risk bearing, innovating creativity etc. It is concerned with making dynamic changes in the process of production, innovation in production, new usage for materials etc. It is a mental attitude to take calculated risks with a view to attain certain objectives. It also means doing something in a new and better manner.

2.2 QUALITIES OF ENTREPRENEURS

Most people believe that to be an entrepreneur one requires a professor's intelligence, a fortune-teller's capacity to foresee the future, a rich man's bank roll, a salesman's persuasiveness, a financial talent for manipulating funds, an auditor's precision, a political leader's power and the magnetic personality of a film star. Since very few people possess even one or two of these qualities, no one believes he can be an entrepreneur. In fact, the only capacity essential for becoming an entrepreneur is a willingness to work hard.

An entrepreneur is a person who takes risk of setting up his own venture for perceived reward. He is a person who initiates the idea, formulates a plan, organizes resources and puts the plan into action to

achieve his goals. Entrepreneurs have specific qualities; they have special strengths which they draw upon for their adventure into business. If you want to start and succeed in your enterprise, you are required to play different roles at different stages of your enterprise. Some of the essential qualities entrepreneurs must possess are briefly described below:

(1) Do you have a strong desire to be a winner? (NEED TO ACHIEVE): Most people dream of success and achievement, but do not take any actions towards achieving these dreams. Entrepreneurs, on the other hand, have a strong desire to achieve a higher goal and make their dreams come true. For them winning is achievement.

(2) Do you have a quality of stick-to-it? (PERSEVERANCE): Once committed to a goal and a course of action, entrepreneurs become absorbed in it. They are not deterred by difficulties and problems that beset any project; they work hard until the whole project is successfully accomplished.

(3) Do you prefer a middle of the road strategy when you have analysed a risky problem objectively and think you can solve it? (MODERATE RISK TAKER): Entrepreneurs are not high risk-takers; they are not gamblers. They choose a moderate risk rather than play wild speculative gamble. They love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.

(4) Are you alert to opportunities? Do you seize and convert them to your advantage? (ABILITY TO FIND AND EXPLORE OPPORTUNITY): Entrepreneurial persons are quick to see and seize opportunities. They show an innovative turn of mind and convert

difficulties into opportunities. But they are realistic too. They plan and anticipate carefully how to achieve their goals in realizing an opportunity.

(5) Are you unaffected by personal likes and dislikes while approaching problems? (ANALYTICAL ABILITY): Entrepreneurs are realistic. They have a matter of fact approach about business undertakings. They are not likely to let personal likes and dislikes stand in their way. When they require assistance, they select experts rather than friends and relatives to help them. They generally do not take an emotional attitude towards their business or a problem.

(6) Do you find it important to know how you are doing, when you are working on a goal or a task? (USING FEEDBACK): Entrepreneurs like to have immediate feedback of their performance. They like prompt and accurate data and it does not make any difference whether the information they get is favourable or unfavourable. In fact, they are stimulated by unfavourable news to pour more energy into attaining their objective.

(7) Do you welcome tacking an unfamiliar but interesting situation? (FACING UNCERTAINTY): Achievement oriented people tend to be optimistic even in unfamiliar situations. The odds may not be clear but the circumstances may be appealing. Entrepreneurial persons in such situations see no reason why they cannot win through their abilities. They go ahead undeterred, sometimes even without guidelines and frequently make the best of whatever opportunities there are. As they begin to understand their environment they begin to calculate their chances very closely. Thus, paradoxically they present a picture of

boldness in the face of the unknown and prudence in the face of the familiar. They usually win by applying their special insight and skill.

(8) Do you have a dislike for working for others? (INDEPENDENCE): It is found that most entrepreneurs star off on their own because they do not like to work for other people. They like to be their own masters and want to be responsible for their own decisions.

(9) Are you flexible in your decisions? (FLEXIBILITY): Most successful people after weighting the pros and cons of a decision tend to change if the situation so demands. They do not hesitate in revising their decisions. Successful entrepreneurs are persons with open minds, not rigid.

(10) Do you think ahead, plan your future and then work to make it come true? (PLANNER): Most successful people tend to set a goal for themselves and plan to achieve that goal in a certain time limit.

(11) Are you comfortable while dealing with people at all levels? (INTERPERSONAL SKILLS): An entrepreneur is a person who, during the course of his activities, comes across many types of persons with whom he has to deal. He has to make them work for him, with him and help him to attain his objectives. Hence, he should be a person who likes working with people and who has skills of dealing with people.

(12) Can you influence others? (MOTIVATOR): In the course of his career, an entrepreneur will be required in many situations to influence people and make them think in his way and act accordingly. He motivates people to act.

(13) Are you capable of working for long hours and tackling different problems at the same time? (STRESS TAKER): As a central figure in you enterprise, you will have to cope with many situations at the same time and make right decisions which may involve a lot of physical and emotional stress. All this can be done if you have the capacity to work long hours and keep cool under a lot of tension.

(14) Are you aware of yourself? (POSITIVE SELF CONCEPT): An achiever directs his fantasies towards the accomplishment of worthwhile goals and sets standards of excellence in what he is doing. This is based upon the awareness of his strength and weaknesses. He uses positive knowledge to support his thinking. He is rarely negative.

(15) Do you tend to think ahead? (ORIENTATION TO FUTURE): Entrepreneurs show a high level of future orientation. They do not allow the past to obsess them. They are oriented towards present and future. "So it was, but now what to do", this is their usual response.

No entrepreneur has all these qualities. But most of them will have many. So the first step for a person aspiring for entrepreneurship is making an inventory of the traits he possesses. This self-awareness and analysis will help define his strength and help overcome his weaknesses.

2.3 FUNCTIONS OF AN ENTREPRENEUR

Adam Smith looked upon an entrepreneur as the owner of a business enterprise to which he supplied capital. The classical economists lumped interest and profit together. It was Cantillon who separated the entrepreneur from the capitalist and recognized it as a

separate factor of production having definite functions to perform in the economy.

Several theories concerning entrepreneurial functions surfaced and each theory bestowed upon the entrepreneur one function or the other. Marshall felt that the important functions of an entrepreneur are organization and management of the productive enterprise. J.B. Say and Cantillon felt that risk-taking was the most important function. Prof. B.R. Knight conceived the dual functions of risk taking and control. Schumpeter identified the entrepreneur with innovation. A careful analysis of all these theories shows that the entrepreneur has to perform one or more of the functions outlined in these theories.

An entrepreneur has to perform the following functions as a vital factor of production:

(1) Risk taking and Uncertainty Bearing: The future is unpredictable. The entrepreneur has to take risks in these circumstances. If the venture succeeds, the entrepreneur profits; if it does not, losses occur. Thus, taking risks forms an important entrepreneurial function. Risks are of two types - insurable and non-insurable. Non-insurable risks are the possibility of changes in the tastes and preferences of the consumer, techniques of production and so on. These non-insurable risks are called uncertainties. Uncertainty-bearing in thus an integral part of the entrepreneurial function. The entrepreneur makes use of his initiative, skill and good judgement to reduce the uncertainties of business.

(2) Taking Business Decisions: All decisions concerning business are taken by the entrepreneur. Once the entrepreneur is

convinced that a particular line of production offers large prospects of profit, he decides to enter it. He has to formulate an action plan regarding the product and the quality of the product to be produced. He has to evolve the best possible method of production which would earn him a sizeable profit. Suitable changes in the size of the business have to be effected by him. Employment of personnel, choosing the location for the production unit and everything that is needed for the development of the business has to be decided by him.

(3) Managerial Functions: The entrepreneur combines in him managerial functions, though they are strict1y different from the standard entrepreneurial duties. The entrepreneur arranges finance, purchases raw materials, provides the necessary infrastructure for production, supervises sales and marketing and also assumes the role of the personnel manager. The entrepreneur thus has a multi-faceted personality when he undertakes managerial functions.

(4) Innovation: By far the most important function of an entrepreneur is innovation. Here he introduces far-reaching improvements in the quantity and quality of the production line. He considers the economic viability and technical feasibility of an invention. It is this function of the entrepreneur which injects the element of dynamism into the economic system.

The entrepreneurial function can be performed by different types of people in different economic systems. Theoretically the entrepreneur could be a planner in a socialist economy or a king in a traditional society. But in practice, entrepreneurship is identified with private enterprise in a market economy. Moreover, entrepreneurs exist in every

field of economic activity. We find entrepreneurs in the fields of manufacturing, distribution, trading and so on. Britain has developed trading entrepreneurship, while Germany and Japan have developed industrial entrepreneurship.

Arthur H. Cole has described an entrepreneur as a decision-maker and attributed the following functions to him:

(1) The determination of those objectives of the enterprise and the change of those objectives as conditions required or made advantageous;

(2) The development of an organization, including efficient relations with subordinates and all employees;

(3) Securing adequate financial resources, and maintaining good relations with the existing and potential investors;

(4) The requisition of efficient technological equipment and the revision of it as new machinery appeared;

(5) The development of a market for the products and the devising of new products to meet or anticipate consumers' demand; and

(6) The maintenance of good relations with public authorities and with the society at large.

Modem writers have come to the conclusion that an entrepreneur has three broad functions:

(1) Innovation.

(2) Risk taking and uncertainty-bearing.

(3) Organisation and management of business so as to have leadership and control over it.

Innovation is thus the commercialization of an invention. It means in the words of Schumpeter, “doing new things or the doing of things that are already being done in a new way”. It includes new processes of production, introduction of new products, creation of new markets, conquest of a new source of raw material and the establishment of a new form of industrial organization.

Risk-taking means provisions for capital in order to enable the entrepreneur to establish and run the enterprise. An important aspect of this function is that the entrepreneur has to bear the uncertainty associated with the plans of investment and expansion. Most writers feel that the greater the risk of business, the higher is the quantum of profit.

Finally, providing leadership and having complete control in the organization and management of business is a function of paramount importance. The moment the entrepreneur loses control over his business, he ceases to be an entrepreneur. Alfred Marshall recognized this as the most important function of an entrepreneur. It implies the bringing together the other factors of production. All business decisions associated with the production process must be taken by the entrepreneur. Marshall says that in the initial stages of the establishment of a business, the entrepreneur may take all decisions by himself. But as the enterprise grows and the work of decision-making becomes more complex, the entrepreneur may delegate this authority to

his subordinates. However, the central function of organization and management of production should be determined by him. He shall assume the role of a leader and shall be the final judge in the conduct of business.

Besides the above functions, the entrepreneur has to perform many other activities at the later stage namely:

1. Diversification of production.
2. Expansion of the enterprise
3. Maintaining cordial employer-employee relations'
4. Tackling of labour problems
5. Co-ordination with outside agencies.

The functions of an entrepreneur with reference to the underdeveloped countries include wide range of activities has been provided by Kilby:

1. Management of scarce resources.
2. Dealing with public bureaucracy (licenses, taxes).
3. Acquiring and overseeing assembly of the factory.
4. Industrial designing and engineering.
5. Marketing of product and responding to competitions.
6. Industrial new product.
7. Perception of market opportunities (novel or imitative).
8. Financial and production management.
9. Management of customers and supplies relations.
10. Management of scarce resources.

2.4 ROLE OF ENTREPRENEUR IN ECONOMIC GROWTH

Economists' View

The position of the entrepreneur in modern production is like that of the director of a play. Modern economic development is closely linked with production. Modern production is highly complex. The entrepreneur directs production and he must do whatever is necessary for its success. His role in modem economic development has at least three aspects:

(a) The entrepreneur co-ordinates the other factors of production. This involves not only assembling the factors, but also to see that the best combination of factors is made available for the production process. Co-ordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technical devices, division of labour, reduction of waste etc.

(b) The entrepreneur takes risks. In Hawtrey's view this is the most important function of the entrepreneur and the quantum of profit he receives is directly proportionate to the risks he takes. Risks are generally based on the anticipation of demand. Prof. B.R. Knight has gone one step forward. In his opinion risks are of two types - insurable and non-insurable. He calls non-insurable risks by the term "uncertainty". In his view uncertainty bearing is the primary function of an entrepreneur which enables him to get profit. This function has assumed great importance with the increasing complexities of modern production.

(c) Finally, the entrepreneur innovates. Innovation is different from invention. Invention is the work of the scientists. Innovation implies the commercial application of an invention. As an innovator the entrepreneur assumes the role of a pioneer and an industrial leader. Joseph Schumpeter and his followers believe that the entrepreneur is one who innovates and innovation makes the entrepreneur the hero in the drama of economic development.

Modem economists tend to agree with the view expressed by Schumpeter. Since the process of economic development is characterized by the presence of discontinuous disturbance, economists tend to agree to the view that this disturbance comes in the form of innovation. The entrepreneur can undertake anyone type of the following five categories of innovation:

(a) The introduction of a new good or a new quality of a good.

(b) The introduction of a new method of production.

(c) The opening of a new market

(d) The conquest of a new source of supply of raw materials.

(e) The carrying out of a new organisation of any industry.

The innovational activity raises the productive efficiency of the economy resulting in greater output and income. Schumpeter finds in rising productivity the secret of economic development as distinguished from economic growth. Economic growth occurs when more resources are available in the economy. But economic development is an entirely different phenomenon. It occurs when output increases as a result of entrepreneurial activity. Schumpeter, therefore, defines development as "the carrying out of new combinations."

The entrepreneur is the central figure in the process of development. He introduces new combination of factors thereby channelising the economy's resources along productive lines. He is not a producer, for the latter chooses anyone of the available methods, the entrepreneur is constantly engaged in introducing newer and newer methods of production. The entrepreneur is not a capitalist. The capitalist provides the funds for production; the entrepreneur divests the funds to new production. The entrepreneur is thus always on the look out of making the economic system at its dynamic best. Thus, entrepreneurial activity stimulates progress and forms the mainspring of economic development.

Importance of Entrepreneur in Economic Development

Every country tries to achieve maximum economic development. The economic development of a country to a large extent depends on human resources. But human resources alone will not produce economic development - there must be dynamic entrepreneurs. A country may be rich in natural resources but if it lacks entrepreneurship it may not be able to utilize the resources and it may lag behind in economic development. This is true of many developing countries. Many developing countries have realized the importance of entrepreneurs and earnest attempts are now being made to motivate industrial entrepreneurs.

Entrepreneurs are action-oriented, highly motivated individual who take risks to achieve goals. An entrepreneur is one who looks for opportunities, identifies opportunities and seizes opportunities mainly for economic gain (profit). Economic development of a country depends

primarily on its entrepreneurs. Entrepreneurs seizing opportunities set-up business undertakings and industries, thereby bring economic transformation. They are therefore aptly called agents of change. By their actions, people have a better standard of living, get improved products and comforts and the wide disparity in income levels is gradually reduced. Besides, an economically advanced country will have more power and a confident self-image.

History provides ample evidence to entrepreneurs' ability and innovations. Many of the scientific inventions and technological developments that took place in England in the 18th century and in other countries produced economic goods useful to man because of the efforts of entrepreneurs. In their absence, many scientific discoveries would have remained as they were. It should be remembered that innovation is key to entrepreneurship. Entrepreneurs have contributed many innovations in developing new products and in the existing products and services. All these have resulted in economic development by providing more employment, more income, export of products and services, and making available better products and services to the people.

It is very often said that "India is a rich country inhabited by the poor". India is endowed with plenty of natural resources and good climate. But the country has not made much economic progress as it should have been. Natural resources themselves will not produce economic development. There must be people with vision, initiative and drive to make use of the natural resources. In India, what we require is "entrepreneurship" in an individual to productively integrate resources and enhance economic growth.

Entrepreneurs perform vital functions in economic development. They have been referred to as the human agents needed to "mobilize capital, to exploit natural resources, to create markets and to carry on trade". It might well be said that the entrepreneurial input spells the difference between prosperity and poverty among nations. Japan is a place where entrepreneurs have achieved success by hard works as well as imagination and ability. The economic progress of the USA and Western Europe also highlight the significance of entrepreneurship.

In the newly industrializing countries, small enterprises became the focus of various approaches to entrepreneurial development since they function as "seed beds of entrepreneurial and managerial talent". The inadequacy of entrepreneurship is an inhibiting factor to accelerate the process of industrialization.

In general, contemporary economists agree that entrepreneur is a business leader who has a pivotal role in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country or a region. The number and competence of entrepreneurs affect the economic growth of a region. It is not wrong to consider entrepreneurship as a panacea of the economic evils in a developing country. In fact, entrepreneurship is the dynamic need of a developing nation and sustains the process of economic development in the following ways:

1. Employment Generation

Growing unemployment particularly educated unemployment is an acute problem of the nation. The available employment opportunities can cater to only 5 to 10 per cent of the unemployed. As

discussed, wage employment is a self-saturating. When government creates, say a hundred jobs in various departments, 100 persons get employed and the vacancies are filled for thirty years or so, till these people retire and the vacancies re-emerge. If a hundred persons become entrepreneurs they not only create a hundred jobs for themselves but also provide employment to many more. As the time passes these enterprise grow providing direct and indirect employment to many more. Thus, entrepreneurship is the best way to fight the evil of unemployment.

2. National Income

National Income consists of goods and services produced in the country and those imported. The goods and services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with ever increasing population and standard of living. The export demand also increases to meet the needs of growing import due to various reasons. An increasing number of entrepreneurs are required to meet this increasing demand for goods and services. Thus, entrepreneurship increases the national income.

3. Dispersal of Economic Power

The world affairs have been dominated by power. There have always been two types of power i.e., muscle power and economic power. In the modem age, the muscle power has lost its relevance and the world is ruled by the economic power Economic power is the natural outcome of industrial and business activity. Industrial development normally can lead to concentration of economic power in few hands.

This concentration of power in few hands has its own evils in the form of monopolies. Developing a large number of entrepreneurs helps in dispersing the economic power amongst the population. This in turn causes hindrance to the growth of monopolies, which exist partly because of lack of sufficient number of entrepreneurs. Setting up of a large number of enterprises for the goods helps in weakening the harmful effects of monopoly.

When a society produces a small number of entrepreneurs, the enterprises due to lack of competition grow into a few big business houses. This results in concentration of wealth in a few families. This can have a serious social and national implication. When the number of enterprises increases, a large amount of national wealth is also shared by a large number of entrepreneurs, thus, dispersing wealth. This dispersal of wealth promotes the real socialism and makes the economy healthy.

4. Balanced Regional Development

The growth of industry and business leads to a large number of public benefits like road transport, health, education, entertainment etc. When the industries are concentrated in selected cities, the development gets limited to these cities. Till late sixties, 50 per cent of industrial enterprises were located in only six cities of India. A rapid development of entrepreneurship ensures a balanced regional development. When the new entrepreneurs grow at a faster pace, in view of the increasing competition in and around the cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of the backward regions.

If a region does not throw up a sufficient number of entrepreneurs, the needs of the local population for the goods and services remain unsatisfied. The entrepreneurs from other places step in and set up enterprises to fulfil the pent up demand of the local people. These alien entrepreneurs do not invest the major part of the profits in the areas in which the unit is located. Usually, the profit is invested at a place where the entrepreneurs come from. Such entrepreneurs invest their profits in constructing their houses etc., at the place of their origin. Thus, the backward areas do not get benefits of business or industrial profits. This drainage of wealth results in further deterioration of the area. The practice of siphoning the profits earned through entrepreneurial activities based on local resources by alien entrepreneurs has been compared with the blood sucking process practised by leeches, and termed as 'leech effect' by Dr. M.M.P. Akhori.

5. Harnessing Locally Available Resources and Entrepreneurship

India is considered to be very rich in natural resources. In spite of more than four decades of planned development a large number of states have remained economically quite backward. A few large scale industries started by entrepreneurs from outside the state in economically backward areas may help as models of pioneering efforts, but ultimately the real strength of industrialization in backward areas depends upon the involvement of local entrepreneurship in such activities. Increased activities of local entrepreneurs will also result in making use of abundantly available local resources.

6. Reducing Unrest and Social Tension Amongst youth

Many problems associated with youth unrest and social tension are rightly considered to be due to youth not being engaged in productive work. In the changing environment where we are faced with the problem of recession in wage employment opportunities, alternative to wage career is the only viable option. The country is required to divert the youth with latent entrepreneurial traits from wage career to self-employment career. Such alternate path through entrepreneurship could help the country in defusing social tension and unrest amongst youth.

7. Innovations in Enterprises

Business enterprises need to be innovative for their survival and better performance. It is believed that smaller firms have relatively higher necessity and capability to innovate. The smaller firms do not face the constraints imposed by large investment in existing technology and thus they are both free and compelled to innovate. The National Science Foundation, an organization in USA found that small companies produce four time more innovations per research dollar than do bigger companies. Entrepreneurship development programmes are aimed at accelerating the pace of small firms' growth in India. Increased number of small firms is expected to result in more innovations and make the Indian industry compete in international market.

8. Improvement in Living Standards

Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offer goods at lower costs and increase variety in consumption.

9. Economic Independence

Entrepreneurship is essential for national self reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products, thereby reducing dependence on foreign countries. Businessman also exports goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

2.5 SUMMARY

Entrepreneurship mainly depends on values, norms and traits that are consistent to the growth of an economy. An entrepreneur always seeks the opportunities, looks for ways and means to capitalize on the newer opportunities by organising the resources. The entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. The need for a broad-based entrepreneurial class in India arises form the need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities,

development of backward areas. A good entrepreneur is one who is capable of inspiring confidence in people and has the ability to motivate them to work with him in fulfilling the economic goals set by him.

2.6 KEYWORDS

Innovation: Innovation is the commercialisation of an invention.

Uncertainty: Non-insurable risks are the possibility of changes in the tastes and preferences of the consumer, techniques of production and so on. These non-insurable risks are called uncertainties.

Risk: The risk is the condition of not knowing the outcome of an activity or decision.

2.7 SELF ASSESSMENT QUESTIONS

1. Define entrepreneur. Discuss the qualities of entrepreneurs.

2. "An entrepreneur has to perform a number of functions as a vital factor of production". Discuss.

3. In the Indian context, explain the role that entrepreneurship has fulfilled in the economic development of the country.

2.8 SUGGESTED READINGS

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Lesson : 3

COMPETING THEORIES OF ENTREPRENEURSHIP

STRUCTURE

3.0 OBJECTIVE

The objective of the present lesson is to discuss the theories of entrepreneurship.

3.1 INTRODUCTION

A number of social scientists have contended that entrepreneurship is the key variable which links the socio-cultural milieu with the rate of economic development. Recently even economists have shifted the emphasis from the rate of capital formation to the growth of high-level manpower such as entrepreneur, as the major determinant of the rate of economic growth.

The word 'entrepreneur' appeared in the French language long before the emergence of the concept of entrepreneurial function. In the early 16th century it was applied to those who were engaged in military expeditions. In the 17th century it was extended to cover civil engineering activities such as construction and fortification. It was only in the beginning of the 18th century that the word was used to refer to economic activities. The entrepreneur and his unique risk-bearing function was first identified in the early 18th century by Richard Cantillon, an Irishman living in France, who defined an entrepreneur as a person who buys factor services at certain prices with a view to sell its product at uncertain prices in the future. Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk. This forms an unique constitutive function of entrepreneurship. The 'classic' definition, which was to survive for almost two centuries, was given by an aristocratic industrialist, J.B. Say, who had unpleasant practical experiences. His definition associates the entrepreneur with the

function of coordination, organization and supervision. According to him an entrepreneur is the most important agent of production who provides continuing management and brings together the factors of production. Say's entrepreneur must have judgement, perseverance and knowledge of the world as well as that of business. He must possess the art of superintendence and administration. Though J.B. Say emphasizes coordination and supervision explicitly, there are three more implicit factors which form the crux of entrepreneurship. *Firstly*, moral qualities for the work which includes judgement, perseverance and the knowledge about the environment within which the business is functioning. *Secondly*, the prospective entrepreneur should have command over sufficient capital resources. Say's entrepreneur commonly but not necessarily, possesses either his own or borrowed capital. The *third* factor refers to the uncertainty of profits. To overcome this uncertainty element in business he prescribes superintendence and administration as the basic qualities for an entrepreneurship. Both, Cantillon and Say, defined entrepreneurship in the most general terms, Cantillon extended his concept of entrepreneurship to every economic activity and regarded everybody as an entrepreneur. But both the authors failed to relate entrepreneurship with the general economic development.

Knight described entrepreneurs to be a specialized group or persons, who bear uncertainty; and uncertainty is defined as the risk which cannot be calculated. The entrepreneur, according to Knight, is the economic functionary who undertakes such responsibility which, by its very nature, cannot be insured or salaried. He also guarantees specified sums to other in return for assignments made to them. The

supply of entrepreneurship involves three factors namely ability, willingness and power to extend such guarantees. Knight has gone a step ahead and has also located the psychological, social and economic factors which govern the supply of entrepreneurship.

The concept of entrepreneurship did not find any place in early English economic thought. From Adam Smith to Marshall, the economists made no efforts to define or include entrepreneurship in their economic literature. Basically, the English economic efforts theory was extremely aggregative and therefore, individual were treated as cancelled out in the aggregation or suppressed in the competition. Adam Smith regarded private profit as the sole motive which determined the owner of any capital and enabled him to employ it in any productive activity. And since Smith identified savings with investments, by implication, profit also supplies the motive for saving. Adam Smith argues that the fundamental economic determinant of growth is the rate of capital formation. Ricardo also attributed a significant role to the rate of capital accumulation in the process of economic development. According to him the rate of capital accumulation is governed by two factors. They are ability to save and the will to save. The first depends upon the amount of the surpluses, i.e. 'net income' of the economy, and the 'will' to save depends upon the rate of profit. Ricardian profit is affected by the changes in the wage rate as he considers profits as a residual over and above wages on that portion of land which yields no rent. Changes in profits or wages affect each other. Unlike Smithian economy, the Ricardo system no longer expands or decays strictly according to its rate of investments. Therefore, underdevelopment can be remedied by changing the

exogenous policy variables, i.e. socio-cultural environment and technological improvements. Alfred Marshal too not only followed Smith-Recardian path but reaffirmed it by treating profit as a single in differential income flow.

From Cantillon to Marshall entrepreneurial concept was treated in the same manner and elevated entrepreneurship to the fourth factor of production, though this function was identified by different names. Nothing was done on the supply side of this factor of production. No supply curve was accomplished. Moreover, all these economists considered entrepreneurship in the context of stationary equilibrium but all of them failed to recognise it as a force in economic development.

3.2 THEORY OF ENTREPRENEURSHIP

3.2.1 Entrepreneurship: A Function of Innovation

Joseph A. Schumpeter (1934), for the first time, put the human agent at the centre of the process of economic development and assigned a critical role to the entrepreneurship in his theory of economic development. He considered economic development as a discrete technological change. The process of development can be generalized by five different types of events. Firstly, it can be the outcome of the introduction of a new product in the market. Secondly, it can be the result of a new production technology. Thirdly, it may arise on account of a new market. Fourthly, it may be the consequence of a new source of supply. Fifthly, it may be due to the new organisation of any industry. According to Schumpeter development is not an automatic or spontaneous process, but it must be deliberately and actively promoted by some agency within the system, Schumpeter

called the agent who initiates the above changes as an 'entrepreneur'. He is the agent who provides economic leadership that changes the initial conditions of the economy and causes discontinuous dynamic changes. By nature he is neither technician, nor a financier, but he is considered an 'innovator'. Entrepreneurship is not a profession or a permanent occupation and, therefore, it cannot formulate a social class like capitalists or wage earners. Psychologically, entrepreneurs are not solely motivated by profit. According to Schumpeter, both interest and profit will arise from progress (change), and would not exit in the static society. Schumpeterian 'innovation' is a creative response to a situation.

Schumpeterian theory of economic development was conceived in the context of Industrial Revolution. Therefore, his theoretical explanation for economic development is significantly conditioned by the experiences of that period. The above mentioned innovations yielded a surplus for reinvestment and the entrepreneur could invade the various economic fields with spectacular success. Moreover, Schumpeterian theory was modelled on big private entrepreneurship, so far as its magnitude of operations are concerned. Therefore, its applicability in the underdeveloped region is doubted on the following grounds. Whether, an underdeveloped region which is void of necessary basic infrastructure can get economic process started and make itself sustaining with only one characteristic namely, innovation. Secondly, if in an underdeveloped region, when private capital is not only shy but small in magnitude, can it create the basic conditions of growth and would it be forceful enough to change the initial conditions of the economy so as to give a jerk to cause a dynamic change.

A.H. Cole defines entrepreneurship as “the purposeful activity (including an integrated sequence of decisions) of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize a profit oriented business unit for the production or distribution of economic goods and services.” The two definitions made by Schumpeter and Cole, differ only in respect of the scope within which the term may be applied.

3.2.2 Entrepreneurship: A Function of Group Level Pattern

Frank W. Young was reluctant to accept the entrepreneurial characteristic at the individual level. According to him, instead of individual, one must find clusters which may qualify itself as entrepreneurial groups, as the groups with higher differentiation have the capacity to react. He defined ‘reactiveness’ or ‘solidarity’ as the degree to which the members of the group create, maintain and project a coherent definition of their situation; and ‘differentiation’ is defined as the diversity, as opposed to coherence, of the social meanings maintained by the group, When a group has a higher degree of institutional and occupational diversity, relative to its acceptance, it tends to intensify its internal communication which gives rise to a unified definition of the situation. To improve their symbolic position in the larger structure they find a way which allows mutual understanding despite the differences in the occupation and family status. Such pressures bear not only on social, political and theological factors but also on economic factors. Some members of the solidarity groups excel at combining resources like labour, capital etc. in new ways and they become entrepreneurs.

Young has not come out with a new definition of entrepreneurship. He has accepted the Schumpeterian definition of entrepreneur as that of an innovator. But in his paper he has postulated a causal sequence where 'transformation codes' are developed by the solidarity groups to improve their symbolic position in the larger structure and become entrepreneurs. He interprets the individual level entrepreneurial characteristics as the 'underside' of a group level pattern. The entrepreneur does not work single handedly, though it is the most visible hand. Young maintains that entrepreneurial activity is generated by the particular family backgrounds, experiences, as a member of certain kind of groups and as a reflection of general cultural values. These personality characteristics are the forceful reflections of these antecedent conditions and these constitute an independent factor, which mediates between structural factors and consequent economic growth.

Young's theory is a theory of change based on society's incorporation of reactive sub-group. A group will become reactive, as per Young's theory, when the three conditions coincide. The conditions are firstly, when a group experiences low status recognition, secondly, when the denial of access to important social networks and thirdly, when the group has better institutional resources than other groups in the society at the same level.

3.2.3 Entrepreneurship: A function of Managerial Skills and Leadership

Bert F. Hoselitz (1952), states that a person who is to become an industrial entrepreneur must have additional personality traits to those resulting from a drive to amass wealth … In addition to being

motivated by the expectations of profit he must also have some managerial abilities and more important he must have ability to lead. Hoselitz maintains that financial skills have only a secondary consideration in entrepreneurship. According to him, managerial skills and leadership are the important facts of entrepreneurship. To strengthen his argument he quotes the history of French and German industrial establishments of the early 19th century where the former were men with mechanical skills rather than financial skills. He identifies three types of business leaderships in the analysis of economic development of underdeveloped countries. The merchant moneylender type, the managerial type and the entrepreneur type. The merchant/moneylenders' function is predominantly market oriented. The managerial function has authoritarian orientation and the function of entrepreneurs, along with the above two orientations calls for individuals with predominant production orientation. Hoselitz's analysis of entrepreneurship naturally suggests a method for the development of entrepreneurship which depends upon allowing the maturation and development of personalities whose predominant orientation is in the direction of productivity, working and creation and creative integration along with the establishment of social institutions which create a favourable environment for the establishment and existence of independent individual enterprise.

Hoselitz in his other book also maintained the same argument suggesting that only a strong desire to make profit is not enough to succeed in becoming an industrial entrepreneur. But in this book he added one more characteristic to entrepreneurship which is absent in money-lending type, namely liquidity of wealth. The commodity with

which a money lender deals is acceptable to every one but an industrial entrepreneur creates his own commodity and its acceptability is uncertain. Therefore, the entrepreneur assumes more risk than those in trading and the lending professions.

Here Hoselitz also further suggests that entrepreneurship can develop in a society when its culture permits a variety of choices and where social processes are not rigid and in a situation which encourages the development of personalities interested in enterprise.

3.2.4 Entrepreneurship: An Organisation Building Function

Frederick Harbison states that the 'organisation building' ability is the most critical skill needed for the industrial development. According to him entrepreneurship means the skill to build an organization. Harbison spots the crux of the entrepreneurship in his ability to 'multiply himself' by effectively delegating responsibilities to others. Unlike Schumpeter, Harbison's entrepreneur is not an innovator but an 'organisation builder' who must be able to harness the new ideas of different innovators to the rest of the organization. Such persons are not always the men with ideas or men who try new combinations of resources but they may simply be good leaders and excellent administrators.

Harbison's definition of entrepreneurship lays more stress on the managerial skills and creativity so far as organization is concerned. His definition, as it appears, is not far from Schumpeter's concept of innovation. It also allows creation of new organization as innovation and Harbison also emphasizes the organizations building ability. But Harbison maintains that the ability to create an organization is the

most crucial skill which facilitates the economic use of other innovations. If this skill is absent then other innovations fail to stimulate economic development.

3.2.5 Entrepreneurship: A Function of High Achievement

McClelland (1961), like Hoselitz, ascribes the innovative characteristics to entrepreneurial role. Entrepreneurial role, by definition, involves doing things in a new and better way. A business man, who simply behaves in traditional ways is not an entrepreneur Moreover, entrepreneurial role appears to call for decision making under uncertainty. If there is no significant uncertainty and the action involves applying known and predictable results, than entrepreneurship is not an all involved.

McClelland, like others, identified two characteristics of entrepreneurship. Firstly, 'doing things in a new and better way'. This is synonymous with the innovative characteristic given by Schumpeter, and secondly, 'decision making under certainty', i.e. risk as identified by Cantillon. McClelland's major contribution lies in extending our understanding of causal sequence of entrepreneurial behaviour. McClelland's theory can be looked as a development of Weber's "Protestant ethic" when he implicitly introduced the concept of need for achievement as a psychological motive. McClelland, more explicitly, emphasized the need for achievement or achievement orientation as the most directly relevant factor for explaining economic behaviour. This motive is defined as a tendency to service for success in situations involving an evaluation of one's performance in relation to some standard of excellence. Persons with high achievement would take

moderate risks. They would not behave traditionally (no risk) as they are not likely to get any satisfaction from the accomplishment of the task nor like gamblers (extreme risk) when the probability of failure and personal dissatisfaction is more. The high achievement is associated with better performance at tasks which require some imagination, mental manipulation or new ways of putting things together, and such people do better at non-routine task that require some degree of initiative or even inventiveness.

McClelland also explains the entrepreneur's interest in profitability in terms of a need for achievement. People with high achievement are not influenced by money rewards as compared to people with low achievement. People with low achievement are prepared to work harder for money or such other external incentives. For people with high achievement, profit is a measure of success and competency.

McClelland, much like Hagen, attributes the inculcation of the achievement orientation to child-rearing practices which stress standards of excellence, maternal warmth, self-reliance training and low father dominance. The causal sequence of entrepreneurial behaviour as extended by McClelland is given by Kilby as follows:

Ideological values → Family Socialisation → Need for Achievement → Entrepreneurial behaviour.

McClelland has postulated the following characteristics of entrepreneurship:

I. Entrepreneurial Role Behaviour
   (a) Moderate risk taking as a skill not chance decisiveness.
   (b) Energetic and/or novel instrumental activities.
   (c) Individual responsibility.
   (d) Knowledge of results of decision- Money as a measure of results.
   (e) Anticipated future possibilities.
   (f) Organisational skills.

II. Interest in entrepreneurial occupations as a function of their prestige and riskiness.

III. Entrepreneurial status in various countries.
   (a) Contrasted with other occupational statuses.
   (b) Differentiated by entrepreneurial success.

The achievement motive is, by assumption, a relatively stable enduring characteristic of an individual. Hence one does not expect later events to change the achievement motive and behaviour. But the Kakinada experiment shows that achievement orientation courses have shown significant improvement in many aspects of entrepreneurial performance. Therefore, achievement motive can be increased considerably by deliberate efforts.

3.2.6 Entrepreneurship: 'Input-Completing' and 'Gap-Filling' Function

Liebenstein (1968) distinguishes two broad types of entrepreneurial activity. First, that "routine" entrepreneurship is associated with the managerial function of the business. Second, the "new type" entrepreneurship which is basically of Schumpeterian type.

He identified “gap-filling” as an important characteristic attributable to entrepreneurship. In economic theory the production function is considered to be well defined and completely known. But the theory is silent about the keeper of the knowledge of production function. Where and to whom in the firm this knowledge is supposed to be available is never stated. In reality there exist larger gaps of knowledge about the production function. There are many deficiencies so far as the production function is concerned. It is the entrepreneurial function to make up the deficiencies or to fill the gaps. These gaps arise because all the inputs in the production function cannot be marketed because some inputs like motivation, leadership, etc. are vague in their nature and whose output is undermined. This “gap-filling” activity gives rise to a most important entrepreneurial function, namely “input-completing.” He has to marshal all the inputs to realize final products.

Leibenstein defines entrepreneur(s) as an individual or a group of individuals having four major characteristics: connection of different markets, capability of making up of market deficiencies (gap-filling), input-completing and creation and expansion of time-binding input transforming entities (i.e. firms).

On the supply side of entrepreneurship, Liebenstein states that supply of entrepreneurship is governed by input-completing capacity and inadequate motivational state. Secondly, investment criterion also affects the supply of entrepreneurship and suggests that a lower profit investment that releases entrepreneurial energies and capacities may be more fruitful in the long run than a higher profit investment, lastly, though not all the characteristics are trainable, training can do something to increase the supply of entrepreneurship.

3.2.7 Entrepreneurship: A Function of 'Status Withdrawal'

Everett Hagen (1962), while describing the process of change in any society as the transition to economic growth searched for the causes of the transition. He states that the transition to economic growth has been very gradual and typically occupies a period of several generations. He observes that growth has been led not by individuals randomly distributed throughout a society but disproportionately by individuals from some distinctive group. He identifies 'creative innovation' or 'change' as the fundamental characteristic of economic growth.

Hagen, after analyzing the traditional societies, maintains that the positions of authority are granted in such societies not on the basis of individual 'ability' but on the basis of his 'status'. Thus structure is characterized by typical 'authoritarian' personality. In contrast, Hagen, visualizes in "innovational" personality. Hagen's concept of innovation involves both arriving at a new mental concept and transmitting that concept into material form. Again, innovation requires creativity and such creative individuals cause economic growth.

Hagen has postulated a sequence of the formation of creative and authoritarian personalities. He identified child-rearing practices as the main element in giving a particular shape to all the personalities. Since the traditional society has great stability, the forces required to disrupt it must be equally powerful. Hagen argues that such disruption is necessary to have creative personalities from the traditional societies. Of course, such change may not occur in the same generation but it is more likely to be an inter-generation change. Hagen's principal theme

is that such creative personalities or groups emerge when the members of some social group experience, what he calls, "the withdrawal of status respect". Hagen does not mean "high" status, but merely that it is deemed appropriate by the person occupying it and is respected by others. The 'withdrawal of status respect' may occur when a traditionally alike group is displaced by force from its previous status by another traditional group, or when any superior group changes its attitude towards subordinate group or on migration to a new society. Whenever there is any withdrawal of status respect, it would give rise to four different responses and create four different personality types.

(a) *Retreatist*: He who continues to work in the society but remains indifferent to his work and position.

(b) *Ritualist*: He who adopts a kind of defensive behaviour and acts in the ways accepted and approved in his society but with no hopes of improving his position.

(c) *Reformist*: He is a person who foments a rebellion and attempts to establish anew society.

(d) *Innovator*: He is a creative individual and is likely to be entrepreneur.

Schumpeter and Hagen have much in common so far as analyzing the growth process is concerned and Hagen's "Creative personality" is also characterized by McClelland's high need for achievement. Hagen's work has an important merit in the unlike McClelland and other entrepreneurial theorists, his work is based on the experience of backward areas of Asia and Latin America. His description of child-

rearing in backward areas like Burma would serve equally well for the advanced countries.

Hagen's analysis fails to give policy measures for backward countries which are striving for economic development as he is identifying 'status withdrawal' as the causal factor in emergence of creative personality and status withdrawal by force cannot be contemplated in a democratic setup.

