M.B.A. II year
ENTREPRENEURSHIP AND MANAGEMENT OF SMALL BUSINESS

The course objective is to make the student understand the practical operating problems involved in starting and maintaining a small business.

Unit I

Entrepreneurship -definition and its role in economic development. Entrepreneurial growth in India Entrepreneurship in various developed countries -USA,UK,Japan,Germany Italy and Australia -innovation and creativity.

Unit II

Entrepreneurial 'Traits, Types,Qualities and Functions of Entrepreneurs.EDP s in India.Entrepreneurial motivation.The process of starting an enterprise-Idea generation, Planing and implementing a business.

Unit III

Government and small Business interface -Public Distribution System, Control over price,Promotional measures and incentives licensing system for small business.

Unit IV

Small business marketing -General Philosophies in Marketing,Competitive advantages,strategies towards buyers and supplies,entry into new markets.

Unit V

Financial Needs of small business,types of capital requirements.Cash management and management of credit sales, importance of working capital management in small business - sources of funds and cost of capital.

Unit VI

Managing human resources in small business -training and development and compensating personal -planning production.TQM,managing for growth of small business.

Reference

1. Vasant Desai -Organisation and Management of small scale industry.Himalaya 1979.
2. Schumacher E.F, small is beautiful- Rupa.
3. Vasant Desa -small scale enterprises in Entrepreneurship.
4. Holt,David H.,Entrepreneurship -New Venture Creation -Englewood and chiffs (1992)

Unit – I

CONCEPT OF ENTREPRENEURSHIP

Entrepreneurship matters are not a new observation. However, the Way in which it matters has evolved over time. During the first three-quarters of the last century, small business clearly mattered. The reason it mattered, however, seemed to be less on the grounds of economic efficiency, and more for social and political purposes. In an era where large firms had not yet gained the powerful position of the last quarter of the last century, small businesses were the main supplier of employment and hence of social and political stability. Scholars, such as Chandler (1977), Galbraith (1967), and Schumpeter (1942), had convinced a generation of economists, intellectuals and policy makers that the future was in the hands of large corporations and that small business would fade away as the victim of its own inefficiencies. Certainly the famed Swedish model of economic policy saw the demise of small business as inevitable. Policy in the United States was divided between allowing for the demise of small business on economic grounds, on the one hand, and preserving at least some semblance of a small-enterprise sector for social and political reasons, on the other. Small business, it was argued, was essential to maintaining American democracy in the Jeffersonian tradition. Certainly, passage of the Robinson-Patman Act (Foer, 2001), which has been accused of protecting competitors and not competition (Bork, 1978), and creation of the United States Small Business Administration were policy responses to protect less-efficient small businesses and maintain their viability. More recently, however, the way that small business matters has changed. It is seen more than ever as a vehicle for entrepreneurship contributing more than just to employment and social and political stability. Rather it contributes in terms of innovative and competitive power. Rather than perceived as a social good that should be maintained at an economic cost, new econometric evidence suggests that entrepreneurship is a vital determinant of economic growth. According to Audretsch, Carree, Van Stel and Thurik (2002), a cost in terms of forgone economic growth will be incurred from a lack of entrepreneurship. The positive and statistically robust link between entrepreneurship and economic growth has been indisputably verified across a wide spectrum of units of observation, spanning the establishment, the enterprise, the industry, the region, and the country. Thus, while small business has always mattered to policy makers, the way in which it has mattered has drastically changed. Confronted with rising concerns about unemployment, jobs, growth and international competitiveness in global markets, policy makers have responded to this new evidence with a new mandate to promote the creation of new businesses, i.e., entrepreneurship.

Definition: "Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition".

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.

-A.H.Cole,

Entrepreneurship is based on purposeful and systematic innovation. It included not only the independent businessman but also company directors and managers who actually carry out innovative functions.

- Schumpeter

In all above definitions, entrepreneurship refers to the functions performed by an entrepreneur in establishing an enterprise. Entrepreneurship can be defined as a process involving various actions to be undertaken to establish an enterprise. It is thus a process of giving birth to a new enterprise.

Innovation and risk bearing are regarded as the two basic elements involved in entrepreneurship. Person reason for establishing the enterprise is generally branded as Innovator, risk taker.

Innovation: Innovation i.e. doing something new or something different is a necessary condition to be called a person as an entrepreneur. The entrepreneurs are constantly on the look out to do something different and unique to meet the hanging requirements of the customers. The may or may not be inventors of new products or new methods of production, but they posses the ability to foresee the possibility of making use of the inventions for their enterprises.

Ex: Henry Ford the legend in World automobile industry himself did not invent the automobile. Foreseeing the people's desire to have passenger cars at somewhat lower rates, he applied new methods of mass production to offer passenger cars to the customers at affordable price.

Risk-Bearing: Risk bearing along with innovation is also an essential trait. Starting a new enterprise always involves risk and trying for doing something new and different is also risky. The reason is not difficult to seek. The enterprise started by him or her may earn profits or incur losses in its course of running because of various factors like increasing competition, changes in customer preferences, shortage of raw material and very many un explored factors. An entrepreneur, therefore, needs to be bold enough to assume the risk involved in venturing the enterprise. In fact, he needs to be a risk-taker, not risk avoider. His risk-bearing ability enables him even if he fails in one time or one venture to persist on and on which ultimately helps him succeed. The Japanese proverb *"Fall seven times, stand up eight."* applies to him.

The person who is bold enough, courageous, foresighted, innovative and interested in investing all his resources in anticipation of gaining more in the future is called as an entrepreneur. Through the term entrepreneur is often used interchangeably with entrepreneurship, yet they are conceptually different. The relationship between the two is just like the two sides of the same coin as depicted in the following table

Table showing the Relationship between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organiser	Organisation
Innovation	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualiser	Vision
Leader	Leadership
Imitator	Imitation

Thus, entrepreneurship is concerned with the performance and coordination of the entrepreneurial functions. This also means that entrepreneur precedes entrepreneurship

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Industrial development could be said be a major component economic development and industrial development envisages entrepreneurial development i.e., entrepreneurial development leading to industrial development and the later leading to economic development and so, the emphasis on entrepreneurial development.

Effectiveness of small enterprises depends upon the entrepreneurial and managerial capabilities of those involved in the business. Management and entrepreneurial skills must be both efficient and effective and skills has to be developed into an effective manager by inculcating in him/her the entrepreneurial spirit.

Possible Significant contributions

There is a wide range of significant contributions that entrepreneurs and entrepreneurship can make to the development process. These including the following

1. Entrepreneurship raises productivity through technical and other forms of innovation.
2. Entrepreneurship is a powerful tool of job creation
3. Entrepreneurship facilitates the transfer of technology
4. Entrepreneurs play a strategic role in commercializing new inventions and products.
5. Entrepreneurs play a critical role in the restructuring and transformation of economy
6. Entrepreneurs help reduce the concentration of economic power
7. Entrepreneurship and Entrepreneurial behavior can breathe vitality into the life of large corporations and governmental enterprises
8. Entrepreneurs make markets more competitive and thereby reduce both static and dynamic market inefficiencies
9. Micro-entrepreneurs operating in the informal sector circumvent established government authority when governments and then programmes inhibit economic development

10. Entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive
11. Entrepreneurs improve the social welfare of a country by harnessing dormant, previously overlooked talent.
12. Entrepreneurs create new markets and facilitate expansion international markets

The unique feature of Entrepreneurship is that it is a low-cost strategy of economic development, job creation and technical innovations. Entrepreneurs as risk bearers, find resources and fill market gap that would be missed by larger and more bureaucratic organisations. Entrepreneurs allow a country to extract every last bit of marginal capacity out of whatever resources exist within the society. Entrepreneurs and their families oppress themselves in a way that people are reluctant to accept from large-scale organisation. This benefit society in two ways -first, by extracting extra effort from people and second by avoiding disruption and instability of labour conflict. The local entrepreneurs offer a Cost-effective strategy of development because they are an integral part of their community. Unlike foreign firms or plant relocations from another region or province, small-scale entrepreneurial firms are home grown, and available evidence shows that, they remain in their community.

Factors that affect the entrepreneurial growth

The factors that contribute to the growth entrepreneurship at different in nature and they are not countable. According to Robert Owen an environment al economist, the environment to which a person is exposed has a strong influence in shaping his character. Therefore, there is a need for counting the factual aspects, social and cultural variables such as family background, rapport with leading personalities, industrialists, political affiliation, investment climate, individual capacities personal skills etc., in order to identify the influencing factors of entrepreneurship.

Different theorists belong to different schools of thought like Schumpeter, McClelland, Hagen, Kunkel to the psychological, Maxweber Cochran, Hoselitz, Stokes to the sociological and Papanek, Harris and Kirzner to the economic view points Most of the opinions are oriented towards the psychological, sociological and economic viewpoints. There are also people who hold the view that supply of entrepreneurship is affected by a number of factors including social, psychological and economic factors. Therefore one can easily infer that entrepreneurship is affected by a multitude of factors and the supply of entrepreneurship can scarcely be ascribed to any single factor.

In a research study, Majority of the entrepreneurs gave more than one factor that had prompted them to promote their company. All the factors have been broadly grouped into nine.

1. Educational Background
2. Occupational experience
3. Desire to work independently in manufacturing line
4. Desire to branch out of manufacturing
5. Family Background
6. Assistance from Governments
7. Assistance from financial institutions
8. Availability of technology and raw materials
9. Other factors

There are some factors that are internal to the entrepreneurs like their will or desire to do something independently, educational, occupational and family backgrounds etc., which together make the personality of an individual. These personal factors generate an inclination to adopt entrepreneurial activity.

Factors like Education and technical qualifications, Family Background, Occupational experience are termed as Socio-demographic variables.

According to Joseph A. Schumpeter, the 'socio climate' is responsible for emergence of entrepreneurs. This social climate refers to the political, socio-psychological atmosphere within which the entrepreneurs must operate. All entrepreneurs' ability lies on his capacity to mobilize the capital for effecting his proposals. Sound financial families may provide the situational context for the growth of entrepreneurs. Higher income and standard of living facilitates the growth and development of entrepreneurial ability. In most of the entrepreneurs, the desire to make money, desire to work independently has encouraged the entrepreneurial abilities. Similarly even at the lower economic levels, the entrepreneur had disposed their jewels, land and buildings and entered into business and industry. In India, the educational and technical qualifications and family background played greater role in influencing entrepreneurship. There are certain communities like Chettiars, Baniyas, Marwaris in India are well known for their enterprising nature in the trade and business.

The joint Hindu family system has promoted the entrepreneurship by providing environment developing skills and building strong tradition and customs. The environment of the family prepares its traditions and customs. The environment of the family prepares its members for certain types of business, profession or occupation. Those born in rich business families 'with silver spoons' in their mouths have not only have an advantage of having seed capital for carrying out business, but also learn the basic business skills by continuous interaction and contracts with parents, customers, employees, friends, relatives etc.

The economic variables like profit, prior income, property and level of living have contributed for the growth of entrepreneurship. The entrepreneurs' contact at higher social and governmental levels and availability of expert technical advice and guidance at all stage of development of industry have contributed for entrepreneurial success. Experts and official contracts, natural help, political affiliation, social participation has resulted in entrepreneurial success.

Finally, the personality factors like age, marital results, Religion and Community generally influence entrepreneurship. The 'Young age' (25 to 35) is an encouraging factor to take up risk and do business. Marital Status, Caste and Religion to which a person is affiliated serve as a contributory factor for entrepreneurial growth.

To conclude,

1. Multitude of factors influence the entrepreneurship
2. By creating a socially conductive environment, the entrepreneurship can be influenced.
3. The factors like "desire to do work independently", "desire to make money" have influenced much the entrepreneurs of a sample study.
4. The external factors like Government's liberal policy and assistance influence a person to take up industrial activity.

GROWTH OF ENTREPRENEURSHIP IN INDIA

A proper understanding of the growth of entrepreneurship of any country would evolve within the context of the economic history of the particular country. On assessing the economic history of the sub-continent two phases has to be taken into consideration. First phase has to elaborate the affairs before independence and at the second phase the discussion has to be taken around the country's entrepreneurship growth post independence. The growth of entrepreneurship in India is, therefore, presented as following sections, viz. Entrepreneurship during Pre-Independence and Post-Independence.

Entrepreneurship during Pre-Independence:

The evolution of the Indian entrepreneurship can be traced back to even as early as Rig Veda, when metal handicrafts existed in the society. This would bring the point home that handicrafts entrepreneurship in India was as old as the human civilization itself. The craftsmen then nurtured entrepreneurship as a part of their duty that they have to perform towards the society and its needs. Before India came into contact with the West, people were organized in a particular type of economic and social system of the village community. Caste-based diversion of workers consisted of farmers, artisans and religious priests (the Brahmins). The majority of the artisans were treated as village servants. Such compact system of village community effectively protecting village artisans from the onslaughts of external competition was one of the important contributing factors to the absence of localization of industry in ancient India.

Organized industrial activity was observable among the Indian artisans in a few recognizable products in the cities of Banaras, Allahabad, Gaya, Puri and Mirzapur that were established on river basins. The rivers served as a means of transportation facilities, the produces are taken to distant markets through these rivers and also traders of distant cities of different countries reached to these cities through the waterways. These artisan industries flourished over the period. The artisans were also supported by the Royal patronage given by the rulers of the state. From the immemorial till the earlier years of the eighteenth century, India enjoyed the prestigious status of the queen in the international trade with the help of its handicrafts.

Prestigious Indian handicraft industry, which was basically a cottage and small-scale sector was not able to hold its position. Indian handicraft industry started to decline at the end of the eighteenth century for various reasons.

These may be listed as:

1. Disappearance of the Indian Royal Courts, who patronized the arts and crafts in the country earlier.
2. The lukewarm attitude of the British Colonial Government towards the Indian arts and crafts industry.
3. Imposition of heavy duties on the imports of the Indian goods by the administration of England.
4. Low-priced British made goods produced on large scale reduced the competing capacity of the products of the Indian handicrafts;
5. Development of transport facilities in the country had made it easier to access British products even to far-flung remote parts of the country;
6. Changes in the tastes, preference and habits of the Indian consumers, they have started developing craziness over foreign products.
7. Unwillingness of the Indian craftsmen to adapt to the changing tastes and needs of the people.
8. Emergence of manufacturing industries/products started to replace hand made products

Manufacturing entrepreneurship in India emerged as the latent and manifest consequence of East India Company's advent in India. The company injected various changes in the Indian economy through export of raw materials and import of finished goods in India. East India Company made some contribution towards entrepreneurial growth in India. But the intentions with which the company did deliberately for the growth of entrepreneurial growth in India is always questionable.

The actual emergence of manufacturing entrepreneurship can be noticed in the second half of the nineteenth century that had also inherited the advancements introduced by industrial revolution.

Ranchodlal Chotalal a Brahman was the first Indian to think of setting up the textile manufacturing on the modern factory lines in 1847, but failed due to one or many reasons. In his second attempt, he succeeded in setting up a textile mill in the year 1861 at Ahmedabad, but before this the first cotton textile manufacturing unit in the country was set up by a Parsi, Cowasjee Nanabhoy Davar in Bombay in the year 1854 followed by Nawrosjee Wadia, who opened his textile mill in Bombay in 1880 which was running successful even now with the name Bombay Dyeing . The credit for the expansion of textile industries up to 1915 goes to the Parsis. Parsis dominated the industry, majority of the industrial houses are under their control Out of 96 textile mills that existed in 1915, 43 per cent (i.e, 41 units) were owned by Parsis, 24 per cent (23 units) were owned by Hindus, 10 per cent (10) were owned by Muslims and 23 per cent (22) by British Citizens. The Parsis slowly but steadily invaded other fields, mainly iron and steel industry. Jamshedjee Tata was the first Parsi entrepreneur establishing the first steel industry at Jamshedpur in the year 1911.

The second wave of entrepreneurial growth in India began after the First World War. The then Indian Government agreed in 'discriminating' protection to certain industries. It requires that companies be registered in India with rupee capital and has a proportion of their directors as Indians. The Indians mostly enjoyed the advantages of these measures. Historical evidences also do confirm that English East India Company lost its monopoly in year 1813, the European Managed Agency Houses entered business, trade and banking. These houses markedly influenced India's Industrial scene. It has remarkably contributed to the growth of entrepreneurship during that period.

Entrepreneurship during Post-Independence

The Government came forward with the first Industrial Policy, 1948 which was revised from time to time. The Government in her various industrial policy statements identified the responsibility of the state to promote assist and develop industries in the national interest. It also explicitly recognized the vital role of the private sector in accelerating industrial development and for this Government also reserved enough fields for the private sector. The Government took three important measures in her industrial resolutions:

(i) To maintain a proper distribution of economic power between private and public sector.

(ii) To encourage the tempo of industrialization by spreading entrepreneurship from the existing centers to other cities, towns and villages.

(iii) To disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social strata.

To achieve these adumbrated objectives, the Government accorded emphasis on the development of small-scale industries in the country. Particularly since the Third Five Year Plan, the Government started to provide various incentives and concessions in the form of capital, technical know-how, markets and land to the potential entrepreneurs to establish industries in the industrially potential areas to remove the regional imbalances in economic development. Several institutions like Directorate of Industries, Financial Corporations, Small-Scale Industries Corporations and Small Industries Service Institute were also established by the Government to facilitate the new entrepreneurs in setting up their enterprises. Expectedly, the small-scale units emerged very rapidly in India witnessing a tremendous increase in their number from 121,619 in 1966 to 190,727 in 1970 registering an increase of 17,000 units per year during the period under reference.

Unit - II

THE CONCEPT OF ENTREPRENEUR

The word 'entrepreneur' has been taken from the French language where it originally meant to designate an organizer of musical or other entertainments. Oxford English Dictionary (in 1897) also defined an entrepreneur in similar way as "the director or a manager of a public musical institution, one who 'gets-up' entertainment, especially musical performance".

In the early 16th century, it was applied to those who were engaged in military expeditions. It was extended to cove civil engineering activities such as construction and fortification in the 17th century. It was only in the beginning of the 18th century that the word was used to refer to economic aspects. The term 'entrepreneur' is used in various ways and various views. These views are broadly classified into three groups, namely, risk-bearer, organizer and innovator.

Entrepreneur as a Risk-Bearer

Richard Cantillon an Irish man living in France was the first who introduced the term 'entrepreneur' and his unique risk-bearing function in economics in the early 18th century. He defined entrepreneur as an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future.

Knight described entrepreneur to be a specialized group of persons who bear uncertainty is defined as a risk that cannot be insured against and is incalculable.

Entrepreneur as an Organiser

Jean-Baptiste say associates entrepreneur with the functions of coordination, organization and supervision. According to him, an entrepreneur is the one who combines the land of one, the Labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. Mr. Say has made a clear distinction between the role of the capitalist as a financer and the entrepreneur as an organizer. He further elaborates that in the course of undertaking a number of complex operations like obstacles to be surmounted, anxieties to be suppressed, misfortunes to be repaired and expedients to be devised, three more implicit factors are deemed to be essential. These are:

1. Moral qualities for work judgment, perseverance and a knowledge about the business world.
2. Command over sufficient capital
3. Uncertainty of profits.

Entrepreneur as an Innovator

Joseph A. schumpeter, for the first time in 1934 assigned a crucial role of 'innovation' to the entrepreneur in his magnum opus 'Theory of Economic Development'. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneur by instituting new combinations of production, i.e., innovations. According to him the innovation i.e. the introduction of new combination of factors of productionmay occur in any one of the following five forms:

1. The introduction of a new product in the market.
2. The instituting of a new production technology which is not yet tested.
3. The opening of a new market into which the specific product has not previously entered.
4. The discovery of a new source of supply of raw material.
5. The carrying out of the new form of organization of any industry by creating of a monopoly position or the breaking up of it.

Schumpeter also made a distinction between an inventor and an innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discoveries in order to make new combinations.

In sum, the concept of the entrepreneur is intimately associated with the three elements risk-bearing, organizing and innovating. Thus an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.

CHARACTERISTICS OF AN ENTREPRENEUR

The characteristics of entrepreneur are as follows

1. **Hard Work:** Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one.
2. **Desire for High Achievement:** The entrepreneurs have a strong desire to achieve high goals in business. This high achievement motive strengthened them to surmount the obstacles, suppress anxieties, repair misfortunes and devise expedients and run a successful business.
3. **Highly Optimist:** The successful entrepreneurs are not disturbed by the present problems faced by them. They are optimistic for future that the situations will become favourable to business in future.
4. **Independence:** One of the common characteristics of the successful entrepreneurs has been that they do not like to be guided by others and to follow their routine.
5. **Foresight:** The entrepreneurs have a good foresight to know about future business environment. In other words they will visualize the likely changes to take place in market, consumer attitude, technological developments, etc. and take timely actions accordingly.
6. **Good Organiser:** Different resources required for production are divorced from each other. It is the ability of the entrepreneurs to brings

together all resources required for starting up an enterprise and then to produce goods.

7. **Innovative:** Production is meant to meet the customers' requirements. In view of the changing taste of customers from time to time, the entrepreneurs initiate research and innovative activities to produce goods to satisfy the customers' changing demands for the products.

DISTINCTION BETWEEN AN ENTREPRENEUR AND A MANAGER

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture by setting up an enterprise.	The main motive of a manager is to render his services in an enterprise already set up by someone else
2. Status	An entrepreneur is the owner of the enterprise	A manager is the servant in the enterprise owned by the entrepreneur
3. Risk-bearing	An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in running the enterprise.	A manager as a servant does not bear any risk involved in the enterprise.
4. Innovation	Entrepreneur himself thinks over and acts as an innovator also called a 'change-agent.'	A manager simply translates the entrepreneur's ideas into practice.

5. Rewards	The reward an entrepreneur is profit which is highly uncertain	A manager gets salary as reward for the services rendered by him
6.Qualifications	An entrepreneur needs to posses qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability and so on.	A manager needs to posses distinct qualifications in terms of sound knowledge in management theory and practice.

ENTREPREUNERIAL COMPETENCIES

A competence is an underlying characteristic of a person, which results in effective and/or superior performance in a job. A job competence is an underlying characteristic of a person, in that it may be motive, traits, skills, and aspect of ones self-image a body of knowledge which one uses. In other words, a competence is a combination of body of knowledge, set of skills and cluster of appropriate motives/traits that an individual possess to perform a given task.

The knowledge of entrepreneurial competence has been sharpened over the last 3 decades. The following is a list of major competencies that contribute towards top performance.

1. INITIATIVE: It is an action that goes beyond job requirements or the demand of the situation. An initiative person

- Does things before being asked or forced to by events.
- Acts to extend the business into new areas, products, or services.

2. SEES AND ACTS ON OPPORTUNITIES: The person with this quality looks for and takes action on opportunities.

- Sees and acts on opportunities (business, educational or personal growth).
- Seizes unusual opportunities to obtain financing equipment, land, work space, or assistance.

3. PERSISTENCE: This quality takes repeated action to overcome obstacles that get in the way of reaching goals.

- Takes repeated or different actions to overcome obstacle
- Takes action in the face of a significant obstacle

4. INFORMATION SEEKING: Takes action on own to get information to help reach objectives or clarify problems.

- Does personal research on how to provide a product or service
- Consults experts for business or technical advice
- Seeks information or asks questions to clarify what is wanted or needed
- Personally undertakes research, analysis, or investigation
- Uses contacts or information networks to obtain useful information

5. CONCERN FOR HIGH QUALITY OF WORKS: Acts to do things that meet or beat existing standards of excellence.

- States a desire to produce work of high quality
- Compares own work or own company's work favorably to that of others

6. COMMITMENT TO WORK CONTRACT: Acts to do things that place the highest priority on getting a job completed.

- Accepts full responsibility for problems in completing a job for others
- Pitches in with workers or works in their place to get the job done
- Expresses a concern for satisfying the customer.

7. EFFICIENCY ORIENTATION: Finds ways to do things faster or with fewer resources or at a lower cost.

- Looks for or finds ways to do things faster or at less cost.
- Uses information or business tools to improve efficiency
- Expresses concern about costs vs benefits of some improvement, change, or course of action.

8. SYSTEMATIC PLANNING: Develops and uses logical, step-by step plans to reach goals.

- Plans by breaking a large task down into sub-tasks.
- Develops plans that anticipate obstacles
- Evaluates alternatives
- Takes a logical and systematic approach to activities

9. PROBLEM SOLVING: Identifies new and potentially unique ideas to reach goals.

- Switches to an alternative strategy to reach a goal
- Generates new ideas or innovative solutions

10. SELF-CONFIDENCE: Has a strong belief in self and own abilities.

- Expresses confidence in own ability to complete a task or meet a challenge
- Sticks to own judgment in the face of opposition or early lack of success
- Does something that he says is risky.

11. ASSERTIVENESS: Confronts problems and issues with others directly.

- Tells others what they have to do
- Reprimands or disciplines those failing to perform as expected

12. PERSUATION: Successfully persuades others.

- Convinces someone to buy a product or service
- Convinces someone to provide financing
- Convinces someone to do something else that he would like that person to do
- Asserts own competence, reliability, or other personal qualities
- Asserts strong confidence in own company's or organization's products or services.

13. USE OF INFLUENCE STRATEGIES:

- Acts to develop business contracts
- Uses influential people as agents to accomplish own objectives
- Selectively limits the information given to others

14. MONITORING:

- Develops or uses procedures to ensure that work is completed or that work gets standards or quality
- Personally supervises all aspects of a project

15. CONCERN FOR EMPLOYEE WELFARE:

- Takes action to improve the welfare of employees
- Takes positive action in response to employee's personal concerns
- Expresses concern about the welfare of employees

Developing Entrepreneurial Competencies:

Understanding what a particular competence means can develop entrepreneurial competencies and, with such an understanding one would be able to recognize the competence when, someone else exhibits the same.

Having understood a given competence and having been able to recognize the same when someone else exhibits, the next step is to find out where one stands with respect to a given competency. 'Self Rating Questionnaire' may be used to understand one's level of competencies and those that are not a part of one's personality but one would like to acquire those competencies and strengthen others. Any new behaviour one acquires would become a part of one's personality only when he / she applies the same on a continuous basis in various activities.

Having understood a competence and having practiced the same in a given situation, one needs to introspect to find out how one's 'new behaviour" or act of exhibiting a competence has been rewarding. Greater the benefit, more will be one's determination to continue exhibiting the competence in a variety of situations.

ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES

Traits or competencies are underlying characteristics of the entrepreneurs, which result in superior performance. A well-known behavioural scientist David McClelland at Harvard University made an interesting investigation and found that 'the need for achievement' motivates people to work hard. According to him, moneymaking was incidental. It was a measure of achievement; this need for achievement could be induced. The traditional beliefs did not seem to inhibit an entrepreneur and that the suitable training can provide the necessary motivation to the entrepreneurs.

At present, some 686 all-India and state level financial institutions and public sector banks had so far conducted EDPs in hundreds giving training to the candidates in thousands. Programmes similar to India's EDPs are conducted in other countries also, for example, 'Junior Achievement' Programme based on the principle of 'catch them young' in USA and 'Young Enterprises' in the U.K.

OBJECTIVES OF EDPs

The important objectives of Entrepreneurship Development Programmes (EDPs) are

(i) To develop and strengthen the participant's entrepreneurial quality, i.e., motivation or need for achievement.

(ii) To analyze the environmental set up relating to small industry and small business.

(iii) To help him/her select a product which he can market

(iv) To formulate a project for the product

(v) To make them understand the process and procedure involved in setting up a small enterprise

(vi) To make them know the pros and cons in becoming and entrepreneur.

(vii) To train them to acquire the necessary managerial skills required to run their small enterprise.

(viii) To make them Know the sources of help and support available for starting up a small-scale industry.

(ix) To appreciate the needed entrepreneurial discipline

Besides the above objectives 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 pertaining to his enterprise.

(iv) Enable the to communicate clearly and effectively

(v) Develop a broad vision about the business or industry which they are planning to begin.

(vi) Make him subscribe to industrial democracy

(vii) Develop passion for integrity and honesty

(viii) Make him learn compliance with law.

COURSE CONTENTS AND CURRICULUM OF EDPs

1. General introduction to Entrepreneurship:

First of all the participants are exposed to a general knowledge of entrepreneurship such as factors affecting small-scale industries, the role of entrepreneurs in economic development, entrepreneurial behaviour and the facilities available for establishing small-scale industries

2. Motivation Training:

The training inputs under this aim at including and increasing the need for achievement among the participants. This is in fact a crucial input of entrepreneurship training. Efforts are made to inject confidence and positive attitude and behaviour among the participants towards business in general.

3. Management Skills:

Running a business be it large or small requires the managerial skill. Since a small entrepreneur cannot employ management experts to manage his/her business, he/she needs to be imparted the basic and essential managerial skills in the functional areas like finance, production and marketing. Knowledge of managerial skills enables an entrepreneur to run his/her enterprise smoothly and successfully.

4. Support System and Procedure:

The participants also need to be exposed to the supports that are available for them from different institutions and agencies both governmental as well as non-governmental, for setting up small-scale enterprises and running them successfully.

5. Fundamentals of project Feasibility Study:

Under this input the participants are provided guidelines on the effective analysis of feasibility or viability of the particular project in view of marketing, organization, technical, financial and social aspects. Knowledge is also given how to prepare the 'Project' or 'Feasibility Report'. Organisations financing the project appraise it only based on this report.

6. Plant Visits:

In order to familiarize the participants with real life situations in small business plant visits are also arranged. Such trips help the participants know more about an entrepreneur's behaviour, personality, thoughts and aspirations. These influence him/her to behave accordingly to run his/her enterprise smoothly and successfully.

On the whole, the ultimate objective of entrepreneurship training programme is to make the trainees prepared to start their own enterprise after the completion of the training programme.

PHASES OF EDPs

An entrepreneurship development programme consists of the following three phases:

1. Pre-training phase
2. Training phase
3. Post-training phase (follow-up)

1. Pre-training phase:

The activities and preparations required launching the training programme comes under of entrepreneurs.

(a) Arrangement of infrastructure for training purpose

(b) Tie-up of Guest Faculty for the training purposes.

(c) Arrangement for inauguration of the programme

(d) Selection of necessary tools, techniques to select the suitable entrepreneurs

(e) Formation of Selection Committee for selecting trainees

(f) Arrangement for publicity media and campaigning for the programme.

(g) Development of application form

(h) Finalisation of training syllabus

(i) Pre-potential survey of opportunities available in the given environmental conditions.

2. Training phase:

The main objective of this phase is to develop 'need for achievement', i.e., motivation among the trainees. Accordingly a trainer should see the following changes in the behaviour of the trainees.

(a) Is he/she attitudinally turned very much towards his/her proposed project ideal.

(b) Is the trainee motivated to plunge into entrepreneurial career and bear risks involved in it?

(c) Is there any perceptible change in his entrepreneurial attitude, outlook, skill, role, etc.?

(d) How should he/she behave like an entrepreneur?

(e) What kinds of entrepreneurial traits the trainee lacks the most?

(f) Whether the trainee possesses the knowledge of technology, resources and other knowledge related to entrepreneurship?

(g) Does the trainee possess the required skill in selecting the viable project, mobilizing the required resources at the right time?