3.2.8 Entrepreneurship: A Function of Social, Political, and Economic Structure

Kunkel (1970) has put forth a theory of entrepreneurial supply. Kunkel has elaborated a behaviouristic model of entrepreneurship. The students of economic history have repeatedly pointed out that entrepreneurs are not equally distributed in the population, minorities (religious, ethnic, migrated, displaced elites) have provided most of the entrepreneurial talent. But all the minorities are not important sources of entrepreneurship. Therefore, Kunkel argues that the marginality does not guarantee entrepreneurship. There must be some additional significant factors at work.

John Kunkel states that the industrial entrepreneurship depends upon four structures which are found within a society or community:

(a) Limitation Structure: The entrepreneur is viewed as the most important "deviant" individual in economic development and the major determinant which causes such a deviance is a social structure which restricts the behavioural pattern of a population segment. The society limits specific activities to members of particular subcultures. This limitation structure affects all the members of a society.

(b) Demand Structure: The limitation structure is basically social and cultural but the demand structure is mainly economic. The demand structure is not static and changes with economic progress and government policies. Demand structure can be improved by providing material rewards. Such rewards are necessary to lay the foundation for future social gains. In short, by manipulating certain selected components of the demand structure, behaviour of people can be shaped in an entrepreneurial way.

(c) Opportunity Structure: This structure is necessary to increase the probability of entrepreneurial activity. The opportunity structure constitutes the availability of capital, management and technological skills, information concerning production methods, labour and markets, opportunity to learn directly or through imitation, and all the activities associated with the effective planning and successful operation of industrial enterprises.

(d) Labour Structure: Kunkel separates supply competent and willing labour from the opportunity structure. He argues that the labour supply cannot be viewed on par with the supply of other material conditions like capital. He states that labour means "men" and is a function of several variables. The supply of factory labour is governed by available alternative means of livelihood, traditionalism, and expectations of life.

According to Kunkel the supply of entrepreneurs depend on the existence and extent to which these four factors are found in a society and proposes the hypothesis that the incidence of entrepreneurship depends on both the objectives and perceived configuration of the four

structures. Any discrepancy between objective structures and the actual incidence of entrepreneurs will be due to inadequate or incorrect perceptions of the various structures. It is evident, however, that entrepreneurship depends on rather specific combinations of circumstances which are difficult to create and easy to destroy.

3.2.9 Entrepreneurship: A Function of Religious Beliefs

Religion and its impact on enterprising culture was first analysed by Max Weber in the Western context. According to Weber the "spirit of capitalism" is a set of attitudes towards the acquisition of money and the activities involved in it. Max Weber also draws a line of demarcation between the "spirit of capitalism" and "adventurous spirit". The "spirit of capitalism" is subjected to a strict discipline which is quite incompatible with giving free rein to impulse. Weber states that this "spirit of capitalism" cannot generate in itself where widely spread mental attitude favourable to capitalism is absent and according to him the "protestant ethic" provides this mental attitude. Max Weber extended his analysis to Indian conditions. According to him the "spirit of capitalism" was absent in religious belief system of Hinduism. The Weberian approach presumes that

(a) there is a single system of Hindu value,

(b) that the Indian community internalized those values and translated them to day-to-day behaviour and

(c) these values remained immune to and insulated against external pressures and change.

Number of social scientists from West supported this theory. It was in the interest of the colonial power to accept this theory and

encouraged it to help the growth of European entrepreneurship in India. It would be gross simplification to maintain that the norms laid down for a "good Hindu" are also equally applicable to "good Hindu society". The Hindu ethical ideas are more directed towards the individual rather than the Hindu society as a whole. A.N. Pandey challenges the Weberian proposition and maintains that Indian religions and traditions cannot restrain the economic pursuits as they provide for identity conceptions or set of identity symbols. Tripathi doubts the assumptions of Weber in identifying a single Hindu value system. On the contrary Hinduism is a collective name for so many beliefs. The overstress on "spiritualism" and "other worldiness" to signify the crux of Hinduism do injustice to Hinduism by ignoring the material context.

Max Weber, at the same time, in interpreting the spirit of enterprise amongst Jains, locates approximated "protestant eithics" amongst Jains. In Indian situation, Weber's analysis for the presence of spirit of capitalism in Jain community fails completely. One thing in certain, Jainism with its stress on aparigraha (non-attachment), ahimsa (non-violence), aasteya (non-stealing) and brahmacharya (desirelessness) is neither less ascetic nor less otherworldly than Hinduism. The Weberian model is inadequate to explain the entrepreneurship in Indian situation.

3.3 FEW ENTREPRENEURIAL DEVELOPMENT MODELS

The models suggested for the development of entrepreneurship can be stated in the following categories:

(a) The Psychological models.

(b) The Sociological models.

(c) The Integrated models.

(a) The Psychological Models: McClelland (1961) has given a significant lead in identification of determinants of entrepreneurship. In his model he ascribes more importance to achievement motivation which earlier related to child rearing practices. But in his book with D.G. Winter he has altered his earlier proposition or the importance of child rearing as the intrinsic determinant of the achievement motive and now change in motivation is seen primarily as a result of the ideological arousal of latent need for achievement among adults. After identifying achievement orientation as the key variable in the development of entrepreneurship McClelland suggests motivation training programme as the policy measure which, will make them really willing and eager to exploit the new opportunities provided.

Everett Hagen's theory of social change lays emphasis on 'creative personality' as a causal link in entrepreneurial behaviour and 'status withdrawal' as the determinant of 'creative personality'. Hagen elaborately explains the causal sequence of entrepreneurial behaviour. But his model of entrepreneurship fails to give any policy variables for the development of entrepreneurship. The 'status withdrawal' would occur in the natural evolutionary process of the society and not by any deliberate attempt.

John Kunkel (1965) considered the entrepreneurial supply by suggesting a behaviouristic model. His model suggests that entrepreneurial behaviour is a function of the surrounding social structure both past and present, and can really be influenced by

manipulatable economic and social incentives. So Kunklel's model is based upon experimental psychology which identifies sociological variables as the determinants of entrepreneurial supply.

(b) The Sociological Models: Frank W Young's theory of entrepreneurship is a theory of change based upon society's incorporation of reactive sub-groups. The reactiveness of a sub-group which experiences low status in the larger society will lead to entrepreneurial behaviour if the group has better institutional resources than others in the society at the same level. Young's model of entrepreneurship suggests creation of supporting institutions in the society as the determinant to entrepreneurship.

(c) The Integrated Models: T.V. Rao (1975) suggested the following model for entrepreneurial development:

> Entrepreneurial disposition → Percepting Factors → Acquisition of personal resources → Acquisition of material resources → Starting the business
>
> In 'Entrepreneurial Disposition' he includes the following factors:
>
> *(i) Need For Motive*: The dynamic which for the prospective entrepreneur has the greatest possibility of achieving the goals if one performs those activities.
>
> *(ii) Long Term Involvement*: The goals either at thinking level or at activity level in the entrepreneurial activity that is viewed as a target to be fulfilled.
>
> *(iii) Resources*: Personal, social and material resources which he thinks are related to entry and success in the area of entrepreneurial activity.

(iv) *Socio-Political System*: A system perceived as suitable for establishment and development of his enterprise.

All these factors are additive in nature and its optimal presence lead to entry point of entrepreneurship which leads to acquisition of material resources and starting the business.

B.S. Venkata Rao (1975) has described five stages for promoting small entrepreneurship namely,

(1) Stimulation,

(2) Identification,

(3) Development,

(4) Promotion,

(5) Follow up.

(1) *Stimulation*: This stage includes creation of industrial atmosphere, policy statement emphasizing the role of small industry, wide publicity of industrial development programme, formation of special schemes and creation of support institutions. This stage is necessary to stimulate the interest in the backward regions in industrial activity and to create awareness.

(2) *Identification*: This stage is necessary to identify the prospective entrepreneurs. The prospective entrepreneurial force can be identified in rural artisans, factory workers, persons who have formal training in engineering and technology, and graduates in business administration and management.

(3) Development: This stage would include organization of motivation and managerial training programmes along with advice on technology, formulation of bankable project, location, etc.

(4) Promotion: This can be the job supporting institutions to provide developmental facilities, services, and incentives.

(5) Follow-up: This stage includes reviewing the policies and programmes of the government and seeking of new ways with a view to make it more effective.

M.M.P. Akhori (1977) suggested the following cycle for the promotion and development of entrepreneurship:

- Stimulatory,
- Support, and
- Sustaining activities.

The stimulatory activity refers to all such activities that stimulate entrepreneurship in any society. The support activity refers to all such activities that help entrepreneurs in establishing and running their enterprise and the sustaining activities to those that help in continued efficient and profitable functioning of an enterprise.

K.L. Sharma (1978) describing four stages of economic growth, namely, (a) entry into manufacturing, (b) expansion of business (c) perceived stability in business and, (d) commitment to sustained growth. The entrepreneurial growth is governed by three sets of entrepreneurial determinants, namely, (i) need for achievement motivation, (ii) socioeconomic background of entrepreneur (family occupation, caste, religion and region), and (iii) political milieu. The

interaction of these stages of entrepreneurial growth and determinants of entrepreneurial growth, take place nor in vacuum but with the existence of entrepreneurial prerequisites like material resources, entrepreneur's vision and confidence to run an industry and the general infrastructure available to the entrepreneur.

According to this model and empirical analysis, K.L. Sharma suggests that family occupation is more effective for entry into manufacturing and that political factors make positive contribution in the expansion of a unit and these factors are more important at the third stage i.e. perception of business stability.

3.4 SUMMARY

Entrepreneurship has been widely recognized as a potent factor in economic development by various social scientists. The concept of entrepreneurship is decorated by various attributes like 'innovation', 'organisation building ability', 'gap-filling function', 'input completing', etc. The persons with these qualities are required to initiate and sustain the process of industrialization. Therefore, efforts are to be directed towards the search and development of such entrepreneurial talents.

3.5 KEYWORDS

Ritualist: One who adopts a kind of defensive behaviour and acts in the ways accepted and approved in his society but with no hopes of improving his position.

Reformist: One who foments a rebellion and attempts to establish a new society.

N-achievement: N-achievement is called as a desire to do well, not so much for the sake of social recognition or prestige, but for the sake of an inner feeling of personal accomplishment.

3.6 SELF ASSESSMENT QUESTIONS

1. Explain briefly the various theories of entrepreneurship.
2. Analyse critically Schumpeter's views on entrepreneurship.
3. What contribution did McClelland make in developing the theory of entrepreneurship?
4. Explain Frank Young's views on entrepreneurship.

3.7 SUGGESTED READINGS

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Lesson : 4

ENTREPRENEURIAL DEVELOPMENT PROGRAMMES IN INDIA

STRUCTURE

4.0 OBJECTIVE

After reading this lesson, you should be able to

(a) Explain the need and objectives of EDPs.

(b) Discuss the phases of EDPs.

(c) Describe the institutions conducting EDPs in India.

4.1 INTRODUCTION

Entrepreneurial talent exists in every society and in all sections of society. In developed countries, a favourable socio-economic environment helps in exploiting latent entrepreneurial talent. However, in less developed and developing countries, particularly in certain backward areas, an unfavourable socio-economic environment hinders the emergence of entrepreneurial talent. In India, it is believed that tremendous latent entrepreneurial talent exists which, if properly harnessed, can help accelerate the pace of socio-economic development, balanced regional growth, exploitation of locally available resources and creation of gainful employment and self-employment. Such a realization on the part of planners and policy formulators has resulted in the emergence of Entrepreneurship Development Programmes (EDPs) for various target groups of population in the country. EDPs are being offered by a large number of organizations with a view to bringing to the fore the latent entrepreneurial ability in various target groups and motivating the programme participants to establish their own enterprises. The movement has caught momentum in many other developing countries such as Sri Lanka, China, Thailand, Philippines, Indonesia, Bangladesh, Malaysia and South African countries.

4.2 MEANING AND NEED OF EDPs

Entrepreneurship Development Programme means a programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. Towards the need, it is necessary to promote his understanding to motives, motivation pattern, their impact

on behaviour and entrepreneurial value. A programme which seeks to do this can qualify to be called as EDP. Thus an EDP aims at developing entrepreneurial motives, skills and helping to play his/her role as an entrepreneur effectively. There are a number of programmes which give information to the prospective entrepreneurs regarding a new business idea, how to set-up a new venture, how to prepare a project, sources of finance etc. These programmes should not be confused with EDP, they are all part of EDP. A EDP is primarily concerned with developing and motivating entrepreneurial talent and grooming him to be an effective entrepreneur.

The economic progress of developed countries has shown that entrepreneurs play a vital role in economic development. The slow progress of developing countries indicates low level of entrepreneurship in those countries. Entrepreneurs make use of the factors of production to the fullest advantage of the society, create innovations, generate employment, improve the standard of living of people, develop backward areas etc.- all these ultimately lead to higher rate of economic growth. Hence entrepreneurial development is very essential for the economic development of a country.

EDP has an important role to play in solving the unemployment problem. Unemployment— the state of being jobless is a burning problem that affects both developed as well as the developing countries. It has more serious effect on the developing countries than the developed ones. The problems of unemployment and underemployment in developing countries differ fundamentally from that of developed ones, where it is more a social problem than an economic problem. Unemployment is demoralizing. As Barbara Ward has said “of all the

evils, worklessness is the worst." Unemployment is the major source of waste in our present economic system. Idle hands are the symptoms of economic waste.

India is facing chronic unemployment problem. The most alarming form of unemployment today is educated unemployment. The educated unemployed represents the intellectual section of the society, the frustration and discontent of which paves the path of political instability as well as an atmosphere of pessimism and loss of confidence in the Government. This type of unemployment consists of those young job seekers on whom the society has invested its most scarce resources. The unemployment among the educated is higher than among the uneducated. The rate of unemployment increases with the level of education.

4.3 OBJECTIVES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

The basic objectives of an Entrepreneurial Programme can be summarized as follows:

(i) To develop and strengthen the entrepreneurial quality/motivation.

(ii) To analyse environment relating to industry and business.

(iii) To select project/product.

(iv) To formulate project.

(v) To understand the process and procedure of setting up of enterprise.

(vi) To know and to influence the source of help/support needed for launching enterprise.

(vii) To acquire the basic management skills.

(viii) To know the pros and cons of being an entrepreneur

(ix) To acquaint and appreciate the needed social responsibility/entrepreneurial discipline.

An analysis of the development process that helps emergence of people opting for entrepreneurial career in the society and succeeding in finally setting up an enterprise, reveals that it follows a sequence of development in individual personality, ability and capabilities.

(a) Entrepreneurial quality/motivation.

(b) Capability for enterprise launching/resourcing.

(c) Ability for enterprise management.

(d) Some of the responsibilities to the society that promote/support them.

Besides, some of the other important objectives of the EDPs are to:

(i) Let the entrepreneur himself/herself set or reset objectives for his/her business and strive for their realization.

(ii) Prepare him/her to accept the uncertainty involved in running a business.

(iii) Enable him/her to take decisions.

(iv) Enable to communicate clearly and effectively.

(v) Develop a broad vision about the business.

(vi) Make him subscribe to industrial democracy.

(vi) Develop passion for integrity and honesty.

(viii) Make him learn compliance with law.

4.4 PHASES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

An entrepreneurial development programme consists of three broad phases:

1. Initial or Pre-training Phase: This phase includes the activities and the preparations required to launch the training programme. The main activities are:

(a) Creation of Infrastructure for training

(b) Preparation of training syllabus.

(c) Tie up of guest faculty.

(d) Arrangement for inauguration of the programme.

(e) Designing tools and techniques for selecting the trainees.

(f) Formation of selection committee.

(g) Publicity campaign for the programme.

(h) Development of application form.

(i) Pre-potential survey of environmental opportunities.

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

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

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

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

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

(d) How should he behave like an entrepreneur?

(e) What kind of entrepreneurial behaviour does the trainee lack?

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

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

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

4.4.1 Selection of Potential Entrepreneurs

The first and the foremost step in the EDP is the proper identification and selection of potential entrepreneurs. Selection and training of an unsuitable person to go into independent business is both a national waste and a disservice to the person concerned. His failure in business would result in loss of prestige, or social standing and a setback in life. Therefore, utmost care should be exercised to identify the right candidates for training. Due recognition should be given to

their family background, entrepreneurial skills and suitability to the trade chosen. Tests, group discussions and interviews may be used in the selection of entrepreneurs. Selection of potential entrepreneurs has two essential components; namely (i) identification of entrepreneurial traits in the potential entrepreneurs, and (ii) identification of suitable and viable opportunity or enterprise (project) for each identified entrepreneur.

(i) Identifying Entrepreneurial Traits

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

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

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

(ii) Age: Studies have revealed that younger people are more successful entrepreneurs. This may be because older people are more

reluctant to take risky ventures. They are more concerned with avoiding failure than achieving success.

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

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

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

(vi) Social participation: This determines the amount of influence the entrepreneur will be able to muster outside his immediate family circle. Greater social participation improves the ability to influence and thereby the success of the entrepreneur.

Thus, while selecting candidates for EDP, preference should be given to those having experience in the trade, a functional level of education, young, family resources, financial support and authority.

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

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

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

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

(iv) *Personal efficacy*: It has been defined as the general sense of adequacy in a person. It is the tendency in an individual to accept success or failure which are within his control. Personal efficacy is an important factor contributing to entrepreneurial behaviour of a person. It represents the potential effectiveness present at the inner level. The roots of efficiency of an individual lie in his perceptions and beliefs about himself. These beliefs may be the result of an individual's self-concept and perception of his own strength.

Personal efficacy can be measured by 'Rotter's locus of control' defined as the tendency in the individual to attribute success or failure to external factors. A person scoring high on internal control believes in his capacity to control and shape the environment. On the other hand,

an individual having low personal efficacy believes that things are not under his control and occur due to fate.

(v) Aspirations: These are goal statements concerning future level of achievement. These can be regarded first as in individual's concepts of his future prospects and secondly as a form of self-motivation. Aspirations are related with education of children, income and material possession. A person with low aspirations is not likely to develop into entrepreneur. But unrealistic aspiration level would not lead to achievement because they are bound to fail in their endeavour. Therefore, it would be more meaningful to study an individual's achievement motivation in relation to his aspiration. In general, individuals with lower socio-economic background have a higher discrepancy between their aspiration and achievement. This suggests that low socio-economic groups are unrealistic in their aspiration levels.

A number of other human resources variables such as independence, leadership, self-confidence, initiative, etc. are also important for entrepreneurship. Thus, persons possessing a minimum level of entrepreneurial traits like the urge to achieve, risk-taking, positive self-concepts, initiative and independence, problem solving, hope about future, urge for goal setting and interest in environment scanning should be selected for an EDP.

(ii) Identification of Enterprise

Once an entrepreneur having necessary socio-personal and human resources characteristics is identified, it is necessary to identify a suitable enterprise or project for him. The enterprise must be matched with the potential entrepreneur. All the background

information like his skills, experience in the field, the physical resources available, family occupation, etc. should be taken into consideration, Having found a suitable trade an entrepreneur needs to thoroughly examine its viability in terms of financial implications. The raw materials availability, the marketing avenues and profitability of the enterprise have to be explored. It would also involve detailed exploration of services needed and available in the area.

4.4.2 Contents of Training Programme

Once the selection of potential entrepreneurs is over, they have to be equipped with managerial and technical skills to start the enterprise. In an entrepreneurial development programme, there are candidates with a variety of backgrounds and qualities. Therefore, a package of training inputs is provided during the programme which is usually of six weeks' duration. The main training inputs are as follows:

1. **Technical Knowledge and Skills**: Once the entrepreneur selects a particular enterprise in depth knowledge about the technical aspects of the trade is essential. The entrepreneur has to be well-conversant with the process of manufacture and trading for which a practical training based on sound theory is essential. He needs to also know the economic aspects of the technology including costs and benefits. Field trips to a few industrial units and in-plant training can be very helpful.

2. **Achievement Motivation Training (AMT)**: In order to develop human resources, development of achievement motive is essential. The purpose of AMT is to develop the need to achieve, risk-taking, initiative and other such behavioural or psychological traits. A

motivation development programme creates self-awareness and self-confidence among the participants and enables them to think positively and realistically. Without achievement motivation training, an EDP becomes an ordinary executive development programme. Motivation training initiates people to business activity or helps them to expand their business ventures. They learn to strive for excellence, to take calculated risk, to use feedback for improvement, sense of efficacy, etc.

Traditionally, laboratories for entrepreneurial motivations were conducted to stimulated people's interest in setting up their own enterprise and to groom them into enterprise builders. These laboratories also aim to developing inclinations which ensure continuous self-appraisal and organizational revival. The "who am I' exercise and other exercises like "ring to M," "tower building", "product manufacture" etc. and writing and analyzing fantasies are utilized in such training programmes.

3. Support Systems and Procedures: The participants have to be exposed to agencies like the local banks and other financial institutions, industrial service corporations and other institutions dealing with supply of raw materials, equipment, etc. The session on support systems needs to also include the procedures for approaching them, applying and obtaining assistance from them and availing of the services provided by them. A linkage between the training institute and the support system agencies can be established by participation of these agencies in sponsoring and financing the EDP.

4. Market Survey: The participants should be given opportunity to actually conduct market surveys for their chosen

projects. This would help expose the candidate to the marketing avenues available and could be followed by sessions on methods of dealing in the markets.

5. Managerial Skill: Once a participant is able to start the enterprise, he requires managerial skills. A list of the agencies along with details of the formalities to be completed, specimen forms to be filled in would greatly facilitate the entrepreneurs. It should include all aspects of financial management. Managerial skills are particularly essential for a small scale entrepreneur who cannot afford to employ specialists in different areas of management The aim should be to enable the participant to look at an enterprise in its totality and to develop overall managerial understanding.

6. Project Preparation: A lot of time needs to be devoted to the actual preparation of projects. Their active involvement in this task would provide them necessary understanding and also ensure their personal commitment.

7. During the course of training various guidance sessions are helpful for enabling the trainees to identify appropriate business opportunities. Information and counselling on various feasible business opportunities is provided through the team of experts and by spot surveys. Necessary experience is provided in market surveys, project preparation, sources of finance, etc. Undue emphasis on any dimension in entrepreneurial development should be avoided as it may lead to distortion in both process and content of the programme.

4.4.3 Monitoring and Follow up

Continuous monitoring and follow up is essential for the success of any entrepreneurial development programme. A system of monitoring at every' stage of EDP needs to be built in. It is only through proper monitoring that defects and problems can be identified and removed. Care is required so that the monitoring procedure is not too bureaucratic where rules become inhibitive rather than promotive. Monitoring should provide continuous guidance to ensure better results.

Monitoring and follow-up should be conducted during each stage, pre-training and post-training of the EDP. Pre-training follow up involves evaluation of training infrastructure and training syllabus. Post-training phase is designed to help entrepreneurs achieve technical, managerial, marketing and financial skills. Different types of follow-up strategies may be required for motivated, semi-motivated and unmotivated entrepreneurs. It is necessary to sustain the motivation of the first type and to improve the motivation in the second case through counselling, etc.

Some common activities in the monitoring and follow up process are as follows:

(i) Preparing and maintaining a separate file for each trainee. This file contains all the data that has been collected from beginning to the end of the programme. It contains personality record performance on written tests and interviews, traits before training and after the training,

correspondence made by the participants with trainers and supporting agencies.

(ii) A history card indicating the bio-data of the each entrepreneur and the work done by him.

(iii) Keeping in touch with every entrepreneur through letters.

(iv) Passing the desired information to the entrepreneur well in time.

(v) Visiting every entrepreneur periodically.

(vi) Follow up meeting and a follow up register to ensure the success of the entrepreneurial development programme.

4.4.4 The Target Group

In an entrepreneurial development programme, the target group refers to the group of persons for whom the programme is designed and under-taken. Every target group has its own needs and constraints. Therefore, the programme designed for one group might be inappropriate for other groups. Before the programme is designed and started the target group to be trained must be clearly defined. An executive development programme may be organized for anyone of the following target groups:

1. Technical and Other Qualified Persons: This group consists of persons who have pursued technical and allied courses of study. For instance, degree/diploma holders in science, engineering and technology are in important group in India. The Government and Semi-Government agencies/institutions operate special entrepreneurial

development programmes and schemes of assistance for this group. The training programme for such people may be designed to enable and assist them in setting up their own manufacturing units. The industries selected for this purpose may be directly related with their qualifications and experience. For example, graduates in electronics may be trained to establish and operate successfully plants for manufacturing TV sets, videos, and other electronic items.

2. Ex-Servicemen: Persons who have retired from the army. navy and air force constitute an important group for entrepreneurial training. These persons have acquired many useful skills and experience during their service period. They tend to be highly disciplined, hardworking, engineering and innovative. Therefore, they can become successful entrepreneurs after proper entrepreneurial training. The Government of India provides special facilities and preference in order to rehabilitate them. Many ex-servicemen are successfully operating their own manufacturing, training and service enterprises in the country.

3. Business Executives: Some business executives want to start their own independent enterprises after getting sufficient business experience. Some of them have certain innovative ideas which they are not able to try in their existing firms due to lack of sufficient autonomy or authority. Some among them are not satisfied with their present economic and social status. After entrepreneurial training senior business executives can become successful entrepreneurs. They already posses knowledge of management. What they need is training and support for launching their own enterprises.

4. Women Entrepreneurs: Women are entering the world of business in increasing numbers, especially traditional food processing industries like spices, agarbati, papad, sauces, etc. Several government and non government organizations e.g. FICCI Ladies Organisation, etc. are therefore, organizing entrepreneurial training programmes for women.

5. S.C. and S.T. Entrepreneurs: Government of India is committed to the upliftment of Scheduled Castes (S.C.) and Scheduled Tribes (S.T). Therefore, specified percentages of jobs have been reserved for these castes. But all persons from these groups can not be offered employment. Therefore, providing self-employment is useful for their economic and social development. Government agencies give preference to S.C. and S.T. entrepreneurs in providing finance and other necessary facilities.

6. Special Agencies and Schemes: The Government of India has established specialized agencies for training entrepreneurs. Special schemes have also been launched to train, develop and assist entrepreneurs.

4.5 INSTITUTIONS CONDUCTING EDPs IN INDIA

Some of the major institutions for EDPs in India are as follows:

1. Entrepreneurship Development Institute of India

The Entrepreneurship Development Institute of India is an apex entrepreneurship institute promoted by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India and State Bank of India. The

institute enjoys active support of Government of Gujarat. The institute has been operating for the past more than 20 years now and has set the entrepreneurship development momentum throughout the country and in other developing countries.

The institute has broken the myth that entrepreneurs are born only and has demonstrated by results that they can be identified and developed too. Institute's experience-rich faculty makes it national resource bank for an entrepreneurship development activities. The institute is located in highly industrialized State of Gujarat which makes it a live laboratory for emerging new entrepreneurs. The institute combines in itself a sound academic resource for research, training and institution building with the initiative of an active participation in entrepreneurial activities in backward regions for special target groups and innovativeness in the human resources development field.

The institute undertakes entrepreneurship development programme to serve the following developmental objectives:

1. Accelerated industrial development by enlarging the supply of entrepreneurs.

2. Industrial development of rural and less developed areas where local entrepreneurship is not readily available and entrepreneurs from nearby cities and towns are not easily affectable.

3. Enlarging the small and small-medium enterprise sector (employment ranging from 5 to 50 as a rule of thumb)

which offers better potential for employment generation and wider dispersal of industrial ownership.

4. Providing productive self-employment to a number of educated and less educated young men and women coming out of schools and colleges.

5. Improving performance of small industries by enlarging the supply of carefully selected and trained 'well-rounded' entrepreneurs.

6. Diversifying sources of entrepreneurship, and therefore, business ownership.

2. National Institute for Entrepreneurship and Small Business Development (NIESBUD)

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) is an apex body established by the Ministry of Industry, Government of India, for coordinating and overseeing the activities of various institutions/agencies engaged in entrepreneurial development in small industry and small business.

The activities of the Institute include evolving model syllabi for training various target groups; providing effective training strategies, methodology, manuals and tools; facilitating and supporting Central/State Government and other agencies in executing programmes of entrepreneurship and small business development maximize benefit and accelerate the process; conducting such programmes for motivators, trainers and entrepreneurs which are not commonly done by other agencies and above all organize all those that help developing

entrepreneurial culture in the society. The Institute is also the secretarial for the National Entrepreneurship Development Board which is the apex body to determine the policy for entrepreneurship development in the country. The Institute, therefore, performs the task of processing the recommendations made by the board.

Objectives

1. To serve as an Apex National Level Resource Institute to accelerate the process of entrepreneurship development ensuring its impact throughout the country and among all strata of the society.

2. To help/support and affiliate institution/organization in carrying out training and other entrepreneurship development related activities with greater success.

3. To evolve standardized materials and processes of selection, training support and sustenance to potential entrepreneurs.

4. To provide vital information support to trainers, promoters and entrepreneurs by organizing research and documentation relevant to entrepreneurship development.

5. To identify, train and assist potential entrepreneurs for setting up entrepreneur/ self-employment ventures in small industries including services and small business mainly through sponsored EDPs.

6. To provide national/international forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.

3. Xavier Institute of Social Services, Ranchi

Xavier Institute of Social Services, Ranchi has been training rural entrepreneurs since 1974. It has been functioning in close cooperation with Vikas Maitri, social organization operating in the villages of the Ranchi, district of Bihar. Wherever Vikas Maitri decides to undertake programmes of entrepreneurship development among the rural youth; Xavier Institute provides the training and assists the trainees in drafting project proposals and obtaining the required finance. It offers a six month programme to tribals with minimum literacy and numeracy skills. The programme consists of:

(i) identification and selection of candidates
(ii) motivation training
(iii) managerial training
(iv) placement and training for practical skills
(v) market survey and preparation of project report
(vi) financial assistance
(vii) follow up and counselling

4. Madhya Pradesh Consultancy Organisation Ltd.

This is a technical and management consultancy organization. It was promoted by all-India financial institutions and state corporations. It undertakes assignments for project planning, detailed engineering, market surveys, management services and entrepreneurship development programmes. It conducts entrepreneurship development

programmes for four target groups: technical graduates, unemployed graduates, scheduled castes and scheduled tribes, and women.

The programme consists of the following stages:

(i) identification of industrial opportunities in the target area;

(ii) advertising and promoting the programmes to attract applicants;

(iii) selection of the participants;

(iv) training, using lectures and practical instruction in the identified project.

(v) follow up with industrial development and financial institutions.

5. Calcutta "Y" Self-Employment Centre (CYSEC)

This center was organized as registered society by a number of prominent industrialists, businessman, bankers, professionals and social workers. It was setup in response to rapidly increasing unemployment and social unrest in Calcutta during the early 1970s. It began as a vocational programme to provide self-employment for educated youths. However, it has developed innovative approaches to help people set up their own business and to reach the much smaller economic activities of rural dwellers. Its target group is youths between 18 and 30 years of age who are currently without regular employment. The centre provides unemployed youth with vocational training and assistance in establishing their own business. The programme consists of the following:

(i) training in productive enterprise,

(ii) assistance in drawing up a business plan,

(iii) assistance in securing bank loans,

(iv) arranging initial business contacts for their service and production.

6. Technical Consultancy Organisations (TCOs)

Access to high quality consultancy services improves the operational efficiency of entrepreneurs. All India financial institutions have set up 18 TCOs to provide industrial consultancy and training to entrepreneurs. These organizations provide a comprehensive package of services to small entrepreneurs. The main functions of TCOs are as follows:

(a) Identification of industrial potential,

(b) Conduct pre-investment studies and prepare project report and feasibility studies,

(c) Undertake techno-economic survey,

(d) Undertake market research, and

(e) Identify potential entrepreneurs and provide them with technical and managerial assistance.

In the field of training, TCOs identify potential entrepreneurs, train them and render post-training counselling and guidance in selecting projects, preparing project profiles and establishing their own units.

4.6 PROBLEMS FACED BY EDPS

EDPs suffer on many counts. The problems and lacunae are on the part of all those who are involved in the process, be it the trainers and the trainees, the ED organisation, the supporting organizations

and the State Government. The important problems EDPs face are listed as follows:

1. Past experience has shown that the supporting agencies/organizations either tend to be slipshod in the first or are less interested in the third phase which means that the programme fails to tap the entrepreneurial potential of the area or trained entrepreneurs do not receive the support and counselling which they need most.
2. Most of the existing support organizations meant for maintenance operation are not for innovative functions. There is also an element of cynicism. A re-orientation in the attitude of supporting organizations is called forth.
3. Post investment on the part of institutions as also trainees and wrong selection of target groups contributed largely to the failure of a number of entrepreneurship development programmes.
4. Experience revealed that entrepreneurial failures are mostly due to incompetence and poor management.
5. It is also said that there is an inherent inability to identify the needs of instructions and differences of opinion prevailed amongst the trainees.
6. It is also stated that there is a low institutional commitment for local support to the entrepreneurs. There is also a very low level of involvement in the marketing of the products of the units.
7. Non-availability of various inputs i.e. raw materials, power etc. and infrastructure support combined with poor follow-

up by the primary monetary institutions resulted in the failing the entrepreneurship development programmes.

8. It is also stated that there is ill-planned training methodology inconsistency in the programme design, its content sequence and theme and the focus of the programme is not clear.

9. Training institution do not have much concern for the objective identification and selection of entrepreneurs and the follow-up after training.

10. Some of the institutions are still debating whether to have proper identification and selection of entrepreneurs for preparing successful entrepreneurs.

11. Those involved in and concerned with the selection and follow-up activities have either limited manpower support or a narrow linkage with other support agencies.

12. It is also said that there is not standard curricula even in terms of a broad module being adopted by interventions.

13. A majority of institutions engaged in the entrepreneurship development programmes are themselves not convinced of what they are doing as the task is delegated by the Government. As a result the social objective aimed at is not achieved.

14. Perpetual ambiguity in the objective of entrepreneur development programmes seems to have percolated to the grass-root level with a significant deterioration in terms of content and interest.

4.7 SUMMARY

Entrepreneurs are not necessarily born they can be developed through education, training and experience. Entrepreneurs talent exists in very society and in all sections of the society. In India socio-economic environment hinders the emergence of entrepreneurial talent. In India tremendous talent exists if it is properly harnessed, can help accelerate the pace of socio-economic development, balanced regional growth, self and gainful employment such as realization on the part of planners and policy formulators has resulted in the mergence of Entrepreneurship Development Programme. Development of entrepreneurs means inculcating entrepreneurial skills required for setting up and operating business units. Entrepreneurship Development is an organized and on going process. Its basic purpose is to motivate person for entrepreneurial career.

4.8 KEYWORDS

Entrepreneurship Development Programme (EDP): EDP means a programme designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.

Post Training Phase: This phase involves assessment to judge how far the objectives of the programme have been achieved.

Achievement Motivation Training: The purpose of achievement motivation training is to develop the need to achieve risk-taking, initiative and other such behavioural or psychological traits.

4.9 SELF ASSESSMENT QUESTIONS

1. "Self-employment is the best method of solving the problem of growing unemployment in the country" Do You agree? Suggest a suitable strategy for the identification and development of entrepreneurs.

2. What do most of the EDP programmes provide to a prospective entrepreneur? Explain.

3. How far success stories and examples of other countries could influence entrepreneurial development? Discuss.

4. Enumerate and elaborate the operational problems involved in entrepreneurship development programmes conducted in India.

4.10 SUGGESTED READINGS

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Lesson : 05 **Updated by: Dr. M.C. Garg**

GOVERNMENT POLICY TOWARDS SSI's

STRUCTURE

5.0 OBJECTIVE

After reading this lesson you should be able to

(a) Explain the features of small-scale industrial policy, 1991.

(b) Discuss the incentives and subsidies available to SSI units.

5.1 INTRODUCTION

In the post-independence era, the Government had to synchronize and harmonize the twin considerations of rapid industrialization and the parameters of a welfare state. The Plan objective of economic growth with social justice was kept in view in the overall strategy of industrial development. All segments of the industry-large, medium and small-were assigned a mutually

complimentary role with a view to facilitate an integrated and harmonious growth of Industrial sector as a whole. In the context of the major problems of poverty and unemployment faced by the Indian economy, the development of Small Scale Industries (SSI) was considered essential because of its being labour intensive and having implications for equity, flexibility, capability to contribute to decentralization, to promote entrepreneurship, optimum use of local resources and talents, etc.

5.2 INDUSTRIAL POLICY RESOLUTIONS IN INDIA

Since independence, a series of six Industrial Policy Resolutions aimed at promoting industrial growth and determining a pattern of State intervention and assistance have been announced by the Central Government. While spelling out the framework of the basic and strategic industries, the Industrial Policy Resolution, 1948, realized Cottage and Small Scale Industries to be particularly suited for better utilisation of local resources and achievement of 'local self-sufficiency' in respect of certain types of industrial goods. The policy of supporting the cottage, village and small industries took shape in 1956 when the Government decided to initiate measures to build the competitive strength of small and village industries. The 1956 Resolution underlined the role that the SSI sector could play, in providing employment opportunities, mobilizing local skills and capital resources, and in the integrating process with large industrial sector.

The Industrial Policy Statement, 1977, stressed upon wider dispersal of cottage and small industries in the rural areas and

small towns. The concept of District Industries Centres was also mooted so as to provide services to small industries under one roof. While the Industrial Policy Statement of 1980 was important from the point of view of ancillarisation and creation of nucleus plants for the growth of the sector, that of 1990 emphasized the steps for enhancing the contribution of the SSI Sector in overall exports, employment generation, and dispersal of industries in rural areas.

The Industrial Policy measures announced in 1991 laid special thrust on promotion and strengthening of small, tiny and village industries. Besides, effecting changes in investment limits, equity participation, etc., a new scheme of Integrated Infrastructure Development for SSIs with the participation of State Governments and Financial Institutions was initiated and a pro-active role for NGO sector was mooted. In order to protect their interest and facilitate their rapid development, the Government in pursuance of its policies, have initiated a number of support measures from time to time which include policy of reservation, revision of investment ceilings, modernization, technology up gradation, marketing assistance, etc. The emerging economic scenario in the changed liberalized and competitive economic environment has necessitated structural and fundamental changes in the policy framework put into place for the development of this vital sector of the economy. Accordingly, there has been a shift in focus from 'protection' to 'promotion'. In the post reform period, a number of steps including partial de-reservation, change in investment

limits, facilitating foreign participation, establishment of growth centres, export promotion, marketing assistance and incentives for quality improvement, etc. have been taken by the Government for strengthening of this sector. The highlights of the Small Scale Industries Policy of August 1991 are as follows:

- The investment limit for the tiny sector was raised to Rs. 5 lakhs from Rs. 2 lakhs. This limit has now been raised to Rs. 25 lakhs.
- Here after irrespective of their location would be recognised as small-scale industries.
- The small Industries Development Organisation (SIDO) has been recognised as the nodal agency to support the small scale industries, export promotion.
- An export development centre would be set up in SIDO to serve the small scale units through its network of field officers to further augment export activities of the sector.
- A technology development cell (TDC) will be set up in SIDO, which could provide technology inputs to improve quality and competitiveness of products of small scale sector.
- The scheme for the handloom sector, which contributed 30% of the total textile production in the country, would be redesigned keeping in view the local and regional needs. It would be the policy of the Government to promote handloom to sustain employment in rural areas and to improve quality of life for handloom weavers.

- The National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organisational links between NSIC and SSIDCs would be established.
- The scope of the national equity fund scheme will be widened to cover projects upto Rs. 10 lakhs for Equity Support (Upto 15 per cent).
- The Single Window loan scheme has also been enlarged to cover Projects upto Rs. 20 lakhs with working capital margin upto Rs. 10 lakhs.
- Small Scale units can have equity support to the extent of 24% of the total investment from the medium and large scale industries, Public Undertakings, NRIs or foreign investment.

In conformity with the socio-economic objectives of the national development plans, the development banks have introduced a number of promotional innovative schemes to be operated either separately or jointly. Some of the important schemes are soft loan scheme, seed capital assistance, risk capital assistance, concessional schemes, etc. In addition, IFCI is operating different subsidy schemes for new and small entrepreneurs. Recently, it has introduced eight consultancy schemes and four interest subsidy schemes for the benefit of the entrepreneurs.

The SSI Sector has proved its mettle even in the changed liberalised economic environment of the country. The steps required for opening up of the economy have affected the operations of this sector,

throwing/open new opportunities and challenges at the same time. The need of the hour undoubtedly is to provide sustenance through suitable measures to strengthen it for converting the challenges into opportunities for scaling new heights.

In order to enable the Government to place more focused attention on the problems of the SSI Sector, a new Ministry of Small Scale Industries and Agro and Rural Industries has been created on 14th October 1999, under the Independent Charge of a Minister of State. To give a direction and perspective to the development strategy, the Minister in-charge of Small Scale Industries and Agro & Rural Industries announced an "Agenda for the Millennium" which places special emphasis on evolution of a new policy framework, improved supply of credit, better infrastructural facilities, and impetus for modernization and technology upgradation in small scale industries. The Agenda takes cognizance of the special role to be played by Information Technology, sunrise industries, hi-tech industries, export potent industries, and at the same time stipulates all possible steps to meet the requirements of the tiny and micro-enterprises which constitute over 95 per cent of total small scale industrial units in the country.