3. Post-training Phase (follow-up):

The ultimate objective if the Entrepreneurship Development programme is to prepare the participants to start their enterprises. The purpose behind the EDP follow-up phase is to:

(a) Review the pre-training work.

(b) Review the process the training Programme.

(c) Review past training approach

Problems faced by EDPs:

EDPs suffer on many counts. The important problems EDPs face are listed as follows:

1. Trainer-motivations are not found up to the mark in motivating the trainees to start their own enterprises.
2. ED organisations lack in commitment and sincerity in conducting the EDPs. In some cases EDPs are used as a means to generate surplus (income) for the ED organisations.
3. Non-conductive environment and constraints make the trainer-motivators' role infective.
4. The antithetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.
5. Selection of wrong trainees also leads to low success rate of EDPs.

ENTREPRENEURIAL MOTIVATION

The term 'motivation' has been derived from the word 'motive'. Motive may be defined as an inner state of our mind that moves or activates or energizes and directs our behaviour towards our goals. Motives are expressions of a person's goals or needs. In simple terms motives or needs are ways of behaviour. They give direction to human behaviour to achieve goals or fulfill needs.

Motivation may be defined as the process that motivates a person into action and induces him to continue the course of action for the achievement of goals. According to Dalton E. McFarland, "Motivation refers to the way in which urges, drives, desires striving, aspirations or needs direct, control or explain the behaviour of human being".

The basic elements of the process of motivation are (i) motive (ii) behaviour and (iii) goal.

MOTIVATION THEORIES

The number of theories that have been propounded to explain people'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 and particularly relevant to entrepreneurship are Maslow's Need Hierarchy Theory and McClelland's Acquired Needs Theory.

Maslow's Need Hierarchy Theory

It is based on the human needs. These needs are classified into a sequential priority from the lower to the higher. According to Maslow all human needs are classified into the five need-clusters.

These five need clusters are now discussed one by one.

1. **Physiological Needs:** These needs are basic to human life and include food, clothing, shelter, air, water and other necessities of life. They exert tremendous influence on human behaviour. Entrepreneur also being a man needs to meet his physiological needs for survival. Hence, he/she is motivated to work in the enterprise to have economic rewards to meet the basic needs.

2. **Safety and Security Needs:** After satisfying the physiological needs, the next needs felt are called safety and security needs. These needs find expression in such desires as economic security and protein from physical dangers. Meeting these needs requires more money and, hence, the entrepreneur is prompted to work more in his/her enterprise. Like physiological needs, these become inactive once they are satisfied.

3. **Social Needs:** Man is a social being. He is therefore interested in social interaction, companionship, belongingness etc. It is this socializing and belongingness why individuals prefer to work in groups and especially older people go to work for even lesser or at times no wages.

4. **Esteem Needs:** These needs refer to self-esteem and self-respect. They include such needs, which indicate self-confidence, achievement, competence,

knowledge and independence. In case of entrepreneurs, the ownership and self-control over enterprise satisfies their esteem needs by providing them status, respect, reputation and independence.

5.Self-Actualisation: The final step under the need hierarchy model is the need for self-actualisation. This refers to self-fulfillment. The term 'self-actualisation' was coined by kurt Goldstein and means to become actualized in what one is potentially good at. An entrepreneur may achieve self-actualization in being a successful entrepreneur.

In Maslow's theory, needs are arranged in a lowest to the highest hierarchy. The second need does not dominate unless the first is reasonably satisfied. This process goes on till the last need. This is because man is never satisfied. If one need is satisfied another need arises. Once a need is satisfied, it ceases to be a motivating factor. For entrepreneurs, it is mainly social, esteem and self-actualisation needs, which motivate them to work more and more for satisfying them.

McCelland's Acquired Needs Theory: According to David McClelland a person acquires three types of needs as result of one's life experience. These three needs are:

(1) Need for Affiliation---These refer to needs to establish and maintain friendly and warm relations with others.

(2) Need for power---These mean the one's desire to dominate and influence others by using physical objects and actions

(3) Need for Achievement-This refers to one's desire to accomplish something with own efforts. This implies one's will to excel in his/her efforts.

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

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

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

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

(4) They have need for achievement for attaining personal accomplishment

(5) They look for challenging tasks.

MOTIVATING FACTORS

1. **Internal Factors:** These included the following factors:

(a) Desire to do something new

(b) Educational background

(c) Occupational background or experience

2. **External Factors:** These included:

(a) Government assistance and support

(b) Availability of labour and raw material

(c) Encouragement from big business houses

(d) Promising demand for the product

While studying entrepreneurial motivation, Murthy et. Al. studied and classified the motivating factors on different bases. According to them, entrepreneurs are motivated to start business enterprises due to the following three types of factors:

1. Ambitious factors
2. Compelling factors
3. Facilitating factors

In another study on motivational factors, it was found that out of a sample of 264 small-scale entrepreneurs, 98(37.12%) wanted to do something pioneering and innovative. For 74(28.03%) entrepreneurs, the principal motivating factor was the desire to be free and accounted for 56(21.21%). For 36(13.64%), the main motivating factor to start enterprises was availability of sub-contracting facilities from large units.

ACHIEVEMENT MOTIVATION

The need for achievement plays an important role in making an entrepreneur as successful. It is an inner spirit that activates an entrepreneur to strive for success. In simple terms, need for achievement is the desire to do well. The empirical evidences support the hypotheses that need for achievement contributes to entrepreneurial success. Hence, there is the need for developing achievement motivation i.e. a need for achieving in life for developing entrepreneurship in an economy.

THE PROCESS OF STARTING AN ENTERPRISE

The process of starting an enterprise has the following steps. For a motivated individual the process of beginning an enterprise begins with identification and selection of a project

PROJECT IDENTIFICATION AND SELECTION: An entrepreneur takes numerous decisions to convert his business idea into a running concern, in setting up his/her enterprise, his/her decision making process starts with project/product selection. In fact, project selection is the first corner stone to be laid down in setting up an enterprise. The selection of a right project goes to validate the proposition: "Well begun is half done".

PROJECT

A project is an idea or plan that is intended to be carried out. The dictionary meaning of a project is that it is a scheme, design; a proposal of something intended or devised to be achieved.

Newman et al. Define that "a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of them mission".

Gillinger defines project "as the whole complex of activities involved in using resources to gain benefits".

According to Encyclopedia of Management, "a project is an organized unit dedicated to the attainment of a goal" A project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time.

Projects can differ in their size, nature, objectives, time duration and complexity, yet they take of the following three basis attributes:

1. A Course of Action
2. Specific Objectives, and
3. Definite Time Perspective

Every project has a starting point and an end point with specific objectives.

Project Classification

Project Classification is a natural corollary to the study of project idea. Following are the major classifications of projects.

Quantifiable and Non-Quantitifiable Projects

Projects for which a plausible quantitative assessment of benefits can be made are called 'quantifiable projects'. Non-quantifiable projects are those in which a plausible quantitative assessment cannot be made.

Sectoral Projects

According to this classification, a project may fall in any one of the following sectors:

(d) Agriculture and Allied Sector

(e) Irrigation and Power Sector

(f) Industry and Mining Sector

(g) Transport and Communication Sector

(h) Social Services Sector

(i) Miscellaneous Sector

Techno-Economic Projects

This type of classification includes factors intensity-oriented classification, causation-oriented classification and magnitude-oriented classification. These are discussed as follows:

(j) Factor Intensity-Oriented Classification

(k) Causation-Oriented Classification

(l) Magnitude-Oriented Classification

Basically, project selection consists of two main steps:

1. Project Identification
2. Project Selection

PROJECT IDENTIFICATION

Idea Generation: Project selection process starts with the generation of as product idea. In order to select the most promising project, the entrepreneur needs to generate a few ideas about the possible projects he/she can undertake. The project ideas can be discovered from various-internal and external sources. These may include:

1. Knowledge of potential customer needs;
2. Watching emerging trends in demands for certain products,
3. Scope for producing substitute product.
4. Going through certain professional magazines catering to specific interests like electronics, computers etc.,
5. Success stories of known entrepreneurs or friends or relatives
6. Making visits to trade fairs and exhibitions displaying new products and services,
7. Meeting with the Government agencies
8. Ideas given by the knowledgeable persons

9. Knowledge about the Government policy, concessions and incentives, list of items reserved for exclusive manufacture in small-scale sector, and
10. A new product introduced by the competitor

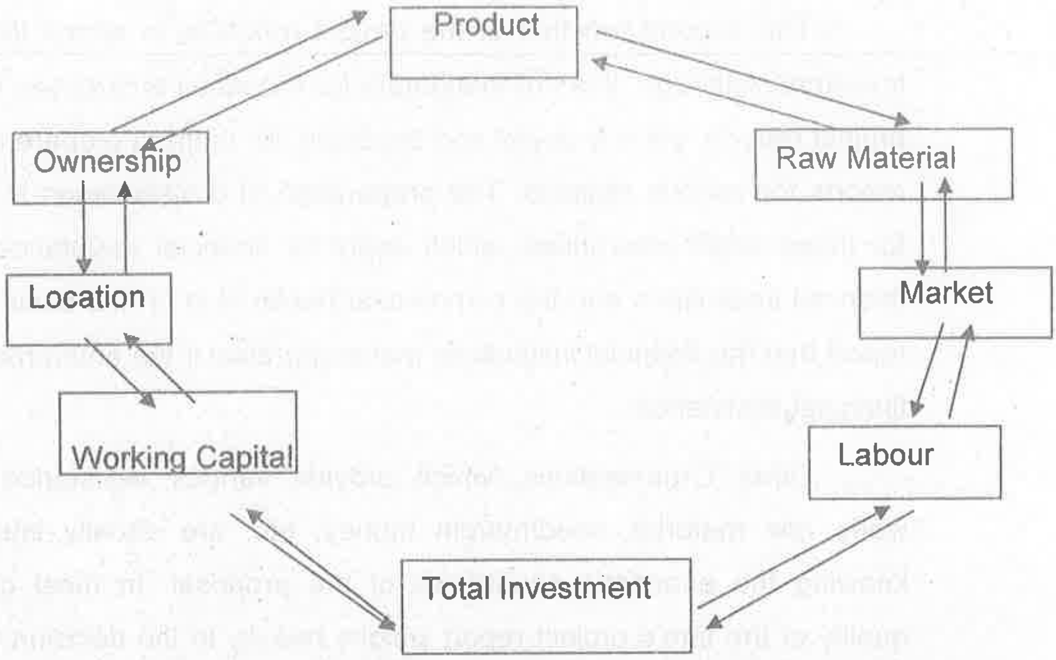
All of these sources putting together may give a few ideas about the possible projects to be examined as the final project. This is also described as 'opportunity scanning and identification.'

PROJECT SELECTION: Project selection starts from where project identification ends. After having some project ideas, these are analysed in the light of existing economic conditions, the government policy and so on. A tool generally used for this purpose is, what is called in the managerial jargon, SWOT analysis. The intending entrepreneur analyses his/her strengths and weaknesses as well as opportunities/competitive advantages and threats/challenges offered by each of the project ideas. On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of some projects is also described as the "zeroing in process"

What follows from above analysis is that there is a time interval involved in between project identification and project selection. But, in some cases, there may be almost not time gap between the two.

Project identification and selection is half done in the process of establishing an enterprise. The entrepreneur needs to analyze other related aspects also like raw material, potential market, Labour, capital, location, forms of ownership etc. It is necessary to mention that each of these aspects has to be evaluated independently and in relation to each other. This forms a continuous and "back and forth" process as shown in Figure.

In the process of establishing an enterprise, next to project/product selection comes the 'project formulation'.



An Interdependence process

PROJECT FORMULATION: Formulation of project report/business plan is one of the first corner stones to be laid down in setting up an enterprise.

PROJECT REPORT: Webster New 20th century Dictionary defines a project as a scheme, design, a proposal of something intended or devised. In simple words, project report or business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. Project report serves like a kind of big road map it reach the destination determined by the entrepreneur. Project report can best be defined as a well-evolved course of action devised to achieve the specified objective within a specified period of time.

SIGNIFICANCE OF PROJECT REPORT

The project report serves the two essential functions: first and most important, the project report is like a road map. It describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. It also enables an entrepreneur to know that he is proceeding in the right direction.

The second function of the project report is to attract lenders and investors. Although, it is not mandatory for the small enterprises to prepare project reports, yet it is useful and beneficial for them to prepare the project reports for various reasons. The preparation of project report is beneficial for those small enterprises, which apply for financial assistance from the financial institutions and the commercial banks, it is on the basis of project report that the financial institutions make appraisal if the enterprise requires financial assistance.

Other Organisations, which provide various assistance such as work, raw material, seed/margin money, etc. are equally interested in knowing the economic soundness of the proposal. In most cases, the quality of the firm's project report weighs heavily in the decision to lend or invest funds.

CONTENTS OF A PROJECT REPORT

1. **General Information:** Information on product profile and product details
2. **Promoter:** His/her educational qualification, work experience, project related experience
3. **Location:** Exact location of the project, lease or freehold, locational advantages
4. **Land and Building:** Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. **Plant and Machinery:** Details of machinery required, capacity, suppliers, cost, carious alternatives available, cost of miscellaneous assets.
6. **Production process:** Description of production process, process chart, technical know how, technology alternatives available, production programme
7. **Utilities:** Water, power, steam, compressed air requirements, cost estimates, sources of utilities
8. **Transport and Communication:** Mode, possibility of getting, costs

9. **Raw Material:** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternative raw material, if any

10. **Manpower:** Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.

11. **Products:** Product mix, estimated sales, distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.

12. **Market:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.

13. **Requirement of working capital:** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

14. **Requirement of Funds:** Break-up of project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

15. Cost of production and profitability of first ten years

16. Break-Even Analysis

17. Schedule of Implementation

FORMULATION OF PROJECT WORK: Project formulation divides the process of project development into eight distinct and sequential stages. These stages are:

1. General Information
2. Project Description
3. Market potential
4. Capital Costs and Sources of Finance
5. Assessment of Working Capital Requirements
6. Other Financial Aspects

7. Economic and Social Variables
8. Project Implementation

The nature of information to be collected under each one of these stages has been given below.

General Information: The information of general nature given in the project report include the following:

Bio-data of Promoter: Name and address of entrepreneur; the qualifications, experience and other capabilities of the entrepreneur; if these are partners, state these characteristics of all the partners individually.

Industry Profile: A reference of analysis of industry to which the project belongs, e.g., past performance; present status, its organisations, its problems etc.

Constitution and organization: The constitution and Organisational structure of the enterprise; in case of partnership firm, its registration with the Registrar of Firms; application for getting Registration Certificate from the Directorate of Industries/District Industry Centre.

Product Details: product utility, product range; product design; advantages to be offered by the product over its substitutes, if any.

Project Description

A brief description of the project covering the following aspects is given in the project report.

Site: Location of enterprise; owned or leasehold land; industrial area; No objection Certificate from the Municipal Authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project Report.

(i) **Raw Material:** Requirement of raw material, whether inland or imported, sources of raw material supply.

(ii) **Skilled Labour:** Availability of skilled Labour in the area, arrangements for training labours in various skills.

Utilities: These include

(i) **Power**: Requirement for power, load sanctioned, availability of power

(ii)**Fuel:** Requirement for fuel items such as coal, coke, oil or gas, state of their availability

(iii) **Water:** The sources and quality of water should be clearly stated in the project report

pollution Control: The aspects like scope of dumps, sewage system and sewage treatment plant should be clearly stated in case of industries producing emissions.

Communication System: Availability of communication facilities, e.g., telephone, telex etc. should be stated the project Report.

Transport Facilities: Requirements for transport, mode of transport, potential means of transport, distances to be covered, bottlenecks etc., should be stated in the business plan.

Other Common Facilities: Availability of common facilities like machine shops, welding shops and electrical repair shops etc. should be stated in the report.

Production process: A mention should be made for process involved in production and period of conversion from raw material into finished goods.

Machinery and Equipment: A complete list of items of machinery and equipments required indicating their size; type, cost and sources of their supply should be enclosed with the project report.

Capacity of the plant: The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report

Technology Selected: The selection of technology, arrangements made for acquiring should be mentioned in the business plan

Research and Development: A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

Market Potential: While preparing a project report, the following aspects relating to market potential of the product should be stated in the report:

(i) **Demand and Supply Position:** State the total expected demand for the product and present supply position. This should also be mentioned how much of the gap will present supply position. This should also be mentioned how much of the gap will be filled up by the proposed unit.

(ii) **Expected Price:** Arrangements made for selling the product to be realized should be mentioned in the project report

Marketing Strategy: Arrangements made for selling the product should be clearly stated in the project report

After-Sales Service: Depending upon the nature of the product, provisions made for after-sales service should normally be stated in the project report.

Transportation: Requirement for transportation means indication whether public transp0ort or entrepreneur's own transport should be mentioned in the project report.

Capital Costs and Sources of Finance

An estimate of the various components of capital items likes land and buildings, plant and machinery; installation costs, preliminary expenses, margin for working capital should be given in the project report. The present probable sources of finance should also be stated in the project report. The sources should indicate the owner's funds together with funds raised from financial institutions and banks.

Assessment of Working Capital Requirements

The requirements for working capital and its sources of supply should be carefully and clearly mentioned in the project report. It is always better to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will minimize objections from the banker's side.

Other Financial Aspects

In order to adjudge the profitability of the project to be set up, a projected profit and Loss Account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected Balance Sheet and Cash Flow Statement should also be prepared to indicate the financial position and requirements at various stages of the project.

In addition to above, the Break-Even Analysis should also be presented in the project report. Break-even point is the level of production/sales where the industrial enterprise shall earn neither profit nor incur loss. In fact, it will just break even. Break-even level indicates the gestation period and the likely moratorium required for repayment of loans. Break-even point (BEP) is calculated as follows:

$$BEP = F/(S-V) * 100$$

Where, F = Fixed Cost

S = Sales Projected

V = Variable Costs

Thus, the break-even point so calculated will indicate at what percentage of sales, the enterprise will reach the point of no profit or no loss.

Economic and Social Variables

In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project. Arrangement made for treating the effluents and emissions should also be mentioned to the report.

The socio-economic benefits expected to accrue from the project should also be stated in the report itself. Following are the examples of socio-economic benefits.

a) Employment Generation
b) Import Substitution
c) Ancillarisation
d) Exports
e) Local Resource Utilization
f) Development of the Area

Project Implementation

Last but no means the least, every entrepreneur should draw an implementation scheme or a time-table for his project to ensure the timely completion of all activities involved in setting up an enterprise. Timely, implementation is important because if there is a delay, it causes, among other things, a project cost overrun. Delay in project implementation jeopardizes the financial viability of the project, on the one-hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence, there is a need to draw up an implementation schedule for the project and then to adhere to it.

COMMON ERRORS IN PROJECT FORMULATION

Project formulation is important and it is not so easy. The errors widely noticed in project formulations are:

1. **Product Selection:** It is noticed that some entrepreneurs commit mistakes by selecting a wrong product for their enterprises. They select the product without giving due attention to product related other aspects such as size of the product markets, its future demand, competitive position, lifecycle, availability of required Labour, raw material and technology. Hence, when you are selecting a product, take a comprehensive view.
2. **Capacity Utilization Estimates:** The entrepreneurs usually make over-optimistic estimates of capacity utilization. Their estimates are based on completely false premises. The estimates are made in complete disregard of present-enterprise performance, prevailing market conditions, competitive atmosphere, the technical snags, etc. A business plan formulated as such falls prey to financial jugglery. Hence, avoid such temptations while estimating capacity utilization for your enterprise.
3. **Market Study:** Product production is ultimately meant for eventual sale. Hence, market study of the product assumes importance.
4. **Technology Selection:** The requirement for technology differs from product to product depending upon the nature of products swayed by the

reported profit margins, the entrepreneurs sometimes plan for a technology not possible to set up within limited financial resources. Thus, in the absence of technological feasibility, enterprise is foredoomed to failure. Hence, make sure your technological feasibility.

5. **Location Selection:** The entrepreneur often makes two types of errors while selecting location for their enterprises. First, they are completely swayed by the Government offer of financial incentives and concessions to establish industries in a particular location. This becomes their sole and overriding concern completely disregarding other factors like market proximity, availability of raw materials, manpower and infrastructure facilities. Second, the entrepreneurs select a location for their enterprises merely because it is their hometown or they own ancestral land there, which is, however, not an appropriate location. Make sure you do not fall prey to such temptations.
6. **Selection of Ownership Form:** Many enterprises fail merely because the ownership form of enterprises is not suitable. Hence, select a suitable form of ownership taking a comprehensive view of the factors affecting the selection of a form ownership.

UNIT - III

GOVERNMENT AND SMALL BUSINESS INTERFACE

Policies constitute the framework or guidelines for appropriate decisions at varied levels. They generally consist of statements that affect the working of a sector of the economy. The working of small-scale industries, too, is molded by a number of policies constituted by the governments, which are the base for effective plan development.

For a developing country like India, the growth of small-scale industries is of great significance apart from increased production, the growth of small-scale industries helps to serve as an important milestone in the country's march towards industrial democracy.

Objectives:

The basic objectives of these industries are to create immediate and permanent employment for the citizens of the country on a large scale at a relatively small cost to meet a substantial part of the increased demand for consumer goods, and simple producer's goods, to facilitate the mobilization of resources of capital and skill, which might otherwise remain inadequately utilized, and to bring about an integration of the development of these industries with the rural economy on the one hand and large scale industry on the other these industries are said to offer a method of ensuring a more equitable distribution of the national income and of avoiding some of the problems that unplanned urbanization tends to create.

Small scale Industrial policy Since Independence:

The need for the development of small scale, village and cottage industries has been the objective of the Government since independence.

Industrial Policy Resolution, 1948:The importance of small-scale industries was specifically defined in the Industrial Policy Resolution dated 6th April 1948. It was stated:

"Cottage and Small Industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for better utilization of local resources and for the achievement of local sufficiency in respect of certain types of essential consumer goods."

The Resolution added:

"The healthy expansion of cottage and small scale industries depends on a number of factors, such as the provision of raw materials, cheap power, technical advice, organized marketing of their products and, where necessary, safeguards against intensive competition by large scale manufacturers; it also depends on the education of the workers in the use of the best available techniques."

Industrial Policy Resolution, 1956: The Second Industrial Policy Resolution, enunciated in 1956, reiterated the desirable features of small industry. In this resolution, an attempt was made to rephrase industrial policy in the light of the changes that had taken place in the intermediate period of eight years. The objective of economy policy now was to establish a socialistic pattern of society.

The role of village and small-scale industries in the development of the national economy was stressed once again. "The State has been following a policy of supporting cottage as well as village and small-scale industries by restricting the volume of production in the large scale sector by differential taxation, or by direct subsides. While such measures will continue to be taken whenever necessary, the aim of State policy will be to ensure that the decentralized sector acquires sufficient vitality to be self-supporting, for its development is integrated with that of large scale industry. The State will therefore concentrate on measures designed to improve the competitive strength of small-scale producer.

Industrial Policy, 1977: The Industrial policy presented to Parliament on 23rd December, 1977 was primarily directed towards removing the distortions of the past, so that the goals of faster economic development can be achieved within a time bound Programme. The essence of the Industrial Policy 1977 was to achieve through a process of reinforcing the interaction of agricultural and industrial sectors employment for larger number of the rural population who cannot be absorbed in the agricultural sector.

The salient features of the policy were:

Small Scale Industries: The main thrust of the Industrial policy, 1977 was on an effective promotion of cottage and small industries widely dispersed in rural areas and small towns. The list of industries that would be exclusively reserved for the small-scale sector had been significantly expanded and included more than five hundred and four items against about one hundred and eight items, reserved for this sector in the past.

Tiny Sector: While the existing definition of small scale industries will remain, within the small sector itself, special attention will be given to units in the tiny sector, namely those with investment in machinery and equipment up to rupees one lakh and situated in towns and villages with a population of less than fifty thousand according to the 1971, census.

Arrangement for Provisions of Credit: The financial assistance given to small and cottage credits under the rural industries programme will be extended to all the districts in the country within the next four years. In order to provide effective financial support for the promotion of small village and cottage financial support for the promotion of small village and cottage industries the Industrial Development Bank of India has taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector. It will co-ordinate, guide and monitor the entire range of credit facilities offered by other institutions for the small and the cottage industrial sector for which separate wings will be set up in these institutions, particularly in nationalized banks. Banks will also be expected to earmark a specific proportion of their total advances for the promotion of small, village and cottage industries.

Arrangement for Marketing: The marketing of the production of the small scale and the cottage industries, quality control, market surveys, etc., would receive special attention. The Government would provide maximum support for these activities on a priority basis. It would encourage the purchase of the products of the small-scale by Government Departments and Public sector undertakings with a view to supporting the marketing of these products.

Promotion of Khadi and Village Industries: The Khadi and Village Industries Commission have to work out detailed plans for the development of these village industries by adopting modern management techniques. In this context, special programmes would be drawn up to increase the share of village industries in the total production. The Government will enforce the existing reservation of certain items of textiles for the handloom sector and further expand it to other items.

Appropriate Technology: It will be an integral part of Government policy to ensure that the development and application of technology, appropriate to the country's social-economic conditions receives adequate attention. Special arrangements will be made to ensure an affective and coordinated approach for the development and widespread application of suitable small and simple machines and devices for improving the productivity of village industries.

Role of Large Scale Industries: The role of large scale industry will be essentially related to the programme for meeting the basic minimum needs of the population by effecting a wider dispersal of small scale and village industries and strengthening of the agricultural sector.

Indigenous and Foreign Technology: The Government policy is that the future development of industries in India must as far as possible, be based on indigenous technology, which would sub serve the objective of efficient production of increasing quantities of the goods, which society urgently needs.

Foreign Investment: The provision of the Foreign Exchange Regulation Act, will be strictly enforced as far as the existing foreign companies are concerned. After the dilution of equity, companies with direct non-resident investment not except in cases, specifically notified, and their future expansion will be guided by the same principles as those applicable to Indian Companies. Foreign investment and acquisition of foreign technology as necessary for India's Industrial development will be allowed only on such terms as determined by the Government of India, to be in the national interest.

Indian Joint Ventures Abroad: The Government's policy is that, at the present stage of industrial development of the country, the contribution of Indian entrepreneur to joint ventures abroad will be mainly in the form of machinery and equipments structural, technical know-how and management expertise. If such investment is found necessary, the Government will be willing to consider such investment up to a maximum limit to be prescribed for this purpose

Location of Industries: No licenses will be issued to new industrial units within certain limits of large metropolitan cities having a population of more than one million and urban areas with a population with more than five lakhs as per the 1971 census. Further the State Government's and financial institutions will be requested to deny support to such new industries in these areas that do not require an industrial license.

Industrial Policy Resolution, 1980: The Industrial Policy statement made, on 23rd July 1980 primarily seeks to harmonies the growth in the small sector with that in the large and medium sectors. The emphasis in the new policy is on fostering the complementarity's between the small and large sectors so that the dichotomies. (Which are more apparent than real0 between the two sectors do not distort the economic pattern.

The broad socio-economic objectives of the new policy have been set out as follows:

(i)Optimum utilization of installed capacity

(ii)Maximising production and achieving higher productivity

(iii) Higher employment generation

(iv) Correction of regional imbalances through a preferential development of industrially backward areas;

(v) Strengthening of the agricultural base by according a preferential treatment to agro based industries and promoting Optimum inter-sect oral relationship;

(vi) Faster promotion of export oriented and import substitution industries;

(vii) Promoting economic federalism with an equitable spread, of investment and the dispersal of returns amongst widely spread small but growing units in rural as well as urban areas;

(viii) Consumer protection against prices and bad quality

1991, Policy Measure: The new government announced Policy Measure on August 6th, 1991 for promoting and strengthening of small, tiny and village enterprises.

Objectives:

(1) To impart more vitality and growth impetus to the small scale sector

(2) To decentralize and de-licence the sector

(3) To deregulate and de-bureaucratise the sector

(4) To review all statutes regulations and procedures and effect suitable modifications where necessary

(5) To promote small enterprises especially industries in tiny sector

(6) To motivate small and sound entrepreneurs to set up new green enterprises in the country

(7) To involve traditional and reputed voluntary organisations in the intensive development of KVI through area approach.

(8) To maintain sustained growth in productivity and attains competitiveness in the market economy, especially in the international markets

(9) To industrialise backward areas of the country

(10) To accelerate the process of development of modern small enterprises, tiny enterprises and village industries through appropriate incentives, institutional support and infrastructure investments.

Salient features of the policy:

(1) Legislation to limit financial liability of new and non-active partners/entrepreneurs to the capital invested

(2) Hike in investment limit for tiny sector up from Rupees two lakhs to Rupees five lakhs

(3) Service sector to be recognized as tiny sector

(4) Support from National Equity Fund for projects upto Rupees 10 lakhs

(5) Single loans to cover projects upto Rupees twenty lakhs. Banks also to be involved

(6) Relaxation of certain provisions of labour laws

(7) Sub-contracting Exchanges to be set up by industry association

(8) Easier access to institutional finance

(9) Factoring services through SIDBI to overcome the problem of delayed payments. Also, legislation to ensure payment of bills.

(10) Women enterprises redefined

(11) Marketing of mass consumption items by National Small Industries Corporation, under common brand name

(12) Composite loans under the single window scheme also to be given by banks.

(13) Tiny sector to be accorded priority in government purchase programme

(14) Priority to SSI's and tiny units in allocation of indigenous raw materials

(15) Promise to deregulate and debureaucratise small and tiny sector

(16) PSUs and NSIC to help market products through consortia approach, both domestically and internationally

(17) Janata Cloth Scheme to be replaced by a new scheme which will provide funds for loans and modernization

(18) Compulsory quality control for products that pose risk to health and life

(19) Legislation to ensure payment of small scale industries bills

(20) A special monetary agency to be set up for the small-scale sector's credit needs.

(21) A new scheme of integrated infrastructural development to be implemented

(22) A technology development cell to be set up

(23) Incentives and services package to be delivered at the district level

(24) An expert development center to be set up

(25) Khadi and Village Industries Commission (KVIC) and Boards to be expanded

(26) Investment limit of ancillary units and export-oriented units raised to seventy five lakhs

(27) Traditional village industries would be given greater thrust.

ENTREPRENEURIAL SUPPORT SYSTEM

INSTITUTIONAL SET UP FOR PROMOTION OF SMALL SCALE INDUSTRIES

Right from the time of Industrial Policy Resolution 1948, the need for a proper administrative and institutional setup for the Government policy resolutions and programmes was felt by the Government. As such as the following setup helps the SSI sector and for its operations it is divided into two major groups.

a. The Small Industries Development Organisation (SIDO) – it is centralized in the office of the Development Commissioner Small Scale Industry (DCSSI). At the state level there is Director of Industry (DI) or Industries Commissioner (IC). In the states again District Industries Centre (DIC) is an important extension in the field of industry. DIC has managers to help small entrepreneurs in the areas of raw material, marketing and infrastructure.