Knowing of the crucial role of small enterprises, and the problems being faced by them, the Planning Commission, in 1999, constituted a Study Group under the Chairmanship of Dr. S.P. Gupta, Member, Planning Commission, on Development of Small Enterprises. The Study Group has submitted its report on 13th July 2000.

5.3 INCENTIVES AND SUBSIDIES

The term "incentive" includes concessions, and bounties. 'Subsidy' denotes a single lump sum which is given by a government to industry. It is granted to an industry that is considered essential in the national interest. The term 'bounty' denotes bonus or financial benefit which is given by a government to an industry to help it compete with other units in a nation or in a foreign market. It is given in proportion to the output. Bounty confers benefits on a particular industry, while a subsidy is given in the interest of the nation.

These subsidies and incentives offer the following advantages:

(a) They act as a motivational force which attract the prospective

(b) Entrepreneurs to enter into manufacturing line.

(b) They encourage the entrepreneurs to start industries in backward areas.

(c) By providing subsidies and incentives the Government can :

(i) bring industrial development uniformly in all regions,

(ii) develop more new entrepreneurs which lead to entrepreneurial development,

(iii) increase the ability of entrepreneurs to face competition successfully, and

(iv) reduce the overall problems of small scale entrepreneurs.

5.4 SCHEMES FOR INCENTIVES

Various incentive schemes offered by Central and State Governments including Union Territories to the entrepreneurs in India are as follows :

Incentives For Development of Industries In Backward Areas: As a part of the measures to ensure balanced regional development, Government of India has announced a number of concessions and facilities for industries established in selected backward districts/areas from time to time. The Central government has declared 247 districts (covering about 70% of the areas in the country) as backward and eligible for the subsidies. Many State Governments have added to this list for the purpose of State level subsidies. The programme of assistance drawn up for setting up industries in the selected backward area/district is briefly indicated below:

(i) **Concessional finance:** All India financial institutions namely, Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, extend financial assistance on concessional terms to all, new and existing industrial projects having expansion schemes irrespective of the project costs located in the 247 districts selected by the government. The concessions given by these financial institutions are in the form of lower interest rate viz., 9.5% p.a. against the normal rate of 11%, a reduced commitment charge of 0.5% (which could be waived in exceptional cases), lower underwriting commission of 1.25% and 0.75% for shares

and debentures respectively, initial moratorium period upto five years, longer amortizations of 15 to 20 years and participation in the risk capital on selective basis. Besides these, the IDBI follows a flexible attitude in respect of promoter's contribution, margin requirements, and rescheduling of repayments during the tenure of the loan. Depending upon the merits of specific cases in respect of reliance, the IDBI charges a special rate of 6% with the primary lender's rate being subjected to a ceiling of 9.5%. The normal rate of refinance is 6% with ceiling of 12.5% by the primary lending institution.

(ii) **Capital Investment Subsidy**: The granting of cash subsidy on the capital investment is called capital investment subsidy. It will be usually in the form of outright grant of 10% to 20% of the amount of capital invested in the industrial units in areas specified to be backward regions/districts. It is offered by the Central Government.

Out of the districts declared backward by the planning commission, 101 districts/areas have been selected to qualify for Central investment subsidy. These districts/areas have been selected on the pattern of six districts/areas for industrially backward states and three districts/areas for other states. The salient features of the scheme are given below:

(i) **Quantum of subsidy:** When the scheme was originally announced in 1971, 10% of the investment made on fixed capital investment viz., land, building, and plant and machinery, was to be reimbursed as an outright grant subject to a ceiling of Rs. 15 lacs.

This was raised to 15% with effect from 1-3-1973. The maximum amount payable is, however, restricted to Rs. 15 lacs per industrial unit.

After the division of backward districts into (A), (B) and (C) categories the subsidy will be: (A) 25% subject to a maximum of Rs. 25 lacs; (B) 15% subject to a maximum of Rs. 15 lacs (c) 10% subject to a maximum of Rs. 10 lacs.

(ii) **Eligibility:** An industrial unit other than those runs departmentally which made investments in land, building, and plant and machinery on or after 1-3-1973 and located in the above category of districts/areas is eligible to claim subsidies. Existing units taking into expansion, modernisation and diversification are also eligible to claim subsidy.

(iii) **Procedure for Claiming Subsidy:**The State Governments/Union Territory administrations have nominated disbursing agencies to administer the scheme of investment subsidy. State Financial Corporation and financial institutions such as IDBI, IFCI, and ICICI are some of the agencies selected for disbursements of subsidy under the scheme. Each industrial unit being set up in the specified district gets registered with the Director of Industries for claiming investment subsidy. The units desirous of getting investment subsidy may approach the disbursing agencies who in turn make recommendation after verification etc. to the State level committee which has been appointed in each State/Union Territory.

Tax holiday to new industrial undertakings set up in backward States and Union Territories: Under section 80-IA of the Income-tax Act 1961, deduction is allowed in computing the taxable Income in respect of profits derived from new industrial undertaking or a ship or the business of a hotel. The deduction under this section is allowed in the case of companies, at 30 per cent of profits in respect of the assessment year relevant to the previous years in which the hotel starts functioning or the industrial undertaking starts manufacturing or the ship is first brought to use and nine assessment years immediately succeeding the initial assessment year. In the case of taxpayers being a co-operative society, similar deduction is allowed for the initial assessment year and eleven succeeding years, the deduction is allowed at the rate of 25% in the case of non-corporate assesses. Likewise in the case of new hotels set up in a hilly area or a rural area or a place of pilgrimage or such other place as the Central Government may specify, the deduction is admissible at the rate of 50 per cent of the profits.

With a view to giving substantial thrust for encouraging the industrialization in States and Union Territories, which are industrially very backward, the Finance Bill proposes to provide incentive for dispersal of industrialization in remote and industrially backward regions. It is proposed to allow, in respect of any new industrial undertaking, located in a State or Union Territory specified in the new Eighth Schedule of the Income-tax Act, which starts manufacturing or production after 1.4.1993, deduction under section 80-IA at the rate of 100 per cent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which

the industrial undertaking begins manufacture or production. For the subsequent assessment years, deduction from the Profits of such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 per cent in the case of Non-corporate assesses. The deduction, at the enhanced rate and the normal rate together, will be limited to twelve assessment years in the case of co-operative societies and ten assessment years in the case of other assesses, as in the existing provisions.

States and Union Territories, which are industrially very backward, have been identified as those in which, according to the backward area Notification S.O.No. 165 dated 19.2.1986, all the districts are industrially backward. These States and Union Territories are Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikim, and Tripura and the Union Territories of the Andaman and Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep, and Pondicherry. The above list corresponds to the existing list of industrially backward areas specified by the Ministry of Industry.

The proposed amendments will take effect from Ist April, 1994 and will, accordingly, apply in relation to assessment year 1994-95 and subsequent years.

Subsidized Consultancy Services to Small Entrepreneurs: Small entrepreneurs proposing to set up rural, cottage, tiny or small scale units, or to expand/diversify/modernize their existing units can get consultancy services at a low cost from the technical consultancy organisations (TCO's) sponsored by All India and State level financial

and promotional institutions and banks. They have to pay only 20% of the fees charged by a TCO for assignments such as preparation of feasibility studies, project reports, market studies, pre-investment studies, diagnostic studies and special studies and applications for seeking financial assistance from financial institutions technical assistance, etc. The entire balance of 18% or Rs. 5,000 whichever is lower is subsidized by IFCI in the case of assignments relating to the use of biogas or renewable/alternative sources of energy. For units identified or assignments covering physically handicapped or scheduled caste/tribe entrepreneurs, 100 % of the fees of the TCO for the assignment or Rs. 6,000 whichever is lower is subsidized. If any entrepreneur is unable to take effective steps to set up the project within one year from the date of completion of consultancy assignments he will not be entitled to prevent the use of the report in any form or manner by the TCO or other entrepreneurs. An entrepreneur who has already set up a project at one place and wishes to set up an entirely different project at another place may be considered eligible to subsidy for the second project also. In any case, the subsidy will not be made available to the same entrepreneur for more than two projects.

Subsidy For Market Studies: New entrepreneurs (locally based or non resident Indians) entering the field of Medium and/or medium large industry for the first time in the country can have market studies for their products undertaken by TCO at a cheaper cost. The fee for the preparation of a market study payable to TCO would be subsidized by IFCI up to 75% of the cost or Rs. 15,000 whichever is lower. The subsidy will be made available only to the TCO with which one or more

financial institutions or development agencies at the State or All India level are associated as shareholders(s) or member (s) of board of management. The entrepreneur will have to bear only 25% of the cost of the study.

Adoption of Indigenous Technology: Promoters of projects involving commercial exploitation of indigenous technology can get assistance in the form of subsidy covering the interest payment due to IFCI during the first three years of operations of the project subject to ceiling of Rs. 5 lakhs a year. In appropriate cases, the total subsidy could be upto Rs. 25 lakhs over a period of five years. The subsidy would be reimbursed to the concern after it makes payments of installments of interest to IFCI on due dates. For being eligible for concessional assistance, the project should be set up with loan assistance from IFCI and be based on indigenous technology. The right to use this technology must have been acquired by the agency implementing the project from the concerned institution, viz. Government laboratories, public sector companies, universities, or any other institution recognised by the Government of India. The technology should be one that has not already been exploited on a commercial scale in the country, and a certificate to this effect will have to be obtained from the concerned institution. The technology should be basic to the manufacture of the proposed product and not merely peripheral and the project must be of national priority as indicated by government from time to time.

Special Facilities for Import of Raw Materials: The Import Policy of 1978-79 has introduced special concession of import of raw materials in the case of industrial units set up in backward areas or by

graduates/diploma holders in professional subjects or by ex-servicemen persons belonging to scheduled castes/scheduled tribes. The maximum value of the licence shall be Rs. 5 lakhs in respect of new or proposed small-scale units instead of Rs. 3 lakhs. They will also be eligible for preferential treatment in the matter of canalized items.

Transport Subsidy: The transport subsidy scheme, 1971 envisages grant of a transport subsidy to industrial units in selected areas to the extent of 50% of the transport cost of raw materials which are brought into and finished goods which are taken out of the selected areas.

The scheme covers the State of Jammu and Kashmir, Himachal Pradesh, hilly areas of Uttar Pradesh and North Eastern Region comprising of States of Assam, Meghalaya, Nagaland, Tripura and the Union Territories of Arunachal Pradesh, Andaman and Niobar Islands, Mizoram and Lakshadweep.

Subsidy is paid on transport costs between the selected railheads and location of the industrial units in the above states/Union Territories.

The highlights of the scheme are:

1. Industrial units in the above-mentioned areas will be given transport subsidy in respect of the raw materials brought into and the finished goods, which are taken, out of such areas.

2. No transport subsidy will be allowed for the internal movement of raw materials and finished goods within the State of Jammu and Kashmir and the North-Eastern Region.

3. In the case of Jammu and Kashmir, the transport subsidy will be given between the railhead at Pathankot and the location of the industrial unit or between the location of the industrial unit and Jammu, whichever is nearer.

4. Barring Jammu and Kashmir, the transport subsidy will be given on the transport cost between Siliguri and the location of the industrial unit in the North Eastern States. While calculating the transport cost, the cost from Siliguri to the railway station nearest to the industrial unit will be taken into account in respect of raw materials and finished goods. If any other mode of transport is used the cost will be limited to the amount which the industrial unit may have paid, if it had used the above mode of transport.

5. Freight charges for the movement of goods by road will be determined on the basis of the transport rates fixed by the government of a State/Union Territory from time to time, or the actual freight paid, whichever is less.

6. The cost of loading or unloading and other handling charges will be taken into account for the purpose of determining transport costs.

7. All new industrial units located in the selected areas will be eligible for a transport subsidy equivalent to 50% of the transport cost of raw materials and finished goods.

8. Existing industrial units are also eligible for a 50% subsidy in respect of additional transport costs of raw materials and finished goods resulting from a substantial expansion or diversification

effected by them after the commencement of the Transport Subsidy scheme.

9. The transport subsidy will cover 50% of the transport charges on the movement of steel from the Gauhati Stockyard of Hindustan Steel Limited to the site of an industrial unit in the North-Eastern Region.

10. The Directorates of Industries in the States/Union Territories will lay down system of pre-registration of industrial units which are eligible for the transport subsidy.

Incentives Available to SSI Units in Backward/Rural Industries Project Areas: Certain special facilities and incentives which have been provided to the backward districts are enumerated below:

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

2. Allotment of factory or factory sheds in industrial estates/areas and industrially developed colonies on easy terms.

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

4. The State Financial Corporations grant loans for acquisition of fixed assets up to Rs. 30 lakhs in the case of limited companies and registered co-operative societies and up to Rs. 15 lakhs for

others at liberalised margins and rate of interest, and this is done over a longer span of repayment and moratorium period.

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

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

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

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

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

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

8. State Governments have set up independent testing laboratories on behalf of the Indian Standards Institution, the Export Inspection

Council, the Department of Defence, Government of India and various other government organisations for making industrial products of good quality.

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

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

Objectives of the Scheme: The objective of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to

promote wider dispersal of ownership and control of industrial undertakings.

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

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

1. New generation entrepreneurs in small-scale sector requiring seed capital of more than Rs. 4 lacs.
2. Small scale entrepreneurs who undertake expansion/ diversification or modernisation.
3. Entrepreneurs intending to graduate from the small scale to medium sector for the first time.
4. Entrepreneurs intending to set up a project in the medium sector for the first time.
5. Entrepreneurs already in medium sector and intending to undertake diversification for achieving better viability.
6. Entrepreneurs seeking additional seed capital to meet project cost over run caused by factors beyond the control.

7. Entrepreneurs intending to take over an existing sick or closed units and projects constituted as public/private limited companies or partnership/ proprietary concerns eligible for assistance.

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

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

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

Industrial Licensing: July 1991 Changes: The process of liberalisation got a fillip with the announcement of the new industrial policy in July 1991. The major provisions relating to industrial licensing in this policy can be summarised as follows:

(i) Industrial licensing will be abolished for all projects except for a short list of 18 industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption.

(ii) In projects where imported capital goods are required, automatic clearance will be given in case where foreign exchange available is ensured through foreign equity or where the CIF value of imported capital goods required is less than 25% of total value of plant and equipment, up to maximum value of Rs. 2 crore.

(iii) The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them.

(iv) Existing units will be provided a new broad banding facility to enable them to produce any article without any additional investment.

(v) The exemption from licensing will apply to all substantial expansions of existing units.

(vi) All existing registration schemes will be abolished.

(vii) Entrepreneurs will henceforth be required to file an information memorandum on new projects and substantial expansions.

(viii) The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

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

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

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

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

allowed to be written off completely in the year in which it is first used.

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

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

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

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

   (a) Riot or civil disturbance.

   (b) Floods, hurricanes, cyclones, earthquakes or other natural disasters.

   (c) Accidental fire or explosion.

   (d) Action by an enemy.

   The small scale unit re-established, reconstructed or revived is allowed a deduction of a sum, by way of rehabilitation allowance,

equivalent to 60% of the amount of the deduction allowance to the unit.

Publication of Books: A small scale industry engaged in the business of publication of books is entitled to claim a deduction of a sum equal to 20 per cent of the profits and gains derived from such business under section 80 of the Act. "Books" for the purpose of this Section do not include newspapers, journals, Magazines, diaries, brochures, pamphlets and other publication of similar nature.

Tax Benefits for Amalgamation of Sick Units: Sickness in an industry, whether large or small, is quite widespread in the country and has become a national problem which has caused a great deal of concern. It is estimated that the aggregate amount involved in the sick units is more than Rs. 2000 crores. The policy of the government has been to encourage the amalgamation of sick units and concessions have been announced to induce healthy units to take over sick concerns in the public interest. Tax concessions are available for the amalgamation of sick units.

Incentive to the small scale/ancillary units acquiring ISO 9000 certificate: Government of India launched a Scheme in March, 1994 to give incentive to small scale/ancillary units acquiring ISO-9000 certification or its equivalent. According to the present norms, the Scheme provides for reimbursement of charges for acquiring ISO-9000 (or its equivalent) certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case.

The present procedural norms of submitting copies of various documents like vouchers/receipts of payment made to the certification agencies & consultants etc. along with the application to claim reimbursement have been reviewed, and simplification in these norms has now been introduced. According to the revised procedural norms, a certificate from the Chartered Accountant certifying the expenditure incurred towards Application fee, Assessment/Audit fee, Annual fee/License fee, Training, Technical Consultancy etc. (excluding hotel & travel expenses) in acquiring ISO-9000 certification shall be submitted in place of the certified copies of various vouchers/receipts of payments. Further, the Application Form has also been simplified. The revised norms shall reduce their documentation work by the small/ancillary units largely & would accelerate processing of reimbursement applications.

The revised norms are as under:

1. 75% of the cost of acquiring of ISO-9000 certification or its equivalent subject to a maximum of Rs. 75,000 would be reimbursed in each case.

2. The scheme of reimbursement will remain in operation till end of 9th plan i.e. upto 31st March, 2002.

3. The small scale units seeking reimbursement of cost for acquiring ISO-9000 certification under revised norms, continue to file application (as per revised format) with the Development Commissioner (SSI), Minister of Small Scale Industries & Agro

and Rural Industries, Nirman Bhavan, New Delhi-110011 alongwith the following documents :

1. i) Permanent Small Scale Ancillary Registration Certification issued by DIC/State Directorate of Industries, Certified copy.

ii) Proof of SSI status of the unit as on date of application by submitting the following documents-either (a) or (b)

a) A certificate (in original) from State DI/GM, DIC to the effect that the unit is in SSI sector in terms of investment limits (original purchase value or machinery and equipment) as prescribed by Govt. on the date of submission of application for reimbursement.

or

b) An affidavit (in original) from Managing Director/Director/Proprietor/Partner of the SSI unit to the effect that the unit still continues to be a SSI/ancillary unit, accompanied by a CA certificate indicating the total investment in Plant & Machinery as on date.

II. ISO-9000 Certification (or its equivalent-attested copy).

III. Chartered Accountant Certificate in support of payments made for acquiring ISO-9000 Certification or equivalent (excluding hotel & travel expenses).

IV. An Undertaking/declaration (in original) giving details of the amount(s) claimed or received by way of grant/reimbursement for acquiring ISO-9000 (or its equivalent) from a State Govt. or any

financial institution. The declaration should also be filed stating that the unit shall disclose the reimbursement made by the Central Government (Office of DCSS*)* at the time of claiming reimbursement, If any, under any other similar scheme run by the Central/State Government/Financial Institution etc.

The revised Application Format alongwith Formats of undertaking and CA certificates may be had from the General Manager of the District Industries Centre.

Credit Link Capital Subsidy Scheme for Technology Upgradation of SSIs-Guidelines:

1. **Title:** The Scheme is called the "Credit linked Capital subsidy Scheme for Technology Upgradation of the Small Scale Industries" (SSI).
2. **Purpose:** The scheme will provide 12 per cent back ended Capital Subsidy on projects of technology upgradation by SSI units in the specified products/sub-sectors.
3. **Scope of the Scheme:** i) To begin with, the Scheme would cover the following products/sub-sectors in the SSI:-
   a) Leather and Leather Products including Footwear and Garments;
   b) Food Processing;
   c) Information Technology (Hardware);
   d) Drugs and Pharmaceuticals;
   e) Auto Parts and Components;
   f) Electronic Industry particularly relating to Design and Measuring;

g) Glass and Ceramic items including Tiles;

h) Dyes and Intermediates;

i) Toys;

j) Tyres;

k) Hand Tools;

l) Bicycle Parts; and

m) Foundries-Ferrous and Cast Iron.

The above list of products/sub-sector would be expanded as the Scheme progress with the approval of the Technical Advisory Committee constituted under this Scheme.

4. **Type of Unit to be covered**

i) Existing SSI unit registered with the State Directorate of Industries which upgrade with the state-of-the-art technology with or without expansion.

ii) New SSI units which are registered with the State Directorate of Industries and which set up their facilities only with the appropriate eligible and proven technology duly approved by the Technical Advisory Committee.

5. **Definition of Technology Upgradation**

i) Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology. In the case of more than 7500 products being produced in the Indian small scale sector, technology upgradation would mean a significant step from the present technology level to a substantially higher one involving improved productivity, or/and improvement in the

quality of products or/and improved environmental conditions. It would include installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery.

ii) Replacement of existing equipment/technology with the same equipment technology will not qualify for this Scheme, nor would the Scheme be applicable to units upgrading with second hand machinery.

6. **Duration of the Scheme:** The Scheme will be in operation for a period of five years from 1.10.2000 to 30.9.2005, or till the time sanctions of capital subsidy by the Nodal Agency reaches Rs. 600 crores, whichever is earlier.

7. **Nodal Agency:** Small Industries Development Bank of India (SIDBI) will act as the Nodal Agency.

8. **Cap on Amount of Subsidy**

i) The financial assistance by the Banks/SIDBI for technology upgradation will be need based. However, the subsidy support would be limited to the loan amount indicated in Table I.

ii) Value of Plant & Machinery being acquired under the Scheme will be determined by its purchase price.

iii) Capital Subsidy under this Scheme will not be admissible for loan amount exceeding the limits indicated above.

9. **Working capital requirement:** Since the success of the technology upgradation programme, to a large extent, depends

upon the availability of adequate working capital, commercial banks should provide adequate working capital.

10. **Other Conditions for Loans**

i) Promoters' contribution, security, debt-equity ratio, up-front fee, etc., will be determined by the lending agency as per its existing norms.

ii) Entrepreneurs availing Credit Linked Capital Subsidy for technology upgradation shall not avail any other benefit including Interest Subsidy, under any other Scheme of the Central Government.

Table-I

S.No.	Existing Investment Limit	Maximum Ceiling of Loan eligible for support
1.	Tiny units with investment in plant and machinery less than Rs. 10 lakhs	Rs. 8 lakhs
2.	Tiny units with investment in plant & machinery between Rs. 10 lakhs to Rs. 25 lakhs	Rs. 20 lakhs
3.	SSI units with investment in plant & machinery above Rs. 25 lakhs	Rs. 40 lakhs

iii) One of the main requirements of sanction of assistance under the Technology Upgradation Scheme will be availability of competent management to the unit concerned to carry out the upgradation

programme and to manage the operation of the unit efficiently. Towards this end, the lending agencies may stipulate conditions as may be considered necessary.

11. **Procedure for Sanctions and Disbursements of Loans:** The SSI unit will have to apply for financial assistance in the prescribed form to any scheduled Commercial Bank or SIDBI or one of the declared eligible State Financial Corporations (SFCs). The list of eligible SFCs would be finalised in consultation with the Banking Division, Ministry of Finance. The bank/SFC after appraisal would refer the cases to the SIDBI, which would convey clearance for capital subsidy. The lending institutions would be required to lodge claims of capital subsidy from SIDBI on a quarterly basis. SIDBI will settle the claim expeditiously.

12. **Procedure for Sanction and Release of Subsidy**

i) In order to get the Scheme operationalised, an interest free advance of Rs. 30 crores will be given to SIDBI by the Ministry of SSI&ARI, Govt. of India. The entire subsidy amount of Rs. 600 crores would be released in suitable instalments to SIDBI and for which necessary provision would be made in the Annual Plan Budget of the Office of The Development Commissioner (SSI).

ii) SIDBI would prescribe the modalities for submission of subsidy claims by Commercial banks/State Financial Corporations.

iii) The detailed methodology of the release and adjustments of subsidy shall be worked out in consultation with the SIDBI.

iv) The SIDBI shall maintain and monitor fund utilisation under the Scheme.

13. **Preferential Sanction/Disbursement for the Tiny Sector:** SIDBI/all Scheduled Commercial Banks/eligible State Financial Corporations would ensure preference to the tiny sector for loans for technology upgradation.

14. **Monitoring of the Scheme-Constitution of a Governing Board:** The Scheme will be monitored by a Governing Board. The Secretary (SSI&ARI) will be the Chairperson of the Board and the Development Commissioner (SSI) will be its Member Secretary. The Governing Board shall consist of representatives of Banking Division (Ministry of Finance), Planning Commissioner, Department of Science and Technology, Council of Scientific & Industrial Research. Indian Council for Agricultural Research, SIDBI, some selected public sector banks and some selected small scale industries associations as members. The governing Board will monitor and review the functioning of the Scheme and will meet at least twice a year.

15. **Review of approved technologies Constitution of a Technical Advisory Committee:**

i) Identification of technology is a continuous process. Moreover, new technologies may also come during the operation of the Scheme.

ii) The Technical Advisory Committee would be set up under the Chairmanship of Secretary (SSI&ARI) to identify the state-of the-

art technology and benchmark existing and new technologies which will be eligible for support under the Scheme. It will consist of representatives of concerned Ministries including Planning Commission, Technical Research Institutes/Organisations such as Council of Scientific & Industrial Research, Department of Science and Technology, National Research Development Corporation, Indian Council for Agricultural Research and Industry Associations. The Development Commissioner (Small Scale Industries) will be the Member-Secretary of the Technical Advisory Committee. The Committee would periodically meet and identify the new technologies for approval under this Scheme.

16. **Estimated Requirement of Funds:**

i) As credit linked capital subsidy is to be provided for loans of Rs. 5000 crores during the five years of its operation, total liability of Government would be Rs. 600 crores (12% of Rs. 5000 crores) under this scheme.

ii) For the purpose of estimating the yearly financial requirements it has been assumed that in a year about 15,000 units would be assisted under the Scheme.

iii) Based on this, the estimated Year-wise funding requirements during the operation of the Scheme is as follows:

Year	Loan Amount to be covered for subsidy (Rs. in cores)	Credit Linked Capital Subsidy (Rs. in crores)
2000-2001	500	60
2001-2002	1000	120
2002-2003	1000	120
2003-2004	1000	120
2004-2005	1000	120
2005-2006	500	50
Total	5000	600

5.5 SUMMARY

In view of the fact that a series of six Industrial Policy Resolutions aimed at promoting industrial growth and determining a pattern of State intervention and assistance have been announced by the Central Government since independence. While spelling out the framework of the basic and strategic industries, the Industrial Policy Resolution, 1948, realized Cottage and Small Scale Industries to be particularly suited for better utilisation of local resources and achievement of 'local self-sufficiency' in respect of certain types of industrial goods. The policy of supporting the cottage, village and small industries took shape in 1956 when the Government decided to initiate measures to build the competitive strength of small and village industries. The 1956 Resolution underlined the role that the SSI sector could play, in providing employment opportunities, mobilizing local skills and capital resources, and in the integrating process with large industrial sector.

The Industrial Policy Statement, 1977, stressed upon wider dispersal of cottage and small industries in the rural areas and small towns. The concept of District Industries Centres was also mooted to provide services to small industries under one roof. The Industrial Policy measures announced in 1991 laid special thrust on promotion and strengthening of small, tiny and village industries. Besides, effecting changes in investment limits, equity participation, etc., a new scheme of Integrated Infrastructure Development for SSIs with the participation of State Governments and Financial Institutions was initiated and a pro-active role for NGO sector was mooted. In order to protect their interest and facilitate their rapid development, the Government in pursuance of its policies, have initiated a number of support measures from time to time which include policy of reservation, revision of investment ceilings, modernization, technology up gradation, marketing assistance, etc. The emerging economic scenario in the changed liberalized and competitive economic environment has necessitated structural and fundamental changes in the policy framework put into place for the development of this vital sector of the economy. Accordingly, there has been a shift in focus from 'protection' to 'promotion'. In the post reform period, a number of steps including partial de-reservation, change in investment limits, facilitating foreign participation, establishment of growth centres, export promotion, marketing assistance and incentives for quality improvement, etc. have been taken by the Government for strengthening of this sector.

In order to enable the Government to place more focused attention on the problems of the SSI Sector, a new Ministry of Small Scale

Industries and Agro and Rural Industries has been created on 14th October 1999, under the Independent Charge of a Minister of State. Knowing of the crucial role of small enterprises, and the problems being faced by them, the Planning Commission, in 1999, constituted a Study Group under the Chairmanship of Dr. S.P. Gupta, Member, Planning Commission, on Development of Small Enterprises. The Study Group has submitted its report on 13th July 2000.

5.6 Keywords

Subsidy: It denotes a single lump sum which is given by a government to industry.

Bounty: Bounty denotes bonus or financial benefit which is given by a government to an industry to help it to compete with other units in a nation or in a foreign market.

Incentive: Incentives are motivational forces which improve productivity of entrepreneurs.

Technology Upgradation: It means induction of state-of-the-art technology.

5.7 SELF ASSESSMENT QUESTIONS

1. What are the salient features of New Small Enterprise Policy, 1991 ?
2. What do you mean by incentives and subsidies? Briefly, present an account of the schemes of incentives in operation in India.
3. Explain the different incentives available to SSI units in backward areas.
4. What do you mean by seed capital assistance? Who are eligible to avail it?
5. Write a note on Subsidized Consultancy Services.
6. What is meant by transport subsidy? List the main features of this scheme.
7. State the changes made in July 1991 in Industrial Licensing.

8. What taxation benefits are enjoyed by SSIs in our country?
9. Discuss the scheme of Incentives to the small scale/ancillary units acquiring ISO 9000 certificate.
10. Write a detailed note on "Credit Linked Capital Subsidy Scheme for Technology Up gradation of SSIs".

5.8 SUGGESTED READINGS

1. Jain, Rajiv: Planning A Small Scale Industry- A Guide to Entrepreneurs.
2. Gupta, C.B. and Khanka, S.S.: Entrepreneurship and Small Business Management.
3. Khan, M.A.: Entrepreneur Development Programmes in India.
4. John Kao and Harars Stevenson: Entrepreneurship – What it is and How to Teach it.

Subject: Entrepreneurial Development
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Lesson : 06 **Updated by: Dr. M.C. Garg**

ENTREPRENEURIAL BEHAVIOURS AND MOTIVATION

STRUCTURE

6.1 INTRODUCTION

Entrepreneurship will flourish only under the right atmosphere that is conducive to the social, political and economic issues. The urge to excel others and to create something new is inborn and psychologically oriented in the larger analysis. As a result, since entrepreneurship involves a complex of economic and social behaviour, it can only survive where conditions are ideal in terms of political, economic, social and ethical concerns, and when economic changes are free from restraints – for the benefit of all concerned.

You had a good idea for a business. You may have just jumped into it feet first, or you may have spent months agonizing over it, planning, researching, dotting those

i's and crossing those t's. Will your business survive? A lot depends on how you run your business. Every business starts out with high hopes for success, and entrepreneurs spend vast amounts of time, energy and creativity to make that success a reality. Unfortunately, for most start up business, that hoped for success never materializes. About 60 per cent of all business fail within the first two years for certain industries, such as the restaurant industry, the failure rate is even higher. Although chances for business failure diminish as time passes, most businesses are never safe. Competition and changing market conditions ensure that the struggle for success never ends.

With much initiative and enthusiasms, new entrepreneurs establish business units. Nevertheless, many of them commit certain types of blunders, which result in total failure of the enterprise. This in fact, means wastage of the scarce resources of the nation, besides being a deterrent to new entrants.

6.2 ENTREPRENEURIAL INPUT

The emergence and development of entrepreneurship is not a spontaneous one but a dependent phenomenon of economic, social, political, psychological factors often nomenclature as supporting conditions to entrepreneurship development. These conditions may have both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive conditions for the emergence of entrepreneurship, whereas negative influences create inhibiting milieu to the emergence of entrepreneurship.

Economists agree that the lack of entrepreneurs is not caused by economic conditions alone, as was the earlier feeling. It is also due to the whole set of socio-cultural and institutional environment prevailing in the less developed countries. Various entrepreneurial inputs influencing the entrepreneurship are as follows:

I. **ECONOMIC INPUTS:** Economic environment exercises the most direct and immediate influence on entrepreneurship. The economic factors that affect the growth of entrepreneurship are the following:

1. **Capital:** Capital is one of the most important perquisites to establish an enterprise. Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production. Our accumulated experience suggests that with an increase in capital investment, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation. This suggests that as capital supply increases, entrepreneurship also increases. France and Russia exemplify how the lack of capital for industrial pursuits impeded the process of entrepreneurship and an adequate supply of capital promoted it.

2. **Labour**: The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. Most less developed countries are labour rich nations owing to a dense and even increasing population. But entrepreneurship is encouraged if there is a mobile and flexible labour force. And, the potential advantages of low-cost labour are regulated by the deleterious effects of labour immobility. The considerations of economic and emotional security inhibit labour mobility. Entrepreneurs, therefore, often find difficulty to secure sufficient labour. They are forced to make elaborate and costly arrangements to recruit the necessary labour. The problem of low-cost immobile labour can be circumvented by plunging ahead with capital-intensive technologies, as

Germany did. It can be dealt by utilizing labour-intensive methods like Japan. By contrast, the disadvantages of high-cost labour can be modified by introduction of labour-saving innovations as was done in US. Thus, it appears that labour problems can be solved more easily than capital can be created.

3. **Raw Materials**: The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor can an entrepreneur be emerged. Of course, in some cases, technological innovations can compensate for raw material inadequacies. The Japanese case, for example, witnesses that lack of raw material clearly does not prevent entrepreneurship from emerging but influenced the direction of entrepreneurship. In fact, the supply of raw materials is not influenced by them but becomes influential depending upon other opportunity conditions. The more favourable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.

4. **Market**: The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled to some extent by improvement in

transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods. D.S. Landes holds the opinion that improvement in transportation is more beneficial to heavy industry than to light industry because of their effects on the movement of raw materials. Paul H. Wilken claims that instances of sudden rather than gradual improvement in market potential provide the clearest evidence of the influence of this factor. He refers to Germany and Japan as the prime examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Thus, it appears that whether or not the market is expanding and the rate at which it is expanding are the most significant characteristics of the market for entrepreneurial emergence.

5. **Infrastructure**: Expansion of entrepreneurship presupposes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. Take for instance, the establishment of post and telegraph system and construction of roads and highways in India. It helped considerable entrepreneurial activities which took place in the 1850s. Apart from the above factors, institutions like trade/business associations, business schools, libraries, etc. also make valuable contribution towards promoting and sustaining entrepreneurship in the economy. You can gather all the information you want from these bodies. They also act as a forum for communication and joint action. Of late, the importance of business and industry associations has increased tremendously. In the fast changing world of business, entrepreneurs have to move collectively in order to be more effective and

more efficient. They need to constantly check and influence the Government's thinking and decision-making.

II. **SOCIAL INPUTS:** Social factors can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. The main components of social environment are as follows:

1. **Caste Factor:** There are certain cultural practices and values in every society which influence the actions of individuals. These practices and value have evolved over hundred of years. For instance, consider the caste system (the varna system) among the Hindus in India. It has divided the population on the basis of caste into four divisions. The Brahmana (priest), the Kshatriya (warrior), the Vaishya (trade) and the Shudra (artisan). It has also defined limits to the social mobility of individuals. By 'social mobility' we mean the freedom to move from one caste to another. The caste system does not permit an individual who is born a Shudra to move to a higher caste. Thus, commercial activities were the monopoly of the Vaishyas. Members of the three other Hindu Varnas did not become interested in trade and commerce, even when India had extensive commercial inter-relations with many foreign countries. Dominance of certain ethnical groups in entrepreneurship is a global phenomenon. The protestant ethics in the west, the Sammurai in Japan, the trading classes in US and the family business concerns of France have distinguished themselves as entrepreneurs.

2. **Family background**: This factor includes size of family, type of family and economic status of family. In a study by Hadimani, it has been revealed

that Zamindar family helped to gain access to political power and exhibit higher level of entrepreneurship. Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility. There are certain circumstances where very few people would have to be venturesome. For example in a society where the joint family system is in vogue, those members of joint family who gain wealth by their hard work denied the opportunity to enjoy the fruits of their labour because they have to share their wealth with the other members of the family.

3. **Education**: Education enables one to understand the outside world and equips him with the basic knowledge and skills to deal with day-to-day problems. In any society, the system of education has a significant role to play in inculcating entrepreneurial values.

   In India, the system of education prior to the 20th century was based on religion. In this rigid system, critical and questioning attitudes towards society were discouraged. The caste system and the resultant occupational structure were reinforced by such education. It promoted the idea that business is not a respectable occupation. Later, when the British came to our country, they introduced an education system, just to produce clerks and accountants for the East India Company, The base of such a system, as you can well see, is very anti-entrepreneurial. The unfortunate result of it is that young men and women in our country have developed a taste only for service. Their talents and capabilities have not been made much use of. Rather it has been wasted in performing routine conventional jobs. Our educational methods have not changed much even today. The emphasis is

till on preparing students for standard jobs, rather than marking them capable enough to stand on their feet.

4. **Attitude of the Society**: A related aspect to these is the attitude of the society towards entrepreneurship. Certain societies encourage innovations and novelties, and thus approve entrepreneurs' actions and rewards like profits. Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow. Similarly, some societies have an inherent dislike for any money-making activity. It is said, that in Russia, in the nineteenth century, the upper classes did not like entrepreneurs. For them, cultivating the land meant a good life. They believed that land belongs to God and the produce of the land was nothing but god's blessing. Russian folk-tales, proverbs and songs during this period carried the message that making wealth through business was not right.

5. **Cultural Values**: Motives impel men to action. Entrepreneurial growth requires proper motives like profit-making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. If the culture is economically or monetarily oriented, entrepreneurship would be applauded and praised; wealth accumulation as a way of life would be appreciated. In the less developed countries, people are not economically motivated. Monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits. Men with organisational abilities are, therefore, not dragged into business. They use their talents for non-economic ends. The absence of proper economic

motives is a general characteristic of agrarian societies in which people do not attach great value to business talents, industrial leadership etc.

III **PSYCHOLOGICAL INPUTS:** Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate especially upon psychological factors. These are as follows:

1. **Need Achievement**: The most important psychological theories of entrepreneurship were put forward in the early 1960s by David McClelland. According to McClelland 'need achievement' is social motive to excel that tends to characterize successful entrepreneurs, especially when reinforced by cultural factors. He found that certain kinds of people, especially those who became entrepreneurs, had this characteristic. Moreover, some societies tend to reproduce a larger percentage of people with high 'need achievement' than other societies. McClelland attributed this to sociological factors. Differences among societies and individuals accounted for 'need achievement' being greater in some societies and less in certain others. Analysing this phenomenon, Paul Wilken has said, “entrepreneurship becomes the link between need achievement and economic growth”, the latter being a specifically social factor.

   The theory states that people with high need-achievement are distinctive in several ways. They like to take risks and these risks stimulate them to greater effort. The theory identifies the factors that produce such people. Initially McClelland attributed the role of parents, specially the mother, in mustering her son or daughter to be masterful and self-reliant. Later he put less emphasis on the parent-child relationship and gave more importance to social and cultural factors. He concluded that the 'need achievement' is

conditioned more by social and cultural reinforcement rather than by parental influence and such related factors.

2. **Withdrawal of Status Respect**: There are several other researchers who have tried to understand the psychological roots of entrepreneurship. One such individual is Everett Hagen who stresses the psychological consequences of social change. Hagen says, at some point many social groups experience a radical loss of status. Hagen attributed the withdrawal of status respect of a group to the genesis of entrepreneurship. Giving a brief sketch of history of Japan, he concludes that it developed sooner than any non-western society except Russia due to two historical differences. First, Japan had been free from colonial disruption and secondly, the repeated long continued withdrawal of expected status from important groups (smaurai) in its society drove them to retreatism which caused them to emerge alienated from traditional values with increased creativity. This very fact led them to the technological progress through entrepreneurial roles.

   Hage believes that the initial condition leading to eventual entrepreneurial behaviour is the loss of status by a group. He postulates that four types of events can produce status withdrawal:

   (a) The group may be displaced by force;

   (b) It may have its valued symbols denigrated;

   (c) It may drift into a situation of status inconsistency; and

   (d) It may not be accepted the expected status on migration in a new society.

He further postulates that withdrawal of status respect would give rise to four possible reactions and create four difference personality types:

(a) **Retreatist:** He who continues to work in a society but remains different to his work and position ;

(b) **Ritualist**: He who adopts a kind of defensive behaviour and acts in the way accepted and approved in his society but no hopes of improving his position;

(c) **Reformist:** He is a person who foments a rebellion and attempts to establish a new society; and

(d) **Innovator**: He is a creative individual and is likely to be an entrepreneur.

Hagen maintains that once status withdrawal has occurred, the sequences of change in personality formation are set in motion. He refers that status withdrawal takes a long period of time - as much as five or more generations - to result in the emergence of entrepreneurship.

3. **Motives**: Other psychological theories of entrepreneurship stress the motives or goals of the entrepreneur. Cole is of the opinion that besides wealth, entrepreneurs seek power, prestige, security and service to society. Stepanek points particularly to non-monetary aspects such as independence, persons' self-esteem, power and regard of the society.

On the same subject, Evans distinguishes motive by three kinds of entrepreneurs.

(a) Managing entrepreneurs whose chief motive is security.

(b) Innovating entrepreneurs, who are interested only in excitement.

(c) Controlling entrepreneurs, who above all otter motives, want power and authority.

Finally, Rostow has examined inter-gradational changes in the families of entrepreneurs. He believes that the first generation seeks wealth, the second prestige and the third art and beauty.

4. **Others**: Thomas Begley and David P. Boyd studied in detail the psychological roots of entrepreneurship in the mid 1980s. They came to the conclusion that entrepreneurial attitudes based on psychological considerations have five dimensions:

(i) First came 'need-achievement' as described by McClelland. In all studies of successful entrepreneurs a high achievement-orientation is invariably present.

(ii) The second dimension is that Begley and Boyd call 'locus of control' This means that the entrepreneur follows the idea that he can control his own life and is not influenced by factors like luck, fate and so on. Need-achievement logically implies that people can control their own lives and are not influenced by external forces.

(iii) The third dimension is the willingness to take risks. These two researchers have come to the conclusion that entrepreneurs who take moderate risks earn higher returns on

their assets than those who take no risks at all or who take extravagant risks.

(iv) Tolerance is the next dimension of this study. Very few decisions are made with complete information. So all business executives must have a certain amount of tolerance for ambiguity.

(v) Finally, here is what psychologists call 'Type A' behaviour. This is nothing but “a chronic, incessant struggle to achieve more and more in less and less of time”. Entrepreneurs are characterize by the presence of 'Type A' behaviour in all their endeavors.

IV **POLITICAL INPUTS:** A football player might possess exceptional talent. But, his contribution to the nation and the world of sports would remain negligible, if his performance is restricted to the courtyard of his own house. He needs a football ground to practice on and resources to buy the accessories. He also requires encouragement and support from those in authority so that he could freely play with others and prove his talent. In the same way, an entrepreneur, however creative he/she may be, cannot function without the supportive actions of the Government. It is for the government/society to ensure the availability of required resources for the entrepreneurs and also the accessibility to them. This is because the successful entrepreneur contributes to the well being of the society. Policies relating to various economic aspects like prices, availability of capital, labour and other inputs, demand structure, taxation, income distribution, etc. affect growth of entrepreneurship to a large extent. Promotive

government activities such as incentives and subsidies contribute substantially to entrepreneurial performance. At the same time, Government policies like licenses, regulations, favouritism, government monopolies, etc. are undesirable for the growth of business enterprises. Above all, a Government that is politically stable and united can affect entrepreneurial activities in a significant manner. Is there a business entrepreneur in your neighborhoods? Try to gather information on his/her views on various government policies, for example, on taxation, finance, labour etc. Also ask him/her about the opportunities and growth prospects of a business unit. Write down your observations.

India, all the above-mentioned environmental forces have turned in favour of enterprising men and women. There is a visible change for the better in the highly inactive entrepreneurial field in the country. The tight grip of religious and traditional ideas and practices has begun to loosen. Dogmas (settled opinions) and superstitions have lost the hold they earlier had. It is encouraging the 'non-commercial' classes to consider economic opportunities more sympathetically. As a result, occupational division based on caste system has undergone tremendous traditional activities, social approval etc. have become less important. More important now, are the economic factors such as access to capital and possession of entrepreneurial attitudes and business knowledge.

Development of infrastructure changes in government policies in favour of business and industry and of course, rise in demand for products manufactured are some of the other factors that have led the Indian entrepreneurs to look for new business opportunities.

6.3 ENTREPRENEURIAL MOTIVATION: CONCEPT AND NEED

Entrepreneur is human being who has his dignity, self-respect, values, sentiments, aspirations, and dreams apart from economic status. Indeed, economic betterment and social upliftment motivates a person to distinguish from others. Entrepreneurship is largely the product of motivation. Motivation refers to the inner drive that ignites and sustains behaviour to satisfy needs. Behaviour is always caused and it is not spontaneous. In other words, human behaviour is goal directed or directed towards satisfaction of needs. A person's behaviour is shaped by several socio-psychological factors such as his goals, education level, cultural background, work experience, etc. When a person, feels some need tension arises in his mind until the need is satisfied. The tension motivates him to take action. If the action is successful need is satisfied otherwise the person changes the action until the need satisfaction occurs.

By now, you have learnt what an entrepreneur is and does. You have also learnt that the entrepreneurs play a risk-bearing role, which is a difficult one. The entrepreneur embarks on a difficult journey. Then, a few important and obvious questions arise: What prompts people to embark on such a difficult journey? What motivates people to go into business? This lesson intends to answer these questions/issues by discussing entrepreneurial motivation in its various aspects viz. meaning and theories of motivation, motivating factors and development of achievement motivation.

The term 'motivation' has its origin in the Latin word “*movere*” which means to “move”. Thus, motivation stands for movement. One can get a donkey to move by using a “carrot or a stick”, with people one can use incentives, or threats or reprimands. However, these only have a limited effect. These work for a while and then need to be repeated, increased or reinforced to secure further movement. The

term motivation may be defined as “the managerial function of ascertaining the motives of subordinates and helping them to realise those motives.”

Whatever may be the behaviour of a man, there is always some stimulus that elicits the behaviour. Stimulus is often dependent upon the motive of the person concerned. Motive can be known by studying his needs and desires. There is no universal theory that can explain the factors influencing motives which control man's behaviour at any particular point of time. Generally, different motives operate at different times among different people and influence their behaviour. The management should try to understand the motives of individuals which cause different types of behaviour.

According to Dubin, motivation could be defined as “the complex of forces starting and keeping a person at work in an organisation. Motivation is something that moves the person to action, and continues him in the course of action already initiated”. Motivation refers to the way a person is enthused at work to intensify his/her desire and willingness to use and channelise his/her energy for the achievement of organisational objectives. It is something that moves a person into action and continues him in the course of action enthusiastically. The role of motivation is to develop and intensify the desire in every member of the organisation to work effectively and efficiency in his position.

In the words of Dalton E. McFarland, “Motivation is the way in which urges, desires, aspirations, striving or needs direct, control or explain the behaviour of human being”. Motivation has very close relationship with the behaviour. It explains how and why the human behaviour is caused. According to McFarland motivation is a form of tension occurring within individuals, with resulting behaviour aimed at reducing, eliminating or diverting the tension. Understanding the needs and drives and their resulting tensions helps to explain and predict human behaviour ultimately providing a sound basis for managerial decision and

action. Thus, motivation is the term which applies to the entire class of urges, drives, desires, needs and similar forces.

March and Simon have developed a model, according to which motivation is the process or the reaction which takes place in the memory of the individual. It may be viewed as the combination of forces or motives maintaining human activity. Motivation to produce is a function of the character of the evoked set of alternatives, the perceived consequences of evoked alternatives and individual goals in terms of which alternatives are evaluated. March and Simon have established positive correlation between productivity and motivation by means of a theoretical model.

The unsatisfied needs of a person are the beginning of the motivation process. The unsatisfied need results in tension within the individual and motivates him to search for the ways to relieve this tension, and compels or develops certain goals for himself. If he is successful in achieving his goals, certain other needs will emerge which will lead to setting a new goal. Nevertheless, if the goal is not achieved, the individual will engage himself in either constructive or destructive behaviour. This process never stops. It keeps on working within an individual.

Needs, Incentives and Motives: A distinction may be made among three things: need, incentive and motive. This is to emphasize that any need present in the individual does not necessarily lead to action. The need has to be activated which is the function of incentive. Incentive is something, which incites or tends to incite towards some determination. Thus, incentive is an external stimulus that activates need and motive refers to an activated need, and active desire or wish. But a better definition is to regard incentive as the outward stimulus for the motive to work. When a motive is present in a person, it becomes active when there is some incentive. Thus, any incentive has reference to (i) the individual and his needs which he is trying to satisfy or fulfill; and (ii) the organisation which is providing the individual with opportunity to satisfy his needs in return for his services. Thus,

conceptual difference between motivation and incentive is that incentive is the means to motivation.

It is clear that incentive has direct bearing on the degree of motivation. Increase in incentive leads to better performance and decrease in incentive has adverse effect on performance. It should be noted that motivation does not change the individual's capacity to work. It simply determines the level of the effort of individual raises it or lowers it, as the case may be. Keith Davis feels that motives are expression of a person's need; hence, they are personal and internal. Incentives, on the other hand, are external to the person. They are something he perceives in his environment as helpful towards accomplishing his goal. For instance, management offers salesmen a bonus as an incentive to channel in productive way their drives for recognition and status.

Needs create tension which is modified by one's culture to cause certain wants. These wants are interpreted in terms of positive and negative incentives to produce a certain response or action. To illustrate, need for food produces a tension of hunger. Since culture affects hunger, a man will require wheat or rice accordingly. For a man, perhaps incentive is provided by his wife's promise to prepare food in his favourite way.

6.4 THEORIES OF MOTIVATION

The number of theories that have been propounded to explain human's behaviour can judge the importance of motivation to human life and work. They explain human motivation through human needs and human nature. Prominent among these theories, which are particularly relevant to entrepreneurship, are Maslow's Need Hierarchy Theory and McClelland's Acquired Needs Theory.

1. **Maslow's Need Hierarchy Theory**: Prof. A.H. Maslow developed a theoretical framework for understanding human motivation which has been widely acclaimed. According to him, a person's effectiveness is a function of

matching his opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with an assumption that behaviour, at least in part, is directed towards the satisfaction of needs. Maslow proposed that human needs can be arranged in a particular order from the lower to the higher as shown in Figure II. The need hierarcy is as follows:

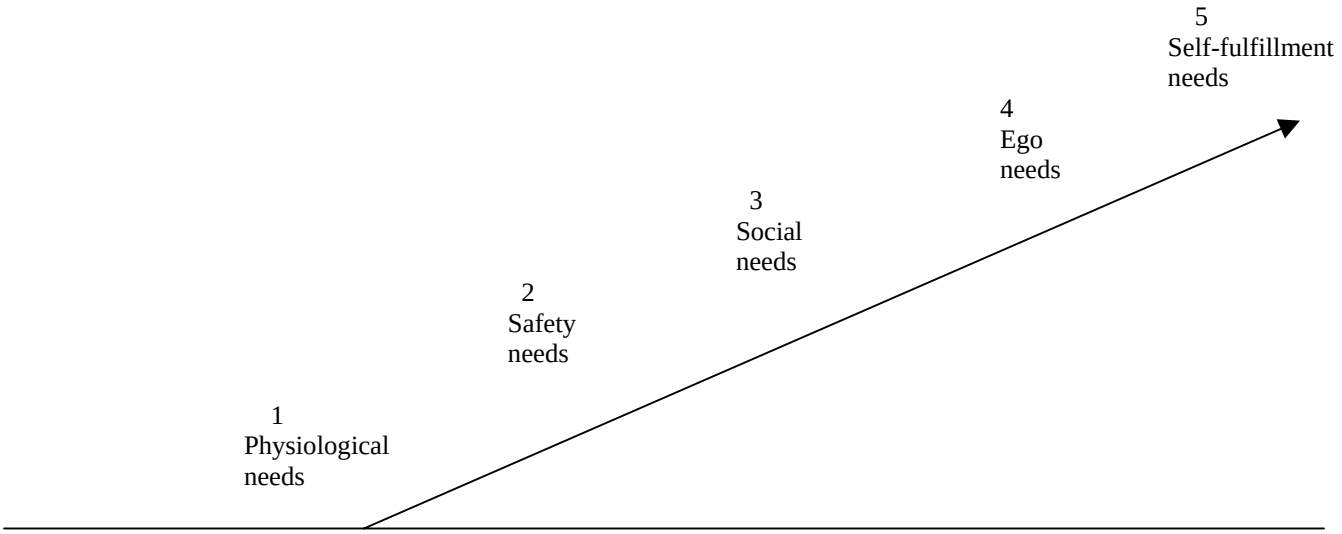

Figure I: Maslow's Need Hierarcy

(i) **Basic Physiological Needs:** The physiological needs relate to the survival and maintenance of human life. These needs include such things as food, clothing, air, water and other necessaries of life which are biological in nature. These needs are primary needs.

(ii) **Safety and Security Needs:** After satisfying the physiological needs, people want the assurance of maintaining a given economic level. They want job security, personal bodily security, security of source of income, provision for old age, insurance against risks, etc.

(iii) **Social Needs:** Man is a social being. He is, therefore, interested in conversation, sociability, exchange of feelings and grievances, companionship, recognition, belongingness, etc.

(iv) **Esteem and Status Needs:** These needs embrace such things as self-confidence, independence, achievement, competence, knowledge and success. These needs boost the ego of individual. They are also known as egoistic needs. They are concerned with prestige and status of the individual.

(v) **Self-Fulfillment Needs:** The final step under the need priority model is the need for self-fulfillment or the need to fulfill what a person considers to be his mission in life. It involves realizing one's potentialities for continued self-development and for being creative in the broadest sense of the word. After his other needs are fulfilled, a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough dash and initiative to work, it is beneficial to him in particular and to the society in general. The sense of achievement gives him psychological satisfaction.

Maslow felt that the needs have a definite sequence of domination. Second need does not dominate until first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied and so on. The other side of the needs hierarchy is that man is a wanting animal, he continues to want something or the other. He is never fully satisfied. If one need is satisfied, the other need arises. As said above (according to Maslow), needs arise in a certain order of preference and not randomly. Thus, if one's lower level needs (physiological and security needs) are unsatisfied, he can be motivated only by satisfying his lower level needs and not satisfying his higher level needs. Another point to note is that once a need or a certain order of needs is satisfied, it ceases to be a motivating factor. Man lives for bread alone as long as it is not available. In the absence of air one can't live, it is plenty of air which ceases to be motivating.

The physiological and security needs are finite and tangible, but the needs of higher order are sufficiently infinite and are likely to be dominant ones in persons at higher levels in the organisation. This has been proved by various studies. A study by Boris Blai supported this by showing that managers and professionals in U.S.A. highly value self-realization, while service and manual workers value job security most highly. Further, a survey of 200 factory workers in India reported that they give top priority to job security, earnings and personal benefits - all lower order needs. Studies have also revealed that those needs, which are thought to be most important like social needs, egoistic needs and self-realization, are also thought to be the best satisfiers. One study on two thousand and eight hundred managers in eleven countries reported that security, belongingness, esteem and self-realization needs are progressively less satisfied according to the pattern of the needs priority model.

Appraisal of Need Hierarchy Model: The need priority model may not be applied at all times in all places. Surveys in continental European countries and Japan have shown that the model does not apply very well to their managers. Their degrees of satisfaction of needed does not vary according to the need priority model. For example, workers in Spain and Belgium felt that their esteem needs are better satisfied than their security and social needs. Apparently, cultural differences are an important cause of these differences. Thus, need hierarchy may not follow the sequence postulated by Maslow. Even if safety need is not satisfied, the egoistic or social need may emerge.

Proposition that one need is satisfied at one time is also of doubtful validity. The phenomenon of multiple motivations is of great practical importance in understanding the behaviour of man. Man's behaviour at any time is mostly guided by multiplicity of motives. However one or two motives in any

situation may be proponent, while others may be of secondary importance. Moreover, at different levels of needs, the motivation will be different. Money can act as a motivator only for physiological and social needs, not for satisfying higher level needs. Employees are enthusiastically motivated by what they are seeking, more than by what they already have. They may react cautiously in order to keep what they already have, but they move forward with enthusiasm when they are seeking something else. In other words, man works for bread alone as long as it is not available.

There are always some people in who, for instance, need for self-esteem seems to be more prominent than that of love. There are also creative people in whom the drive for creativeness seems to be more important. In certain people, the level of operation may be permanently lower. For instance, a person who has experienced chronic unemployment may continue to be satisfied for the rest of his life if only he can get enough food. Another cause of reversal of need hierarchy is that when a need has been satisfied for a long time, it may be under-valued.

2. **McClelland's Acquired Needs Theory**

Each person tends to develop certain motivational drives as a result of his cognitive pattern and the environment in which he lives. David McClelland gave a model of motivation which is based on three types of needs, namely, achievement, power and affiliation. They are as follows:

(i) **Need for achievement (n-Ach)**: a drive to excel, advance and grow;

(ii) **Need for power (n-Pow)**: A drive to influencing others and situations ; and

(iii) **Need for affiliation (n-Aff)**: A drive for friendly and close interpersonal relationships.

(i) **Achievement Motivation:** Some people have a compelling drive to succeed and they strive for personal achievement rather than the rewards of

success that accompany it. They have a desire to do something better or more efficiently than it has been done before. This drive is the achievement need (n-Ach). From researches into the area of achievement need, McClelland found that high achievers differentiate themselves from others by their desire to do things better. They seek situations where they can attain personal responsibility for finding solutions to problems, where they can receive rapid feedback on their performance so they can set moderately challenging goals. High achievers are not gamblers; they dislike succeeding by chance. They prefer the challenge of working at a problem and accepting the personal responsibility for success or failure, rather than leaving the outcome to chance or the actions of others.

(ii) **Power Motivation:** The need for power (n-Pow) is a drive to have impact, to be influential, and to control others. Individuals high in n-Pow enjoy being "in charge", strive for influence over others, prefer to be placed into competitive and status-oriented situations, and tend to be more concerned with gaining influence over others and prestige than with effective performance. Power-motivated people wish to create an impact on their organisations and are wiling to take risks to do so.

(iii) **Affiliation Motivation:** This need has received the least attention of researchers. Affiliation need (n-Aff) can be viewed as the desire to be liked and accepted by others. It is the drive to relate to people on a social basis. Individuals with a high affiliation motive strive for friendship, prefer cooperative situations rather than competitive ones, and desire relationships involving a high degree of mutual understanding.

People possess the above needs in varying degrees. However, one of the needs will tend to be more characteristic of the individual rather than the other two. Individual with a high need for achievement thrive on jobs and projects that tax their skills and abilities. Such individuals are goal-oriented

in their activities, seek a challenge and want task relevant feedback. Individuals with high affiliation needs value interpersonal relationships and exhibit sensitivity towards other people's feeling. But individuals with the high power needs seek to dominate, influence or have control over others.

McClelland also suggests that these three needs may simultaneously be acting on an individual. But, in case of an entrepreneur, the high need for achievement is found dominating one. In his view, the people with high need for achievement are characterised by the following:

(i) They set moderate, realistic and attainable goals for them.

(ii) Prefer to situations in which they can find solutions for solving personal responsibility.

(iii) They need concrete feedback on how well they are doing.

(iv) They have need for achievement for attaining personal accomplishment.

(v) They look for challenging tasks.

Entrepreneurial motivation may be defined as a set of motives such as high need to achieve, moderate need for power and low affiliation motive which induce people to set up and run their own enterprises. Apart from these, entrepreneurs have other behavioural dimensions such as tolerance for ambiguity, problem solving, creativity, etc.

6.5 MOTIVES FOR ENTREPRENEUR

Several researchers have carried out research studies to identify the factors that motivate people to start business enterprises. The findings of some of the studies are as follows:

1. In this pioneering study, R.A. Sharma classified all the factors motivating the entrepreneurs into two types as follows:

(i) **Internal factors**:

(a) Educational background
(b) Occupational experience
(c) Desire to do something pioneering and innovative
(d) Desire to be free and independent
(e) Family background

(ii) **External factors:**

(a) Assistance from Government
(b) Financial assistance from institutions
(c) Availability of technology and/or raw materials
(d) Encouragement from big business units
(e) Heavy demand for product
(f) Others.

Internal factors constitute the personality of the entrepreneur and thereby generate an inclination to adopt entrepreneurial activity. The presence of these factors is essential for entrepreneurial activity to take place. But entrepreneurial ambitions cannot fructify without a supporting environment. External factor provide environment and give a spark to entrepreneurship.

Among the internal factors, the desire to do something creative was important. It means the desire to make a contribution to the development of the state, to introduce an entirely new product in the market, to place the home town on the country's industrial map, to make full use of technical skills, to provide employment to intelligent youngmen and women in the community, etc. Occupational experience (familiar with the product, knowledge of the market, etc.) was rated as the second most important internal motive. Business experience provides confidence for starting a new

enterprise. Technicians, engineers and executives rated business experience more important motivator than other types of entrepreneurs.

Among the external factors, assistance from financial and other Governmental institutions was rated the strongest motivator. Other factors include availability of surplus funds, sick units available at a cheap price, success stores of first generation entrepreneurs, support of friends and relatives, etc. In some cases there were compelling reasons like loss of job, death of the father, dissatisfaction with the job held, etc., prompting people to launch their own industries.

2. H. N. Pathak indicated that at small scale level, profit motive inspired small scale entrepreneurs. Ambition for independent working in industry also motivated non-corporate level entrepreneurs. Sharma's study also revealed that motivating factors varied according to the occupational background of entrepreneurs. Business executives, engineers, consultants, traders, considered occupational experience as most important. According to McClelland, executive generally have higher need for a achievement than men in other occupations. On the other hand, government servicemen, contractors and entrepreneurs from agricultural activities considered assistance from government and financial institutions as the most important factor.

3. After making different studies on technical and new entrepreneurship, Arnold C. Copper concluded that there are three main groups of factors which influence an entrepreneur. These are (i) the characteristics of the entrepreneur including many aspects of his background (family, education, age, occupational experience, etc.) which make him more or less inclined towards entrepreneurship. These might be called “internal factors” (ii) the organisation for which he has been working earlier which might be termed as the incubator organisation (iii) a complex of 'external influences'

including the availability of venture capital, collective attitudes and perceptions leading to entrepreneurship, and the accessibility to suppliers, personnel and markets.

4. Another study by Murthy, Sekhar and Rao on entrepreneurial motivation classified the factors behind entrepreneurial growth into three categories as follows:

1. **Entrepreneurial ambitions**

(a) To make money

(b) To continue family business

(c) To secure self-employment/independent living

(d) To fulfill desire of self/wife/parents

(e) To gain social prestige

(f) Other ambitions- making of a decent living, self-employment of children, desire to do something creative, provide employment to others.

2. **Compelling reasons**

(a) Unemployment

(b) Dissatisfaction with the job so far held or occupation pursued

(c) Make use of idle funds

(d) Make use of technical/professional skills.

(e) Others – maintenance of large families, revival of sick unit started by father, etc.

3. **Facilitating factors**

(a) Success stories of entrepreneurs

(b) Previous association (experience in the same or other line of activity)

(c) Previous employment in the same or other line of activity

(d) Property inherited/self acquired/wife's

(e) Advice or influence (encouragement) of family members/relatives/ friends.

(f) Others– association as apprentices and sleeping partners.

The study was conducted on 334 entrepreneurs in two coastal towns of Anakapalli and Gudivada of Andhra Pradesh. The ambitions of continuing family business and securing self employment emerged as the most significant motivating factors. Making money and gaining social prestige were found to be insignificant.

May a time, it is the compulsion rather than the ambition that leads the man to success. Sometimes the initial ambition and the opportunities may clash with each other. In such cases, compulsion of the situation determines the destiny. Therefore, it is appropriate to examine the reasons that might have compelled the entrepreneurs to pursue entrepreneurship. Making use of technical and professional skills was found to be the most important compulsion that has driven most of the respondents to entrepreneurship. Dissatisfaction in the job or occupation pursued was the second important compulsion and other compelling factors were insignificant. It may be inferred that the entrepreneurs wanted to capitalise their skills for themselves than working for others. They felt that their abilities were certainly more than what the job required and their aspirations exceeded what normally the job provided.

Ambitions or compulsions alone may not make a man an entrepreneur. The moral support and encouragement of family members, friends and relatives,

previous experience and inherited property are very helpful in the growth of entrepreneurship. Moral support from the near and dear inspires the would be entrepreneur, reinforces his confidence and prepare him to face the new challenges boldly.

Among the facilitating factors, previous association in the same or other line of activity was rated highest followed by previous employment in the same or other line of activity. Previous association and employment gave abundant self-confidence. Previous employment here meant a person being employed for making a living. On the other hand, previous association implied apprenticeship in business firms. Most of the entrepreneurs expressed the view that it was better to get the training as apprentices or employees before setting up an enterprise. Such experience instills confidence among the youth, serves as the nursery for building the enterprise and accelerates the process of generation of entrepreneurship.

The success stories of entrepreneurs were recognised as an important factor that inspired new entrepreneurs. This finding points out the need for introduction of entrepreneurial stories in school curriculum along with the stories of political leaders and social reformers. This is in conformity with Eugene Staley's pilot study in Osmanabad (Maharashtra). Unfortunately, in India successful business leaders are denigraded by politicians. This generates a sense of hatred in the minds of youth towards leaders of industry. An impression is created that entrepreneurship itself is something unethical or antisocial. Such an impression thwarts the healthy growth of entrepreneurship in the country.

The study by Murthy *et. al.* also revealed that the family property and assistance from relatives and friends was the most significant source of initial capital for an entrepreneur. Such risk capital from family funds enhanced the entrepreneur's trustworthiness in the money market and

relived him from the fear of the business failure. It indicated the family's confidence in the entrepreneur and the family's willingness to risk savings in entrepreneurial activities. Thus, in Indian society entrepreneurship cannot be considered as an individual phenomenon and strictly intrinsic to the person involved. Rather it is an extension of the family aspirations and ambitions that are ultimately realised by an individual.

Contrary to the general expectations, the entrepreneur's wife, family members and relatives were found to be the prime motivators who instilled the spirit of entrepreneurship in the entrepreneur. They served as philosopher and guide to the individual and the role of the Government as motivator was insignificant. It may be concluded that entrepreneurship is the result of encouragement and support by wife and family members apart from the individual's own initiative.

McClelland and his associates contend that need for achievement is a prerequisite for becoming an entrepreneur. People with a high level of achievement motivation are likely to behave in an entrepreneurial way. But it is not essential that such people will actually become entrepreneurs. Such persons are likely to be attached towards business only if business enjoys a high prestige in society. Thus, the relationship between achievement need and occupational preference depends on the prestige of the occupation concerned.

Murthy analysed the entrepreneurs' perception of different occupation in terms of the social status of these occupations. Trading was ranked first and farming was ranked last by the entrepreneurs. It was further enquired how the entrepreneurs rated their present occupation. Entrepreneurs engaged in trading and manufacturing rated their occupations as the best. But most of the farmers did not rate farming as the best occupation.

Caste-wise perceptions of the occupation in terms of social image were also analyzed. Entrepreneurs' perceptions with different caste origins different markedly. The analysis indicated that farmers might like to change to non-farming and traders to manufacturing because they carry higher image in the public mind.

5. Two subsequent studies in Andhra Pradesh have by and large corroborated the findings of Murthy, *et. al.* In his study of 87 manufacturing units in thirteen industrial estates of Andhra Pradesh, N. Gangadhar Rao found that making money is the most important ambition and fulfillment of the desire of self/wife/father as the second important ambition. However, the aggregate pull of non-money ambitions was found to be more than twice of the money ambitions. Family members play useful role in giving shape to entrepreneurial ambitions. In view of the significance of earning motive, achievement motivation programmes should be designed to inculcate ambition for money. Among the compelling reasons, dissatisfaction with the job held so far or the occupation so far pursued was rated the highest followed by making use of idle funds. Inherited property, technical and professional qualifications, and success stories of entrepreneurs were found to be significant among the facilitating factors. Rao expanded the list of facilitating factors to include (i) technical and professional skills acquired; (ii) allotment of plot/shed in industrial estate; (iii) financial assistance from State agencies, banks, family, friends and relatives; (iv) ancillary relation with large firms; and (v) dependable partners.

Majority of the entrepreneurs considered themselves as self-developed and made no mention of their friend, philosopher and guide. This is a testimony of the resourcefulness of the entrepreneurs and it is this class of entrepreneurs that are needed most. About 47 per cent of the entrepreneurs mentioned their family members, relatives, friends, former employers,

industrial leaders and politicians as their mentors. This gives the impression that entrepreneurship can be induced easily.

6. In another similar study of 40 enterprises in Marripalem and Autonagar industrial estates of Andhra Pradesh, Ashok Kumar found that to become self-reliant and to materialise one's ideas and skills were the most significant ambitions. Dissatisfaction with the earlier job and dependency situation were the main factors that compelled the respondents to become entrepreneurs. Among the facilitating factors, education, training and previous job experience was the most important.

The entrepreneur might have come up on his own or on being encouraged by others. Therefore, an attempt was made to ascertain the man responsible for infusing the spirit of enterprise. Nearly one half of the entrepreneurs were self- motivated whereas around one- third of them were motivated by friends and relations and the remaining by their parents.

Entrepreneurship is not an accident, but an ambition or aspiration nourished over a period of time. In many a case, entrepreneurship takes a long time to unfold itself. The interval between conceiving an idea and materialising the same may range from a few years to a few generations. Therefore, it was attempted to find out whether the entrepreneurs had aspired for it in their childhood. It was found that nearly two-thirds of the respondents had aspired for entrepreneurship during their childhood itself.

V.L. Rao has summarised the views of various experts on sources of entrepreneurial supply and motivation in the form of a table which is given below:

8. K. Sadhak found that monetary consideration was the most important motivating factor. Entrepreneurs motivated by income were mainly traders and salaried employees. Independent job was the main inspiration for

salaried employees who were not satisfied with the work environment, nature of job, management style, etc. Self-advancement, social recognition, responsibility were other motivating factors.

It is not only the desire to achieve but the favorable environment which translate the desire into reality. The above motivational factors were significantly influenced by certain assisting factors like family environment (business family), technical knowledge (through education or past employment), training and Government incentives. Entrepreneurs from business families enjoyed financial support, former employees had social contact, engineers were having technical competence. It was, therefore, difficult to single out any particular motivating factor. However, income, social recognition and other 'pull' factors strongly induced people to start industry. Moreover, most of the entrepreneurs were self-motivated. There were some stray cases also induced by varied factors like advice of business friends, the fabulous profits earned by others in similar concerns, contact with others, etc.

An entrepreneur is an agent who has to perform several functions to mobilise and utilise resources and to create market. He ventures into a uncertain future to exploit the potentiality that exists. Therefore, entrepreneurship is a very risky proposition. Some people leave very cosy jobs to start their own enterprises. Some merchants who are earning well put their hard-earned money at stake in manufacturing. Technologists and engineers start their own industry instead of going for safe jobs. All these persons have high achievement motivation. Like all achievement-oriented people, they want to take personal responsibility, tend to persist in the face of a adversity, tend to take moderate risks and like to know the results of their efforts. They are innovative and full of interpersonal competence.

According to McClelland, they are unusually creative, having high propensity of risk-taking capacity and a strong need for a achievement.

Now, it is crystal clear from the foregoing analysis that the majority of entrepreneurs are motivated to enter industry mainly because of four factors:

First, they possessed technical knowledge or manufacturing experience in the same or related line.

Second, there was heavy demand for the particular product.

Third, the Governmental and institutional assistance available facilitated individuals to enter industry.

Fourth, they have enterprising attitude, what McClelland designates' an achievement motive', to do something independent in life.

6.6 SUMMARY

The emergence and development of entrepreneurship is not a spontaneous one but a dependent phenomenon of economic, social, political, psychological factors often nomenclature as supporting conditions to entrepreneurship development. These conditions may have both positive and negative influences on the emergence of entrepreneurship.

Motivation refers to the inner drive that ignites and sustains behaviour to satisfy needs. Behaviour is always caused and it is not spontaneous. Human behaviour is goal directed or directed towards satisfaction of needs. A person's behaviour is shaped by several socio-psychological factors such as his goals, education level, cultural background, work experience, etc. Motivations, which are particularly relevant to entrepreneurship, are Maslow's Need Hierarchy Theory and McClelland's Acquired Needs Theory.

The majority of entrepreneurs are motivated to enter industry mainly because of four factors: *First*, they possessed technical knowledge or manufacturing experience in the same or related line. *Second*, there was heavy demand for the particular product. *Third*, the Governmental and institutional assistance available facilitated individuals to enter industry. *Fourth*, they have enterprising attitude, what McClelland designates' an achievement motive', to do something independent in life.

6.7 KEYWORDS

Motivation: Motivation is the force that initiates, directs and sustains personal behaviour and action. It is the force that moves individuals to work for higher performance.

Physiological Needs: These include the needs for element that ensure basic survival like food, clothing and housing facilities.

Power Motivation: It is related with the desire to influence or to control others.

Affiliation Motivation: It is the desire for friendly and close interpersonal relationships.

6.8 SELF ASSESSMENT QUESTIONS

1. Discuss various inputs that influence entrepreneurship.
2. What are the important economic inputs affecting entrepreneurial growth? Discuss.
2. What is meant by entrepreneurial motivation? Is it necessary for a successful entrepreneur? Discuss.
3. What are the factors that motivate people to go into business?

4. It is said that ambition is the lever of all motives. Do you agree? Comment.
5. Explain the factors that prompt people to become entrepreneur.

6.9 SUGGESTED READINGS

1. McClelland, D C and Winter, W G: Motivating Economic Achievement
2. Jain, Rajiv: Planning A Small Scale Industry- A Guide to Entrepreneurs.
3. Gupta, C.B. and Khanka, S.S.: Entrepreneurship and Small Business Management.
4. John Kao and Harars Stevenson: Entrepreneurship – What it is and How to Teach it.

Subject: Entrepreneurial Development
Code:CP 401
Lesson : 07 **Updated by: Dr. M.C. Garg**

N-ACHIEVEMENT AND RURAL ENTREPRENEURSHIP

STRUCTURE

7.0 OBJECTIVE

After reading this lesson you should be able to

(a) Explain the n-achievement theory of motivation.

(b) Discuss the role of SSI in providing employment to rural folk.

(c) Explain the problems of entrepreneurs in rural sector.

7.1 INTRODUCTION

Whatever may be the behaviour of a man; there is always some stimulus that elicits the behaviour. Stimulus is often dependent upon the motive of the person concerned. Motive can be known by studying his needs and desires. There is no universal theory that can explain the factors influencing

motives that control man's behaviour at any particular point of time. Generally, different motives operate at different times among different people and influence their behaviour. The management should try to understand the motives of individuals that cause different types of behaviour.

Expansion of avenues for industrial employment within rural areas is one of the major ways of diversifying the rural economy. The rural non-farm sector in India has the promise of becoming the most dynamic part of the economy. It has the possibility to absorb as many as 40 million new entrants to the employment market out of the 100 odd million who would need jobs by the year 2000 A.D.

7.2 N-ACHIEVEMENT

David McClelland has developed an Achievement Motivation Theory. According to this theory, an individual's Need for achievement (n-Ach) refers to the need for personal accomplishment. It is the drive to excel, to strive for success and to achieve in relation to a set of standards. People with high achievement motive like to take calculated risks and want to win. They like to take personal responsibility for solving problems and want to know how well they are doing. High achievers are not motivated by money *per se* but instead employ money as a method of keeping sure of their achievements. Such people strive for personal achievement rather than the rewards of success. They want to do something better and more efficiently than it has been done before.

Need for achievement is simply the desire to do well not so much for the sake of social recognition or prestige but for the sake of an inner feeling of personal accomplishment. It is this need for achievement that motivates people to take risk. People with high need for achievement behave in an

entrepreneurial way. Need for achievement stimulates the behaviour of a person to be an entrepreneur.

The following psychological factors contribute to entrepreneurial motivation:

1. Need for achievement through self-study, goal-setting and interpersonal support.
2. Keen interest in situations involving moderate risk.
3. Desire for taking personal responsibility.
4. Concrete measures of task performance.
5. Anticipation of future possibilities.
6. Energetic or novel instrumental activity.
7. Organisational skills, etc.

Some societies produce a larger percentage of people with high need achievement. Entrepreneurship becomes the link between need achievement and economic growth. McClelland considers the need for achievement to be most critical to a nation's economic development. He held that a strong 'inner-spirit' in individuals to attain is a measurable variable arising from a need, which the individual develop mainly in childhood and seeks to satisfy throughout his life. This 'inner spirit' which he called need for achievement, if higher, would produce more energetic entrepreneurs capable of generating rapid economic development. High need for achievement or ambition motivates entrepreneurs to take risks, work hard, find new things, save more, reinvest the savings in industry and so on. The limited empirical evidence of Durand supports the hypothesis that need for achievement contributes to entrepreneurial success.

McClelland rated the achievement motivation of different countries on the basis of ideas related to need for achievement contained in the children's stories. This has come to be known as n-factor rating. He established a correlation between n-factor rating and the prosperity of the countries a generation ahead. The criterion of n-factor rating was the inherent concern for achievement or the non-induced achievement motivation.

McClelland found that achievement motivation was lower among people of underdeveloped countries than among those of developed nations. Even in USA only about ten per cent of the people were actually high achievers. The low level of aspirations or ambitions explains the lack of enterprise in under-developed countries. Ambition is the lever of all motives and aimless life is a goal-less game. Ambitions motivate men, actives them broaden their vision and make life meaningful. Ambition is an index of one's resourcefulness. The ambition builds up an achievement pressure in the individual and provides the basis for McClelland's n factor. Ambition is the lever of all motives. The initiative and intentions of an individual are directed by his ambitions. The ambition electrifies man's actions. Therefore, what matters are not merely the people but their aspirations and the means to achieve the goals. Therefore, it is the duty of leaders and teachers to build up ambition into the minds of the young people. However, ambitions differ from greed and windfall. Greed results in disaster and windfall makes one a speculator. Sometimes personal ambitions may come in the way of family aspirations or national aspirations. Unfulfilled ambitions are passed on to the next generation who may chase the goal with redoubled effort and vigor. Thus, ambition nourishes the achievement motivation and brings economic growth. The biggest obstacle to economic progress in countries like India is perhaps the limited ambition of people. The initiative of an individual is directed by his ambitions which nourish the entrepreneurial spirit and bring about economic development. Hence what matters are not

merely the people and their talents but their aspirations? However, ambitions differ among individuals on the basis of the environment in which they are born and brought up. J.K. Galbraith has also attributed the backwardness of many Asian and African countries to lack of ambition.

The Kakinada Experiment: Assuming need for achievement plays a vital role in promoting economic growth, McClelland has tried to induce achievement motivation in adults and provide them with an urge to improve their lot because uninduced achievement motivation results in long waiting before it bears fruit. Such an inducement may help break the barrier of "limited aspirations". For this purpose, he conducted experiments with groups of businessmen in America, Mexico and Bombay. Later he carried out a full-fledged programme in the Kakinada city of Andhra Pradesh.

Kakinada is a well-developed distinct town of a population of around one lakh with high literacy and a modest industrial structure. The objective of the programme was to break the barrier of "limited aspirations" by inducing achievement motivation. The project, which began in January 1964, consisted of recruiting batches of personnel drawn from business and industrial community of the town and putting them through orientation programme at the Small Industry Extension Training (SIET) Institute, Hyderabad. Fifty-two persons grouped into three batches participated in the programme. The training was designed primarily to stimulate the imagination and encourage introspection into personal motivation and community goals. The achievement development course contained four main items:

(i) The individuals strived to attain concrete and frequent feedback.

(ii) The participants sought models of achievement i.e. watched those who have performed well and tried to emulate.

(iii) The participants imagined themselves in need of success and challenge and set carefully planned and realistic work goals.

(iv) The trainees were asked to control day dreaming by thinking and talk to themselves in positive terms.

After two years those who had taken the course except for one Mexican case performed better than comparable men who did not take the course. The former made more money, got promoted faster and expanded business faster. In order to assess need for achievement, McClelland used the Thematic Appreciation Test (TAT) which presents the subject with an ambiguous picture. The individual is asked to interpret what he sees and what is happening in the picture. Achievement related themes are then counted and the final score represents the individual's desire for high achievement.

About the results of the Kakinada experiment, McClelland concluded that those participating in the programme displayed more active business behaviour (51 per cent as against 25 per cent in the control group) and worked longer hours. Significantly he found that caste, traditional beliefs or western ways of life did not determine the mental makeup of a participant. The training as was given at Hyderabad is likely to improve those who have a great yearning to do something and have the opportunity to do so in their business framework.