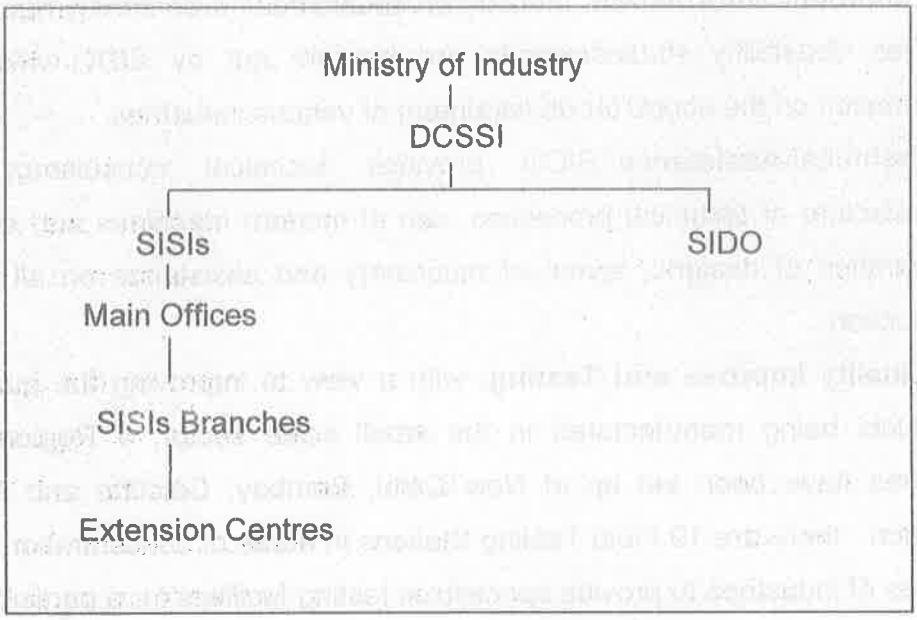
b. The Non-SIDO – It has been described by different terms like unorganized informal or non-urban, depending upon the point of view from which they are described.

In case of small units in the unorganized sector there are Autonomous boards such as Khadi and Village Industries Commission, Handloom Board, Power loom Board, silk Board, Coir Board and All India SSI Board. These boards help units in respective industry in areas like establishment, operations – mainly raw materials, technical help, marketing help and designs.

It must be remembered that a smaller unit working either under SIDO Non-SIDO setup is governed by the Central Government policies on issues such as excise differential, price preference or marketing assistance. It is for administrative purposes, among others, that these units are placed under different organisations.

In addition to the above organisations whose purview is overall, at the state level separate agencies such as infrastructure Development Corporation (for providing plots / industrial sheds, water, power, etc.0 and Financial

Corporation (for providing term loans to entrepreneurs) deal with specific problem areas.



THE SMALL INDUSTRIES DEVELOPMENT ORGANISATION(SIDO)

The small Industries Development Organisation (SIDO) acts as a policy formulating coordinating and monitoring agency for the development of small scale industries at National level. It provides a wide range of extension services through its network of 27 Small Industries Service Institutes, 31Brnch Small Industries Service Institutes(SISIs), 37 SISI Extension centers, 4 Regional Testing Centres, 19 Field Testing Stations, 3 product cum Process Development Centres, 2 Central Foot wear Training Centres, 2 Central Tool Rooms, 1 Central Institute of Hand Tools and 4 Production Centres (two of them are also working as extension centres). Each of these institutes is fully equipped with technical officers, workshop and testing facilities to provide technical and other assistance to small scale units in the area of their location.

There are 77 common facility workshops attached to SISIs/Branch SISIs. Extension centers have workshop facilities for technical disciplines like General Engineering. Tool Room, Heat treatment, Electroplating, Glass and Ceramics, Forging, Chemical Labs etc. SIDO, through its network of field officers helps small scale units by providing marketing, counseling, consulting services and conducting product oriented market surveys.

(a) **Economic Information:** Industry prospect sheet, area survey reports, project profiles, feasibility studies/reports are brought out by SIDO which provide information on the scope for development of various industries.

(b)**Technical Assistance:** SIDO provides technical consultancy on the manufacture of technical processes, use of modern machines and equipments, preparation of designs, layout of machinery and assistance on all aspects of production.

(c) **Quality Improve and Testing:** with a view to improving the quality of the products being manufactured in the small scale sector, 4 Regional Testing Centres have been set up at New Delhi, Bombay, Calcutta and Madras. In addition , there are 19 Field Testing Stations in areas of concentration of specific groups of industries to provide specializes testing facilities for a particular product or industry group.

(d) **Industrial Management & Training:** SIDO offers consultancy services in the field of techno management, marketing, quality control, production, finance, labour laws etc., and undertakes special training programmes. In plant studies, open house discussions and seminars. Institute wise panel of approved consultants consisting of reputed engineers, technologists, scientists, management experts etc., is maintained by the SISIs with a view to supplement consultancy services and training facilities provided by SIDO, Small scale units can utilize the services of these consultants which are available at subsidized rates.

SMALL INDUSTRIES SERVICE INSTITUE (SISI):

Need for Institutional Support: The success of small-scale industries depends solely on the well-published institutional setup. In order to meet the requirements of the rapidly expanding SSIs sector in the country, the government gave adequate institutional support.

The largest extension-training agency in the world concerned with small industry is the Central Small Industries Organisation (CSIO) of the GOI. Attached to the Ministry of Industry, CISO administers 43 Small Industry Service Institutes(SISIs)

Organisation of SISI: A Small Industry Service Institute (SISI) is a multipurpose institution. It is by and large an advisory agency rendering services to SSI and to government departments, semi-public Institutions and other agencies directly or indirectly responsible for the development of the small-scale sector, but it has not authority to enforce the proposals or advice.

Under the Indian Constitution, the state governments are responsible for the development of the SSI sector under the overall guidance and assistance of the Central Government. The SISIs were set up as government departments because of their developmental role. However, there has been some thought of giving them an autonomous status. The Industrial Extension Centers established in different districts are affiliated to the SISIs and are supervised by the directors of the SISIs.

FUNCTIONS OF SISI

1) Policy Advisory Service: Since SISI are advisory bodies they provide policy advisory services as:

a. They advise the Government of India and State Government on policy matters relating to small industry development.

b. They ensure that the small industry development in India is being done on right lines.

2) Technical Advisory Service

a. They give direct technical advice of setting up new small-scale enterprises, choice of machinery design, fabrication layout installation and operation of plant and machinery.

b. They prepare designs and drawings for production equipment and accessories, jigs, fixtures, tools and gauges and assist in improving the production processes.

3) Working and Laboratory Service: Most of the SISIs in India have attached workshop, laboratories, libraries and showrooms. The workshops may include a tool room, heat treatment, forging, electroplating, a machine shop and a small chemical laboratory for organic and inorganic chemical industries, development, testing and quality marking metallurgical laboratories for physical and analytical testing.

4) Management Consultant Service: SISIs give guidance in proper methods of industrial management including cost reduction, financial management, production management, marketing and in areas of industries engineering with a view to ensuring intensive utilization of resources.

5) Assessment Service: They assess the capacities of small units for imported/controlled materials. They recommend to import licensing authorities, cases of replacement, licensing for machinery, emergency, spares, etc.,

6) Economic Services, Economic Data and preparation of Feasibility report

The economic services consist of

I. Conducting economic surveys of particular industries and areas and making concrete recommendations for development programmes.
II. Undertaking market distribution and surveys for individual enterprises
III. Supplying market information in selected cases.

7) Industrial Extension and Other Promoted Programmes

Financing: Ordinarily small-scale industries have difficulties in obtaining credit because they lack credit worthiness but in India, the SISI works as an advisory and coordinating agency with the financing Institutions and reports to them, upon request on the marketability and quality of products of the prospective borrowers.

Export promotion: The state Trading Corporation (STC) is mainly responsible and is concerned with exporting and importing. It has a separate division for the promotion of exports from the small-scale sector.

The SISIs cooperate with it to determine suitable small units that could manufacture for export that they help through training, inspection of products, and other means.

Research: Cooperation between a SISI and a research institute is greatly needed. The technical officers of a SISI come across problems that they may not be able to solve and which should be referred to research institutes.

8) Design and Development of Appropriate Technology: The shortage of finance and space and the small orders and turnover usually prevent the small entrepreneurs from purchasing expensive special production machines.

9) Ancillary Development: The Government of India has recognized that the development of Large Scale and Small Scale industries should as for as possible be complementary. Small manufacturer should specialize in production that complements rather than competes with that of a large manufacture.

1. DISTRICT INDUSTRIES CENTRE (DIC):

Introduction: The establishment of District Industries Centres (DIC) in 1978 was a landmark in the development of cottage and small industries in smaller towns in India. With a view to providing integrated administrative framework at the district level for industrial promotion, a scheme of establishing DICs was started. It is aimed at providing all assistance and support to entrepreneurs at various states.

Functions and Role of DICs: DICs role is mainly promotional and development. To attain this end, it has provide needed services and support to small and village industries. Its various functions include the following:

a. Registration
b. Financial Assistance
c. Incentives and facilities
d. Export and Import assistance

a. **Registration:** DIC provides provisional and permanent registration to the new entrepreneurs.

Provisional Registration: The entrepreneur should get his unit registered with the Industries Department either on provisional basis or on permanent basis. Provisional registration is to enable a party to take all necessary steps to bring the unit into existence. Once a unit comes into being then the unit is registered permanently. The Provisional registration can be issued to the entrepreneurs within 24 hours on the basis of affidavit without involving the field visit and after examining that the unit conforms to the following aspects;

The provisional Registration enables the party to;

Apply for an industrial plot/shed;

Apply for Corporation, Municipal or other local authorities or permission to construct the shed for establishing the unit;

Apply for power/telephone connection;

Apply for financial assistance to State Financial Corporation/ Nationalised Banks and other Financial Institutions

Apply to National Small Industries Corporation/Small Industries Service Institute and other institutions for procuring machinery on hire-purchase/lease basis;

Apply for sales Tax registration; and

Apply for excise duty exemption wherever required.

Permanent Registration: The party after the completion of the building obtaining the power connection, installing the machinery and taking care of all other necessities which are required for installing the unit, may apply for permanent registration of a unit with the following documents to the General Manager of District Industries Centre:

a. Permanent Application Forms which are available at all DIC offices free of cost.
b. Details of plant and machinery installed along with the copies of the bills.

c. Proof of premises in which the unit has been installed.

Availability of Power: Once the unit is registered permanently, then the entrepreneur is entitled to get the following facilities

a. He can apply for supply of scarce raw material on concessions rates from the Government sources.

b. He can apply for marketing through Government Agencies; and

c. He will get telephone facility on priority.

b.Financial Assistance: Financial assistance to SSI units is being provided through various schemes of Industries Department.

Self-Employment to Educated Unemployed Youth Scheme: Self-employment of Educated Unemployed Youth Scheme has been in operation at various DIC offices whereby the physical targets are given by the Development Commissioner (SSI), Government of India, New Delhi on year basis. These physical targets are further allocated amongst the commercial banks through which the financial assistance is arranged to the beneficiaries selected by DIC task Force. District Industries Centre is a nodal agency in the implementation of this scheme. This scheme is applicable to all the educated unemployed youth who are having minimum qualification of Matric or idle with I.T.I. in Engineering or Technical Trade in the age group of 18-35 years, and with family income not exceeding Rs. 10,000p.a. The education and age limits may vary from district to district or state to state. Under this scheme, financial assistance is provided to the above said entrepreneurs at the rate of Rs. 35000, Rs.25000 and Rs.15000 for establishing industrial unit, service and trading unit respectively. The Government of India provides a subsidy of 25%. For getting benefit under this scheme, the application form is made available free of cost by all DICs.

Recommending Applications to Various Other Organisations: The District Industries Centres recommend the applications of SSI units for availing loans and working capital facilities to commercial banks and other financial institutions.

The DICs also recommend the applications of SSI units to National Small Industries Corporation for the purchases of machinery on hire-purchases/lease basis, after assessing the technical and economic viability of the industrial units.

Seed Money: The DICs through various associated corporations provides seed money to entrepreneurs who are technically qualified for setting up their small industries ventures, but are not in a position to muster their own capital as a part of their contribution towards the financial assistance which they are to get from the banks or from the financial institutions. The amount of seed money, however, can be up to 10% of the total cost of the project or Rs. 25000 whichever is less with a nominal rate of interest to be affected from the date of disbursement. Repayment period of this loan is usually four years.

Multi-purpose Industrial Community Centre: Special facilities are provided to the industrialists to hold their associations meeting, technical seminars and other allied conferences. DICs are also equipped with libraries where the workers of SSI units and industrialists are availing facilities. The DICs also have provision for a few small Indoor/Outdoor games.

Supply of Raw Material: Various types of scarce raw material are being provided to the SSI units through the concerned departments of the DICs. This facility enable the SSI units to get raw material on controlled rates, and as per their assessed requirements.

Entrepreneur Development Programmes / Seminars: Entrepreneurs Development Programmes have an important aspect of industrialization.District Industries Centres have been conducting these programmes in association with Small Industries Service Institute and various Technical Consultancy Organisations to develop entrepreneurial skills in the young entrepreneurs.

Fairs and Exhibitions: With a view to give wide publicity of industrial products being manufactured by the various industrial centers throughout India, the Government of India organizes India International units to export their products to the outer world identifying prospective buyers and open new marketing avenues.

Import and Export Assistance: Raw materials, components and consumables have been classified under the categories of banned, limited permissible, canalized, and restricted and Open General License under the import and export policy announced by the Government of India. The items covered under the restricted and limited permissible categories can be imported against the Import License for which the applicant is required to submit the application to the General Manager of the concerned DIC. The import licenses are issued by the concerned Import and Export authorities on the recommendations of the sponsoring authority.

Procedure for Exports: The SSI units desirous of exporting goods are required to obtain the following Code Number

(i) **RBI Code Number:** The Code Number is issued by the RBI to the applicants who apply on the prescribed from the which are available from this bank.

(ii) **Import and Export Code Number:** The applicant should apply to the Assistant, Chief Controller of the Imports and Exports of the concerned district for the issue of Import and Export Code No.

(iii) **Registration with Export Promotion Council:** After the applicant has taken the above code numbers; the industrial unit is required to submit his application for registration with the concerned Export Promotion Council for a availing various facilities.

The industrial units should route their applications for registration through the General Managers of the concerned DICs.

2. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC), NEW DELHI

The National Small Scale Industries Corporation was established in 1955 with the view to assist, promote, develop and finance small-scale industries in the country. The main functions of the corporation are,

a) To secure Government orders for the small industries
b) To provide loans
c) To provide technical assistance
d) To secure Co-ordination between small-scale and large scale industries, so that the former produce goods required by the latter and,
e) To underwrite and guarantee loans from banks and other sources.

Apart from providing finance, the corporation has rendered valuable service in the field of supply of machinery on hire-purchase system to the small industries and in securing government orders for small industrial units. The NSIC has it regional offices at Delhi, Cacutta, Bombay, Madras and Gauhati, and Branches in the southern zone at Bangalore, Hyderabad, Pondichery, Coimbatore, Cochin & Thrissur. There is a Computer training center at Tenkasi, Tirunelveli District in Tamil Nadu and Marketing development centers at Madras & Cochin.

3. NATIONAL INSTITUTE FOR ENTREPRENEURSHIP & SMALL BUSINESS DEVELOPMENT (NIESBUD), NEW DELHI.

Besides organizing & conducting training for entrepreneurs, it also undertakes research in the field of entrepreneurship and small business development and conducts seminars workshops and conferences for officers in the foiled of entrepreneurship and business development.

4. INDIAN INVESTMENT CENTRE (IIC)

The IIC is an autonomous, non-profit service organisation financed and supported by the Government of India. It is concerned with the important task of promoting mutually rewarding joint ventures between India and Foreign entrepreneurs.

The Centre acts as a clearing house for information on economic conditions, laws, procedures, government regulations and specific opportunities for investment in India. It offers objective advice on investment conditions in the light of industrial priorities and policies of the Government of India, and on locating suitable Indian Patterns for prospective foreign investors. It functions as a link between Indian and foreign parties and assists them in coming together for fruitful collaborations and formulating the terms of joint venture participation. Its services are tailored to the needs of industrial corporations and furnished on an entirely confidential bnasis.

The center functions as a close link between the Government of India and foreign business enterprises. It brings the problems and reactions of entrepreneurs to the notice of the Government in an informal manner and explains tp prospective investors the rationale of Government policies and procedures.

5. ENTREPRENEURIAL GUIDANCE BUREAU(EGB): The IIC setup EGB in order 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 productions, sources of raw-materials types of equipments required, investments involved, sources of finance, etc. information on procedures pertaining to obtaining letters pf 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 contacts with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship development.

6. NATIONAL ALLIANCE OF YOUNG ENTREPRENEURSHIP (NAYE)

National Alliance of Young Entrepreneurship (NAYE) sponsored an Entrepreneurial Development Scheme with Banm 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 and Chandigarh and Delhi. NAYE entered into similar arrangements with a few other banks as are described below:

1.	Dena Bank-NAYE	For promoting ancillary units and small scale enterprises in Madras
2.	Punjab National Bank-NAYA	Entrepreneurship assistance programme launched in the States of West Bengal and Bihar in March 1973.
3.	Central Bank of India- NAYE	Entrepreneurship development programme being implemented in Maharastra
4.	Union Bank of India- NAYE	Entrepreneurship development programme inaugurated in June 1975 in Tamil Nadu with an intention to adopt 200 entrepreneurs.

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 developing 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.

Financial assistance, which is granted by the commercial banks is generally restricted to Rs. 2 lakhs in the case of individual entrepreneurs and Rs. 3 lakhs for two or more entrepreneurs and is worked out on 'need basis'. The term loans (for acquisition of land, building, plant and machinery) are repayable out of cash generation of the unit. Suitable repayment holiday concessions for repayment of principal and interest are provided during the gestation period. The extent of entrepreneur's own investment is decided on the basis of resources available at his/her family's disposal and in deserving cases full cost of the project in financed by the bank.

7. KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

KVIC was established in 1953 with the primary object of developing Khadi and Village industries and improving rural employment opportunities. Its wide range of activities include training of artians, 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 that are characterized 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 khandasari, palar gur, non-edible oils and soaps, bee-keeping, village pottery, carpentry and blackmithy, gobar gas, household aluminium utensils, etc. KVIC's policies and programmes are executed through 26 State Khadi and Village Industries Boards, 1150 institutions registered under the Societies Registration Act, 1960 and bout 30,600 Industrial Co-operatives Societies registered under State Co-operative Societies Act. Activities involving pioneering types of work, such as developing new industries in hilly, backward and inaccessible areas are undertaken by KVIC directly.

8. TECHNICAL CONSULTANCY ORGANISATION (TCOs)

TCOs have been setup with the initiative of the All India Financial institutions in order to provide consultancy services to entrepreneurs setting up small and medium scale units. Also those entrepreneurs located in industrially backward areas may find it difficult to avail the services of Consultancy organisations situated in cities and run on commercial considerations. Recognizing that, to cater to the needs of entrepreneurs in the decentralized sector, a well spread out network of consultancy organisations offering a package of services at reasonable costs was called for, the All India Department Banks initiated action to establish TCOs in different parts of the country. The focus of this effort has been on industrial promotion on a dispersed yet viable basis.

Activities of TCO: The activities of TCOs cover all the stages of project cycle starting from the stage of identification of project ideas and entrepreneurs to project implementation and operation. Thus their activities include:

a) Industrial Potential Surveys
b) Preparation of project profiles and feasibility studies
c) Evaluation of projects referred to them, by financial institutions
d) Conduct of entrepreneurship development programmes
e) Provision of technical and administrative assistance to small/medium enterprises where necessary
f) Assisting such entrepreneurs in their modernization, technical up gradation and rehabilitation programmes, etc

List of Technical Consultancy Organisations

1. Kerala Industrial & Technical Consultancy Organisation Ltd., (KITCO)
2. North Eastern Industrial & Technical Consultancy Organisation Ltd.,(NEITCO)
3. Bihar Industrial & Technical Consultancy Organisation Ltd (BITCO)
4. Uttar Pradesh Industrial Consultants Ltd., (UPICO)
5. Andhra Pradesh Industrial & Technical Consultancy Organisation Ltd. (APITCO)
6. Orissa Industrial & Technical Consultancy Organisation Ltd (ORITCO)
7. Jammu & Kashmir Industrial & Technical Consultancy Organisation Ltd.(J&KITCO)
8. Himachal Consultancy Organisation Ltd.

9. Rajasthan Consultancy Technical Consultancy Organisation Ltd (RAJCON)
10. Gujrat Industrial & Technical Consultancy Organisation Ltd (GITCO)
11. West Bengal Consultancy Organisation Ltd (WEBCON)
12. Madhya Pradesh Consultancy Organisation Ltd (MPCON)
13. Industrial & Technical Consultancy Organisation of Tamil Nadu (ITCOT)
14. Maharashtra Industrial & Technical Consultancy Organisation Ltd.(MITCON)
15. North India Technical Consultancy Organisation (NITCON)
16. Haryana Industrial Consultants Ltd. (HARICON)

Operations of TCO

1. Feasibility studies/Project Report/Profiles
2. Project Appraisals
3. Survey/Studies-industrial Potential survey, Market survey, Area Development surveys
4. Functional Industrial
5. Rehabilitation/Diagnostic studies
6. Other Assignments
7. Entrepreneurship Development Programmes conducted.

9. STATE FINANCIAL CORPORATIONS

1. **State Small Industries Corporations (SIDCO):** 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.

2. **Small Industries Development Corporation (SIDCO):** In Tamil Nadu 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. Provision of constructed sheds/plots in industrial estates. These are sold to entrepreneurs on hire purchases 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 centers.

c. Financial assistance in the form of subsides 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 Rehabilitation of the Sick Small Scale Industries.

d. Marketing Assistance to Small entrepreneurs.

3. **State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT):** SIPCOT was set up with the specific objectives of playing a catalyst role in the promotion and development of medium and major industries and to hasten the industrial dispersal in backward and under developed areas of the State.

SIPCOT's role is to plan, promote and develop medium and major industries and its promotional activities comprise of the following:

1. Provision of Financial assistance on liberal terms to medium and major industries, under IDBI Refinance Scheme.
2. Implementation of a package of incentive for the benefit of entrepreneurs.
3. Development of potential growth centers and provision of developed lands at reasonable cost on easy payment term.
4. Provision of various ancillary services for the entrepreneurs.

SIPCOT's financial assistance for medium and major industries will be in the form of:

1. Term loan under IDBI's Refinance Scheme
2. Seed Capital under IDBI Seed Capital Scheme
3. Underwriting the capital issues and participation in equity
4. Loan for Employing Repatriates.

4. **Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT):** ITCOT was established in 1979 with a paid up capital of Rs.10 lakhs, it was sponsored by ICICI. ITCOT plays a lead role in entrepreneurship development. Its services to entrepreneurs include the preparation of project reports, providing consultancy services, conducting pre-investment studies, marketing potentioal surveys and EDPs to the new and established entrepreneurs.

   During the six five-year plans period ITCOT has conducted about six EDPs are conducted by ITCOT on no-loss, no-profit basis all expenses are reimbursed by the sponsoring institutions.

   The performance of ITCOT during 1984-89 are given below:

   Reports Prepared by ITCOT

   1. Project reports
   2. Pre-investment studies
   3. Market survey studies
   4. Diagnostic studies
   5. Project appraisal & Special studies
   6. Plant visit reports
   7. Energy conversation studies

INCENTIVES AND SCHEMES OF GOVERNMENT OF TAMILNADU

One of the important objectives of Government's policy is to correct regional imbalances and secure the industrialization of backward areas of the country. Towards this end, the Central and State Governments have provided several incentives to enable entrepreneurs to establish industrial undertakings in backward areas.

Information in brief about the incentives available for Small scale Industries in Tamilnadu is given below:-

A. State Capital Subsidy

a) 15 percent of the Fixed Capital investment subject to a ceiling of Rs. 15 lakhs (exclusive of the value of Second –hand machinery) (G.O. Ms.No.149 Ind.(MIGII) Dept. dated 1.4.91).

b). In respect of the units located in Most Backward Taluks, Capital Subsidy will be 20% of the fixed capital investment subject to a ceiling of Rs.20 lakhs. (with effect from 19.9.91)(G.O. Ms.No.149 Ind.(MIGII) Dept. dt. 5.2.92).

c) **Additional capital subsidy for employing women:** In addition to the above subsidy, 5% additional capital subsidy subject to a maximum of Rs.5 lakhs is available for units in which more than 30 percent of the workers are women.

Eligible units: All new registered small industries setup on or after 22.5.89 including substantial expansion / diversification of existing ones in specified areas. There is no limit to the number of such expansion diversification. (

Ineligible units:

i) Power-intensive industries like iron and steel smelting, aluminium smelting and calcium carbide units.

(ii) Small service establishment.

Eligible areas:

a. 105 Taluks declared as backward by the State Government with effect from 22.5.89, Parramathi Vellur Taluk in Salem District was declared as most backward with effect from 14.9.90. Palladam Taluk in Coimbatore District was declared as Backward with effect from 27.10.90. Further, six taluks were declared as backward with effect from 6.4.92

b. State Industries Promotion Corporation of Tamilnadu (SIPCOT) industrial complexes and Growth centers/Estates.

c. Tamilnadu Small Industries Development Corporation (SIDCO) industrial complexes/Estates

d Industrial complexes/Estates and co-operative industrial estates developed by Government agencies including the Madras Metropolitan Development Authority, Madras Export processing Zone, etc.

e. Private Industrial Estate for Hosiery units at Mudalipalayam near Tirupur, Coimbatore District.

f. Industrial Estate near Kasipalayam town panchayat, Periyar District developed by Periyar District Small Industries Association.

B. Special subsidy for selected categories of industries.

Eligible industries: New or existing small scale units taking up substantial expansion /diversification in the following:

1) Leather Industry
2) Electronic Industry
3) Auto Ancillaries
4) Drugs and pharmaceuticals
5) Solar Energy Equipment
6) Gold and diamond jewellery for export only
7) Jute processing Industry in 6 taluks viz.

   Ambasamudram (Tirunelveli District), Madurai (Madurai District),Musiri (Tiruchirappalli district), Kumbakonam (Thanjavur District), Chengalpattu (chengalpattu District), Panrutti (South Arcot District)

8) Pollution Control Equipment
9) Sports Goods and Accessories
10) Cost effective building material like aluminium. PVC doors and windows window frames etc.
11) Food processing Industries

Quantum of subsidy

1) 20 Percent of the Capital Investment up to a ceiling of Rs.35 lakhs for electronics, Rs.20 lakhs for leather and Rs.15 lakhs for other Industries.
2) Besides the above special subsidy, Government have sanctioned an export subsidy of 8 percent equivalent to the sales tax paid on the REP/EXM scribes for Leather and Electronic industries.
3) In respect of the units using solar energy equipment and certain solar energy devices, 10% capital subsidy is eligible.
4) Older Tanneries, which go in for Effluent Treatment plants, will be eligible for 10 percent of the value of the assets to be created for the Effluent Treatment plants.
5) This subsidy will be available to industrial units irrespective of their location in the State. In areas where both the state capital and special capital subsidies are available, the unit will have the option of choosing either of them

How and to whom to apply for state capital/special capital subsidy: The unit should file an application before the General Manager, District Industries center for sanction of Capital Subsidy within one year from the date of commencement of commercial production.

Low tension power subsidy

Quantum of subsidy: Available for three years from the date of commencement of production or date of power connection whichever is later at the rate of 40 percent of the actual energy charges paid for the first year, 30 percent for the second year and 20 percent for the third year

Eligible units: All Registered small-scale industries that commenced production on or after 1.1.80 and which consume Low Tension power. The registered Small Scale units taking up substantial expansion and diversification will be eligible for the subsidy from 20.1.92. all industries using L.T. power irrespective of the fact whether the industry happens to be small or medium or large are also eligible for the subsidy (with effect from 1.4.88)

Eligible Areas: All over the State excluding the areas falling under the MMDA/Urban Land Tax jurisdiction and Urban Land Ceiling jurisdiction namely madras and its environs of 15 kms. And Towns of Coimbatore, Madurai, Salem and Tiruchirapalli with a 8 K.M. belt area.

How and whom to apply: An eligibility Certificate should be obtained from the General Manager, District Industries Centre, concerned, within three months from the date of commencement of production or date of power connection whichever is later by any prime mover. Power subsidy claim can be made and should be submitted once in six months, that is, for the bills raised by the Electricity Board from January to June before August 31st of the year and from July to December before 28th of February of the succeeding year. The claim should be made along with the following: -

a) Permanent Registration Certificate

b) Photostat Copies of the Electricity Board consumption card and the Receipt form the Electricity Board for having paid the charge.

Generator Subsidy

Quantum of subsidy: 15 percent of the cost of the Generator subject to a maximum of Rs. 5 lakhs.

Eligible units: All High Tension/Low Tension Power consuming units which have installed Generator for their captive use on or after 22.5.89. Generator purchased for replacement generator also eligible subject to some conditions.

Ineligible units: The following types of conventional, resource based and power intensive industries are not eligible.

1. Cement
2. Sugar
3. Textiles
4. Mining/Quarrying.
5. Flour mills

6. Hotels
7. Edible oil and Solvent extraction
8. Rice Mills
9. Distilleries, Breweries, and Malt Extraction
10. Granite Polishing Units (connected with mining and Quarrying)
11. Textile processing, crimping, Texturising etc. connected with Textile Industry
12. Ceramic Manufacturing and also the following types of power intensive units viz.

i) Steel and Aluminium industries for a demand exceeding 2000 KVA and

ii) Units consuming more than 2000 units (viz. News, print, Caustic Soda, Fertilizer, Nylon/Rayon/Polyester Fibre, Potassium Chlorate per tone of finished product

Terms and conditions

i) The subsidy will be available only for brand new equipment

ii) Prior permission of Tamilnadu Electricity Board should be obtained for the installation of new generator sets.

iii) The Generator should be purchased from the manufacturer or from a dealer accredited by the manufacturer.

How and whom to apply: The unit should file an application for sanction of Generator subsidy before the General Manager, District Industries, Centre within one year from the date of purchase of the Generator set or installation of the Generator set whichever is later.

LIBETRALISED SALES TAX WAIVER/DIFERRAL SCHEME

A. SALES TAX WAIVE (Most Backward Areas)

Quantum of assistance: Full waiver of Sales Tax for a period of five years up to a ceiling of total investment in fixed assets made kin new units and a similar concession for existing units undertaking expansion/diversification but the ceiling for the waiver will be total investment made in fixed assets under such expansion / diversification only. Waiver / Deferral concession extended to existing industries undertaking expansion / diversification, without any limit to the number of expansion / diversifications.

Eligible units: New units and existing units undertaking expansion / diversification in the 31 most backward taluks and in the three Sipcot Industrial Complexes at Pudukottai, Tuticorin and Manamadurai and in Dr. Vikram Sarabai instronic Estate, Thiruvanmiyur, Developed plots industrial Estate at Perungudi and Electronic City in Sholinganallur in Chengalpattu Inudstries in the most backward taluks and in the three Sipcot Complexes and in the Electronics estates can opt either for the full waiver scheme given above or for deferral given below.

SALES TAX DERERRAL IN OTHER SPECIFIED AREAS

Quantum of assistance: Sales Tax Deferral for 9 years to the full extent of the total investment made in fixed assets for the new units and to the extent of 80 percent of the additional investment made to the number of expansion / diversification.