The Kakinada experiment is being utilised in a number of experiment that have recently initiated technical personnel to set up new enterprises of their own. In Gujarat, various State agencies have combined to operate an Entrepreneurship Development Programme to help young people acquire the motivation necessary to become risk-takers. The Gujarat programme has been successful in persuading many persons to set up new enterprises in the small-scale sector. It was found that the follow-up "package" assistance

offered by the State agencies in Gujarat has been particularly instrumental in helping the participants to decide on the enterprise they wish to start. Similarly, in Andhra Pradesh, the Small Scale Industrial Development Corporation Ltd. (APSSIDC) has been assisting technically qualified persons to become entrepreneurs through orientation programmes of the SIET Institute. This is followed by specific assistance of providing developed land specially earmarked for such persons at nominal rates in the technocrats industrial estates.

Based on the experiences in Gujarat and Andhra Pradesh, the Ministry of Industrial Development has recently formulated schemes of helping technical personnel to become entrepreneurs. This programme consists of three months programme at selected centres spread all over the country, followed by financial assistance in terms of a subsidy on the interest on advances taken by the entrepreneur from the commercial banks so that the net interest paid by the entrepreneur himself does not exceed five per cent. The programme is designed to enable a young person to know the real problems of setting up an enterprise and to work out the feasibility report of his own project. During this period, he is also provided with opportunities to visit industrial establishments in his field of specialisation. The Selection Committee with the State Director of Industries as its Chairman does careful screening of the participant so that the programme would result in a sizable number of new enterprises. It is expected thousands of young persons will be provided with such training in the years to come.

Making people achievement oriented or inculcating in them need for achievement, is the objective of all such programmes. Thus, efforts are made through such programmes to spread ambition. Ambition is the mother of all motives. The intentions and the initiative of the man are directed by his ambitions. The ambition electrifies man's actions. The common saying –

aimless life is a goalless game – emphasis the importance of ambition in life. So, what matters most is not merely the men but their aspiration and what they do to reach their goal. It is the duty of the parents, the teachers and the leaders of the nation to instill ambition into the minds of the people. Naturally, ambitions differ from individual to individual on the basis of personal tastes and temperaments, and family to family and nation to nation depending upon the circumstances in which they are placed and the priorities which they have set for themselves. Sometimes, personal aspirations come in the way of family aspirations or national aspirations. Whoever it may be, aspirations do change with the changing times and values. For any man it may not be possible to cherish all his aspirations in his lifetime. So also, a nation may not be able to fulfill all her ambitions within a span of 100 or 200 years. However, the ambitions or aspirations, which are unfulfilled, are passed on to the next generation who may chase the target with redoubled effort and vigor. Therefore, ambition, which nourishes the achievements motivation brings in economic growth, brings in development not merely in any one segment of the economy but it results in total growth.

7.3 RURAL ENTREPRENEURSHIP IN INDIA

Entrepreneurship, of late, has attracted much public interest since it is the focus of throbbing industrial growth and has been receiving the attention of the planners, policy-makers, social scientists, economists, industrialists, financial institutions, administrators and academicians. Entrepreneurship is regarded as the most crucial factor in the economic development of each and every region in India.

The essential attributes expected from an entrepreneur are the skills of human and social, business, professional, legal, innovative, liaison, handling officials, fund mobilizing and the ability to take technical,

economic, social and environmental risks. Thus, a successful entrepreneur is one who knows the science of handling the government as well as to manage the ever-changing commercial-economic situation and taxation laws. These virtues are essential to obtain credit, to woo labour and to deal with the cutthroat competition. Hence, the new breed of entrepreneurs has to possess different varieties of skills quite different from what was described by Schumpeter.

The common belief is that an entrepreneur is born and not made. But, by giving the right type of training and follow up support and assistance, one can develop as an entrepreneur. The right type of entrepreneurial training helps to identify and develop the natural inherent and potential virtues of the human beings, which are lying dormant. In India, what is lacking is not the spirit of entrepreneurship but the application of the related skills and the spirit of enterprises to profitable economic activities. The degree of application of this ability is being constrained by the absence of a just and fair industrial infrastructure.

Rural employment: The development of the Indian economy has led to a rise in unemployment mostly because of the mismatch between creation of employment and the addition to labour force. Employment in the organized sector grew unimpressively and unemployment kept growing. Moreover, the policy reforms pursued in India since 1991 do not focus on the labour force and its employment and in the near future they might even spell a slow down of employment growth. Social and technical changes, development, methods of production and even education which were closely linked to progress have led to more unemployment in India. The traditional modes of community action are losing relevance and hence are on the decline in rural areas.

Over 75 per cent of the Indians continue to live in rural areas. About 80 per cent of the rural labour force is still employed in agriculture and allied activities. The balance of the rural labour force is almost equally divided between secondary and tertiary sectors. The capacity of agriculture to absorb additional labour force is limited. According to 1991 census, 43.37 percent of the total secondary sector work force is in the rural secondary sector including household manufacturing and construction activities. At the all India level the percentage of secondary sector including household manufacturing and construction activities. At the all India level the percentage of secondary sector work force to total work force is 33.75 per cent as against 7.32 per cent in the case of the rural sector.

Labour absorption in agriculture and in the urban industrial and services sector has not been fast enough to absorb the growing rural labour force. Despite rural migration to cities, rural unemployment remains a nagging problem. A great majority of the rural workers in non-agricultural enterprises have to be, by necessity, self-employed. Hence, additional employment will have to be found within the rural areas in such activities, which offer scope for additional labour absorption. This is where entrepreneurship will have to play its important role.

The backlog of unemployment at the end of the Sixth and Seventh Five Year Plan periods were 7.84 and 3.75millions respectively. It means approximately only 4 million jobs were created during the two Plan periods. The employment at the beginning of the Eights plan has been accounted at 301.7 million persons on what is known as weekly status basis, i.e., the number of persons who worked for at least one hour during a week. Corresponding to this, the labour force has been estimated at 319 millions. Thus the backlog of open unemployment was placed at about 17 million. Besides, it is estimated that about two per cent of those recorded as

employed had work for half or less than half the time and such people categorized as severely unemployed, would be generally looking for alternative new full time job opportunity. So, if these are included in the estimate for the backlog of unemployment as in April 1992 would be higher at 23 million. On the other hand, 345 million more would be added to the labour force. Thus the total number of persons seeking employment during the Eighth Plan is estimated at 58 million. The total percentage of rural self-employed persons comes to 59.4 per cent, regular employed is only 7.7 per cent and casual wage employment is available for 32.8 per cent of the rural job seekers.

It appears from the inter-industry employment growth pattern for the economy as a whole that within the rural non-household industrial segment, it is the forces of change and altering demand patterns which are tending to transform the existing industrial employment structure, whereas within the household segment, there is relative inertia of the existing structure. Moreover, the traditionally dominant agricultural sector is losing its relative importance and gradually the work force in the non-agricultural areas is increasing. There is a strong correlation between rural employment and expansion of rural non-household segment.

Therefore, expansion of avenues for industrial employment within rural areas is one of the major ways of diversifying the rural economy. The rural non-farm sector in India has the promise of becoming the most dynamic part of the economy. It has the possibility to absorb as many as 40 million new entrants to the employment market out of the 100 odd million who would need jobs by the year 2000 A.D. The sector can guarantee these jobs with low capital investment, lower demands on infrastructure and energy, higher exports and lower imports. This sector tends to act a sponge for surplus labour Development of power, roads, credit and marketing and

training in skills in rural areas can stimulate employment and labour productivity. As labour markets expand and get more organized, the more enterprising among rural labour should be equipped with education, skills and assets. The two major goals to be fulfilled for rural labour are: (i) improving their levels of living and preparing them for effective participation in development in future-this has to be achieved through increase in employment opportunities that are self-sustaining, and (ii) some of the existing occupations for rural labour should be regarded as transitional because transfer of labour from agriculture to rural and non-rural occupations has already started.

Entrepreneurship is effectively required for improving the land base, equity in agricultural growth, employment guarantee programmes by merging various wage employment schemes by pooling and considerably augmenting these resources. Corporate agriculture can create more employment. There are still huge chunks of land available in the country in stated like Rajasthan, Madhya Pradesh, Maharashtra, Tamilnadu, Bihar, and elsewhere, which have to be reclaimed and put to agricultural use as well as for other development purposes.

Urbanizing the rural areas is another strategy which would tend to equalize the country side with the towns, generate incomes to lift the quality of life in these pockets, and above all, prevent migration to towns in search of income and employment. It enough infrastructures are provided in a time-bound frame, small and large industries could be invited to start ventures which create employment.

In view of the above, there is an urgent need for developing rural industrialization and entrepreneurial activities will have to promote rural industries.

The most important step in rural industrialization is to identify enterprises and develop them on sound lines. It needs talented, experienced and dedicated persons who can bring a challenge in the social structure of the villages and increase the industrial activities, employment and income of the villagers. The inter-relationship between rural industrialization and rural unemployment carries two main policy implications, (i) unless the tempo of rural industrial expansion is continuously maintained and enlarged, endemic rural unemployment cannot be eliminated at all, and (ii) there is strong correlation between rural employment and expansion of rural non-household segment. Rural unemployment is likely to be reduced in regions where rural industries are prominent.

It should be noted that industries with high capital requirement generally fall within the non-household segment of the rural sector, industries falling largely within non-household sector also have relatively high productivity per worker.

In assessing the potential for industrial employment generation within the rural sector, the type of industries in which the rural sector predominates should be identified. At present the maximum role of rural industrial employment exists in the case of non-metallic mineral-based group where this share is 70.07 per cent. This group includes pottery, bangles, beads and other related items. Wood products and beverages and tobacco products are specifically prominent. Similarly, employment is provided in the household segment in food products, jute textiles, wearing apparel, leather products, metal products, and non-electrical machinery. The share of employment in these is nearly 70 per cent. The possible rural industry groups where effective entrepreneurship can generate employment are: food products, beverages, tobacco, cotton textiles, wool, silk and synthetic fibers, jute industries, leather products, rubber and petroleum products, chemical

products, non-metallic minerals, basic metals electrical and non-electrical machinery, transport equipment, repairs, etc. At present, wood products occupy the most dominant position in the states of Bihar, Himachal Pradesh, Maharashtra, Orrissa and Rajasthan. Cotton textiles are dominant in Andhra Pradesh, Kerala, Tamilnadu, West Bengal and wearing apparels in Jammu and Kashmir, beverages and tobacco products in Karnataka, Madhya Pradesh and repairs in Haryana, Punjab and UP.

7.4 SSI's IN RURAL INDUSTRIALIZATION

A National Seminar on Entrepreneurship Development Programme sponsored by the Industries Development Bank of India in March 1980 outlined that successful entrepreneurship in Japan and the USA had originated from the rural artisan class. China had generated 100 million jobs/self-employments in the small-scale industries and mostly in agriculture and allied activities. Maximum direct employment sustainability in a geographically dispersed manner ought to be the main guiding principle for the small-scale industrial development.

The Indian process of sociological development and economic reformation vividly exhibits the following varieties of entrepreneurships, namely, entrepreneurships based on agriculture, are and craft, professional orientation, business orientation, local resources and human resources. Entrepreneurial development programmes should be predominantly oriented towards removal of local unemployment, alleviate local poverty, prevention of self-employment and entrepreneurship among women.

Development of local skills and human resources should have four perspective principles. They are: (i) to prepare individuals for assuming their roles as responsible citizens, (ii) to develop in them scientific outlook, awareness of their rights and responsibilities as well as a consciousness of

the process of development, (iii) to sensitize them to ethical, social and cultural values which go to make an enlightened entrepreneur, and (iv) to impart to the local people education, training, knowledge, skills, land attitudes which would enable them to be successful and potential entrepreneurs.

The small scale industries sector has been assigned an important role in rural industrialization. They have not only increased to nearly 20 lakh units, but they have also generated around 12 million employment opportunities and over 60,000 crores of rupees worth export earnings. The village and small industries constitute an important segment of the economy. They provide maximum employment next only to the agricultural sector and account for more than one-third of the total; exports of the country. By 1989-90 the traditional industries provided 21.74 million jobs, produced 117.6 millions worth of goods and earned Rs. 3308.9 crores as foreign exchange earnings.

In view of their bright potential for production, employment and export, village and small industries should be made to open up a wider horizon. It is necessary to identify the areas of weaknesses and vulnerability and take purposeful and objective measures for redressal. What is necessary is a package programme of coordinated remedies. Attention should be paid to the reviews and recommendations made by many expert groups like the International Planning Team, 1954, the Karve Committee on village and small industries, 1955, the international perspective planning team, 1963, and the different studies made by the Reserve Bank of India.

One reality about the spectrum of small industries is that it is not a homogeneous whole, but one having specific discontinuities along the size scale. If one looks at units operating at investment levels of Rs. 500, Rs.

5000, Rs. 50000, Rs. 500000 and five million rupees, it can be seen that they have very little in common with each other in terms of (a) the entrepreneurial profile, (b) marketing problems, (c) infrastructural problems, and (d) promotional needs. If one is to draw just one dividing line horizontally along the pyramidal structure of this industry, it can be done at around the Rs. 100,000 level of investment in plant and machinery. Below this level would fall 90 per cent of the registered small scale industrial units and all of the unregistered units.

Since we have chosen employment generation as the primary objective of small scale industrialization. It is necessary to look at the ground realities at the base of the pyramid too. The base is constituted by the large number of self-employed house-holds who have taken to subsistence livelihood in non-farm activity. These have been thrown out of the agricultural sector, as the land could not support them. They crowd into handicraft, khadi and other such production businesses competing against each other and bringing down prices to dishes levels. It is significant that some 38 per cent of those below the poverty line are from the self-employed households according to the 42nd round of the NSS.

The subsistence activity characterizes a large part of the imformal industry sector in the urban areas as well. It must be realized that this implies a gross exploitation of a large section of the country's workers, to whom the country has failed to give not only a guarantee of a minimum livelihood but even access to technical knowledge and information about facilities offered by the public sector to industrial units. But even in these exploitative circumstances, the growth of employment in non-agricultural village and small service sector, even of the subsistence kind, has been painfully slow. Census and NSS statistics show a decline of household industry in absolute terms.

A close look at the departments and agencies offering the incentives reveals that: (a) Infrastructure is available only in cities and industrial belts while at districts and talus level they are almost non-existent. Quality of the infrastructure itself is very poor and there is no maintenance of the existing infrastructure. This is evident from the dilapidated condition of most of the industrial estates in the country. Decisions regarding location of the industrial estates are not taken in consultation with users' body or industry association. (b) Procedures for availing the state incentives are so cumbersome that it is difficult to comply with conditions that are laid down. Moreover, it takes years to receive the incentive, defeating the very purpose of providing financial relief which is urgently required at the beginning itself. (c) Banks provide loans at concessional interest rate of the small scale industrial sector. Here again, the efficiency of the bank loan sanction depends upon the status of the branch and its location. Also, bank rules are rigid for providing working capital assistance in units which are clamoring for more flexible approach in this regard. (d) Tax incentives really make a product competitive and economically viable. (e) Regarding technology, plant and machinery, marketing and raw material assistance and industrial training, the role of the state agencies is questionable. This is borne out be the fact that the existing small-scale units sedum ever felt the need of tapping government sources for its requirements.

Though the policy of growth for small scale industries in India is adequate, benefits are not reaching the entrepreneurs for whom they are meant. In a socialist economy the government has to play its own role in the form of checks and balances, whereas, at the same time, entrepreneurs should also not take undue advantage by indulging in short cut methods. And this is only possible through proper coordination of industry and the government.

It is the entrepreneurs who are responsible for impressive growth of small scale sector in the country. Any policy measure regarding small sector should address itself to the needs of entrepreneurs. Entrepreneurship cannot grow and sustain in a restrictive and bureaucratic environment which is unfortunately the currents situation in the country. Though the main components situation in the country. Though the main components for the new strategy in agricultural development, known as Green Revolution, were package approach, high yielding variety seeds, fertilizers, controlled water supply, insecticides and mechanical equipment, the success of this revolution has been possible due to the: (a) full freedom of the sector and autonomy from government; (b) easy availability of bank loan at concessional rate and free and improved know-how from its extension services; (c) observation of statutory rules and regulations.

Hence, instead of piecemeal incentives administered poorly to small sector, covering different items by different agencies: (i) the sector should be given assistance similar to the agricultural sector, (ii) the sector should be freed from the clutches of statutory rules and regulations, (iii) protection should be provided for marketing of small scale products, (iv) the sector should be provided with modernization and technology improvement assistance; and (v) appropriate management techniques are to be developed for effective management of small scale industries which may revolutionize the sector.

It is true that the country's experiences in Green Revolution as well as in Dairy Development have succeeded by the efforts of our farmer entrepreneurs. However, the core of the scheme has been non-interference of the state on the farmers while the incentives/assistance are available at the doorstep of the farmers. May be, this kind of approach and provision

are required for our small scale entrepreneurs to scale new heights of industrial revolution in the small scale sector.

The Government of India has announced tits Industrial Policy for small scale industries sector. The main highlights of the policy include: (a) an increase in the investment limits to Rs. 60 lakhs and Rs. 75 lakhs in respect of small scale units and ancillary/export-oriented units respectively; (b) equity participation by other industrial undertakings in the small scale sector, not exceeding 24 per cent of the total shareholding; (c) a limited partnership for the supply of risk capital to the small scale sector. Now the time is ripe for giving a fresh thought to the needs of the entrepreneurs. The tax concessions given to the people for investing in big lousiness can be offered to the people for investing in big business can be offered to the people investing in small business too. This will provide equal opportunity to the small entrepreneurs.

Today, when we are talking about privatization of public sector units, why not the government encourages privatization in other areas like small scale sector infrastructure, incentive delivery system, maintenance of industrial estates, etc. As far as marketing is concerned, National Small Industries Corporation’s contribution has been negligible. Hence, the Government can consider offering incentives to private marketing agencies in the small scale sector. The area which needs serious attention is simplification of procedures and liberation from bureaucratic control. Infact, no special treatment or extra concessions are required, rather the sector can be placed at par with the corporate sector so that the small scale sector becomes able to compete with other sectors of the economy. Any positive action in this direction can be expected only when the policies are worked out in consultation with its own representatives and policies are not merely on paper but their proper implementation takes place.

The need of the hour is to facilitate the availability of the incentive package to the needy entrepreneurs at the quickest possible time. Once the government stops administrating incentive packages and grants only the savings of administrative cost which thus accrues, to the small scale industrial units for setting up industry associations, maintenance of their own industrial estates and disbursement of each subsidies, it will benefit small scale industries without additional cost to government. Also, there is a need to set up product-specific, for instance, electronic, carpet, furniture-making, etc., small sector centres, wherein all the needs of the small-scale units including incentive are satisfied by a single agency. Needless to say that no agency could be more effective in this context than the agency which is managed by owners of small-scale industrial units.

7.5 PROBLEMS OF RURAL ENTREPRENEURS

Congenial atmosphere plays an important role in the promotion of entrepreneurship. Today our rural entrepreneurs are facing many constraints of numerous characters, which have retro gated the spirit of entrepreneurship. The situation is very deplorable in interior villages. It is the lack of opportunities in keeping with skills. Rural entrepreneurs are not able to reach market themselves and the intermediaries are making huge profits. Rural entrepreneurs do not know how to synchronize their skills with what the markets want. They have problems of not being able to add values to their products by way of finishing, packing and advertising. There is abundance of artisan-oriented skills in profitable activities. Rural entrepreneurs have to cope with a number of constraints and difficulties in various fields such as technological innovations, governmental procedures and regulations, scarcity and paucity of funds, market communications, logistic problems, etc. Some of the problems of the new rural entrepreneurs have been enlisted hereunder:

1. **Lack of Managerial Experience:** The new entrepreneur should have all-round knowledge about the various aspects of management. He has to bear in mind the fact that he cannot afford to employ experts/specialists for various specialised jobs. Hence, he has to be an all-rounder in management or his job is a multi-faced one. As an all-rounder he must look after:

   (a) What, how and when to produce;

   (b) Marketing of the products manufactured;

   (c) Accounting systems; and

   (d) Finance.

   The owner of a small scale industry should be well-versed in all these areas. If he fails in one of these areas, that is enough to give him heavy losses, which will result in the failure of the enterprise. A technocrat may give much emphasis on technical aspects, but ignore marketing etc. Similarly, one who is well experienced in sales may give undue importance to marketing, but ignores technical aspects. So what is required is a good knowledge about all the aspects of production, marketing, accounting and finance.

2. **Poor Accounting System:** A good accounting system would provide information regarding costs, gross margin, break-even point etc. which are highly useful for decision-making. In the absence of proper accounting data, decision-making would be difficult and the decisions made would not give the desired effect.

3. **Inadequate Estimate of Cash Requirements:** A proper estimate of cash requirements will help the proper functioning of the enterprise. A new

enterprise feels cash crunch when – (a) production does not reach optimum level,(b) production is below the break-even point, (c) it fails to create and increase the demand for the product/services. All these factors result in the depletion of cash very easily. This is because the time required for these has been calculated wrongly. Delay in any one of these activities means more cash requirements. Hence the entrepreneur has to estimate the time and also how a month-by-month delay in starting the project would proportionately increase the capital requirements. Costs escalate with the passage of time, therefore, calculations have to be made in advance taking into account the capital requirements by taking the time factor.

4. **Lack of Knowledge about Tax Related Matters:** The entrepreneur must make himself aware of the provisions relating to income-tax and sales tax. He must pay special attention to sales-tax laws and regulations – especially obtaining sales-tax registration at the appropriate time, filing tax returns regularly etc.

Steps to Overcome Problems: Many studies have been conducted to identify the problems faced by the new enterprise. These studies have mainly pinpointed the above problems and the following suggestions have been made to overcome these problems:

1. Make an intensive study of the proposed project/product/service. Spend a lot of time in preparing budgets, cost estimates, collecting market information etc. These are required to make the proposed venture as realistic as possible. Once the project has been started it may not be possible to consider or make changes.

2. Financial prudency requires that one has to adopt a conservative attitude towards estimating income and liberal in expenses, at the same time there should be wide margin of safety.

3. It is advisable to make use of the services of bankers, management and tax consultants, suppliers etc. to examine the proposed project and elicit their suggestions.

4. Accurate accounting information is vital for the running of the enterprise. Hence, the services of a professional accountant should be made use of in devising an appropriate accounting system.

5. Professional investors always look for lucrative ventures. If professional investors are associated with the venture, they will scrutinise it from different angles before making any investment. This will help the entrepreneur in determining whether the project is feasible or not and give good returns.

6. Complying with taxation formalities and paying taxes have become a regular headache for many entrepreneurs. The entrepreneurs should collect all information regarding various types of taxes such as income-tax, sales-tax, excise duties etc. even before the unit is started. They must familiarise with changes taking place in taxation laws and see the unit gets the benefits or advantages of certain taxes. Income tax, and excise duties come under central laws whereas sales tax some under state laws.

7.6 SUMMARY

Some societies produce a larger percentage of people with high need achievement. Entrepreneurship becomes the link between need achievement and economic growth. McClelland considers the need for achievement to be most critical to a nation's economic development. He held that a strong 'inner-spirit' in individuals to attain is a measurable variable arising from a need, which the individual

develop mainly in childhood and seeks to satisfy throughout his life. This 'inner spirit' which he called need for achievement, if higher, would produce more energetic entrepreneurs capable of generating rapid economic development. High need for achievement or ambition motivates an entrepreneurs to take risks, work hard, find new things, save more, reinvest the savings in industry and so on.

Expansion of avenues for industrial employment within rural areas is one of the major ways of diversifying the rural economy. The rural non-farm sector in India has the promise of becoming the most dynamic part of the economy. In assessing the potential for industrial employment generation within the rural sector, the type of industries in which the rural sector predominates should be identified. At present the maximum role of rural industrial employment exists in the case of non-metallic mineral-based group where this share is 70.07 per cent. This group includes pottery, bangles, beads and other related items. Wood products and beverages and tobacco products are specifically prominent. Similarly, employment is provided in the household segment in food products, jute textiles, wearing apparel, leather products, metal products, and non-electrical machinery. The share of employment in these is nearly 70 per cent. The possible rural industry groups where effective entrepreneurship can generate employment are: food products, beverages, tobacco, cotton textiles, wool, silk and synthetic fibers, jute industries, leather products, rubber and petroleum products, chemical products, non-metallic minerals, basic metals electrical and non-electrical machinery, transport equipment, repairs, etc.

7.7 KEYWORDS

N-Achievement: It is the desire to reach goals, to tackle challenges and to excel.

Rural Entrepreneurship: The enterprising attitude developing among the people in rural areas.

7.8 SELF ASSESSMENT QUESTIONS

1. What do you understand by N-achievement? How can achievement motivation be developed?
2. Write an explanatory note on ‘Kakinada experiment’ on achievement motivation.
3. What is meant by entrepreneurial motivation? Is it necessary for a successful entrepreneur? Discuss.
4. Bring out the success of rural entrepreneurs in India. Also, discuss the role of SSI in providing employment to the rural folk.
5. What are the problems of new entrepreneurs in rural sector? Discuss their solution, if any.

7.9 SUGGESTED READINGS

1. McClelland, D C and Winter, W G: Motivating Economic Achievement
2. Jain, Rajiv: Planning A Small Scale Industry- A Guide to Entrepreneurs.
3. Gupta, C.B. and Khanka, S.S.: Entrepreneurship and Small Business Management.
4. John Kao and Harars Stevenson: Entrepreneurship – What it is and How to Teach it.

Subject: Entrepreneurial Development
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Lesson : 08 **Updated by: Dr. M.C. Garg**

CREATIVITY, INNOVATION AND ENTREPRENEUR

STRUCTURE

8.0 OBJECTIVE

After reading this lesson you should be able to

(a) Describe the terms creativity, innovation and invention.

(b) Explain the various aspects of the environment for creativity and innovation.

(c) Discuss the innovative approaches to entrepreneurship.

8.1 INTRODUCTION

Creativity has been defined in relation to various frames of reference: as a process, as a product, and as a set of human characteristics. The dictionary view creativity as the power or ability to create, to originate, or to produce.

In dictionary definitions, creativity carries implications of originality and productivity. In the broad literature that discusses creativity, the term overlaps (and is often used interchangeably) with terms such as ‘inventiveness’, ‘productive thinking’, and the act of ‘discovery’. The literature includes contributions from psychology, philosophy, sociology, anthropology, the history of science and technology, the history of thought, economics, biography and from the specific field in which creativity plays a conspicuous role, such as the plastic and performing arts, scientific and engineering fields, management, and medicine.

In the literature concerned with creativity and creative thinking the majority of definitions include the criteria of novelty and utility. The definitions insist on ‘newness’, ‘novelty’, and ‘originality’.

“new combinations of ides and things”
“a new association of existing elements”
“the forming of associative elements into new combinations’
“the production of an idea, concept, creation, or discovery that is new or original to its creator”

Originality refers to something statistically infrequent. The schizophrenic who babbles incoherent sentences may be expressing something original, in the sense of its being statistically infrequent, but no one would call the babble creative. Thus 7,363,474 is quite an original answer to the problem ‘how much is 12 + 12?’

Value is the second major criterion for judging creativity. Value is expressed as ‘utility’ ‘satisfaction’, ‘acceptance’ meeting requirements’ and ‘meaningfulness’. Creativity is an activity with social implications, since utility implies value to someone in addition to the creator. Many scholars in the field of creativity point out the role of social utility in creativity.

"Although the literal definition of the term creation does not necessarily include the attribute of value… the term is almost invariably used to convey value either tactily or explicity"

"Useful or satisfying to its creator or someone else in some period of time".
"Satisfy some expressed or implied human need" (Taylor, 1961)
"Acceptable as tenable or useful or satisfying (to) a group in some point of time".

8.2 CREATIVITY, INVENTIONS AND INNOVATION

'Innovation', 'invention' and 'creativity' are often used interchangeably, particularly in everyday language. Among scholars in the field of creativity, 'innovation' is used to define the process by which a new product or idea is introduced into use or practice. Innovation sometimes refers only to the first use of new thing or idea. In this sense, discussions of innovation are concerned with the recognition, first use, or diffusion of an innovation, and take into account such things as entrepreneurship and marketing.

It is convenient to use 'innovation' to refer to the process that generates an idea, develops it, and brings it into practice. In this sense of the word, creativity is then the first step in the invention process. As Edison said, "Invention is 5% percent inspiration and 95% percent perspiration." Creativity is what Edison called 'inspiration' is the generation of an original, useful idea, the critical first step in the process. Invention is the process of selection of the idea of be worked on and its detailed process by which the invention is first brought into use by an individual, company or agency.

Differentiating creativity, invention, and innovation help us to see the differences among the required process elements more clearly. Creativity

requires the ability to reach out to widely separated components, and to synthesize them. The creative effort does best by generating as many useful, new ideas as possible from which to select one or two to develop. The rest of the overall invention process consists of selecting the idea(s) to develop, requires convergent thinking and the ability to discard irrelevant ideas, and it includes analysis as opposed to synthesis. The rest of the invention process consists of detailed development of the idea(s) into producable, workable form, a continuous (often tedious) effort which includes the solution of a myriad of design problems, each of which may entail repeating the selection process many times at a micro level. The invention process also includes rests or trails of all detailed parts as well as the whole, and many repetitions of the effort.

The who and how of creativity: In trying to evoke and develop creativity in an organization, managers and interested in such question as: Can creative people be identified for the purpose of hiring ? Are there valid and reliable tests that can predict who will be creative? Can creativity be developed or enhanced in employee? Are there creativity techniques that can be taught to employees that will increase creativity with in the organization? What kinds of management actions help or retard creativity? What kinds of environment to enhance or deter creativity have generated data that provide some answers to these managerial questions.

The questions guiding creativity research have been: Who is creative? What is the creative process? What influences the creative process? Is everyone creative? Everyone is creative, but there are individuals who are demonstrably more creative than others.

From the beginning of research on creativity, highly creative individuals have been distinguished from less creative people by their intellectual and

personal characteristics. The lists of intellectual characteristics identified with highly creative individuals have been distinguished from less creative people by their intellectual and personal characteristics. The list of intellectual characteristics identified with highly creative individuals can be clustered under the general headings of fluency, originality, flexibility, tolerance of ambiguity, playfulness and IQ. Researchers have characterized high creatives by a host of qualities that can be roughly described as: strong work motivation, independent, non-conformist, and high energy.

From the beginning, much research on creativity has focused on developing ways of predicting who will demonstrate high creativity in the future. One approach, based on biographical and autobiographical studies of individuals which demonstrated ‘high creativity, attempts to develop predictive profiles. Included among the profile methods is factor analysis. Other attempts have produced psychometric instruments to measure intellectual capabilities considered by the researcher as central to creativity. Most of the latter have measured divergent thinking. Despite several decades of research effort on creativity and highly creative individuals, there is as yet no profile or test that reliably predicts who will be highly creative in the future. Efforts to develop tests to predict creativity in students have born little result. Longitudinal studies of the predictive strength of divergent thinking tests given to students have been disappointing. So far the only good indication that an individual will be highly creative is the demonstrated by high creativity in the past.

8.3 THE ENVIRONMENT AND PROCESS OF CREATIVITY

Two aspects of the environment for creativity have been examined by researchers: (i) the kinds of familiar and educational environments in childhood that leads to creativity in adulthood, and (ii) the kinds of

immediate, organizational, and physical environments associated with high creativity. The effect of childhood environments in subsequent creativity is of special interest to educators and psychologists (and concerned parents), though of little utility for managers. One finding worth noting, however, was that high creatives, unlike those with high IQs, came from families in which parents put little stress on grades. It should also be noted, however, that many of the prescriptions for encouraging creative development in children are at odds, with the way creative geniuses in the past were raised.

The professional manager is concerned with organizational environments associated with high creativity and how they might be generated. Most of the organizational characteristics that appear to enhance creativity relate to the characteristics attributed to highly creative individuals. For example, since non-conformity in both thought and action characterizes high creatives, the organization that is tolerant of a large variety of deviance from the norm is more likely to enhance creativity. It is not surprising to find many 'hightech' companies, architectural firms, advertising organizations and academic faculties marked by unconventional dress and little rigidity concerning hours of work.

Many other characteristics of creative organizations are:

- Open channels of communications are maintained.
- Contacts with outside sources are encouraged.
- No specialists are assigned to problems.
- Ideas are evaluated on their merits rather than on the status of their originator.
- Management encourages experiments with new ideas rather making 'rational' prejudgments.

- Decentralization is practiced.
- Much autonomy is allowed to the professional employees.
- The organization is not run tightly or rigidly.
- Participative decision-making is encouraged.
- Employees have fun.

The process of creating: Each individual develops a unique approach to the act of creation. Biographics of creative geniuses are replete with descriptions seemingly ludicrous conditions insisted upon by great creators. “Schiller seems to have depended on the smell of decomposing apples which he habitually kept concealed in his desk! … Kipling reports … (an) inability to write creatively with a lead pencil. (He) seemed to demand the blackest ink, all blue-black being ‘an abomination’ to his creative tendencies. At certain precise times of the day Kant worked in bed. There he had some intellectual dependence upon the tactile stimulation provided by the blankets, which were arranged round him in a highly original ways invented by himself. In spite of the apparent uniqueness of the creative process in each individual and the idiosyncratic patterns followed by many creative individuals, studies of the process are in fair agreement that it follows a recongnizable overall pattern. The creative process has been variously described, but most descriptions include a series of strips, varying in number, that can be sub summed with in the following four steps: (1) preparation, (2) incubation, (3) illumination, and (4) verification.

8.4 CREATIVITY AND THE ENTREPRENEUR

Can anything systematic be done to increase creativity in individuals and in an organization? Does management really want creativity and somewhat less controlled conditions necessary to foster it?

If desired creativity can be consciously and systematically enhanced in an organization through hiring, motivation, organization, and management.

Theories to support future practice: In view of the considerable scope for confusion regarding creativity and innovation, there is a clear need for explanatory on descriptive models of the process. The following mode is have proved themselves particularly valuable in interpreting creativity and innovation, and in suggesting means of enhancing practical exercises involving the processes.

Creativity: the Intrinsic Motivation view: Recent studies have proposed that creative achievement is strongly associated with intrinsic motivation. There may be a strong human motivation to do things because we want to, and not because we have to, or because we are obliged to. Stimulating creativity in others, for wider social or organizational ends, now becomes a subtle process of removing constraints. The primary reward systems are self-generating. (The play's the thing, not the pay's the thing').

Nevertheless, the intrinsic motivation can be influenced by extrinsic factors, and managing an individuals' creative contribution will involve the manager in establishing a positive, reinforcing climate. Recent works have provided evidence which suggests that a positive organizational climate is associated with innovative output; a less positive climate with less innovative outputs.

Creativity as Intelligence: Increasing attention to creativity among cognitive psychologists has added to our understanding of the phenomenon. The work has received added momentum through interest in artificial intelligence. What may be happening is a view of intelligence as a process, which has a wider scope than was captured in conventional intelligence tests, Thus, as psychologists prepare to extend the scope of intelligent

behaviour they may be moving towards incorporating ‘insightful’ creative behaviours. The ‘demystification’ has reached the stage where we can claim a computer programme can now discover (create) scientific laws. In a memorable phrase, Perkins has suggested that creativity is not so much an extra-ordinary process, but an ordinary process directed towards extra-ordinary ends.

Creativity and Innovation: The Emerging Systems of Views: Perhaps the most promising of recent theories have been attempts to place creativity and innovation within a systems methodology. One increasingly important taxonomy is attributed to Rhodes, who proposed that creativity be viewed as a four dimensional phenomenon of ‘person’ product, process, and context, (environment)’.

If we follow Magyari-Beck, we can construct a ‘creativity matrix’ in which the four dimensions can be examined at differing levels: individual, team, organizational, and societal (Fig.1)

Within a broad systems approach, creativity and innovation can be treated as complex problem-solving behaviours, at individuals and social levels.

	People	***Process***	***Product***	***Context (Press)***
Level 1	Individual scintists managers entrepreneurs	Insight learning discovery, etc.	Idea, inventions decisions, etc.	Psychological climate etc.
Level 2	Team, project groups	Problem solving in teams	Shared insight and discoveries	Team climate
Level 3	Organisation	Innovation	Innovations	Organisational climate and culture
Level 4	Macroeconomies	Culture	Societal	Socio technical

societies	changes	innovations	& economic Pressures

Fig. 1 Creativity Matrix

We predict that a systems view will become a major issue of theorists concerned with the creativity and innovation within a decade.

Barricade to creativeness: There are following four types of barriers, which deter creativity:

(i) **Perceptual Blocks:** A perceptual block is caused by the mind's tendency to short circuit and jump to a conclusion too rapidly. We look at something, and what we see appears to be all there is.

(ii) **Emotional blocks:** Emotional blocks to creativity are those caused by anger, envy, fear, dread, hate, agreed, love, lust, and so forth. They are principally divided into two major types: transient blocks which come and go from day to day or week to week, and permanent one which were built into our thinking because they rob us of our concentration, mental energy and initiative by making us squander ourselves on worries and anxieties.

(iii) **Cultural blocks:** Cultural blocks represent all the affects of society on the individual. These are the forces that tear down our individuality that solve us accepted grooves in out thinking. Cultural block make us conformists.

(iv) **Habits:** To a great extent, any person's personality consists of his own individual pattern of actions, thoughts; and habits. And much of what we do every day is determined by a carefully conditioned and developed pattern of habits.

Guidelines for creative problem solving: While solving problems one must follow these guidelines:

(i) **Soak yourself in the problem:** Read, review, examine, and analyse any material you can find on the problem. Talk to people who know about it. Look at the problem form every side. Do not accept authority uncritically; question the conclusion that there is no way to solve it.

As a manager, always challenge the judgement that ‘it can not, or it won’t work’. I agree it can not be done, but if we had to do it or in short, what could we do?’ That always changes the atmosphere and turns the group to finding ways to attack the problem rather than judge it. Provide your people with all the information you can, erring on the side of overload. Encourage them to contact a wide variety of sources for information and to soak themselves in the problem.

(ii) **Play with the problem:** Stay, loose and flexible when considering the problem. Try out different assumption; imagine that one of the conditions affecting the problem is removed, and see where the problem leads now. Approach the problem from different directions and turn it inside out. Assume different environments. Mentally shift the positions of various parts of the problem specially and temporarily. Change the order of events or the situation.

As a manager, encourage your people to explore the problem from every conceivable viewpoint. Through discussion and questioning, suggest ‘while’ approaches in the early stages of a project.

(iii) **Suspend judgement:** Don’t draw early conclusions, which will lock you and hamper your creative freedom. Do not become fixated on a

particular part of the problem definition, losing sight of the larger ramifications. Avoid setting on an early partial or total solution, but stay open to new information and possibilities not yet considered. As solutions from them help them to suspend judgement by keeping the pressure off and encouraging them to write down and defer their solutions until later.

(iv) **Come up with at least two solutions:** When you decide to produce two solutions you are sure to keep thinking about the problem instead of fixating on one idea. Studies have shown that second solutions tend to be more creative. In one experiment, the request for a second solution increased the number of ‘creative’ solutions pushed the subjects to the limit, but still resulted in a 25 per cent increase in very good creative solutions.

As a manager, call for two distinct solutions to the problem, not necessarily worked out in detail, but substantially different. In most cases, all the anxieties and rigidness of the professional go into the first solution, whereas the second is more free-flowing. A group asked for ways of delivering high quality education for less money, for example, will come up with a first solution calling for cutting costs, increasing tuition, and putting facilities to money-making uses outside of teaching. Second solutions will then involve engaging academics who are not research oriented but good teachers to teach double loads for more money and (in lieu of student loans) investing in students in expectations of a percentage of their first five year’s earning (which would extend a university’s concern with its products in a positive way).

(v) **What do you do when you're stuck?:** Try a variety of ways of picturing the problem and the solution; from verbal description to graphics to abstractions. Many creative scientists, mathematicians, and writers get a new perspective on problems by making sketches and diagrams.

Try our problem on outsiders. When you discuss your problem with others, you see it differently because you have to put it into terms intelligible to them. Their answers may be less important than your own presentation, but their unexpected questions may bring new areas of your brain into play.

(vi) **Take a break:** Give your subconscious a chance to work. When you are really stumped, go on to something else for a while. Creative problem solving is a ripening process. So remember, you can not force it. Working on it around the clock will only exhaust you.

As a manager, make yourself available as one of the people on whom to try out problems. Ask the problems. Ask the problems solver to 'draw you a picture' to help you understand the problem. When a person becomes too intense and is making no progress, give that person some short of different assignment, to give their subconscious a chance to work.

Following steps can help executive/managers in improving their creativity:

- Stretch you horizon of knowledge in the field/related field on which you are working.
- Cultivate your field.
- Pinpoint the problem.

- Hunt for new ideas.
- Boost your lagging enthusiasm.
- Prepare for premiere.