Eligible units: New units and the existing units which undertake expansion / diversification in the 82 Taluks declared as backward taluks and in the industrial areas developed by any of the Government agencies including Madras Export Processing Zone and Madras Metropllitan Development Authority.

SALES TAX DEFERRAL IN OTHER AREAS

Quantum of assistance: Sales Tax Deferral for five years subject to a maximum of 60 percent of the total investment made in fixed assets in the case of new industries and 50 percent of the additional made in fixed assets in the case of expansion/diversification.

Hoe to apply : The application for the issue of eligibility should be filled before the General Manager District Industries Centre concerned within one year form the date of commencement of commercial production.

Waiver / Deferral period will commence from the date of commencement of commercial production.

SUBSIDIES AND CONCESSIONS TO WOMEN ENTREPRENEURS

1. **Additional Capital Subsidy:** 5% additional capital subsidy subject to a maximum of Rs.5 lakhs is available for Small Scale units where women constitute more than 30 percent of the work force.
2. **30% Reservation in Industrial Estates:** 30% Reservation is made available to the women entrepreneurs in the allotment of Industrial Sheds and Developed Plots in all new Industrial Estates and Industrial Complexes developed by Government organisations.
3. **Awards to women Entrepreneurs:** In order to encourage the Women Entrepreneurs, State level awards are being given.
4. **Entrepreneurs Development Programme for Women:** In order to encourage the Women entrepreneurs, special training programmes are organised by the department of Industries & Commerce.

OTHER SUPPORT PROVIDED BY THE GOVERMNET TO SSI SECTOR

Reservation of Items: There are more than eight hundred products, which are reserved for exclusive manufacture by the SSI sector. This reservation was first introduced in December 1977 with a view to protecting the SSI sector from the competition of large and medium sectors. This reservation has been amended then and there to the change in conditions.

Reservation of products for purchase Made by Government: In India, the government is a major buyer of many products, it has earmarked for certain products for exclusive purchase by government department and public sector undertakings from SSI units.

Price Preference: The government has also directed all government department and public sector undertakings to offer a 15% price preference to SSI units in all other purchase made by them vis-à-vis the large and medium scale units.

Telephone Connection: There is also a priority for telephone connections for small-scale units on the basis of recommendations made by the DIC of the district in which the unit is situated.

Financial Incentives: The state governments offer incentives to SSI units in the form of capital investment subsidy and sales tax exemption or deferment in developing areas.

Infrastructural Facilities: Infrastructural facilities are being developed by the state governments and financial institutions in industrially backward areas to facilitate the location of industries in these areas.

Marketing Assistance: National Small Industries Corporation (NSIC) has been advised to concentrate on the marketing of mass consumption products under a common brand name.

Export Promotion: SIDO has been recognized as a nodal agency for supporting small-scale industries in export promotion. SIDO provides assistance towards handling, clearing, insurance, publicity, freight, etc. without recovering the expenditure from export-worthy SSI units exhibiting their items in trade exhibitions aboard. Trade delegations and sales-cum-study teams from SSI sector are also sponsored.

Financial Assistance:

- Term loans and working capital through state level financial institution and banks respectively. The long-term loans are offered with margins varying from 20% to 35% (to be contributed by the entrepreneurs).
- Equity or Seed Capital – through schemes of IDBI, State Bank of India (SBI), SFCs. Equity capital is available to new entrepreneurs for unique products, which is up to 20% of the fixed assets.
- Machinery procurement – The NSIC provides machinery on a hire-purchase basis, and also has marketing support programmes and technology assistance facilities.
- Special subsidy – There is a special subsidy of upto 50% available to SC/ST entrepreneurs for small projects.

The Small Industries Development Bank of India (SIDBI): SIDBI, an apex bank, was set up to meet the credit needs of the small scale sector. It offers various schemes to this sector:

- General scheme for setting up new small scale units or expansion, diversification, modernization etc. for existing units (this scheme is operated through SFCs and banks)
- Specific schemes for
  - Quality control facilities,
  - Diesel Generator Sets,
  - Pollution control equipment,
  - Computers; etc.

SIDBI extends financial assistance to the SSI sector mainly through:

- Refinance of term loans
- Discounting and rediscounting of bills
- Extension of Equity type assistance
- Resource support to institutions providing raw materials, hire purchase leasing and marketing assistance, etc.
- Specialized schemes for identified sectors
- Specialized schemes for direct assistance

Among the new schemes started / assisted by SIDBI are factoring services for small-scale industries and Venture Capital Fund Scheme.

Testing Centres: The central government also has testing centers to meet the resting needs of small industries, as well as product-cum-process-development centers(PPDCs), Their functions are:

- Research and development
- Product design and innovation
- Product and process improvement
- Manpower development/training

State governments also involve and implement policies and programmes for the development of small-scale industries. They are operated through the Directorate of Industries set up in each state.

Approximately over four hundred District Industries Centres (DICs) have been set up in various district of the country. The DIC is a single window agency interacting with entrepreneurs at the district level. Registration of small industries is also done at the DICs.

Fiscal Incentives

- Excise concessions available for both registered and unregistered units, on a graded scale depending on turnover, up to Rs. 300 /- lakhs.
- A scheme of Integrated Infrastructure Development (launched in March 1994) to strengthen Infrastructural facilities in rural and backward areas.
- Quality Certification Scheme launched to Improve SSI product quality. Financial support to acquire ISO 9000.
- Seven Point Action plan initiated to improve credit flow to SSI sector.
- A scheme for creation of a Technology Development Fund in states launched with the involvement of state government and industry associations.

Credit Policies

- Priority sector lending
- 40% of advances to SSI sector reserved for tiny sector and village and cottage industries
- Refinance facilities and special schemes of SIDBI
- Concessional / fixed rates of interest for loans upto Rs.2 lakhs (2 slabs).
- Single window Scheme of SIDBI for project outlays upto Rs.50 lakhs.
- Under Prime Minister's Rozgar Yojana, loans in respect of 31, 971 micro enterprises were sanctioned in 1993-4, 1, 96, 133 enterprises in 1994-5 and 1,01,321 enterprises from April to November, 1995.

Other incentives

- Reservation of products for exclusive manufacture.
- Purchase and price preference
- Infrastructural support to Entrepreneurship Development Institutes to argument their training capacities.
- Entrepreneurship Development Institution set up in Guwahati, Assam for improving the entrepreneurial base for the North Eastern Religion.
- Joint programme with the State Bank of India and Small Industries Development Bank of India (SIDBI) for modernization and technology up gradation of industry clusters.
- Assistance to industrial association / voluntary agencies for setting up testing centers
- Special programmes on vendor development, quality awareness and pollution control.

UNIT IV

SMALL BUSINESS MARKETING

A number of new units are planned and started by the entrepreneurs based on the following factors:

(1) Success of other entrepreneurs in a particular field of manufacture.

(2) Some large or medium scale unit indicating its requirements for a particular item and encouraging the entrepreneur to setup an ancillary manufacturing unit for the said item.

(3) The entrepreneur noting a shortage of a particular item in a market and premia being paid by consumers for the said item.

In the first case, the entrepreneur jumps into a particular field on seeing the success of one or more units, since he has finance to invest. However, he forgets that there maybe many others like him with the same idea and also with money to invest. As a result, too many people enter the same field of activity and a situation of over capacity arises. This leads to an under-cutting of selling prices, reduction in margin and eventually, even, closing down of several of the units.

In the second case, one would feel that since the sales are assured the ancillary unit will and must do well. In most cases, this would be true, but here also there are pit-falls, which often bring grief to the ancillary units.

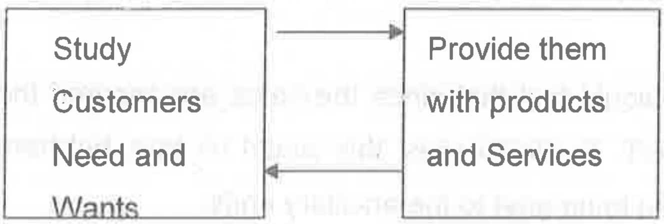
If the ancillary unit is supplying its full production to only one consumer, the consumer can often dictate the prices. Further, if the unit has to close down for any reason, the ancillary unit would be equally affected.

The third case can change very quickly. A change in Government's Import Policy or an increase of capacity by establishment or expansion of a large unit or the restarting of a shut down unit, can make shortage disappear and can create difficulty for the SSI units.

Hence, SSI unit is to first have a market research conducted to ascertain the true demand and supply position and also collect information on the other entrepreneurs planning to enter this field. Through this research the entrepreneur has to decide on the product that finds a market and also find the ways and means to make his product a success in the market. They have to manufacture or produce the product that is accepted in the market and not find the market for what they can produce. This is essential in order to ensure that the unit does not suffer for want of sales, once production has commenced. This stresses the importance of marketing Management

MARKETING MANAGEMENT: Marketing management is the analysis, planning, implementation, control and coordination of business activities that direct the flow of goods and services from producers to consumers as per the latter's satisfaction and thereby achieves the business objective. Marketing is an orientation, a thinking process, a discipline and an approach to business as well as an efficient organizational function.

MARKETING ORIENTATION: One of the first of an entrepreneur is to make correct decisions regarding the kind of goods or services to be produced which can be sold to the customers.



Marketing Orientation

Marketing orientation induces thinking about customers and their needs, and assists in creating an appropriate product or service and in selling it.

The best way of sensing opportunities for new ideas is to study the benefits that people are buying in a product rather than its physical features.

Why do people go to hill station during summer?

What BENEFITS they are seeking?

- Cool atmosphere
- Relaxation
- Green sight Fun

- Scenery Romance
- Summer festivals.

For instance, in India the desert cooler market grew because many people wanted the cool atmosphere for which desert cooler is much cheaper and available for longer duration than a visit to a hill station.

Identifying WHY people buy rather than WHAT they buy is essential to successful marketing

Marketing means that entrepreneurs manufacture what they could sell to the consumer, and not sell what he/she could manufacture.

Marketing Orientation' has become increasingly relevant to low technology industries and services such as:

- Wearing apparel
- Consumer durables
- Transportation
- Grocery
- Health/Beauty aids
- Cosmetics, etc.

Successful marketing depends on the degree to which resources of the enterprise are effectively mobilized to respond top the current and anticipated consumer needs.

MARKET ASSESSMENT: The market is composed of a wide variety of customers with different backgrounds and spread over wide geographical areas. As the first step, an entrepreneur is required to know the potential demand of the products or services he wants to offer. It may also be necessary to understand the nature and the extent of competition in its marketing and the prevailing trade practices. Such efforts will be helpful in assessing the market. Depending upon several factors like the availability of resources, the scale of operation, and the impact of profitability, one may decide the customer group, called the market segment, which is of interest to the enterprise.

The market assessment involves three major steps.

a) Analysis of demand;

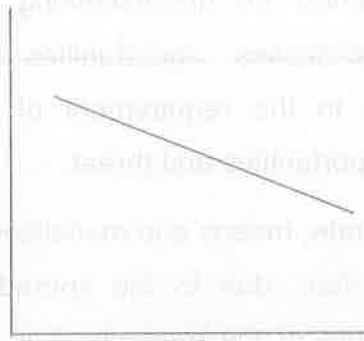
b) Understanding the competitive situation; and

c) Trade practices

Analysis of demand: Demand Analysis refers to assessment of the willingness and ability of the customers to buy products or services. Three sources are commonly used to collect information for analyzing demand.

1) Primary sources – An enterprise may have household as well as institutional demand for its product. The demand from the household customers are usually met though the dealers and, as such, a rough estimate of the total demand from such customers could be made personally contracting the dealers and selling the items. Similarly, a number of institutions using the items may be contracted to ascertain the demand. Such personalized contracts with primary sources are possible only when customers are concentrated in a limited area.
2) Secondary Sources – In case the potential customers are scattered over a wide area, published data regarding population, production, economic condition, living habits, census data, an development plans of the respective state or country are used to estimate the demand.
3) Sample Survey- When the potential customers are spread over a wide area and are large in number, information is obtained by sending a questionnaire through mail to a small but representative sample. It may be necessary to consult an exert in drawing the sample and designing the questionnaire.

Elasticity of Demand: Demand at what price? Demand for some products and services are more flexible than for others. Demand is said to be ELASTIC when a small change in the price affects a large change in the quantum of demand. If a change in price does not substantially change the quantity of demand, the demand is said to be INELASTIC. For a product, the demand for which is highly elastic, a high managerial efficiency is required to maintain price stability.



Demand

Quantity in Demand Elastic

Demand

Quantity in Demand inelastic

Elasticity of Demand

UNDERSTANDING THE COMPETITIVE SITUATION

Competitive situation demands special attention in the whole exercise of market assessment. To understand it in respect of a given product/service, and entrepreneur is required to answer questions such as:

- How many enterprises are offering the same or similar goods/services
- What are their market share?
- What are the strengths and weaknesses of their products?]
- What kind of consumer image does each product enjoy?
- What trade practices the competitors employ?
- Who are the major customers of each brand?

COMPETITIVE SITUATION

Competitive products	Market Share	Product Features	Product's Image	Discount To Dealers	Credit Terms	Major customers
Brand A						
Brand B						
Brand C						

The answers to such questions may be tabulated for understanding the competition. The analysis (SWOT-strengths, weaknesses, opportunities and threats analysis) will tune his marketing efforts to the requirement of the customers and trade by highlighting the areas of opportunities and threat.

TRADE PRACTICES: Trade practices reveal the mode, means and modalities of serving customers with products/services. Very often, due to the spread of customers, or their buying habits or even the nature of the products, it is not feasible for an entrepreneur to reach customer directly. A host of middlemen like distributors, wholesalers, retailers, commission agents, brokers, super markets and export houses are employed to provide various types of services on different terms and conditions. A study of the prevailing trade practices in the beginning would enable entrepreneurs prepare a more realistic plan for marketing the product or services.

For small business. Marketing encompasses many activities. It starts with a market research.

Market Research: Market research may be defined as an "objective and systematic collection, recording, analysis and interpretation of existing or potential markets, marketing strategies and tactics and the interaction between markets, marketing methods, of current or potential products/services. It helps to apply a truly analytical approach to decision-making.

Need for Market research: Market research is a tool through which the marketer improve the probability of success.It can also employed *to establish a demand* and supply position, in order to determine the feasibility of setting up a unit for the manufacture even after the enterprise has been established, research must continue on an on going basis to improve the product, packaging, distribution system, etc.

Steps in the market's research: The systematic study has to undertaken scientifically. The sequence of the study is as follows

(1) Defining objectives of the study and specifying information required.

(2) Working out the details of the study which include

(a) Identifying sources of obtaining information.

(b) Time and Cost involvement in the study.

(c) Working out methodology and action plan.

(3) Selecting samples and deciding contacts and visits.

(4) Preparing questionnaires and plans for survey and interviews.

(5) Collecting data

(6) Analysis of data.

(7) Preparation of a report with findings.

The marketer has to make decisions on many elements of marketing in order to make his produce a success. As the financial strength of SSI units are relatively less they have to concentrate on segment marketing or niche marketing than going for mass marketing.