To bring to a close, we can say that managing excellence is a long-term approach in which mission has to be clearly defined in view of worldly changing environment. A strategic thinking and culture building work in tandem. It will result in achieving mission. Manager/executives have to have new age skills of creative insight, sensitivity, vision, versatility, focus and patience.

Creativity, innovation and invention are the terms used interchangeably. Desirable organizational environment and culture helps executives in developing creativity in management. A systematic approach (Creativity Matrix) is proposed for tackling problems related to creativity at individual, group and society levels. The six commandments for enhancing creativity in organizations and individuals are to be encouraged.

8.5 INNOVATIVE APPROACHES TO ENTREPRENEURSHIP

Student passing out from the educational institutions have two career options open to them: (a) wage employment (b) self-employment or setting up their own small enterprises. The present system of technical education prepares the polytechnic student only for wage employment in different sectors of economy. Majority of the student go for wage employment in large and medium industries and government departments. Very few opt for self-employment or entrepreneurial career. The curriculum has been so designed as to prepare the students for supervisory and middle level techno-managerial positions in large and medium industries.

Moreover, wage-employment has a strong tendency for self-saturation. Once availed, a position is blocked which remains so, till a person leaves the job or retires. Further, wage employment has always limited scope since it does not necessarily generate resources and can be organized only with in the existing usable wealth.

On the other hand, self-employment contributes towards gross national product (GNP) by way of producing consumer items, import substitutes or export goods and services. Further, it has unique characteristics of self-generation. A self-employment activity offers employment to others. The enterprise itself leads to the emergence of chain of activities such as transport, marketing, communication, networking etc., which create unending opportunities for employment. Such enterprises are essential for economic progress of the country and provide an outlet for creative urge among individuals to attain excellence in product design and selected innovations. In the ultimate analysis, the lasting solution is innovation. In the ultimate analysis, the lasting solution of acute problem of unemployment lies in self-employment through entreprenurisation of the society.

But inputs for self-employment and entrepreneurial development are not provided in our education system. The inadequacy of entrepreneurs is one of the inhibiting factors to accelerate the process of industrialization and economic development in our country and create new job opportunities.

In our planning process, we have been giving greater emphasis physical and related aspects like material, technology, finance, infrastructure etc. without paying due attention to training and development of potential entrepreneurs who use and manage it.

Entrepreneurship development programmes: India is a developing country facing acute and chronic problem of unemployment. At this juncture, it is necessary to evolve and concentrate on the strategies to expand employment generation activities through entrepreneurship development. These programmes should aim at encouraging students in setting up their own small scale enterprises and generate additional employment. This will promote entrepreneurship amongst diploma holders and other graduates so as to enable them to make effective contribution in economic development of the country and help in transfer of high technology from research and development laboratories to small and medium-sized enterprises.

The programme should be offered on part-time and full-time basis. The part-time course is meant for employed persons and full-time course is meant for fresh/unemployed graduates and diploma holders.

a) Part-time Entrepreneurship Development Programme (EDP) @ 2 hours/day for a duration of 14 to 16 weeks including full time entrepreneurial motivation training and market survey for a week.
b) Full-time course @ 6 hours/day aimed at developing competencies and capabilities for starting not only tiny ventures but modern small scale manufacturing or servicing ventures.

Venture-oriented project work: Project work constitutes an important part of diploma curriculum and each student has to complete a project during his final year of studies. While completing this project work student get an opportunity to apply knowledge and skills acquired during diploma programme. Generally, the project assignments are of routine nature and are repeated year after year. Project work should be related to entrepreneurial activities so as to make them challenging to students and

teachers. The students who are keen to go for self-employment should be identified during entrepreneurial awareness camps and assigned venture-oriented project work. This will enable the students to identify suitable venture opportunities and expose them further for their feasibility.

Under the project work, the students should prepare a detailed project report on the identified venture so that the same can be utilized for obtaining entrepreneurial support at the time of setting up an enterprise. Upon successful completion of this project work the teacher supervising the project has to play a crucial role in identification of opportunity, selection of technology, plant and equipment and preparation of feasibility report. The polytechnic faculty guiding the project should also be exposed to entrepreneurship development courses organized by various institutions. Such teachers may collaborate with these organizations while assigning project work to identify students.

The venture-oriented project work, entrepreneurship development programme should result in diverting 5 to 10 percent of polytechnic students from wage-employment to self-employment.

Short duration programmes on management of SSI: To run their units successfully and to improve productivity and profitability, it is essential to provide training to the students in certain management practices in small enterprises. Short duration programmes in functional areas of production, finance, marketing and personnel management should be conducted in collaboration with existing entrepreneurs.

Product/process development facilities: It is seen that spare capacity is available in workshops and laboratories of the polytechnics. The creative talent of some of the polytechnic students can be utilized in developing new products and processes. These students should be identified and allowed to

work in workshops and laboratories, to develop new products and processes during their spare time. This facility may also be extended for preparing prototype of an item, which the students want to manufacture. In order to make this arrangement work a polytechnic has to exercise flexibility in rules and regulations concerning use of workshops and laboratories. This will promote innovative and creative activities in polytechnics.

Seminars on ancillarisation in polytechnics: The private and public sector industries located around the polytechnic having scope for ancillarisation should be identified. These industries may be requested to organize seminars on ancillarisation for polytechnic students, teachers and other interested people. Such an interaction of students with industries would help in identification of need-based projects. Students with latent entrepreneurial traits can imbibe guidelines during such seminars and set up ancillary units for their self-employment. Such projects will be mutually rewarding to polytechnic students and industries around.

8.6 SUMMARY

Innovation refers to the process that generates an idea, develops it, and brings it into practice. In this sense of the word, creativity is then the first step in the invention process. As Edison said, “Invention is 5% percent inspiration and 95% percent perspiration.” Creativity is what Edison called ‘inspiration’ is the generation of an original, useful idea, the critical first step in the process. Invention is the process of selection of the idea of be worked on and its detailed process by which the invention is first brought into use by an individual, company or agency.

From the beginning, much research on creativity has focused on developing ways of predicting who will demonstrate high creativity in the future. One approach, based on biographical and autobiographical studies of individuals

which demonstrated ‘high creativity, attempts to develop predictive profiles. Included among the profile methods is factor analysis. Other attempts have produced psychometric instruments to measure intellectual capabilities considered by the researcher as central to creativity.

Desirable organizational environment and culture helps executives in developing creativity in management. A systematic approach (Creativity Matrix) is proposed for tackling problems related to creativity at individual, group and society levels. The six commandments for enhancing creativity in organizations and individuals are to be encouraged.

8.7 KEYWORDS

Creativity: The ability to bring something new into existence, conceiving the idea and articulating the new knowledge.

Innovation: The transformation of creative ideas into useful applications by comprising resources in new or usual ways to provide value to society for new or improved products, technology or services.

Invention: The creation of new products, processes and technologies not previously known to exist.

8.8 SELF ASSESSMENT QUESTIONS

1. Describe and distinguish the terms creativity and innovation. Elaborate the necessity of these to an entrepreneur.
2. Write an explanatory note on creativity as intelligence.
3. Discuss various aspects of the environment for creativity and innovation.
4. Mention the innovative approaches for the entrepreneurship education in India.

8.9 SUGGESTED READINGS

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Subject: Entrepreneurial Development
Code:CP 401
Lesson : 09 **Updated by: Dr. M.C. Garg**

SOURCES OF FINANCING

STRUCTURE

9.0 OBJECTIVE

After reading this lesson you should be able to

(a) Describe the procedure for estimating of requirement of finance.

(b) Explain the various sources of long-term finance.

(c) Discuss the methods of estimation of working capital requirements.

(d) Explain the various sources of working capital finance.

9.1 INTRODUCTION

Like many works of art, a business begins on a piece of paper. The would be entrepreneur may sit down and design a small electronics plant to meet customer needs and make a fine product, but without money the plan may never become a reality. That is why entrepreneurs should understand how

to estimate the amount of money they need and then how to go about raising that money.

This twin problem fascinates entrepreneurs, perhaps more so than any other part of launching a new venture. This fascination may stem from a romantic view of how some multimillion-dollar businesses have begun on shoestrings of just a few thousand dollars. Apple computer Inc., for example, began with only $600 in 1976. Despite its romantic aspects, financing a new venture frustrates many entrepreneurs. Often they do not know where to begin; if they do know, they go at it haphazardly. Relieving that frustration is one purpose of this lesson.

9.2 ESTIMATING FINANCIAL REQUIREMENTS

Before they can estimate how much money they need, entrepreneurs must know what they plan to do, unfortunately, and many entrepreneurs do not, often because they have failed to work out business plans. Yet, the very act of preparing such a plan enables entrepreneurs to crystallize their thinking on how best to launch their ventures. It forces them to move logically and systematically from the stage of dreams and ideas to that of concrete action. The concreteness of business plans helps entrepreneurs determine their financial needs.

The center piece of the business plan is the cash budget, which translates operating plans into dollars. Without a cash budget, the entrepreneur has no way of estimating financial needs. So vital are cash budgets that few investors or creditors will entertain a request for money without one. More than any other way, the cash budget enables them to decide intelligently whether to finance the entrepreneur. The cash budget, for example, helps the banker to obtain answers to the following questions:

- How much money do you need?
- How will you spend the money?
- How soon will you pay us back?

The process of budgeting has many guises. Some individuals divide the money from their weekly income into piles that they then place in envelopes earmarked for groceries, clothes, entertainment, and so on. Many giant corporations proceed in an orderly system that reflects both long-and short-range goals.

What they are all doing is budgeting, or financial planning. Yet although such planning is widely practiced by individuals, government, and big businesses, entrepreneurs do little planning. One reason for their reluctance to budget may be their discomfort with numbers. To many entrepreneurs, financial skill is something best left to Wall Street.

Yet, financial skill is as vital to a venture's survival and growth as any other skill, such as production or marketing. Numbers tend to intimidate the entrepreneur. As a result, entrepreneurs often fall short in their appreciation of the role that financial skill plays in the efficient operation of their ventures.

Large corporations have sophisticated financial experts versed in all aspects of the business. In contrast, entrepreneurs are left to their own devices. They stand alone. In the words of the Bank of America:

The mere language of finance ….sounds so official, important, and difficult that many businesspersons automatically assume it is beyond their understanding. They feel that anything so obviously "textbookish" is better left to the professionals.

With this attitude, it is hardly surprising that so many entrepreneurs find themselves in trouble from the start. Yet they often blame investors and creditors for their plight, not themselves. An entrepreneur might say, “If only I had $10000 I could really make my idea work.” Generally unprepared, such entrepreneurs can make little effort to convince potential investors and creditors of their need for money. But the odds favor the prepared entrepreneur. As Branch Rickey, former owner of the old Brooklyn Dodgers, once said, “Loch is the residue of design.”

Preparing a Budget: Let us now discuss the details of how to work up a cash budget. Before beginning to develop a cash budget, an entrepreneur must first spell out his or her operating plans, defining production, marketing, staffing, accounting, and legal goals. Note that these are all key parts of the business plan.

Before we describe the process of translating these plans into rupees, let us first point out two limitations of budgeting:

- All budgets depend on estimates of what will happen in the future. No one can accurately predict what will happen, however, so budgets can be no better than the estimates. Thus the entrepreneur should be as thorough as possible in his or her efforts to prepare workable operating plans.
- A budget cannot account for the effects of intangible qualities or unpredictable events. It cannot reflect how skilled and able the entrepreneur may be, nor can it reflect teamwork and morale. A budget can deal only with future events that can be expressed in rupees.
- Still, budgeting represents a remarkable achievement. It provides a way of summarizing the future in a single statement, in language that

investors and creditors understand. Let us now see how operating plans may be translated into a cash budget:

Example: An entrepreneur who plans to open a home furnishings store has estimated her sales revenues for the first three years.This revenue forecast is a result of the marketing plan that she worked out as part of her business plan. Although it is rough, the revenue forecast is the single most important estimate an entrepreneur can make, because it is the basis for most of the other estimates. For example, a store with yearly revenues of $2 million rather than $400,000 may call for five times as many salespersons, four times as much floor space, and three times as much inventory.

Having forecast her revenues, the entrepreneur next estimates the cost of the fixed and current assets she will need to support those revenues.

Before we proceed with our example, we will describe and differentiate fixed and current assets.

Fixed Assets: Fixed assets are resources whose use will benefit the entrepreneur for more than one year. An example is a building bought for $150,000. If the entrepreneur expects the building to last 25 years, he or she would receive $6000 worth of shelter benefits a year. Other examples of fixed assets include machines, land, trucks, desks, and even ashtrays.

These examples are resources the entrepreneur can touch and see, but fixed assets may also be intangible. For example, an inventor may sell an entrepreneur the patent rights for a new pollution-control device for $80,000. The entrepreneur might expect to benefit from the patent rights for the next 10 years. These rights cannot be touched or seen, but they are a long-lived asset that will provide benefits to the entrepreneur’s business for

more than one year. Other examples of intangible assets are licenses and goodwill.

Current Assets: In contrast to fixed assets, current assets are resources whose benefits will last less than one year. Commonly, current assets are cash, accounts receivable, and inventories. Accounts receivable - the bills owed by customers who buy on credit - represent a current asset because the entrepreneur can expect to collect within a short time. Similarly, inventory is a current asset because the entrepreneur usually expects to recover the investment in inventory by selling it within a short period after purchasing it from a supplier. Let us now return to our previous example.

Example: The entrepreneur's store will sell Scandinavian furniture. In estimating start-up costs, she has decided to

- Construct a one-story, free standing building with 5,000 square feet of floor space to display and store furniture. Cost: $ 150,000 at year zero.
- Keep a base inventory of furniture large enough to generate twice the average monthly forecast revenues; in addition, buy enough inventories monthly to cover the following month's budgeted revenues. She plans to pay for all inventories within a month of purchasing it. Cost: $36,000 at year zero.
- Put an asphalt surface on a parking lot next to the building. Cost: $16,000 at year zero.
- Finance customers who buy on credit. The entrepreneur is assuming that all sales will be credit sales, with customers taking a month to pay, on the average. (One month is the industry's average collection period.)

- Buy fixtures, office equipment, and a half-ton delivery truck. Cost: $ 26,000 at year zero.
- Incorporate the venture with a lawyer's help. Cost: $ 2000.
- Design a record-keeping system with the help of an accountant. Cost: $ 1,000.
- Buy a three-year prepaid insurance policy. Cost: $6000.
- Buy city, county, and state licenses. Cost: $ 1,000.
- Promote the store's grand opening. Cost: $2,000.

So far, the entrepreneur has estimated what it would cost just to open for business. She now must go one step further and estimate what it would cost to stay open through the first year, by month:

Monthly Cash Expenses (excluding cost of goods sold):

Entrepreneur's salary	$2,400
Part-time employee wages	1,200
Advertising	600
Electricity, heat, telephone	400
Delivery	400
Accounting, legal	400
Supplies	200
Other	800
Total	**$ 6,400**

Note that these monthly expenses are unlikely to change with revenues. That is even if first-year revenues were double the $ 249,000 forecast, monthly expenses would not be significantly greater than $6,400. The only expense item likely to increase significantly would be part-time wages, since as revenues increase; the entrepreneur will probably need to add more part-time salespeople to wait on customers.

To these costs, the entrepreneur should add the purchase cost of furniture sold. These purchase costs, as mentioned earlier, will vary with revenues. Assuming a profit margin of 40 per cent, the entrepreneur would realize a gross profit of $40 on every $100 sales of furniture:

$100	paid by entrepreneur's customers (revenues)
$60	paid to entrepreneur's suppliers (cost of goods sold)
$ 40	contribution to all other expenses and to profit (gross profit)

To help entrepreneurs estimate profits on sales, as well as costs, average ratios are available for virtually every industry. Among the organizations offering such information are trade associations and Dun & Bradstreet.

Having collected the cost figures, the entrepreneur may now draft a cash budget for the first year. Note that this budget shows.

- Expected inflows and outflows of cash
- The amount of money needed to finance the venture
- The cash balance at the end of each month.

The entrepreneur needs $262,800, assuming that things will go as planned. They rarely do-so the entrepreneur adds a cushion of 10 per cent to the $262,800 to allow for unevenness in the flow of money in and out of the venture and to absorb any unexpected bills. Rounding the figure to the nearest $1,000 the entrepreneur arrives at $290,000, the total amount she must raise to launch the venture.

Besides a cash budget, the entrepreneur should prepare beginning and ending balance sheets plus an income statement. Note that most of the figures come from the cash budget, and that the balance sheets assume that all the entrepreneurs assets would be financed through the sale of common stock. This assumption is unrealistic. Shortly, we will discuss more realistic

ways of financing new ventures. Note also that the income statement shows that the venture will be profitable during its first full year of operation.

9.3 SOURCES OF LONG-TERM FINANCING

Having estimated how much money is needed to finance the venture, the entrepreneur must then decide what fraction of this money should come from investors as equity capital, and from creditors as debt capital.

The ratio of debt capital to equity capital is a controversial topic. At one extreme, commercial bankers generally recommend that entrepreneurs and their investors put in at least one dollar of their own money for every dollar they borrow. At the other extreme, some entrepreneurs prefer to put in as little of their own money as possible and still keep 100 per cent control of their ventures.

Differences arise because bankers in general are not risk takers. They are in the business of renting depositors money, not risking it. So they tend to shun ventures backed by small amounts of investors money, because it is the investors' money that protects them when adversity strikes. As losses occur, investors' money bears the first impact of loss; and so the greater the amount of investors' money, the greater the likelihood that the bank will recover its loan.

Entrepreneurs, on the other hand, are risk takers. Many are willing to risk their life savings in their ventures, if they have to. Some try to sell stock in their ventures to investors. By doing so, they may raise all the money they need, lessen the risk to their personal savings, and still keep control of their ventures;

Example: The entrepreneur in our earlier example needs $ 290,000 to finance her venture and has only $ 40000 in savings. Her first choice is to float 4000 shares of common stock at a per value of $20 each.

She buys 2,000 shares herself at $ 20 each, and then persuades friends to buy the remaining 2000 shares at $ 80 each, giving her a total of $ 200,000. Thus her friends think enough of her venture's prospects to pay a $ 60 premium for the stock.

The rest $90,000 she may borrow readily from a commercial bank. With $200,000 of investors money behind her, most banks would be willing to lend her the $ 90,000. The $200,000 she has raised accounts for nearly 70 per cent of the total needed to finance her venture, and banks are generally satisfied if the ratio of equity capital to total capital is only 50 per cent.

This example demonstrates a method of beginning a venture on a shoestring. With just $40,000 of her own money, the entrepreneur was able to raise $ 290,000 and still keep 50 per cent control. There are other ways as well:

Example: "You want to start what kind of business? A specialty chemicals manufacturing venture? From scratch? From point zero? Hmmm. Very, very, interesting."

That was the typical response that Marge Ashton received from the more than 100 accountants, bankers, lawyers, and friends she had approached to finance her venture. Undaunted, Ashton persevered, continuing to knock on doors, whether welcome or not.

Ashton's perseverance finally bore fruit. On the advice of another entrepreneur, she took a non-credit, four-month course on business plans taught by two professors of business administration. So thorough was her

plan that it won first prize in a competition sponsored by the local chamber of commerce. The following day, the business section of the daily newspaper ran a lead story and a photograph applauding her achievement and her desire to finance her dream.

Ashton's business plan soon struck chords of recognition in the business community. Several private investors came forward with offers to help finance the venture. All told, she estimated that she needed $ 300,000 to carry her venture through its first year of operations. Lacking money of her own, Ashton decided:

- To give herself 50 per cent of the common stock-to "rewards me for starting the venture and making a go of it."
- To sell investors the remaining 50 per cent of the stock.

After initially raising the sum of $ 300,000 Ashton found that she needed $ 80,000 more, which she obtained by borrowing from a bank, on the strength of her investors signatures.Thus, without putting up a single penny of her own money but by investing her ideas and energies, Ashton created a chemical specialties venture and owned 50 per cent of it.

For the entrepreneur, it is generally safer to finance a new venture with more investors' money than creditors' money because

- Creditors money involves a definite promise to repay the lender. Almost all loans require the borrower to meet a repayment schedule that demands not only repayment of the loan but also payment of interest-usually monthly. Failure to meet this twin obligation could force the entrepreneur's venture into bankruptcy.
- Investors money, on the other hand, does not involve a definite promise to repay. Investors buy shares at their own risk. Later, if

> they want to sell their shares, they cannot force the entrepreneur to buy them back. Investors are on their own to find somebody willing to buy their shares. Investors are not always entitled to a return on their investment unless the venture makes a profit and declares a dividend.

The lack of a sharply defined financial obligation makes investors' money attractive to entrepreneurs. Some entrepreneurs, however, prefer to run their ventures with no investors' money except their own. Such a man was entrepreneur H.L. Hunt: [When Hunt died in 1974] at the age of 85, he had amassed an estimated personal fortune of $2 billion, putting him on a par with J. Paul Getty and Howard Hughes as one of the world's richest men. The exact extent of his wealth is unknown because Mr. Hunt never invested in anything that he could not own outright, and he had no outside stockholders in the businesses he did control.

Unlike H.L. Hunt, some entrepreneurs who want 100 per cent ownership of their ventures try to put in as little as they can and borrow as much as they can. Such entrepreneurs generally want to answer to nobody but themselves. But they may be deluding themselves. The entrepreneur's freedom to act may be as limited with creditors as with investors. Creditors with large stakes in the entrepreneur's venture may threaten to take over if the entrepreneur fails to pay bills or to repay loans.

Sources of finance equity capital: One of the most puzzling questions for an entrepreneur is where best to raise money. The sources range from private to governmental. We begin by looking at sources of equity capital (investor's money); later we examine sources of debt capital (creditors' money).

Venture Capital firms: A venture capital firm typically receives more than 1,000 requests for money each year, many of which stand little chance of success. Out of every 100 requests, 80 are dropped after less than a day's study, 10 are dropped after a week's study, 8 are dropped after a month's study, and 2 are accepted after one or more months of detailed study.

Most of the requests that are dropped within a day lack business plans. Most venture capital firms will not even look at a written request for money unless a business plan accompanies it.

Among the many types of venture capital firms are the following:

Traditional partnerships, which are often established by wealthy families to manage a portion of their money aggressively by investing in small businesses

Professionally managed pools, which are formed from institutional money and operate like traditional partnerships.

Investment banking firms, which occasionally form investor syndicates for venture proposals.

Insurance companies, which tend to be more conservative and often require a portion of equity capital as protection against inflation before they will lend to smaller businesses.

A popular misconception about venture capital firms is that they also invest in so-called mom-and-pop shops- the corner drugstore or the neighborhood restaurant. They do not. Their interest lies mostly in ventures that promise to grow rapidly in revenues and profits.

Small Business Investment companies: Small Business Investment Companies (SBICs) are another source of equity capital. SBICs originated

in 1958 after Congress passed the Small Business Investment Act, The purpose of this legislation was to encourage private investors to finance entrepreneurs. The act gave them an incentive to form SBICs, which they would run as private, profit-motivated businesses. In addition:

- Investors would invest only in small businesses, especially in high-risk ventures boasting new products with promising market potential, unusually favorable competitive positions, the possibilities of growth through favourable acquisition, and outstanding, aggressive management.
- The SBA would oversee the SBICs, including their licensing and regulation.

Some SBICs act like commercial banks and prefer to make loans rather than buy shares of stock, but they are the exception rather than the rule. SBICs often take a more balanced approach in their investment choices than do venture capital firms.

Traditionally, SBICs have been the workhorses of venture capital, investing more in traditional businesses than in flashy new fields such as electronics. “Venture capitalists are realizing that everything is not high technology, and some of the older industries that are not as sexy still have a lot of growth,” explains Barbara stack, Vice President of Hand Capital Corporation, a Buffalo SBIC.

SBICs expect precisely the same kinds of information as do venture capital firms, so entrepreneurs must have their business plans in hand when they go to an SBIC for financial help. Otherwise they stand little chance of success.

Big Business: Still another source of equity capital is big business. Many of the nation's major corporations have formed departments that seek out promising entrepreneurs to invest in. Their motives are mixed, ranging from a desire to earn maximum profits on their money to a desire to identify candidates for future acquisition.

Regardless of the motivation, investment by big business in small business is a healthy idea; corporations can supply not only equity capital but also managerial skills. Often it is not so much lack of money that plagues the entrepreneur as lack of managerial skills. Major corporations have such skills in abundance. A partial list of major corporations now aggressively seeking out promising entrepreneurs reads like a Who's Who of American business: Dupont Company, General Motors Corp. and Xerox Corporation.

Other Sources: There are many other sources of equity capital. According to one study, equity capital is most likely to be raised not from venture capital firms but from entrepreneurs themselves or their friends and relatives.

Even if we take into account the various government programs that aid small-business people and minority entrepreneurs, it is clear that formal institutions provide very little capital for new companies.

Most venture capital comes from the entrepreneur's own resources or from family and friends. This "earnest money" reassures bankers who often refuse to lend until entrepreneurs have locked themselves in by mortgaging their homes to the hilt and hustling everyone they know.

Sources of Debt Capital: So far we have discussed ways of raising equity capital. Let us now turn to ways of raising debt capital. Many entrepreneurs believe that banks often lend money to ventures that have yet to earn their

first dollar, and that the SBA often lends money to unborn ventures. Both beliefs are erroneous. Most bankers reject the loan applications of would be entrepreneurs unless:

- A wealthy friend or relative guarantees repayment of the loan by cosigning the bank note.
- The entrepreneur offers personal holdings, such as a house or top-rated bonds, as security for the loan.
- The entrepreneur needs the loan to construct a building, which can be repossessed without loss of dollar value if the venture fails.

There are various ways that entrepreneurs may borrow money, before and after they launch their ventures. We will look first at private lenders such as commercial banks, then at government lenders such as the SBA.

Private Lenders: Private lenders range from commercial banks to storefront finance companies, from insurance companies to relatives. Of these, commercial banks offer entrepreneurs the most help. Besides lending money, banks offer a host of other services, such as

- Professional financial advice
- Financial references
- Credit information
- Trust administration
- Transfer of funds.

Commercial bankers are as indispensable to entrepreneurs as lawyers are. An entrepreneur should strike a socking relationship with a banker months before launching a venture. According to the SBA:

Too many entrepreneurs go to their banker only when they need to borrow money. If the entrepreneur deals with her banker in day-to-day financial

matters, the banker can get to know her and her business. Not only will the banker often give aid and advice on current financial operations, but when she really needs to borrow money, the banker will be familiar with her business and will be better able to evaluate her loan application.

Commercial banks make two major kinds of loans: short term loans and long-term loans.

Short-Term Loans As a rule, commercial banks like to see a fast turnover of loans, so they tend to prefer short-term loans, that is, loans that fall due within one year. Such loans generally finance inventories or finance customers who buy on credit. The entrepreneur then repays when inventories are sold or when customers pay their bills.

Example: An entrepreneur opens a store to sell air conditioners. He must build up his inventory of air conditioners in the spring, just before the summer selling season. Because his need is only temporary, he may take out a short-term loan to buy the air conditioners. He would then repay the loan when his inventory of air conditioners is sold and paid for by customers.

This example points up the central feature of short-term loans. They satisfy the entrepreneur’s temporary need for money. Such loans are also called self-liquidating loans.

Because short-term loans last a short time, they often are made on an unsecured basis. Collateral is not required because the bank relies on the entrepreneur’s credit standing unless the borrower’s credit standing is poor or not yet established, in which case the lender may require collateral as protection against possible default on the loan. Loans backed by collateral are called secured loans.

Long-Term Loans: Long-term loans help satisfy the entrepreneur's permanent need for money. Long-term loans run for more than one year and enable the entrepreneur to finance the purchase of assets with long useful lives such as buildings and land, machinery and trucks. Such loans generally are repaid from profits.

Long-term loans may also enable an entrepreneur whose venture is growing rapidly to finance the permanent expansion of inventories, as well as customers who buy on credit. The following example illustrates how long-term loans work:

Example: An entrepreneur who owns a small machine shop needs a $ 15,000 turret lathe. Lacking the necessary cash, he takes out a $ 15,000 loan. If he continues to be successful, the entrepreneur will repay the loan out of profits plowed back into his venture.

The entrepreneur and the bank agree to a repayment schedule that calls for the $ 15,000 loan to be rapid in five yearly payments of $ 3,000 each plus interest. Note that this kind of loan enables the entrepreneur to build up his equity over the five-year life of the loan in the same way that a homeowner builds up equity with each payment on a mortgage loan.

Supplier Credit: This source of debt capital works only for entrepreneurs who enjoy a good credit rating. Others have to pay their suppliers in cash. By allowing suppliers to finance them, entrepreneurs benefit from the cash released for other purposes. An example will show how this kind of financing works:

Example: An entrepreneur who owns a tire-supply store buys tires monthly. Her supplier offers credit terms of 30 days, meaning that payment is expected 30 days after the entrepreneur receives a supply of tires. If she

sells out her inventory roughly once a month, she needs virtually no money of her own to finance the purchase of tires.

Government Lenders: There are many government lenders, not only at the federal level, but at the state and local as well. At true federal level, such lenders include the SBA and the U.S. Department of Commerce. At the state and local levels, lenders generally include agencies that are designed.

9.4 WORKING CAPITAL FINANCING

Working capital is the lifeblood of a business. Its adequate planning and proper management is necessary for the successful operation and continued existence of a business. Efficient management of working capital is a basic necessity for sound operational health of a every enterprise. Therefore, working capital management is an integral part of business management. Working capital management basically means management of current assets, current liabilities, and interrelationship between the two. Working capital is of a liquid nature. Therefore, working capital management is also called 'liquidity management'.

Concept of Working Capital: Working capital is understood in the following two ways:

Net Working Capital: Net working capital is the excess of current assets over the current liabilities. In other words, it may be defined as the provision of long-term (non-current) funds for current assets. The use of the concept of net working capital is qualitative as it provides a measurement of the financial health of a firm. The higher the amount of net working capital in relation to sales, the better the current financial health. The net

working capital also indicates the 'margin of safety' for meeting the maturing short-term liabilities (claims).

Gross Working Capital: Gross working capital is considered to be equal to the total current assets required by a business firm. In this context, the concept of total current assets has a broader application. It is intended to denote the total investment of funds in current assets for operation purposes or the total requirement of funds for current assets regardless of the financing sources.

Components of Gross Working Capital: The constituent parts of gross working capital, otherwise called current assets, are:

1. Advance given for purchases of raw materials and stores, etc.
2. Inventories:
    (i) Raw materials, stores and packing material, spare parts, etc.
    (ii) Work-in-process.
    (iii) Finished goods.
3. Book debtors or credit to customers.
4. Marketable investment (securities) on short-term basis:
    (i) To earn something on temporary surplus cash.
    (ii) To meet the requirement of offering security for some facilities and/or contract with government or some other agencies.
5. Cash and bank balances.

Estimating Working Capital Requirements: As stated earlier both excess and shortage of working capital are harmful for the health of an enterprise. It is,

therefore, essential to correctly assess the amount of working capital for an enterprise.

The following methods can be used to estimate the amount of working capital.

1. **Operating Cycle Method:** If for instance, the operating cycle of an enterprise is four months, it means the cycle is repeated three times in a year. The amount of working capital required would be one-third (1/3) of the amount of annual operating expenses.

2. **Assets and Liabilities Method:** The amount of working capital can also be estimated on the basis of current assets required for the business and the credit facilities (current liabilities) available for the acquisition of current assets.

   Example: From the following information estimate the amount of working capital required.

Budgeted Sales (Rs. 10 per unit)	Rs. 2,60,000
Cost of sales (per rupee)	
Raw materials	0.30
Direct labour	0.40
Over heads	0.20
Total cost	0.90
Profit	0.10
Sales	1.00

   It is estimated that:

(a) Raw materials are carried in stock for three weeks and finished goods for two weeks

(b) Factory processing will take three weeks

(c) Suppliers will give full five weeks' credit

(d) Customers will require eight weeks' credit

It may be assumed that production and overheads accrue evenly throughout the year.

Statement of Working Capital

Current Assets (1):	Rs.	Rs.
Stock		
Raw materials (3weeks)	=3/52×78000	= 4500
Work in progress (Note iv)		= 9000
Finished goods (2 weeks)	=2/52×234000	= 9000
		=22,500
Debtors (8weeks)	8=8/52×260000	= 40000
		62500
Current Liabilities (2):		
Trade creditors (5weeks)	= 5=5/52×78000	= 7500
Working capital required (1-2)		= 55000

Working Notes

(i)	Budgeted sales	2,60,000	
	Selling price per unit	10	
	Number of units	260000/10	= 26,000
(ii)	Cost of sales		Rs.
	Raw materials	26000×3	= 78,000
	Direct labour	26000×4	= 1,04,000
	Overheads	26000×2	= 52,000
			2,34,000

(iii) Number of weeks per annum have been taken as 52

(iv)	Work in progress:	Rs.
	Raw materials =3/52×78000	= 4,500
	Wages =3/52104000 × ½	= 3,000
	Over-heads=3/52×52000×½	= 1,500
		9,000

Since, wages and overheads accrue evenly during the year, they have been reduced to one-half.

Example 9.2: A proforma cost sheet of a company provides the following particulars:

	Amount per unit (Rs.)
Elements of cost:	
Raw materials	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:

Raw materials in stock, on average on month; Materials are in process, on average half a month; Finished goods in stock, on average on month.

Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1½ weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is expected to be Rs. 3,65,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly.

Solution:

Working notes and assumptions:

(i) 26,000 units have been sold for cash. Therefore, credit sales pertain to 78,000 units only.

(ii) Year has 52 weeks.

(iii) (a) Profits may be or may not be a source of working capital.

(b) Profits are to be adjusted for income-tax and dividend payments. For these reasons, profits have been ignored.

(iv) All overheads are assumed to be variable. Presence of depreciation element in overheads will lower the working capital requirement.

(v) Work-in-process at 50% completion stage.

Table No. 1: Statement showing determination of net working capital

			Amount (Rs.)
(a)	Current assets:		
	(i) Stock of materials for 1 month:		6,40,000
	(ii) Work-in-progress for ½ month:		
	(a) Material	×50%	1,60,000
	(b) Labour	×50%	60,000
	(c) Overheads	× 50%	1,20,000
	(iii) Finished goods for 1 month:		
	(a) Material		6,40,000

	(b) Labour	2,40,000
	(c) Overheads	4,80,000
	(iv) Debtors for 2 months	20,40,000
	(v) Cash in hand and at bank	3,65,000
	Total investment in current assets 47,45,000	
(B)	Current Liabilities:	
	(i) Creditors 1 month	
	1 month's purchase of raw materials, i.e.	6,40,000
	(ii) Average time-lag in payment of expenses	
	(a) Overheads (1month)	4,80,000
	(b) Labour (1½ weeks)	90,000
	Total estimate of current liabilities	12,10,000
(C)	Net working capital:	
	= Current assets – Current liabilities (A–B)	35,35,000

Reserve Bank of India has prescribed the following proforma for use by commercial banks to assess the working capital requirements of borrowers.

Assessment of Working Capital Requirements

Month's raw material requirements weeks'/months' consumable stores and spares	Rs.
Weeks' stock-in-progress at any one time (average period of processing, value of raw material content in stock-in-process and manufacturing expenses for the period of processing to be indicated)	Rs.
Months' finished goods at cost	Rs.

Weeks'/months' receivables representing credit sales	Rs.	
One month's manufacturing and administrative expenses		Rs.
Total working capital requirements		
Less: Credit available on purchase and advance payments received		Rs.
Working capital in business or liquid surplus		Rs.
Net working capital requirements		Rs.

(A)

Permissible Limits

Raw materials	Rs.	
Less: Margin	Rs.	Rs.
Stock-in-process	Rs.	
Less: Margin	Rs.	Rs.
Finished goods	Rs.	
Less: Margin	Rs.	Rs.
Receivables		
Representing supplies to Govt.	Rs.	
Less: Margin	Rs.	Rs.
Representing supplies to sundry parties	Rs.	
Less: Margin	Rs.	Rs.
Total Limit		Rs.

(B)

Net working capital requirements	
Permissible limits	Rs.
Deficit (if any) (A–B)	Rs.
How this is to be met ?	

SOURCES OF FINANCE AND FORMS OF CREDIT: After determining the level of working capital, as illustrated earlier, a firm has to decide how it is to be financed. The present part discusses the related aspect of the sources of finance for

working capital and forms of credit. The sources of finance for working capital may be said to fall into four categories, namely,

1. Trade Credit;
2. Bank Credit;
3. Current provisions of non-bank short-term borrowings; and
4. Long-term sources comprising equity capital and long-term borrowings.

The relative importance of these varies from country to country and from time to time depending on the prevailing environment. In India, the primary sources for financing working capital are trade credit and short-term bank credit. According to an estimate, both these sources together finance about three-fourth of the working capital requirements of industry. Another estimate regarding the relative contribution of various sources reveals that trade credit constitutes the most important source accounting for approximately two-fifths of the total while short-term bank credit finances more than one-fourth.

Thus, bank credit is the primary institutional source for working capital finance. To obtain short-term bank credit, working capital requirements have to be estimated by the borrowers and the banks are approached with the necessary supporting data. The banks determine the maximum credit based on the margin requirements of the security. The margin represents a percentage of the value of the asset offered as security by the borrower. For example, if the margin requiring on a particular item is 50%, the bank will be prepared to provide credit upto Rs. 50,000 against the security of an asset worth Rs. 1,00,000. The margin is based on the nature of goods and is laid down by the Reserve Bank of India. It is changed from time to time to suit the requirement of credit policy.

Forms of Credit: After getting the overall credit limit sanctioned by the banker, the borrower draws funds periodically. The following forms of credit are available to him:

Loan Arrangement: Under this arrangement the entire amount of loan is credited by the bank at the borrower's account. In case the loan is repaid in installments, interest is payable on actual balances outstanding.

Overdraft Arrangements: Under this arrangement, certain facilities are available to the borrowers which are not available under the loan arrangement. With the overdraft arrangement the borrower is allowed to overdraw on his current account with the bank upto a stipulated limit. Within this limit any number of drawings are permitted. Repayments can be made whenever desired during the period. The interest liability of the borrower is determined on the basis of the actual amount utilized.

Cash Credit Arrangement: This form of credit is operated in the same way as the overdraft arrangement. The borrower can draw upto a stipulated limit based on the security margin. He has to pay 1% as commitment charges on the unutilized balance during the period. Cash credit is usually allowed against pledge or hypothecation of goods and the borrower can provide alternative securities from time to time in conformity with the terms of advance.

Bills Purchased and Bills Discounted: This arrangement is of relatively recent origin in India. With the introduction of the New Bill Market Scheme in 1970 by the Reserve Bank of India, bank credit is being made available through discounting of usance bills by banks. In brief, under the scheme, the Reserve Bank of India envisages the progressive use of bills as an instrument of credit as against the current practice of using the widely-prevalent cash credit arrangement for financing working capital. This is because the cash credit arrangement gave rise to unhealthy practices. In the first place, as the availability of bank credit was

unrelated to production needs, borrowers in the organized sector of private industry enjoyed facilities in excess of their legitimate needs. Moreover, it led to double financing. This was possible because credit was taken from different agencies for financing the same activity. This was done, for example, by buying goods on credit from suppliers and raising cash credit by hypothecating the same goods. The Bill Market Scheme is intended to link credit with the sale and purchase of goods and, thus, eliminate the scope for misuse or diversion of credit to other purposes.

The amount made available under this arrangement is covered by the cash credit and overdraft limit before discounting the bill the bank satisfies itself about the credit worthiness of the drawer and the genuineness of the bill. To popularize the scheme, the discount rates are fixed at lower rates than those of cash credit, the difference being about 1–1.5%. The discounting banker asks the drawer of the bill (i.e. seller of goods) to have his bill accepted by the drawees (buyers) bank before discounting it. The latter grants acceptance against the cash credit limit, earlier fixed by it, on the basis of the borrowing value of stocks.

Therefore, the buyer who buys goods on credit cannot use the same goods as a source of obtaining additional bank credit.

Term Loans for Working Capital: Under this arrangement banks advance loans for 3–7 years repayable in yearly or half-yearly installments.

Mode of Security: Banks provide credit on the basis of the following modes of security:

Hypothecation: Under this mode of security, the banks provide credit to borrowers against the security of movable property, usually inventory of goods. The goods hypothecated, however, continue to be in the possession of the owner of these goods (i.e., the borrower). The rights of the lending bank (hypothecatee)

depend upon the terms of the contract between the borrower and the lender. Although the bank does not have physical possession of the goods, it has the legal right to sell the goods to realise the outstanding loan.

Pledge: Pledge, as a mode of security, is different from hypothecation in that in the former, unlike in the latter, the goods which are offered as security are transferred to the physical possession of the lender. An essential prerequisite of pledge, therefore, is that the goods are in the custody of the bank. The borrower who offers the security is, called a "pawnor" while the banks called the "pawnee". The lodging of the goods by the pawnor to the pawnee is a kind of bailment. Therefore, pledge creates some liabilities for the bank. It must take reasonable care of goods pledged with it. The term "reasonable care" means care which a prudent person would take to protect his property. He would be responsible for any loss or damage if he use the pledged goods for his own purposes. In case of non-payment of the loans, the bank enjoys the right to sell the goods.

Lien:The term "lien" refers to the right of a party to retain goods belonging to another party until a debt due to him is paid. Lien can be of two types: (i) particular lien, and (ii) general lien.

Particular lien is a right to retain goods until a claim pertaining to these goods is fully paid. On the other hand, general lien can be applied till all dues of the claimant are paid. Banks enjoy general lien.

Mortgage: It is the transfer of interest in specific immovable property for securing the payment of money advanced. The person who parts with the interest in the property is called "mortgagor" and the person in whose favour the transfer takes place is the mortgagee. Mortgage is, thus, conveyance of interest in the mortgage property. The mortgage interest in the property is terminated as soon as the debt is paid.

Charge: Where immovable property of one person is by the act of parties or by the operation of law made security for the payment of money to another and the transaction does not amount to mortgage, the latter person is said to have a charge on the property and all the provisions of simple mortgage will apply to such a charge. These are:

(i) A charge is not the transfer of interest in the property though it is security for payment. But a mortgage is a transfer of interest in the property.

(ii) A charge may be created by the act of parties or by the operation of law. But a mortgage can be created only by the act of parties.

(iii) A charge need to be made in writing but a mortgage deed must be attested.

(iv) Generally, a charge cannot be enforced against a transferee for consideration without notice. In a mortgage the transferee of the mortgaged property can acquire the remaining Interest in the property, if any.

Accrual Accounts: There is a time lag between receipts of income and making payment for the expenditure incurred in earning that income during this time lag, the outstanding expenses help an enterprise in meeting some of its working capital needs. For example, wages and taxes become due but are not paid immediately. Wages and salaries are paid in the first week of the month next to the month in which services were rendered. Similarly, a provision for tax is created at the end of the financial year but tax is paid only after the assessment is finalized.

Merits

(i) Accrual accounts are a spontaneous source of finance as these are self-generating.

(ii) Financing through accruals is an interest free method and no charge is created on the assets.

(iii) As the size of business increases, the amount of accruals also increase.

Demerits

(a) An enterprise cannot indefinitely postpone the payment of wages/salaries and taxes. Therefore, it is not a discretionary source of finance

(b) This source should be used only as a matter of last resort.

Factoring: Factoring is an arrangement under which a financial institution (called factor) undertakes the task of collecting the book debts of its client in return for a service charge in the form of discount or rebate. The factoring institution eliminates the client's risk of bad debts by taking over the responsibility of book debts due to the client. The factoring institution advances a proportion of the value of book debts of the client immediately and the balance on maturity of book debts.

Merits

(i) As a result of factoring services, the enterprise can concentrate on manufacturing and selling.

(ii) The risk of bad debts is eliminated.

(iii) The factoring institution also provides advice on business trends and other related matters.

Demerits

(i) A substantial amount of discount or rebate has to be paid to the factoring concern.

(ii) If he factoring institution uses strong arm tactics to collect money it will spoil the image and relations of the firm with its customers.

Advances from Customers: Manufacturers and suppliers of goods, which are in short, supply usually demand advance money from their customers at the time of

accepting their orders. For example, a customer has to make an advance at the time of booking a car, a telephone connection, etc. Similarly, contractors constructing buildings, etc. require an advance from the client. In some businesses, it has become customary to receive advance payment from the customers. This is a very cheap source of short-term finance because either no interest is payable or the rate of interest payable on advance is nominal.

9.5 SUMMARY

Despite its romantic aspects, financing a new venture frustrates many entrepreneurs. Often they do not know where to begin; if they do know, they go at it haphazardly. The act of preparing a financial plan enables entrepreneurs to crystallize their thinking on how best to launch their ventures. It forces them to move logically and systematically from the stage of dreams and ideas to that of concrete action.

The centerpiece of the business plan is the cash budget, which translates operating plans into dollars. Without a cash budget, the entrepreneur has no way of estimating financial needs. Before beginning to develop a cash budget, an entrepreneur must first spell out his or her operating plans, defining production, marketing, staffing, accounting, and legal goals.

Having estimated how much money is needed to finance the venture, the entrepreneur must then decide what fraction of this money should come from investors as equity capital, and from creditors as debt capital.Various sources of raising working capital finance may include trade credit, bank credit, current provisions of non-bank short term borrowings and long term sources.

9.6 KEYWORDS

Capital: A business's total amount of money and/or property meant for use in ways or activities that are intended to produce wealth.

Current Assets: Current assets are those assets which can be easily converted into cash with a period of one year or one operating cycle.

Gross Working Capital: It is considered to be equal to the total current assets required by a business firm.

Net Working Capital: Net working capital is the excess of current assets over current liabilities.

Lien: It refers tot he right of a party to retain goods belonging to another party until a debt due to him is paid.

9.7 SELF ASSESSMENT QUESTIONS

1. As a new entrepreneur, how would you estimate the requirement of finance? Give detailed account with imaginary figures.
2. What do you understand by the term 'working capital"? Distinguish between Gross working capital and Net working capital.
3. Discuss the need for and significance of adequate working capital in the successful functioning of small-scale enterprises.
4. How will you estimate the amount of working capital required for a new small business firm?
5. Discuss the sources of working capital finance for a small firm.
6. You are an entrepreneur planning to set up a small-scale unit catering to everyday provision needs of a large housing complex. How would you assess your working capital requirements and wherefrom such requirements be met?

7. Explain the main elements of managing effectively the working capital of small-scale industries.

9.8 SUGGESTED READINGS

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Subject: Entrepreneurial Development
Code: CP 401
Lesson : 10 **Updated by: Dr. M.C. Garg**

SICKNESS OF SSI UNITS AND REMIDIAL ASSISTANCE

STRUCTURE

10.0 OBJECTIVE

After reading this lesson you should be able to

(a) Define industrial sickness and its causes.

(b) Describe the role of various agencies in developing small enterprises in India.

(c) Suggest revival measures and strategies for development of SSI in India.

10.1 INTRODUCTION

Economic development of a country is directly related to the level of its industrial growth. Expansion of industry leads to greater utilization of natural resources, production of goods and services, creation of employment opportunities, and improvement in the general standard of living. India has also been striving to develop the country's industrial base ever since its Independence. It has formulated various policies aimed at development of industries in the public and private sectors. However, these industries have had their share of problems from time to time.

An industrial unit is like a human body. A person becomes sick if any part of his body is affected. It may be due to internal factors or external factors or both. To become sick, it is not necessary that all parts of the body should be affected or to begin treatment, one should want till all parts of the body are affected. Similarly, an industrial unit can become sick in a minor way when only one or some aspects of its activity is affected. It will become totally sick when it ceases to function and undertake revenue generating activities.

When its segments like production, finance, marketing and personnel are affected, it gets into sickness. Moreover, initially, it may be incipient sickness due to internal factors or external factors. If the incipient sickness is not cured, the unit runs into losses and ultimately, it may be wiped out. The sickness may be unit-wise or industry-wise.

In order to analyse the industrial sickness, it is essential to understand clearly the anatomy of an industrial unit, with detailed analysis of its different structures or systems and their critical elements.

Mr. Ram K. Vapa in his work Small Industry in the Seventies has observed, one of the main problems confronting the growth of small industries in most of the developing countries is lack of adequate finance. Inadequacy in the banking structure of a developing country has created a situation wherein the bulk of its meager resources are canalized into few large scale units which are prestigious and sponsored by influential groups. The small entrepreneur is forced to rely on his own savings or that of his friends and relatives and has depend on the money lender for his loans which are given only at exorbitant rates of interest. Quite often, the new enterprise cannot sustain such high interest charges and its failure to do so becomes another argument against the credit worthiness of the small scale units.

Further, Mr. Ram K. Vapa said even in relatively more developed countries, there is a need for large scale volume of credit to keep the small industry going the working capital requirements of small units are relatively much larger than those of large one, in addition, there is need for long-term lending to replace machinery and modernize facilities. The rate of obsolescence is high in the small scale sector and there is no phased programme of replacement. This in turn, pushes up the cost of production in that sector making the product uncompetitive both in domestic and international markets.

The above adequately sums up the problems which a small scale entrepreneur has to face in a country like India with limited resources at his disposal. He faces a number of problems in various area of operation like production, labour, marketing and materials. In this age of automation, due to scarcity of fund, the small entrepreneur has to function with obsolete plant and technology. This results in marketing problems in the domestic and foreign markets. Small entrepreneur in turn cannot afford to employ high salaried managers to manage his various organizational activities, be

they personnel, production, materials or marketing. All these problems are manifestation of financial problems. Financial problems if allowed to continue, lead a healthy organization to a sick one. The health of the unit undergoes gradual deterioration till sickness manifests in all dimensions.

Industrial sickness is a universally accepted term, root cause of which is directly Or indirectly related to finance. Government of India, Reserve Bank of India, term lending financial institutions, commercial banks and the industrial entrepreneurs are worried a lot about the rising trend of sickness prevailing in Indian industries. Academicians and researchers too, all over the world, are concentrating their studies on how to arrest the industrial sickness at its incipient stage.

10.2 INDUSTRIAL SICKNESS: CONCEPT AND CAUSES

The sickness of a firm has been defined by economists as the situation where the rate of return realized on invested capital, taking risk involvement into consideration, is significantly and continuously less than the prevailing rates on similar investments. In other words, it is a situation where the revenues of a firm are insufficient to meet the costs and the average rate of return on investment is less than the firm’s cost of capital.

Technically, a firm is insolvent when it cannot pay its debts when they fall due. This situation may be a temporary condition but insolvency in a more critical condition is the situation when a firm’s total liabilities exceed a fair valuation of its assets. At this stage, the real net worth of the firm is negative. Under critical situation, a firm can be declared legally bankrupt by an order of the court to protect itself from the immediate pressures of creditors to realize their stake in the firm. At this stage, the firm has the opportunity of reorganizing itself or seeks a merger with a viable firm or go into liquidation.

Industrial sickness being a technical concept conveys different meanings to different people. A sick unit is a unhealthy unit to common men, a dividend postponing unit to investors, a losing or discouraging unit to industrialists, a doubtful debtor and a weak borrower to creditors and bankers, an industrial problem unit to the government, a victim of technological changes to technocrats, a bad employer to workers and great wastage of technical and human resources to the country. However, the focal point of sickness lies with the constant inability of an industrial unit to generate an output larger than its inputs for which the operational problems of liability, accumulated losses, etc. arise. Its internally generated surplus is inadequate to meet its requirement. Due to the losses incurred and reported by the unit year after year, the unit is dragged from bad to worse condition and at last, its survival only on external funds and brings it to gradual shrinkage and closure.

For the proper definition or ascertaining the symptoms of the disease of industrial sickness, (a) the rate of return on investment and capital cash flow, (b) ability to meet socio-economic obligations, (c) capacity to redeem its debts, (d) profitability, (e) ability to face competition, (f) ability to garner share in the market, etc. are taken into account. Because, these are some of important factors which are used to examine the health of an industrial unit.

State Bank of India study team on small industrial advances, 1975 defined industrial sickness as a unit which fails to generate adequate internal surpluses on continuing basis and depends for its survival on frequent infusion of external financial help, thereby it brings about serious dis-equilibrium in its financial structures. Thus the study group found that the industrial unit is sick when its internal capabilities are exhausted and it began to seek external financial help for its survival.

The study group constituted by the RBI to frame guidelines for follow up of bank credit defined the industrial sickness as … with a steady erosion of profitability, the borrower's liquidity declines and the first sign … is delayed payment to creditors leading ultimately to default with further deterioration in profitability followed by losses, current liabilities exceed current assets. In other words, net working capital is negative and therefore, it is a situation of net working capital deficit. Industrial sickness has also been described as the situation where the revenues of a firm are insufficient to meet the cost, and the rate of return on investment is less than firm's cost of capital. That means, when cost of capital exceeds the expected or actual return of a firm, the unit becomes sick. An industrial organization is labeled as sick if it does not function normally. From the lenders point of view, it would be sick if (a) it fails in payment of interest, on repayment of principal amount due to cash losses, (b) there is a financial imbalance [that is to say that current ratio is lower than 'one' and capital is highly geared], and (c) the sales (quantity and value) and the profits are dwindling consistently. The National Institute for Bank Management defined sick units as those where the operations result in continuous losses bringing down the working capital available and ultimately, affecting the borrowing potential almost permanently. In tune with this definition, the small industries development organization (SIDO) observed a unit as sick if the capacity utilization is less than 20 per cent of installed capacity. That means, while adopting this definition of sick units, the SIDO paid more emphasis on the capacity utilization. Tern lending institutions classified a unit as sick by taking into account any one or more of the following symptoms:

(a) Continuous default in meeting its half-yearly interest payment obligation or principal in respect of institutional loans.

(b) Continuous losses for a period of two years or continued erosion in the net worth, say by 50 per cent; and/or

(c) Mounting arrears on account of statutory and other liabilities for a period of one or two years.

Sick Industrial Companies (Special Provisions) Act, 1985 considers an industrial company (being a company registered for not less than seven years) as sick when it has at the end of any financial year accumulated losses equal to, or exceeding its, entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

Causes of Sickness: Factors causing industrial sickness can broadly be divided into two main categories viz., internal causes and external causes. Internal causes are the factors which are within the control of the management of a unit and the externals are the factors which affect industrial group as a whole, and on these, the industrial unit has no direct control.

Efforts have been made to unearth various factors responsible for causing industrial sickness in the country. Of the various factors, the significant to quote are mis-management or inefficient management, non-availability of quality raw-materials at right price and at right time, power shortage, paucity of funds, defective planning at initial stages, lack of marketing expertise, etc. Besides, there are other factors which are equally responsible for industrial sickness. These may be summarized as wrong industrial location, improper estimation of capital cost, delays and cost escalation, improper formation of inventory needs, marketing of finished goods at longer credit terms, labour unrest, infighting due to power struggles, poor maintenance of plant and machinery, old and worn out machinery and

production technology, lack of research and development, procedural delay in sanctioning loans by commercial banks and other institutional agencies, demand recession, higher over-head expenses, overoptimistic view of market, insufficient provision for unforeseen expenses and replacement, lack of laughing back of profits, inadequate investment for modernization and renovation and delays in rehabilitating sick units, etc. These factors are responsible for industrial sickness in the country for all types of industries irrespective of their characteristics based on the scale of operations.

Though the causes of industrial sickness in India are manifold and complex, there is a unanimous agreement that the poor management is one of the important reasons for higher degree of sickness. A recent study by RBI revealed that two-thirds of sick units had become sick due to mis-management of one kind or another (e.g., diversion of funds, infighting, lack of marketing strategies, faulty project planning and faulty choice of technology).

10.3 MAGNITUDE OF INDUSTRIAL SICKNESS

Of late, the magnitude of industrial sickness has been quite alarming. It was first noticed in the mid-sixties which also coincided with the period of industrial stagnation. Thereafter, it was continuously on increase with the liberalization of industrial policy. In the eighties, new technologies were introduced resulting in increased competitiveness and, the units which could not stand against competition fell sick. The incidence of sickness has assumed serious proportions in recent a year which is reflected in the increase in the number of sick industrial units and alarming increase in the amount of funds locked therein. In the corporate sector, small scale sector units are worst sufferers of industrial sickness as 95 per cent of sick units in

the country were from SSI sector during 1980. This percentage further risen to 99 by the year 1999.

A study of RBI Annual Report reveals that during 1986-87, about 10 industrial units turned sick per working day. A more concerning aspect is that majority of them are small scale units. It is estimated that 80 per cent of the units are non-viable. Obviously, sickness in industries has taken visible dimension and its impact is felt on the whole economy.

Industrial sickness in India is growing at an alarming rate, as the number of all types of sick industries increased by nine-fold during 1980-92 and bank credit against them increased by four-fold over same period. One indication of severity of growing industrial sickness is that of the total sick units, more than nine-tenth is beyond cure, (i.e., non-viable units). According to a survey, about 18% of the outstanding bank credit to industries was locked up in sick industries at the end of March 1991. The number of sick SSI units increased from 2,56,452 as at the end of March 1994 to 2,68,815 units by the end of March 1995. However, the outstanding bank credit locked in these units over the same period decreased from Rs. 3,680.37 crore to Rs. 3,547.13 crore.

Subsequently, the number of sick units declined from 2,68,815 units in March 1995 to 2,62,376 by the end of March 1996. Outstanding bank credit locked up in these units increased marginally from Rs. 3,547.13 crore to Rs. 3,722 crore as at the end of March 1996. Similarly, during 1997 also there was a declining as the sick small scale industries and their outstanding balances of credit declined to 2,35,032 and Rs. 3,609 crore respectively by March 31, 1997. Infact, this is a good sign of declining in sick units and their outstanding bank credit. However, it cannot be claimed as a major

achievement towards eradication of sickness in SSI as it still needs sincere efforts to minimize the sickness.

10.4 GOVERNMENT ASSISTANCES: MARKETING AND TECHNICAL

Governments-both Central and State, have in the past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI- have promoted/sponsored a number of Technical Consultancy Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development. Now, what follow in the subsequent pages is the various kinds of support provided by aforesaid institutions to the entrepreneurs to help them establish industries and solving their problems in due course.

Small Scale Industries Board (SSIB): The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on the development of small scale industries in the country. The

SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries involves several departments/ministries and several organs of the Central/State Governments. Hence, to facilitate co-ordination and inter-institutional linkages, the Small Scale Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small-scale industries.

The Industries Minister of the Government of India is the Chairman of the SSIB. The SSIB comprises of 50 members including State Industry Minister, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

State Small Industries Corporations: Many State Governments have set up Small Industries Corporations in order to undertake a number of commercial activities. The most important of these activities are distribution of scarce raw materials, supply of machinery on hire-purchase basis, constitution and management of industrial estates, procurement of orders from Government Departments, assistance in export marketing and in certain cases provision of financial, technical and managerial assistance to small enterprises.

Small Industries Development Corporation (SIDCO): In Tamilnadu SIDCO is the state small industries corporation. It plays a lead role in developing small scale sector. It provides the following facilities to small scale units:

(a) It makes provision of constructed sheds/plots in industrial estates. These are sold to entrepreneurs on hire-purchase basis or given on rental basis.

(b) Assistance in procuring some scarce key raw materials like iron and steel, paraffin wax, potassium chlorate, Fatty Acids, etc., through its various distribution centres.

(c) Financial assistance in the form of subsidies to industrial units in backward areas like Central Investment subsidy, state capital subsidy. Interest-Free sales tax loans, power tariff subsidy and margin money assistance for the rehabiliation of the sick small scale industries.

(d) Marketing assistance to small entrepreneurs.

Small Industries Service Institutes (SISIs): The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training division of the DCSSI's office. There are 28 SISIs and 30 branch SISIs set up in State capital and other places all over the country.

The main functions of SISIs include:

- To serve as interface between Central and State Governments.
- To render technical support services.
- To conduct Entrepreneurship Development Programmes.
- To initiate promotional programmes.

The SISIs also render assistance in the following areas:

(i) Economic Consultancy/Information/EDP Consultancy.

(ii) Trade and market information.

(iii) Project profiles.

(iv) State industrial potential survey.

(v) District industrial potential surveys.

(vi) Modernisation and in-plant studies.

(vii) Workshop facilities.

(viii) Training in various trade/activities.

District Industries Centres (DICs): The District Industries Centres (DICs) were established in May 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scale industries in rural areas. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneurs are provided under a single roof through the DICs. They are the implementing arm, of the Central and State Governments for various schemes and programmes. Registration of small industries is done at the district industries centres.

The organisational structure of DICs consists of one General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to the needs of district concerned. Management of the DICs is done by the State Governments. The scheme has now been transferred to the states and from the year 1993-94, funds will not be provided by the Central Government to the States for running the DICs.

Functions: The DICs role is mainly promotional and developmental. To attain this, they have to perform the following main functions:

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. to prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs.
- To prepare an action plan to effectively implement the schemes identified.
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
- To undertake product development work appropriate to small industries.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administering IRD and TRYSEM programmes.

INDUSTRIAL ESTATES: Developing countries require institutional arrangements for their rapid industrialization and balanced growth. One such institutional measure is industrial estates. The term 'industrial estate' is

called by different names, e.g., industrial park, industrial zone, industrial region, industrial city, industrial area, industrial township, etc.

An industrial estate has been defined as a method of "organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

Industrial Estates in India: One of the handicaps faced by small scale industries in India has been the lack of well-developed space with the necessary infrastructure for carrying on their manufacturing operations. In order to overcome this problem, the Government of India launched the programme of setting up industrial estates in 1955. The responsibility for planning, developing, constructing and managing industrial estates lies with the respective State Governments. They are free to run the estates through corporations or any other agencies of their choice. The Central Government provides financial assistance to the State Governments for the development of industrial estates. Such financial assistance is provided in the form of loans, grants and subsidies.

Industrial estates as a tool of rapid and balanced economic development, occupy a prominent place in the scheme of planned growth in India. These estates are expected to foster the growth of small scale industries, help in rural industrialization, and decentralization of industrial location. Therefore, increasingly more funds have been allocated under successive

five year plans for the development of industrial estates. Such allocation of funds increased from Rs. 58 lakhs under the First Five Year Plan to more than Rs. 90 crores in the Eighth Five Year Plan.

The programme of industrial estates in India is designed to achieve the following objectives:

(i) to encourage the development of small-scale and medium sized industrial units for balanced regional development;

(ii) to remove concentration or congestion of industries in big cities by facilitating the movement of industrial units to suburban and rural areas;

(iii) to secure decentralization of industry by diverting new industrial units to underdeveloped regions;

(iv) to encourage the growth of ancillary units in the townships surrounding major industrial undertakings, both in public and private sectors. No developing country has launched such a massive programme of industrial estates as India. Over the years there has been a remarkable growth in industrial estates. However, a sizeable portion of capacity in industrial estates remains unutilized.

Experience reveals that urban industrial estates have been more successful than semi-urban and rural estates. Rural estates have not been much successful due to lack of sound infrastructural facilities. Therefore, efforts should be made to develop sound infrastructure in rural and suburban industrial estates.

Small industry certainly needs a boost through industrial estates. But industrial estates should not simply become a housing colony for small

units, irrespective of their merits. Encouraging the small units that do not fit into the nation's needs and the national priorities is pointless. Identification of the product, manufacturing of which results in the promotion of labour – intensive industry and choosing the techniques that help promote the labour – and intensive manufacturing should be the objectives of the industrial estates.

National Small Industries Corporation Ltd. (NSIC): The National Small Industries Corporation Ltd. (NSIC), an enterprise under the Union Ministry of Industries, was set up in 1955 to promote, and foster the growth of small scale industries in the country. NSIC provides a wide range of services, predominantly promotional in character to small scale industries. Its main functions are:

- To provide machinery on hire-purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.
- To develop proto-type of machines and equipments to pass on to small scale industries for commercial production.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in the development and upgradation of technology and implementation of modernisation programmes of small scale industries.
- To impart training in various industrial trades.

- To undertake the construction of industrial estates.

Small Industries Development Organisation (SIDO): Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small-scale industries, development of industrial estates, etc. The main functions of SIDO are classified into (i) co-ordination, (ii) industrial development and (iii) extension. These functions are performed through a national network of institutions and associated agencies. All small-scale industries except those falling within the specialised boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

Following are the main tasks performed by the SIDO in each of its three categories of functions.

Functions Relating to Co-ordination

- To evolve a national policy for the development of small scale industries,
- To co-ordinate the policies and programmes of various State Governments,

- To maintain a proper liaison with the related Central Ministries, Planning commission, State Governments, Financial Institutions, etc., and
- To co-ordinate the programmes for the development of industrial estates.

Functions Relating to Industrial Development

- To reserve items for production by small-scale industries,
- To collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance,
- To render required support for the development of ancillary units, and
- To encourage small scale industries to actively participate in Government Stores Purchase Programme by giving them necessary guidance, market advice and assistance.

Functions Relating to Extension

- To make provision of technical services for improving technical process, production planning, selecting appropriate machinery, preparing factory lay-out and design.
- To provide consultancy and training services to strengthen the competitive ability of small-scale industries
- To render marketing assistance to small-scale industries to effectively sell their products, and

- To provide assistance in economic investigation and information to small-scale industries.

Entrepreneurial Guidance Bureau (EGB): The EGB has been set up to guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations for the projects, preparing project profiles, assisting them to get financial assistance.

EGB has been supplying information pertaining to the products that offer scope for manufacture, statistical details relating to demand, capacity production, sources of raw materials, types of equipments required, investment involved, sources of finance, etc. Information of procedures pertaining to obtaining letters of intent, import of capital equipment, export of finished products is also furnished. EGB also renders assistance from banks/financial institutions or for submitting proposals for the letter of intent, etc. EGB also establishes direct contact with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship development.

National Alliance of Young Entrepreneurs (NAYE): National Alliance of Young Entrepreneurs (NAYE) sponsored an Entrepreneurial Development Scheme with Bank of India in August 1972 on pilot basis. This scheme, known as BINEDS, is operative in the States of Punjab, Rajasthan, Himachal Pradesh, Jammu and Kashmir and Union Territories of Chandigarh and Delhi. NAYE entered into similar arrangements. The main objective of the scheme is to help young entrepreneurs in identifying investment and self-employment opportunities; securing proper arrangements for their training including development of their manufacturing capabilities; providing necessary financial assistance on the

basis of properly prepared reports; securing package of consultancy services on appropriate terms and arranging for all possible assistance, facilities and incentives being extended to young entrepreneurs by Government and other institutions.

Small Industry Extension Training Institute (SIETI): SIETI entered the field of consultancy on adhoc basis mainly to support the activities of State Governments and development corporations. SIETI's consultancy services have recently become broad-based in terms of both the types of assignments undertaken and area covered. The activities have been operative in Jammu and Kashmir, Karnataka, Nagaland, Meghalaya, Manipur, Assam, Maharashtra and Andhra Pradesh. The assignments in the earlier years pertained to (1) identification of industrial opportunities, (2) identification of growth centres, (3) preparation of regional development plans, (4) industrial profiles, (5) feasibility studies, (6) organisational development, and (7) designing information system. They now include entrepreneurial development; training and counseling of the educated unemployed; management counseling for sick industrial units; and training of trainers and consultants for entrepreneurial development. Particular attention is given to industrialization of backward areas.

National Productivity Council (NPC): Recently National Productivity Council has started a Package Consultancy Service to Small Industries. This service is in three stages.

(a) Training young and prospective entrepreneurs;

(b) Undertake market surveys in the States. These surveys are conducted for identifying investment opportunities and consumption patterns

for the prospective entrepreneurs; develop data bank for providing information in respect of investment opportunities and financial resources required, facilities available for obtaining loans; selection/modernisation of processes and equipment, product development, availability of raw materials and market opportunities, sales promotion and marketing and to undertake techno-economic feasibility studies either on behalf of prospective or existing entrepreneurs or on behalf of financial institutions.

(c) Post-investment service consultancy and follow-up in the following form.

To assist the entrepreneurs in repayment of loans in the minimum possible time by helping them in improving their enterprise level productivity through periodical visits; assist the small scale industries in training of workers in specific trades and supervisory and managerial personnel in techno-managerial subjects, assist the existing enterprises in improving their enterprise level productivity through training and consultancy services; and assisting them in market studies and sales promotion.

National Research Development Corporation of India (NRDCI): NRDCI makes available processes which have been developed by various laboratories in the country. It brings out periodically a publication, entitled, 'PRDC Processes', which gives in brief particulars of the various processes, uses of the products, raw materials required and capital outlays. If an entrepreneur is interested to adopt a process, he is expected to pay a lump sum premium; royalty is also payable bi-anually for specified period after starting production. The concerned institute or laboratory releases the process details to the license after he has executed an agreement. NRDC

also provides technical appraisals on a few projects, which are variously priced at Rs. 25 to Rs. 750 per copy.

Khadi and Village Industries Commission (KVIC): KVIC was set up in 1953. The primary objective of establishing KVIC is to develop Khadi and Village industries and improving rural employment opportunities. Its wide range of activities include training of artisans, extension of assistance for procurement of raw materials, marketing of finished products and arrangement for manufacturing and distribution of improved tools, equipment and machinery to producers on concessional terms.

KVIC provides assistance to Khadi and Village industries which are characterised by low capital intensity and ideally suited to manufacturing utility goods by using locally available resources. There are about 26 specified village industries such as processing of cereals and pulses, leather, cottage matches, gur and khandsari, palm gur, non-edible oils and soaps, village pottery, carpentry, gobargas, household aluminium utensils, etc.

KVIC's policies and programmes are executed through 30 State Khadi and Village Industries Boards, 2320 institutions registered under the Societies Registration Act, 1960 and about 30,600 Industrial Cooperative Societies registered under State Cooperative Societies Act. Activities involving pioneering types of work, such as developing new industries in hilly, backward and inaccessible areas are undertaken by KVIC directly.

National Institute of Entrepreneurship and Small Business Development (NISEBUD), New Delhi: It is an apex national level institute of its kind set up at New Delhi in 1983. Its main functions are to coordinate research and training in entrepreneurship development and to

impart specialised training to various categories of entrepreneurs. Besides, it also serves as a forum for interaction and exchange of views between various agencies engaged in activities relating to entrepreneurial development

National Institute of Small Industries Extension Training (NISIET), Hyderabad: This institute was set up in 1956 to develop the required manpower for running small-scale industries in the country. Accordingly, its main functions are:

(a) To impart training to the persons engaged in small-scale industries.

(b) To undertake research studies relating to development of small-scale industries.

(c) To enter into agreements relating to consultancy services both with national and international organisations to provide consultancy services to small industries in the country.

The institute conducts courses in business management for the benefit of the entrepreneurs and semi-managerial personnel of small industries. It is located at Hyderabad.

Other Institutes Supporting Entrepreneurs: Following are some of the important institutes set up by the Government for development of small-scale industries:

(a) Electronic Training and Service Institute, Nainital.
(b) Central Machine Tools Limited, Bangalore.
(c) Sports Goods and Leisure Time Equipment, Meerut.
(d) Central Institute of Plastics Engineering and Tools, Madras.

(e) National Institute of Foundry and Forging Technology, Ranchi.

Technical Consultancy Organisations (TCOs): A network of Technical Consultancy Organisations (TCOs) was established by the all India financial institutions in the seventies and the eighties in collaboration with state level financial/development institutions and commercial banks to cater to the consultancy needs of small industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state. These 17 TCOs are:

1. Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).
2. Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO).
3. Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO).
4. Haryana-Delhi Industrial Consultants Ltd. (HARDICON).
5. Himachal Consultancy Organisation Ltd. (HIMCO).
6. Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT).
7. Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KITCO).
8. Karnataka Industrial and Technical Consultancy Organisation Ltd. (KITCO).
9. Madhya Pradesh Consultancy Organisation Ltd. (MPCON).
10. Mahrashra Industrial and Technical Consultancy Organisation Ltd. (MITCON).
11. North-Eastern Industrial Consultants Ltd. (NECON).

12. North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO).
13. North-India Technical Consultancy Organisation Ltd. (NITCON).
14. Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCON).
15. Rajasthan Consultancy Organisation Ltd. (RAJCON).
16. U.P. Industrial Consultants Ltd. (UPICO).
17. West Bengal Consultancy Organisation Ltd. (WEBCON).

Functions: Initially, TCOs' functions were focused on pre-investment studies for small and medium scale enterprises. Over the years, they have diversified their functions to include the following:

- To prepare project profiles and feasibility profiles.
- To undertake industrial potential surveys.
- To identify potential entrepreneurs and provide them with technical and management assistance.
- To undertake market research and surveys for specific products.
- To supervise the project and where necessary, render technical and administrative assistance.
- To undertake export consultancy for export-oriented projects based on modern technology.
- To conduct entrepreneurship development programmes.
- To offer merchant banking services.
- A summary view of the progress/performance of TCOs

Commercial banks and Entrepreneurial Development: In recent times commercial banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their

progress and development. They have now entered the challenging field of promoting new small scale entrepreneurs through entrepreneurship development programmes. In their new role as promoters of small scale sector they have accepted yet another challenging task. They are now holding EDPs in collaboration with specialised institutions such as DIC, SISI, TCOs, etc. with a view to identifying entrepreneurs, especially in backward areas, and training and monitoring them to start new ventures.

10.5 REVIVAL MEASURES AND STRATEGIES

Sickness in small scale industries is not confined to a particular product, state or region. It is, more or less, uniformly spread over all states and regions, and thus a national problem. The number of sick units in the country is increasing continuously and the rise in outstanding bank advances against them bears testimony to the fact that the industrial sickness of small industrial units is not a thing of the past or mere passing phase but a continuous phenomenon. It is now a burning question that how best to detect and rectify the problem and rehabilitate the concerned small units in the interest of the national economy. However, process of solution to this aggravating problem involves two steps. The are: (a) identifying the sickness in a unit as early as possible and to analyze and diagnose its causes, and (b) nurse the unit immediately with appropriate remedial measures with a view to turnaround the sick unit to an economically viable one. Turnaround here means a substantial and sustained positive change in the performance of the business entity.

The responsibility for preventing and curing industrial sickness and rehabilitating sick units cannot be solely fixed either on the entrepreneurs or the banks and other financial institutions as it is a combined and joint responsibility of those who are interested in the restoration of unit’s health.

The entrepreneur wants the unit to be healthy as his own capital is blocked in and he is to be rewarded for the venture risk in starting the business, banks and financial institutions for the reason that if the units are turn around, regular interest payment by the units will be reinstituted and recovery of unpaid interest payment by the units will be reinstituted and recovery of unpaid interest and capital will be possible, the government is interested for the revival of the units because of several factors like well being of the employees, generation of employment opportunities and above all, the contributions to the national economy. This process also calls for the help from various other groups like management, professional accountants and technical and management consultants.

Commercial banks and financial institutions can detect the symptoms of sickness through periodical progress report including financial statements, stock statements and returns under periodical information system, plant visits, personal discussions, reports from nominee directors, etc. Guidelines have been issued by the RBI so that banks can analyze and interpret the information received from the assisted units and test check their health. Similarly, the establishment of management information system within the industrial unit will help its management to detect the symptoms of the sickness and forward it to adopt remedial measures.

Curing sickness also calls for support from different professionals as the success of the scheme for rehabilitation of a sick unit depends upon co-operation of all concerned in the unit. All the departmental heads or the functional managers of the unit, with a professional approach, should put their efforts together for the implementation of the scheme. The government should establish the consultancy cell in the banks, financial institutions, and other promotional agencies consisting of experts from various fields of industrial activities to sort out the problem and to prevent

industrial sickness by giving continuous advise regarding the smooth functioning of the units and at the same time, help in revival of sick units by closely monitoring the implementation of rehabilitation packages.

Turnaround Strategies: The unit which has become sick due to several reasons needs an appropriate and timely corrective action or strategy infuses revival hope into the organization. The kind of strategy to be followed depends on the extent and type of sickness of the firm. Hoffer has suggested two broad categories of turnaround strategies viz., strategic turnaround and operating turnaround. Whether a sick business needs strategic or operating turnaround choice can be ascertained by analyzing the current strategic and operating health of the business. The process of selection of strategy can be illustrated with the help of the following figure.

Fig. 10.1

Selection of Optimal Turnaround Strategy

Current Strategic Health

	Weak	**Average**	**Strong**
	Liquidation or Strategic	Divesture or Operating	Operating
	Strategic	Strategic	Operating
	Strategic	Strategic	Operating

The operating turnarounds are easy to carry out and can be applied only when average to strong strategic strength is existing in the business. The operating turnaround strategies are of four types viz., revenue increasing

strategies, cost cutting strategies, assets reduction strategies and combination strategies.

The strategic turnaround choices may involve either a new way to compete in the existing business or entering an altogether new business. The strategic turnaround in the existing business focuses either on increasing the market share in a given product market frame work or by shifting the product market relationship in a new direction by repositioning. The increase in market share can be attained by improving product quality perception through dealer push or even by consumer pull. The strategic turnarounds seeking no change in the market share may emphasis a change in the product market segment focus.

Process of Turnaround Implementation: The process of turning a sick company into a viable one is rather complex and difficult. It is complex because a successful turnaround strategy demands corrective actions in many deficient areas of the firm. It is essential that all these lines of action are coordinated and integrated and do not contradict with each other. The turnaround process is difficult because it involves perceptual and attitudinal changes at all levels, as far as employees are concerned. These human change processes tend to become very sensitive when the firm is on a crisis situation: Therefore, many a time a change in the leadership or even an active intervention from outside is suggested for bringing about such a desired change in the firm.

Prahlad and Thomas, based on their research study on turnaround strategy and processes, have presented ten propositions for turning around sick units. These propositions are presented below:

(a) Revival of a sick unit required the formulation and implementation of a new strategy.

(b) Localising problems and sequencing the corrective actions help in the revival of the sick unit.

(c) The successful implementation of turnaround strategy requires appropriate organization structure, participative type of decision-making environment, effective administrative and budgetary controls, training, performance evaluation, career progression and rewards.

(d) The turnaround strategy must focus on profit generation and profits must be regarded as legitimate goal.

(e) The acceptance and the commitment of managers and employees of the organization towards revival measures must be high if not total. Openness in management processes helps in gaining commitment and thus facilitates the implementation process.

(f) Openness in the change process leads to confidence in the top management and its strategy.

(g) Understanding of technical processes and problem-solving attitude in overcoming technical snags is essential for turning around sick companies.

(h) Consultants can play a vital role in objective analysis of problems as well as in implementing innovative change.

(i) The active support given to the chief executive by the appointing authorities is critical for the implementation of turnaround strategy.

(j) Leadership provides the focus for action in sick units.

10.6 SUMMARY

In the case of developing countries like ours, this economic evil of industrial sickness is a very costly proportion in terms of loss of employment, under-utilisation of capacity, regional imbalance, etc. Further, the banks and other financial institutions are greatly affected by industrial

sickness in recycling of the funds. Solution to this economic evil in the form of remedial and preventive steps should be initiated by the concerned parties.

The catalytic agents involved in eradicating the evil should play their role efficiently. The entrepreneurs should not shift their responsibility by blaming labour, input supplier, market and governmental policies, rather realize that the business ultimately has to survive and progress and move forward with new strength. Managerial personnel within the organizational set up should realize that sickness does not develop all of a sudden except in cases like accidents. They have to ensure that their skill and professional expertise help the unit to run various functions with effectiveness. The banks and financial institutions have to play an important role in correct appraisal especially regarding sales potentials, marketing competence as any delay in appraisal, sanctions and disbursement put the unit into a number of inconveniences. While washing and window dressing of reports and poor system for monitoring and follow up should be avoided to the maximum possible extent, so far as this task is concerned the bankers have to consider themselves in true sense of banker but not merely as deposit collectors. The involved parties should initiate situationistic remedial measures rather than impersonistic generalized ones to overcome sickness in small industrial sector. Giving priority to this national problem, the banks should further diversify their activities by earmarking a significant portion of their budget towards implementing rehabilitation package to the sick units, particularly in small sector.

Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes

(SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI- have promoted/sponsored a number of Technical Consultancy Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development.

With a view to prevent sickness particularly in SSI sector, the government has to play a crucial role and discourage all polices like price control, over licensing, free import licence for goods reserved for SSI sector, and such other measures which contribute to this unwanted phenomenon. It is worth mentioning here that the government should restructure its policy on sales tax suitably.

To sum up, the incidence of industrial sickness in general and in small industrial units, in particular can be reduced if all the concerned (i.e., owner, banker, labourers, professionals, management, financial institutions, government, etc.) make a concerted effort to study the causes and cures through their temporary sacrifices with a sense of dedication and belongingness. However, the approach should be stitch in time save nine.

10.7 KEYWORDS

Sick Unit: Sick unit is one which fails to generate as internal surplus on a continuing basis and depends on its survival upon frequent infusion of external funds.

Industrial Estate: It is a planned clustering of industrial units offering standard factor buildings and a variety of services and facilities to entrepreneurs.

Entrepreneurial Guidance Bureau (EGB): The EGB has been set up to guide entrepreneurs in identifying opportunities, assisting them in selecting locations for the projects, preparing project reports and assisting them to get financial assistance.

10.8 SELF ASSESSMENT QUESTIONS

1. Define industrial sickness with reference to SSI's. Discuss its magnitude with live examples.
2. Explain and elaborate the causes of industrial sickness and also suggest the remedial measures.
3. Discuss the support provided by the National Small Industries Corporation Ltd. (NSIC) to small-scale industries in the country.
4. What are the functions performed by the Small Industries Development Corporation (SIDCO) to boost the growth of small-scale industries in the country?
5. Describe the role that State Small Industries Development Corporations (SSIDC) play in developing small enterprises in the country.
6. What are District Industries Centres (DICs)? Explain the functions of the DICs.

10.9 SUGGESTED READINGS

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Subject: Entrepreneurial Development
Code:CP 401
Lesson : 11 **Updated by: Dr. M.C. Garg**

FEASIBILITY REPORTS AND LEGAL FORMALITIES

STRUCTURE

11.0 Objective

After reading this lesson you should be able to

(a) Discuss the process of conducting feasibility study of a new project.

(b) Explain the legal aspects of entrepreneurship.

11.1 INTRODUCTION

Every project should be technically sound, financially feasible, economically beneficial, commercially dependable, and organizationally adequate. By now it is clear that this requires elaborate tools and criteria for appraising and evaluating the technical, financial, economic, commercial and organizational worthiness of projects. While preparing the feasibility report these tests should be used as guidelines and the tools applied for the purpose. Furthermore, one can say that the feasibility is associated with more of investigation and identification of a viable alternative from multiple angles.

11.2 PROJECT FEASIBILITY DEFINED

Feasibility study therefore may be defined as " a formal investigation of the blue-chip opportunity leading to rational decision making to commit investment". And such investigation comprises market analysis, technical analysis, financial analysis, and social profitability analysis.

11.3 PROJECT SELECTION CRITERIA

There has been a great deal of skirmish over the basis of project selection since the spells of Walter Galenson, Harvey Leibenstein, Alexander Gerschenkron and Bert Hoselitz and many of their coetaneous donnish contributions. Their valuable lore towards setting the 'criteria for a project selection' was twofold:

1. Specific criteria
2. General criteria

Under specific criteria the economic development of a country is focused while in the general criteria the firm or the promoter's interests and other unspecified factors play a dominant role. Let us briefly dwell on these two perspectives separately.

Specific criteria

Factor intensity criterion: Majority of the third world countries are flooded with large chunks of labour force which are afflicted with some form of unemployment problems. For instance, India, South Africa and other developing or underdeveloped countries where it is an accepted fact that at least 35-45 % are lamenting from disguised unemployment. Therefore it should not be astonishing that the people of such countries force the projects to be established by underscoring labour-intensive technology. United Nations report on development expresses the following viewpoint:

"ceteris paribus, though the overall productivity rate is less in case of underdeveloped countries, the hub of their industries is labour-intensive methods of production. This perhaps gives them an inherent advantage of utilizing their abundant factor in an appropriate manner without striving for a scarce input (capital)"

"..labour saving technology is not of great value to an economy which is over-populated. There the search should be rather for technologies which increase the yield of land per acre, or which enable large number of persons to be employed in secondary industries for a small expenditure of capital."

Buchanan enunciated a similar viewpoint as follows:

“Since the most pervasive economic feature of underdeveloped countries is the abundance of labour in contrast to the shortage of capital, a strong presumption exists that capital should be used sparingly relative to labour whenever there is a choice in the methods of production.”

Considerably, those who advocate a choice of project on the logic of its role in creating employment, often neglect to consider the project’s other economic features, whose impact may be detrimental or even inimical to the economy as a whole.

Contrarily to the above argument, the capital-intensive projects are associated with great advantages both in terms of high productivity and efficiency. Shortage or the loss of labour can surely be offset.

In connection with the mooted criteria Galenson and Leibenstein also bequest their ideas on the selection norms as follows:

“The correct criterion for allocating investment must be to choose for each unit of investment alternative that will give each worker greater productive power than any other alternative. To achieve this result we must maximize the amount of capital per worker. The bone of contention has always been on the direct connection between economic development and “technological stress for the large scale projects.” In the words of Gerschenkron:

“At the extremity of industrialization, it was largely by application of the most modern and efficient techniques that backward countries could hope

to achieve success, particularly if their industrialization proceeded in the face of competition from the advanced country.. In viewing the economic history of Europe in the 19th century, the impression is very strong that only when industrial development could commence on a large scale did the tension between the pre-industrialization conditions and the benefit that may be expected from industrialization become sufficiently strong to overcome the existing obstacles and liberate the forces that made for industrial progress."

To some extent the above debate between the two sets of theorists is purely metaphysical, having their relevant arguments based on the assumptions which are either unrealistic or which render their conclusions obvious. Of course, there is an air of fiction about the disagreement, because the kind of balance required between capital and labour intensity is determined by technology. While drawing reverence to significant factors, the factor intensity debate is too simplistic and one-sided to justify the complex web of economic costs and benefits that stem from the projects. The arguments are mainly centered on the following points:

- Primarily those projects should be accepted and executed which help in utilizing the abundant rather than depend on scare resources. In the case of underdeveloped countries, since labour is one such factor input which is abundantly available, projects should be developed keeping in view the exploitation of this resource to the maximum extent.

- Second though some factors are available scarcely their eliminations is not possible simply because they are available at some cost rather should also

be complementarily used with the abundant factor. In other words, all the factor inputs should be used in a proper mix so as to optimize their utility and result in benefits of economies of scale not returns to a factor.

- Even in advanced countries production is not possible by capitalizing alone, instead a viable combination is sought after and then the projects are executed which maximize their returns with an optimum product mix and factor mix.

Size and complexity criterion

An important principle which insinuates as the prime test of the aptness of industrial project is the size and degree of complexity involved. This might be termed as “stepping stone theory” for it emphasizes that non-industrial areas should progress from simple to a complex set of operations as skills, capital, and experience are acquired over a period of time. Sharing his views at par with this, Brozen states:

“Generally, the primary stages of development should call for a growth and emphasize only on a particular type of project to encourage entrepreneur and support sufficiently. Those projects which are small, use rudimentary production techniques and give immediate returns are more likely to accomplish this at the earliest stage. Large scale enterprises using more complicated techniques and yielding distant returns must wait for a later stage when simple entrepreneurial skills and attitudes have been learned. The evolution may be thought of as from the simple to the complex. Simplicity may be measured in terms of finance, production and return. In terms of finance, the simple enterprise is the small one which needs only

the capital its owner is capable of furnishing. Larger enterprises which require partnership and borrowed capital are at the next stage of complexity in terms of finance. Still larger ones, which must use the corporate techniques to mobilize capital or riskier ones, which must use limited devices, are the most complex."

The Hoover Commission of US Congress on overseas economic operations, staunchly believes in the small-industry approach and reports as:

"the most valuable contribution to world economic stability can be made by improvement of small manufacturing industries in non-industrialized countries… in the 'Asian-African Arc', with the possible exception of Japan, no manufacturing or large-scale industrial development projects should be undertaken and industrial aid should be confined to small industries… industrial projects should not be undertaken in countries which do not already have an industrial background. In these countries there is little local capital available for participation and the vast background of transport, marketing, technical and executive skill is lacking. Large industrial projects cannot succeed against this background and in any event cannot affect the standard of living for many years to come."

The merits in favour of small projects are multifold as they are obvious, and often believed 'small is beautiful and big braggadocio'. Small projects demands small quantity of resources an underdeveloped country can afford: capital, management, and technical skills. Mostly they use labour in relation to capital than large projects. They can quickly be reared and installed to produce returns. They facilitate decentralization which enables

people in various areas to have contact with industry. This premise adverting to labour attention by the small projects is reinforced manifold, in case the size of domestic market of underdeveloped countries is also considered. For any country it does not matter whether the project is large or small as they are complementary, not competitive and hence choice amongst them does not arise. Mostly it is observed that in the ballpark of a large industrial venture, there is room for dozens of small plants providing spare parts and services. In all similar circumstances even when it is found that feasibility lies in encouraging small projects and plants of a particular industry that implies a good exposure and prospects of a large industry and vice-versa. If it can be shown that the small plants can produce as efficiently as larger ones, they warrant support. Of course, blessed with larger markets, the raw material supply and trained or skilled labour, it stands grilling as an inherently sound project, probably much sounder than a complex of small paper mills would have been. Decisions as to plant size should not be based on the political, emotional or theoretical prejudgements of desirability of plants on a certain size or complexity in a given environment, rather on a measurement of costs and benefits of the various alternatives to the economy.

The crux of the above comments from various authorities is that:

- Involvement of complex operations or some frightening forecasts may force the selection of one best style of project so as to strike a balance between means and ends.
- The smaller the size of the project the smaller will be the amount of resources required to complete the project and vice-versa.

- Though small ones have got inherent disadvantage of inability to satisfy large markets, their inevitability lies in becoming complementary to the large projects without which their survival is at stake.
- Undoubtedly small projects and large projects have to go hand-in-hand in order ot protect their mutual interests. This mutual dependency leads to the birth of competitive markets who thereby protect mutual interests.

The Foreign Exchange Benefits Criterion

Most profoundly, the industrial projects are accepted on the credence and fillip they get from the foreign sector, i.e., a project that can derive foreign exchange reserves and the devalued currency that increases the expenditure on imports. The reasons may be crop failures on the agricultural front, and heavy fluctuation in the capital goods imports. Wherever such emphasis is on foreign exchange benefits, the currency is overvalued at official rates vis-à-vis to many other currencies. This may facilitate the private entrepreneur benefit even when the projects are not subsidized by the government. There are some established norms through which the costs and benefits of such emphasis on foreign exchange benefit scheme are measured and then the viability of such projects will be observed.

The commercial Profitability Criterion

This criterion which is different from all the above is estimated commercially by a focus on the expected net profit after taxes deducting all costs, including depreciation and other hidden costs from the computed net profit. The profitability rate is denoted by a percentage on the investment, i.e., ROI. This criterion is the final measure of the allurement of a project at

least of the private industrialist. Also this is a widely recommended measuring rod for a project's feasibility by development banks and by governments who may supplement it by adjustments designed to reflect differences in costs or benefits to the economy compared to private owners. Provided with accurate information on markets, prices, productions and costs, commercial profitability is not difficult to estimate and the methods of calculation are well established in financial management procedures. This measure is dependent on three important factors:

- Estimated capital costs of the project;
- Estimated costs of production;
- Estimated receipts from the sale or realization from the project's output.

These estimates are done most conservatively and wisely so as to keep the interests of promoters and judge the most prospective project. The commercial profitability is fraught with some negative comments for its conservative explication and its indifferent approach towards other national parameters. It is the measure of value of a project as a commercial venture where only profitability or the returns to the investment are sought and not the social welfare of the economy. Therefore, it is wise enough to measure commercially rather than generously. If this tendency is shown even by the state-owned projects, many of the white-elephant projects could easily be shunned.

The National Economic Profitability Criterion

Despite wide acceptance, none of the investment criteria previously discussed is or even purports to be a general measure of a project's total net

value to the economy. Too many measurable economic costs and benefits may be ignored or incorrectly counted. A comprehensive general measure of a project's total net measurable economic value is needed. Such a criterion is labeled as 'national economic profitability', a measure of the approximate rate of return to the national economy on an investment in a project, taking into account all major measurable economic costs and benefits. The basis of this concept was stated by Chenery in this way:

"Economic theory tells us that an efficient allocation of investment resources is achieved by equating the social marginal productivity of capital in its various uses. In developed countries, perfect competition provides a standard of judging such a distribution of resources without the necessity of measuring the marginal productivity save in exceptional cases. In underdeveloped areas, it is generally recognized that both private value and private cost may deviate far from social value and social cost. In such cases perfect competition cannot even be used as a standard for sectors of the economy; rather it is necessary to measure social productivity and to provide for some form of government intervention to achieve more or less efficient distribution of investment resources."

We define national economic profitability as the total measurable rate of return to the economy on an investment. This definition avoids the inclusion of economic costs or benefits which, by their nature, are not measurable and also those non-economic costs or benefits which require value judgments. To the extent to which the non-measurable or non-economic factors are important our calculation will still be in error, but we shall be closer than before to knowing the value of projects to the economy.

For the practical purposes of comparing one project with another or screening to eliminate very poor projects, it is generally unnecessary to have more than an approximate measurement. Irrespective of the method of calculation, the costs and benefits are not a sure bet for both the entrepreneurs and economic simultaneously. The project may be highly profitable from the standpoint of foreign exchange earnings, but may be a gross loss to the promoters and the project which might be showing true profits to the owners might be less lucrative to the economy in terms of its real output.

The weakness of this criterion is that although it can be made more complete than other measurements in the sense that it takes in to account more of the costs and benefits arising from a project, ti cannot be made absolutely complete. Moreover like commercial profitability and partly because in our method it is calculated from commercial estimates, it is subject to a margin of error just as any other financial estimate is. As a criterion of industrial investments, national economic profitability is unique in that it brings together in one comparable figure all the major measurable economic costs and benefits which an investment project offers to a developing country.

11.4 SALIENT FEATURES OF A PRE-FEASIBILITY REPORT

The very purpose of a feasibility report is to provide a basic guideline on technical, economic and commercial parameters of a project. It helps in defining and analysis the alternative approaches to production processes and outcomes. It focuses attention on the material inputs and various other

techno-economic variables which affect the production in *toto*. In order to perform this dexterous feat identifying the most promising investment alternative, it uses a ‘loop’ approach of inter-linkages and feedback apropos to all-relevant solution base. This includes technology, market structure, consuming segment, economic and political stature, site selection and availability of necessities like electricity, civil works, labour etc., factors of production. The feasibility study describes the optimization process, and justifies the assumptions and hypothesis set thereby selecting the better alternative solution and defines the clear boundaries of a project viability.

Some of the principle features of a project feasibility study are enlisted below:

- It furnishes the basic ‘terms of reference’ for a project;
- It describes the nature and complexity of the project;
- It highlights the magnitude of investigation prognosticated and scope of operations;
- It hatches to an imperceptible premise under which all the decisions can be made;
- It provides a general view on investment range of the project;
- It pre-supposes the economic and social benefits to be derived out of the project;
- It always provides a chance to revise the actions and rectify mistakes before they are taken for granted and spilled with all the resources;
- It helps in setting the operations by choosing an appropriate technology base for the project;

- It helps in selecting and ideal an ideal location and following certain prescribed environmental conditions that are essential for project commissioning;
- It is a sanative approach that petrifies the base of every project.

11.5 ESSENTIALS OF CONDUCTING FEASIBILITY STUDIES

A feasibility study is conducted quite exhaustively by exploring many factors related to the project. The guidelines conducting such studies as advocated by UNIDO are as follows:

- Scope of the project;
- Procurement of the data for study;
- Verification of alternatives and assumptions;
- Proposed cost structure;
- Scheduling the operations;
- Arranging for local and foreign exchange;
- Contingencies and inflation;
- The project team;
- Expansion project;
- Cost studies;
- Accuracy of cost estimates;
- Agencies involved in conducting such studies.

Scope of the project feasibility study

Fundamentally before undertaking any industrial or commercial or social project, the scope and magnitude should be clearly spelled out based on

which forecasts are made. This should embrace all activities scheduled to happen which play important role in commissioning the project successfully and auxiliary operations related to the production, extraction, off –site transport, storage of inputs and the off-site construction of major equipment to be used on the site and other off-site and on-site ancillary activities as hosing schemes and educational, training and recreational facilities. Having a clear vision the planner can look at the material and product flow for the current and future needs. This may also help the planner to divide the total work flow into functional compartments which are manageable and accordingly associate with costs and investments so that reasonable targets, standards can be set forth. It would also aid the planner in arranging the necessary equipment like production sheds, storage buildings (warehouses), administrative buildings, and other networks for water, gas and electricity, a sewage system, telephones, internal connecting roads, major equipment like rotary kiln (in case of cement project), vertical-turret boring machine, hydraulic lifts, jigs, lathe (in case of heavy engineering projects), etc. This subdivision may be based on the physical layout of the project which shows the dimensions of its components. The computation of project costs and be further facilitated by treating the components as “sub-projects”, the sum of which will yield the investment and production costs of the entire project.

Procurement of Data for the studies

Though the investment and production costs should be estimated as accurately as possible, the costs and time involved in obtaining data are not always justified and it may therefore sometimes be necessary for the project

team to rely on assumptions. Investment cost estimates which may be ranked according to their accuracy and the costs and time required to obtain them, are made by:

- Inviting tenders based on specifications and bills of quantities. This is the most accurate but also the most expensive and time-consuming method;
- Exercising on prices of similar projects to estimate costs based on specifications and bills of quantities;
- Applying the unit cost constituents derived from homologous operational projects, such as measuring in cost per cubic meter of hemmed space or cost per square meter of constructed area.

Verification of Alternatives and Assumptions

Perhaps this is one of the crucial steps in the project feasibility analysis. When various alternatives are being provided with regarding choice of technology, equipment, capacity, location, financing, etc. factors, and assumptions governing these to arrive at a decision is a real difficult task. In fact, the foundations will be strong when the following alternatives are supplied along with other details of the project profile:

- Proposed cost structure;
- Work schedules;
- Exchange mechanism;
- Contingent factors.

*Proposed Costs Structure***:** The spending for the project deliverables are always in terms of ‘costs’, irrespective of their nature such as material

costs, research costs, labour costs, overhead costs, distribution or octori costs etc. Costs do not always result in outflow of funds. They may be in the form of depreciation, amortization, loss on sale of fixed assets, etc. they may be imputed or opportunity costs or sunk costs that are incurred, of which some may be explicit costs and some may be implicit to the production or operation process. Therefore, it would be ideal to label all the necessary expenditure incurred during the project implementation which deserves to be treated as cost. Also these costs are classified into two: fixed costs (which are expended on the long term assets and do not change during a given period of time) and variable costs (costs which vary in total with respect to the volume of output or operations performed in the project). On the other hand, incomes are inflows of cash or other compensations received by the project. To ascertain actual or estimated loss or profit and accordingly take a decision on the financial matters one has to estimate the financial inflows and outflows. For this the analyst has to be a meticulous estimator of cost and benefits. Estimates of the production costs depend on the following factors:

- Availability of the information on such input requirements as material, manpower and overheads;
- Prevailing labour legislation, and local labour productivity rate;
- The total production programme;
- The work programme (number of shifts, working days per annum);
- The type of technology and equipment to be applied
- The skills of labour and staff called for;
- The quality of inputs available based on which output is derived.

Estimates of administration, selling and distribution costs can also be done based on the past figures of expenditure by similar projects or by applying statistical tools like regression or time series analysis in order to project the future costs.

Scheduling the operations

Often it has been the practice of many planners to use bar or Grantt chart fro scheduling and timing the operations when the operations are too cumbersome and time consuming. But of late, new techniques and tools have been identified and applied by these project planners such as PERT, GERT, CPM, Q-GERT, ZBB, etc. for their efficient time management. In order to be precise and make the schedules understandable even to the not-technical team members, activities are segregated and accordingly miniscule schedules are prepared and their linkages are formed so as to integrate at a later stage.

Currency management

Financing projects necessitates the compatibility of monetary resources in accordance with the country or place where they are to be set up. This is especially considered when the projects are undertaken in a different country where the currency is different. In other words, the local currency should be available for convenient spending and foreign currency (convertibility) is needed for importing the requisite goods and services. Therefore every financial institution or a promoter would first look at these economic indicators and set their investment target accordingly so as to

maximize their returns by safeguarding their monetary interests on the project.

Contingencies

Every project is confronted with two types of contingencies:

- Inflationary pressures on the money market;
- Physical shortages of the materials in the market due to short supply and storage.

The inflationary pressure that occur during the life of a project have much bearing on its viability by influencing the fixed investments, working capital requirements, cost of production and ultimately the sales. Truly it is difficult to estimate the direct impact of inflation on these four vital financial flows. The magnifying effect can be seen on projects of longer duration consuming many years for their commissioning.

Physical shortages of materials affect the precision of forecasting sales, engineering requirements, material and other inputs. Only a certain percentage of variation can be estimated and not the accurate variation in the inputs such as energy, manpower where the deficiency cannot be completely compensated. Therefore all the items should be estimated as precisely as possible and the degree of reliability indicated, for which reason no provision for contingencies under in any of the schedules or proforma.

The project team

The feasibility study should be conducted under the supervision of team experts since they are well of paucity of funds, time constraints and other such requirements of the project. Indeed an economist can make only generalized estimates devoid of the help from the expert engineer who has to work on the project and hence cannot be assimilated with that of technical and engineering problems. The reverse will be the case with an engineer who does not know the basics of demand and supply of markets. To conduct the feasibility study the ideal combination of the team members would comprise:

- An industrial economist;
- A market analyst;
- An engineer or a technologist who is well versed with appropriate project;
- A mechanical and industrial engineer;
- A civil engineer;
- A management expert who is also a polymath in accounting aspects of industry.

The above group of members should be helped by outside freelancers like soil experts, land surveyors and other laboratory technicians.

Cost Studies

Though there are some established norms for calculating the pre-investment costs, it varies from project to project. Generally, it is sought to relate the costs of studies to the estimated number of man-months required. Cost per

man-month should be calculated in each individual case in respect of core salaries, traveling, dearness, mapping, writing and printing allowances and other office overheads. Since costs are the vital determinants of various types of pre-investment studies, it is preferable to indicate the order of magnitude of costs if such studies are undertaken by outside agencies.

Cost factors should include:

- experience of the consultants sought for conducting such studies;
- the scope of the work to be covered (product mixes, technologies, locations);
- the complexity of the industrial sub-sector (process plants, plant layout, utilities);
- cost conditions of the consultant's standard of living (developed, under-developed countries) ;
- competition between consultants and the condition of their order booked;
- the consultant's interest in intense study of the project which could prompt the bid;
- the technical competence of the client in negotiating with the consultant and in providing strong support that could facilitate the task and reduce the costs.

Accuracy of costs

The estimates of investment and costs of production would go on changing as different studies are in progress. Therefore, when preparing feasibility studies, it would be incorrect to consider the costs by adding 30% variation

rather than 10%. Though these percentages of variations are assumed under given conditions, they are workable for most of the projects having uniform bases of time and cost components.

Agencies Commissioning and Conducting Pre-investment Studies

For conducting such type of preliminary studies for any project, the organization or the project leaders appoint outside consultants or research agencies who have expert teams in the area and also who can save their precious time. Opportunity studies are generally undertaken by the government departments under the ministries and state governments in developing countries. In some countries, these kinds of studies along with pre-feasibility studies are being simultaneously undertaken by the public bodies and supply the secondary information on such complex projects. These public agencies who render the support services to new project investigators include NCAER in New Delhi, CESS in Hyderabad, ICSSR for scientific enquires in New Delhi, Pusa of New Delhi, TIFR in Bombay, etc. Also, feasibility studies can be undertaken by either private or public bodies depending on the need and coverage required for the project. Private bodies such as ORG of Bombay, IMRB of New Delhi, TCS of Bombay are some of the research agencies which undertake feasibility studies for various industries and government departments to check the viability and feasibility of the project proposals.

11.6 TECHNICAL FEASIBILITY STUDY

Having received various advices from specialists on all quarters of the project, the project taker is at the crucial juncture where analyzing the

project site and location are merit considering and perplexing too. Technical feasibility is an attempt to determine how well the technical requirements of the industry can be met, which location would be most advantageous, and what the size of the plant should be. Step by step, it requires a study of the availability, costs, quality, and accessibility of all the goods and services needed (the raw materials, fuel, power, water, land, labour, transport, etc. factors of production). At first the location plays an important role. Projects whose technical requirements could have been well taken care of in one location may sometimes fail because they are established in another place where conditions are less favourable. For instance, if a woolen scouring and spinning mill, needing large quantities of good water, is located in Hyderabad (Andhra Pradesh) instead of Ludhiana (Punjab) which is a poor supplier of even ordinary water and the limited water supply required expensive softening treatment. An export-oriented garment unit is situated in Asansol (Bihar) instead of Bombay where port and dock facilities are remote. Therefore, hazards will be more chronic when the location is remote and inappropriate because each location will have its own advantages and disadvantages, which may be suitable to one type of project and unsuitable for few other projects. it is for this reason that every minute detail has to undergo a thorough study while making technical feasibility investigation for every potential location and comparative analyses should be made on the availability, quality and cost of each resource factor linked with the place.

SELECTING A LOCATION: Factors considered for selecting a location are as under –

Market factors

- market growth potential
- locations of competitors
- tax incentives for new industry
- environmental controls
- labour laws
- workmen's compensation insurance laws
- state and local taxes

Labour Factors: prevailing wage patterns, availability of skilled and unskilled labour, union militancy and labour attitudes, productivity of labour.

Power availability: adequacy, including peak-load restrictions, rate structure, cost and reliability.

Water facilities: availability of water, hardness and chemical content, drainage and sewer facilities

Gas and other fuels: availability of gas and natural fuels, reliability of their supply, including peak-load restrictions, cost factors.

State and Local Government: attitude toward industry, influence of business leaders in local government

Waste Disposal: process, sanitary and public treatment facilities

Supporting industry and services: tooling, potential subcontractors, and plant services (janitorial, plant protection, food service etc.)

Community Factors: quality of schools, adult education availability, cultural activities, recreational facilities, civic pride, climate, and local transportation.

Crux of selecting location

On the whole the selection of a location depends on three factors:

The Role of Government Policies: Government policies are framed to regulate the existing industries and provide new opportunities for the prospective entrepreneurs. While framing such policies all essential care is taken by the concerned authorities as they affect the growth and development of industries as well as economy.

In the recent past some such policies were framed by the ex-officio governor and 'liberalised' industries development by delicensing some small scale sectors.

In due course, as a recourse to the policies, additions like pollution control checks have been made mandatory for both existing as well as new projects. Enron was one such victim to the changed policies during early 1995.

Material Vs. Market Orientation: Both materials and markets are equally important for the project to exist. The relative weights may differ depending on the nature of project and its material inputs. Projects based largely on imported materials will need to be located near the ports or near the terminal points, whereas the agro-processing projects that process perishable goods should be based near the markets of their consumption.

Some projects will be indifferent to both of these factors such as petrochemicals, and other petroleum products can be situated at the source or at the market place or at an intermediate place. The same may be true of engineering goods, tools and other intermediate goods having indifference to location specificities. For some projects the location is destined by the very nature and purpose of the project such as irrigation projects, dam construction on a river, flyover on the city highway, and many other similar construction projects.

Miscellaneous Location Considerations: Irrespective of the type and nature of a project, there are some general factors of location that are essential such as basic infrastructure of the locality, civic facilities, topography and other socio-economic atmosphere of the place. There stand point of a project like energy, water, transport, communication and housing etc. that are presently available at the place. Inadequate supply of these facilities can be an obstacle in the project implementation. Except for some resource-base projects (extraction projects) like coal mines, or iron ore and agriculture where all these facilities can be examined. Information regarding these facilities would be collected to compare costs and quantity of supply with the scope of the project. For instance, to be able to compare and decide on the electrical energy the following details have to be covered:

- the amount of watts available;
- whether high-tension or low-tension current;
- stability of supply;
- point of tie-in for a particular area;
- price at different consumption levels.

Similarly, transport and other infrastructure should be examined with the available alternatives like railways, roadways, airways, waterways, etc. and their overall cost factors. All these should be assimilated with their ports, stations and godowns or ware houses that are aids to trading. The availability of communication systems like telephone or telex or fax should be ascertained with the location of the project.

Therefore, technical studies and cost analysis provide the basis for the initial estimates of the profitability of an investment during its preliminary stages and for the final decision whether to carry the project or abandon it. The accuracy of these studies depends on the purpose for which they are drawn.

11.7 MICRO, MACRO AND SECTORAL CONSIDERATIONS

Projects are undertaken precisely at three levels:

1. At the national level where the investment plans, policies, and priorities are formulated and established from the overall economic point of view, i.e., by setting a macro economic framework.
2. At the sectoral level where policies, planning, and strategies focus on growth and development of a single sector like industrial sector or agricultural or social amenities etc., by setting certain parameters.
3. At the project level where one single project is planned and studied from all the economic, technical and financial and environmental perspectives in a more microscopic manner.

A matrix of Micro, Macro and Sectoral Considerations

	Levels of study	*Diagnostic indicators*	*Target indicators*
	Definition of goals set by the economy.	Socio-economic indicators.	Non-quantifiable rather speak of quality of living of society.
Macro level considerations	Contemplating goals in an economy	Descriptive analysis of inter-relationships: Explicit statement of major assumptions.	Weights (1 to 100) of different development goals.
	Definition of sectoral contributions to different development goals of an economy	Descriptive explanation of contribution of differe-nt sectors to general goals achievement. Explicit statement of major assumptions underlying the related sector goal.	Weighting (%contribution) of each sector to achievement of develop-ment goal.
	Implementing of sectoral objectives.	Explanation on derivation of quantitative subsector objective.	Quantitative target of subsector objective to be achieved.
Sector level considerations	Bogging down sectoral objectives for linking.	Elucidation on contribution of specific target sub-objectives to achievement of sectoral objectives.	hierarchy of sectoral objectives. Weighting of subectoral objectives (percentage of contribution)
Linkage-effect	Foisting and choosing projects that are worthy.	Link: macro-micro considerations of project objectives	hierarchy of projects defined at local level by using weights derivd from macro analysis.
Micro level considerations	Contribution of project targets to sectoral objectives	Qualitative explanation of relation between project target and sectoral objective. Explicit statement of major assumptions.	Impact indicators-contribution % of each alternative to sectoral objective.
	Definition of project targets.	Establishment of measurable targets according to inputs available and the output function.	Output indicators.
	Alternative solutions to problems.	Explanation of contribution of inputs to output.	Indicators of efficiency 'production indicators'.
	Definition of local problems.	Micro-socio-economic analysis.	Local level indicators.

Macro Considerations

Macro considerations are the hallmark of national level projects which are established comprehensively covering all the needs of a country. Therefore, this calls for a detailed and more comprehensive planning, policy setting and strenuous efforts to improve the total mechanism of an economy. Indeed, this wide spectrum helps focus on macro environment and hence considers the following:

- overall growth of all sectors in an economy at a given period of time.
- Available resources to allocate towards the prioritized sectors and remove the imbalance, if any, among the sectors of an economy.
- Boost both private and public sector undertakings to elicit desired behaviour and spur growth.
- Allocate the scarce resources towards development of high-priority public needs.
- Controlling fiscal, monetary frame works in accordance with the changing times.
- Maintaining wage policy, exchange rate policy, and other inflationary pressures.
- Motivating the economic behaviour by rational resource allocation, capital accumulation, and maintaining balance of payments equilibrium of a country.

Sectoral Considerations

At the sector level the following are the main considerations which are relatively less ranged:

- ensuring the investment plan to be realistic by matching the resources available, and treating costs and benefits of the projects at par.
- Ensuring a balance implementation of multiple projects are undertaken not withstanding to the resource crunch and maintaining the resource levels without time or cost overruns.
- New projects should be kept in waiting line till the old backlog gets cleared and should be accepted if it does not affect the current on-going project (s) either in terms of costs or time spent.
- Rational decisions should be made on the basis of experience on past projects after which mobilization of idle resources may also be considered.
- Cost-benefit-analysis has to be meticulously done away with by exercising great skills of appraisal time and again.
- The plans of investment should be able to bifurcate the entire spending towards ‘core’ and ‘non-core’ projects. This would further help in tuning the investment plans more flexible as the time calls for and also to cope with rolling programmes.

11.8 COMPREHENSIVE CONSIDERATIONS IN THE PROJECT SELECTION

While selecting a project, the fundamental task of selectors is to maintain a balance between the perceived results of the project and company’s overall goals. This can be prudently done only when the team is equipped with the company goals. Therefore, before considering an opportunity as a project, the team must pool both qualitative and quantitative information on the following (Meredith):

- Production
- Marketing
- Financial
- Personnel
- Administration

Some of the vital microscopic considerations in regard to the above are chalked out as under:

Production Considerations

- Methods of implementation
- Time to be up and running
- Period of disruption
- Learning curve, time until output is saleable
- Amount of double processing and waste
- Cost of power requirement
- Interfacing equipment required
- Safety of system
- Other applications of system
- Extent of outside consultants needed.

Financial considerations

- Cost of system design
- Impact on company cash flow
- Payback period
- Borrowing requirement
- Time to break even
- Size of investment required

- Cost of implementation and training
- Cost of maintenance and upgrading
- Cost of maintenance and upgrading
- Cost of mistakes
- Level of financial risk.

Marketing Considerations

- Number of potential users.
- Market share of output
- Time to achieve proposed market share
- Impact on current system
- Ability to control quality consciousness
- Customer acceptance
- Estimated life of new system
- Spin-offs
- Enhanced image of company
- Extent of possible new market opportunities.

Personnel Considerations

- Requirement of skills
- Availability of required skills
- Training requirements
- Employment requirements
- Level of resistance to change from current workforce
- Impact on working conditions
- Ergonomics, health and safety considerations
- Effect on internal communication

- Effect on job description
- Effect on work unions.

Administration and other considerations

- Compliance with national and international standards
- Reaction from shareholders
- Cost of maintenance contract
- Disaster recovery planning
- Cost of upgrading system to keep pace with new technology
- Vulnerability of using a single supplier
- Customer service
- Effect of centralized database.
- Extent of computer literacy called for
- Legal considerations to be complied with.

Though this list is comprehensive, yet incomplete, as the items are put under ‘ten-commandment’ fashion, only to give a general guideline of each area of operation in a project. In fact, there can be many more facets to be taken care of which may be spontaneous and unique to the scope and objectivity of a project.

11.9 LEGAL ASPECTS OF ENTREPRENEURSHIP

Economic activity is daily increasing in complexity. Governmental legislation, awakening social conscience, economic necessities-all play their roles in the creation and existence of enterprises. Entrepreneurship has several dimensions and an entrepreneur is expected to know them thoroughly to be successful. One such dimension is a legal dimension. An

entrepreneur is concerned with law from the very beginning. From the point of view of ownership, there are, in the private sector, four forms of organization to run a business unit. They are as follows:

a) Sole proprietorship

b) Partnership firm

c) Joint stock Company

d) Co-operative undertaking.

Hindu Joint Family Firm can be considered as the fifth form, although this is fast losing ground as a form of business organization.

Thus, conforming to legal requirements will be the first thing for starting an enterprise. Then, of course, any enterprise has to be run within the legal framework doing business according to mercantile law, labour laws, tax laws, etc.

Forms of Legal Ownership

Enterprise		
Commercial Industrial		
Private Sector	***Public Sector***	
Individual ownership	*Group ownership*	
Sole proprietorship	i. Partnership	i. Govt. Dept.
	ii. Company	ii. Public Corporation
	iii. Co-operative society	iii. company
	iv. Hindu joint family firm	

Sole Proprietorship Business

This is the oldest form of business ownership. It is also the simplest and the most natural.

Characteristic features

1) One-man ownership
2) Personal control
3) Total or undivided risk
4) Liability is unlimited

Suitability

1) When enterprise is small in size.
2) When little capital is required
3) Where risk involved is not heavy
4) When control by one man is sufficient
5) Where personal attention to customer’s needs and tastes is important

Advantages

1) Ease of formation
2) Complete degree of control
3) Promptness in division-making
4) Maintenance of survey
5) Fallibility in operation
6) Catering to individual tastes
7) Minimum Governmental regulation

Disadvantages

1) Limited amount of capital
2) Limited managerial ability

3) Liability is unlimited
4) Risk is heavy
5) Uncertainty of continuity

Partnership

The law of partnership is contained in the Indian Partnership Act, 1932. The Act defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”.

The essential characteristics of partnership are:

1) Association of two or more persons
2) Agreement
3) Business
4) Sharing of Profits
5) Mutual Agency

A partnership is based on an agreement. The partnership agreement may be made orally or in writing or may be implied from the course of dealings among partners. However, all the essential elements of a valid contract must be present.

Legal Implications of Partnership

1) Legal position-Not a legal entity.
2) Liability-unlimited, joint and individual
3) Utmost good faith.

4) Implied Authority-Each partner is an agent and hence has an implied authority to bind all the partners.
5) Unanimity of consent is a must.
6) Non-transferability of share or interest without the consent of other partners.
7) Dissolution-Unless there is an agreement to the contrary, death or insolvency of a partner dissolves the firm.

Registration of a partnership firm

The partnership Act does not provide for the compulsory registration of firms. But indirectly, by creating certain disabilities from which an unregistered firm suffers, it makes registration advantageous.

Partnership Deed

Though a partnership is constituted by agreement between the parties, it need not necessarily be in writing. It may be of the most informal character, even oral, though the business of partnership may involve millions of rupees, or on the other hand, it may be an elaborate written document called the Deed of Partnership or Articles of Partnership, and drafted by a lawyer. Where the partners have decided to enter into a deed of partnership, it should be stamped according to the provisions of the Stamp Act. A properly drawn up Deed of Partnership should ordinarily cover the following points:

1. Name of the firm together with the names of the partners composing it.

2. The nature of business and the duration of partnership
3. The amount of capital each partner undertakes to contribute and the manner of its contribution.
4. The ratio for sharing profit and loss.
5. Salaries, commissions, etc., if any, payable to partners, and also any drawings which may be allowed.
6. Valuation goodwill.
7. Matters relating to retirement, death and admissions of partners.
8. Settlement of account at the dissolution of the firm.
9. Arbitration clause.
10. Any other clause or clauses found necessary.

Company form of enterprise

For enterprises which require huge capital base, individual proprietorship or partnership may not be able to supply the required capital. Therefore, it becomes necessary to have another form of organization through which large sums of money could be arranged from a large number of people who are either not capable of running business enterprises or have no time to do so. They will, however, be willing to invest their savings in a business provided they are assured that their money is safe and they will not be called upon to pay anything more than what they undertake to invest. The form suitable to serve these purposes is found to be a ‘Limited Company’. This firm enables the entrepreneurs to get the necessary capital from friends, relatives, general public, etc., retaining at the same time, the control and management in their own hands. Joint stock company is, in fact, much better than partnership form of business.

In joint stock companies, the capital is contributed by a large group of people, known as shareholders.

Some of the Labour Laws an Entrepreneur should be familiar with:

1. Workmen's compensation Act, 1923.
2. Trade Union Act, 1926.
3. Payment of Wages Act, 1936.
4. Industrial Disputes Act, 1947.
5. Minimum Wages Act, 1948.
6. Factories Act, 1948.
7. Employees Provident Funds and Family Pension Fund Act, 1952.
8. Employees State Insurance Act, 1952.
9. Payment of Bonus Act, 1965.
10. Payment of Gratuity Act, 1972.

11.10 SUMMARY

Project is a well evolved work plan designed to achieve specific objectives within a specified period of time. An entrepreneur generates product idea through his own environment. Entrepreneur selects a particular product out of different product ideas available to him for further development and production. The feasibility report describes the optimization process and justifies the assumptions and hypothesis set thereby selecting the better alternative solution and defines the clear boundaries of project viability. A feasibility study is conducted quite exhaustively by exploring many factors related to the project. Technical feasibility is an attempt to determine how well the technical requirements of the industry can be met. When selecting a project, a balance between the perceived results of the

project and the overall goals of the company. There are four forms of business organization namely sole proprietorship, partnership firm, joint stock company and cooperatives.

11.11 KEYWORDS

Feasibility Report: A report comprising all the elements of a good business plan with the objective of determining whether a new venture can be expected to succeed.

Project Appraisal: A technique of making costs and benefits analysis of different aspects of the proposed project with an objective to adjudge its viability.

Company: A legal form of business created by law that empowers a business a legal entity.

Cooperative society: A society with its objective of the promotion of economic interests of its members in accordance with cooperative principles.

11.12 SELF ASSESSMENT QUESTIONS

1. Discuss briefly the salient features of a feasibility report.
2. Briefly explain the outline and steps involved in preparing a project feasibility report.
3. “Technical feasibility of a project depends largely on location, availability and cost of various requirements in alternative locations”. Discuss the statement in the light of location of a project.
4. What are the criteria for project selection? What are the basic points to be kept in mind while selecting the project site (briefly). Mention

chapters or sections that are necessarily contained in a project report for presenting to Financial Institution.

5. Describe briefly the micro and macro considerations of project selection.
6. Give an outline of considerations attended to in the project selection process.
7. Write a note on 'legal aspects of entrepreneurship'.

12.13 SUGGESTED READINGS

1. Khan, M. A.: Entrepreneurship Development in India
2. Chandra, Prassna: Projects.
3. Srivastva, R. M.: Project Planning and Appraisal
4. Gupta, C. B.: Entrepreneurship and Small Business Management