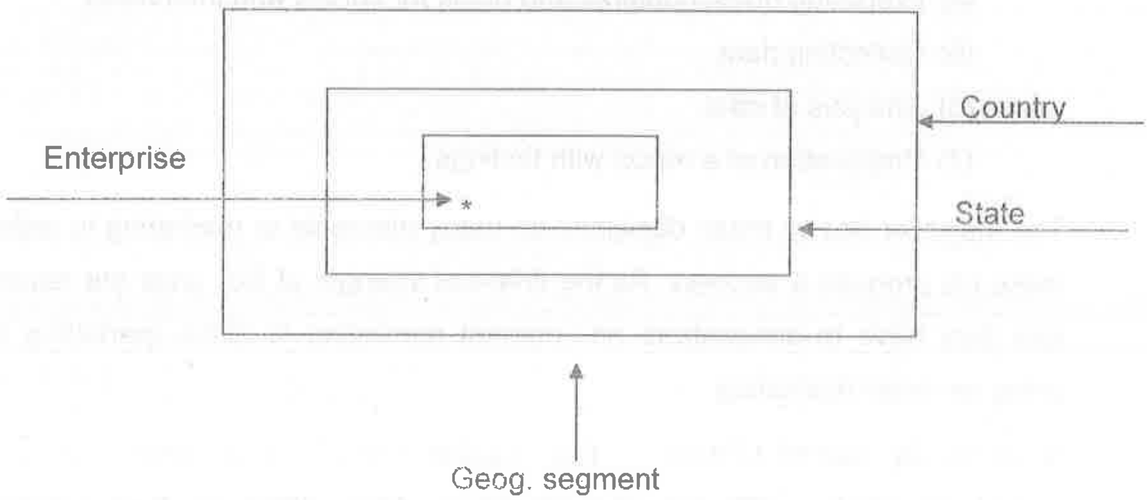
MARKET SEGMENTATION: The market consist of a large number of individuals having different characteristics. They differ in their education employment, income, status, preference, likes, and dislikes and opinions. Not all of them are the potential customers for a product.

Through market segmentation, groups of customers are identified sharing some common characteristics and are considered as the target group or segment for the product.

Segmenting is process of grouping individuals, which has one, or more homogenous characteristics or which might require separate products or marketing mix. The entrepreneur can programme his marketing activities confine to that segment alone than concentrating the entire market area as it would be more a costly endeavor and the guarantee for success will also be reduced. **Niche marketing:** Niche similar to the segment marketing concentrates on a defined group, unlike the segment, the group in niche is very narrowly defined it can be said as a sub-segment. Example: The owners of maruthi cars make a segment, among them the owners who own Baleno makes a sub-segment and can be called as a niche segment.

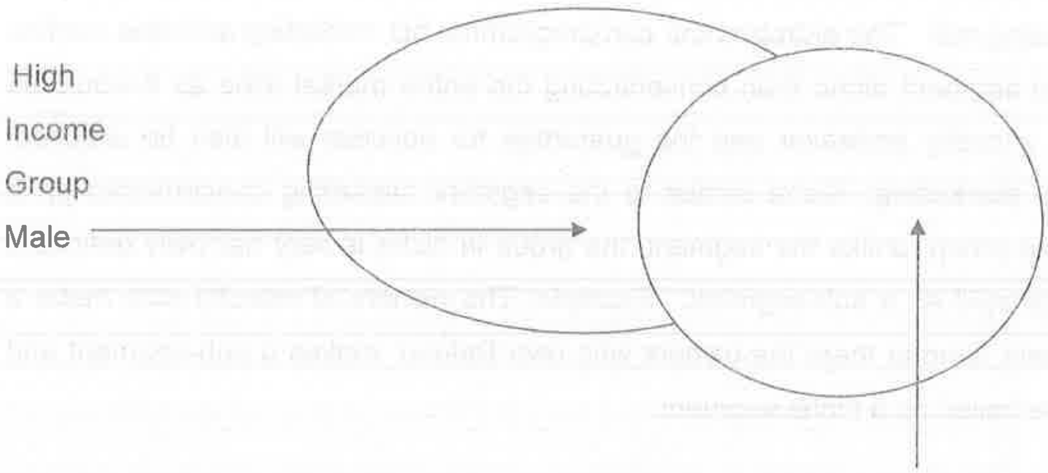
Basis of Market Segmentation

i) **Geographical:** The market if divided into different geographical units as region, continent, country,state, district,cities,urban and rural areas then such process of segmentation is called geographical segmentation.



ii) **Demographic**: It refers to dividing the market into groups on the following basis

a. Age – Children, Youth, Adult, Old, Sex-Male, Female
b. Income – High, Middle, Low, Below Poverty Line
c. Occupation – Executives, professionals,
d. Farmers Education – primary, Secondary, Tertiary, Language etc.



Between 20-45 years age

Male between 20-45 year ages belonging to high Income group-demographic. Segmentation

iii) Pshyographic: If the market is divided on the following basis then it is said to be psychographic segnetation.

a. Attitude – conservative, liberal, radical

b. Autonomy – independent/dependent

c. Work Orientation – Hardworking.

Fun loving: There can be more basis for segmentation such as habit-smoker, non-smoker, etc. the identified SEGMENT must be sufficiently different from the rest to justify calling it a segment. Segmentation is useful and cost effective since it helps selecting appropriate methods of selling, pricing, and promoting the products/service.

MARKETING MIX

There are several marketing activities under the control of the entrepreneur. He can choose the features or attributes of his product, keep its price high or low, advertise it through newspapers or radio, sell it through own salesman or though retailers, and so on. In each decision, there are a large number of possible alternatives. Entrepreneur has to evolve a proper 'mix' of all the decisions areas such as product, price, promotion, and place (popularly called 4 p's) constitute the 'marketing mix' of a company.

Marketing mix is an essential part of marketing management. It is used as a "tool-kit" for integrating various kinds of marketing decisions to formulate strategy.

Marketing Strategy ABC Ltd.

Target Market segment	Households in high income group, living in urban areas and status conscious
Product	Black and white, and colour television sets incorporating latest imported technology

Promotion	High, to project a superior quality image of the product but not high enough to make it out of the reach of those in the lower bracket of the high income group
Place (Distribution)	Through sophisticated retailers in selected urban areas

The marketing mix of different companies selling different products is different. A company selling toothpaste will have a different marketing mix from a company selling industrial tools or television sets as illustrated under the Marketing Strategy of ABC Ltd. These differences are not anomalies. They represent the strategies in the effort to obtain distinctive advantage and competitive edge in the market.

Various elements of the marketing mix interact and are interdependent. A decision to enhance the product quality will have repercussions on its price; a policy of widening the distribution network will entail a corresponding increase in advertising, the introduction of a promotional schemes to win over the competition will require active support from the channel members, and so on.

Moreover if a product is of high quality, it should be sold through high quality (or reputed) retailers, and advertisements should project and build up the high quality image. Thus a good marketing mix should have logical and consist fit between two or more elements.

PRODUCT POLICY: A product is anything that is offered to the market for sale at a price. It can be physical product like a typewriter or a service provided by a travel agent.

Types of products

A. **Consumer Products:** Goods which are bought by individual households without requiring further processing. i.e. soaps, television sets, toys, clothes, and furniture are all consumer products. These consumer goods could be further categorized as:

- **Durable Goods:** which survive many uses and have a relatively long life (e.g. refrigerators, typewriters, fans etc.)
- **Non-durable Goods:** which are consumed in one or few uses and last a relatively short period (e.g. soft drinks, soap, cigarettes, etc.)
- **Convenience Goods:** which are frequently purchased with minimum of efforts in deciding (e.g. newspapers, toothbrushes, etc)
- **Shopping Goods:** which are bought after comparisons at the retail outlets (e.g. readymade garments, furniture, curtains, etc.)
- **Specially Goods:** which have unique features and, therefore, require special purchasing efforts (e.g. sporting equipment, stereo systems, reaching cars, etc.)

B. **Industrial Products:** Industrial products are goods which are sold to other business firms, either for their own consumption or for producing other goods. They can be further categorized as:

- Capital goods
- Raw materials supplies

C. **Services:** There are many services like insurance, transportation, tourism, health care, education, entertainment, repairs etc. As distinct from the normal physical products, one important feature of services is their intangible nature. Some services like teaching have very high degree of intangibility while some other like health cares have both tangible and intangible components.

Once after deciding on the type of the product to be sold in the market the entrepreneur is left with few more areas to decide to succeed in the market that are grouped as follows.

a. **PRODUCT MIX:** Product mix is the set of all the products offered by a firm for sale. It may consist of a single product line such as different varieties of soap or more than one product line such as different varieties of soap and toothpaste. The factors affecting product mix decision are:

a. Profits and sales growth potential

b. Stability in sales

c. Better customer service

d. Utilization of available know-how and other strengths of the company

e. Cost reduction

f. Better capacity utilization.

b. PACKAGING: Packaging, over the years, has acquired a lot of promotional value for a product. Many products like cosmetics, playing cards, and ready made garments are made attractive to the customers through fancy and elaborate packaging. Packaging performs several functions including:

a. protection from damage during handling, transportation, storage, etc.

b. creating a distinctive brand image in the minds of the customers

c. providing information about various aspects of the product like weight, name of the manufacturer, date of manufacture, contents, etc.

d. making the product attractive to the customers. Cosmetics field is an excellent example.

e. Improving the handling, convenience during storage, transport and displaying

Many new materials and technologies are now available for packaging of different products. While designing the package for a product, a firm should consider the following:

a. The functions which are to be performed through packaging

b. The practice being followed by the industry

c. The availability of any new materials, technologies, or styles

d. The tastes, preferences, and convenience of the customers; and

e. The costs involved.

c. BRANDING: A brand is word, mark, symbol or combination thereof used to identify the goods or services.

A brand name is that part of a brand which can be vocalized (e.g. Gillete, Sony, Citizen).

A trade mark is that part of a brand which has legal protection of exclusive use.

We see that most products that are sold today are branded. Some of the advantages of branding are:

a. It helps in giving a distinctive image to the product
b. It helps in communicating to the customers some desirable features of the product
c. It makes it easy for the customers to order and identify the product
d. It could help in providing legal protection against imitation
e. It helps ion building a loyal set of customers
f. It helps in earning goodwill for a company which is useful for growth and diversification

d. **PRODUCT SERVEICE (AFTER SALES SERVICE):** For many products, there is need for service after they are sold and delivered to the customer. In fact, for products like television sets, typewriters, computers, and automobiles, the availability of after-sales services is important criteria for deciding the purchase. Companies manufacturing such items spend large amounts of money in making the services available to the customers.

The services include:

a. Installation, maintenance and repairs of the equipment
b. Training of the customers on variopuraspects of product use and
c. Provisioning of spare parts

Provision of good after-sales service can be used as a strong marketing point in case of many products. It increases the saleability of a product by generating confidence in the minds of the consumers. Moreover, satisfied customers ensure not only repeat purchases but also act as a source of publicity of the firm. Recognizing the importance of after-sales services, many firms emphasise this aspect in their advertising.

e. **PRICING:** The price of a product is the amount of money a consumer must pay to have it. Pricing decisions are extremely important as they greatly influence the profitability of a firm. Moreover, price is Perhaps the most handy tool available to a firm to adopt its marketing strategy to changes in demand, costs and competitive situation.

Many factors, both economic and non-economic, influence the pricing decisions. These are:

a. Cost
b. Demand
c. Competition
d. Government regulations
e. Behaviour of the consumers, and
f. The objectives of the enterprise

Some methods and policies which are used individually or collectively in taking pricing decisions regarding pricing are;

I. Cost Plus Pricing

The total cost of the product is first determined. (total cost is the sum of variable costs and fixed costs that are attributable to one unit of output.) a margin of profit is then added to determine the price.

Suppose the total cost of making a fan is Rs.400. if the manufacturer wishes to have a margin of 120% on the sale price. What should be the selling price?

To answer this question, let us assume the sale price is Rs. X the margin of the manufacturer is Rs.X-Rs.400 (as the total cost is Rs.400). since the margin required is 20% of Rs.X, i.e. 0.2 X, we have;

$0.2\,X = X - 400$

or $0.8\,X = 400$

$X = 400/8 = Rs.50$

This method has several advantages:

a. It is easy to operate

b. The prices can be adjusted according to the changes in the costs

c. The entrepreneurs become cost conscious, and

d. The profitability is known easily.

There are certain disadvantages as well in using this method, since it does not take into account demand aspects, and other external environmental factors.

II **Variable Price – Policy:** Some entrepreneurs adopt a policy of charging different prices from different customers depending upon the situation prevailing in the market. This policy is usually adopted when the product is sold in different market segments. Situation under which the variable price policy is adopted are:

a. Difference in the order size of the customers;

b. Difference in the anticipated business form different customers;

c. Difference in the burgaining power of the customers

d. Ignorance of the buyers

e. Localized difference in the demand, and

f. Difference in the ability to pay.

Under this policy, the minimum price is determined by the total cost of the product, and the maximum price by the customers' ability to pay. Bargaining is normally resorted to in finalizing a deal. However, the use of this method may affect the goodwill of the company in the long run.

III. Base Price and Discounts: Under the variable price policy, the prices are charged according to the particular situation. Under the base price and discounts policy, a base price or list price is fixed and varying discounts are offered to different categories of customers. The discounts are offered uniformly to all customers and each one of them can avail these on satisfying the stipulated conditions.

The discounts are of several kinds:

a. Trade discounts is available to the members of the trade to cover their costs and provide them with a margin incentive
b. Quantity discount is available to the bulk purchasers of the product.
c. Cash discount is given to the customers making cash down of immediate payment.
d. Seasonal discount is given to boost the sale of a product during slack season.

IV. Market Rate Method: If the nature of the product manufactured by a firm is such that it is largely indistinguishable from those of the competitors, or if it is found that all manufacture are charging more or less the same price for their products, the market rate method of pricing usually adopted. The price is guided by the prevailing market rate. This method is quite common in the case of services like courier, tailoring, or car or scooter servicing. The advantage of this method, especially for newly established small-scale firms, is that they get some immunity from the vagaries of price fluctuations.

The marketer can choose any of the above said method for pricing. The choice of pricing depends upon the strategy, which the marketer is willing to adopt to take on the competition

Skimming Strategy: This is a strategy of setting an extremely high initial price that skims cream of demand so that the investment is recovered in the shortest possible time. This strategy is seldom possible except when the product is an innovation one and is excepted to command good reception from the market. It usually requires heavy promotional expenditure. One cannot continue with such a strategy for a long period of time as the competitors would enter the market. The price is permitted to fall as it becomes difficult to maintain abnormally high price in the face of competition.

Penetration strategy: Companies following this strategy set relatively 'low price' on their product in initial stages hoping to attract a large no.of buyers and win a large market share. They are more concerned about growth in sales than in profits. Their main aim is capturing and to gain a strong foothold in the market. This objective work in a highly price sensitive market. It is also done with the presumption that unit cost will decrease when the level of sales reach a certain target. Besides the lower price may make competitors to stay out. When market share increases considerably the firm may gradually increase the price.

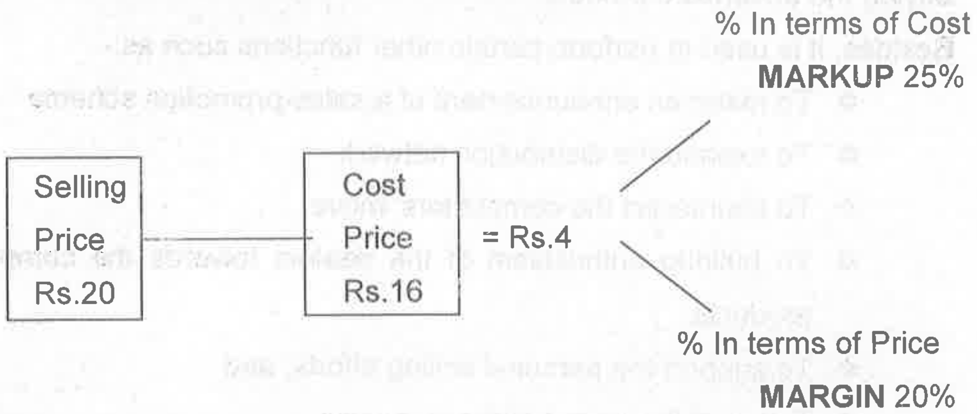
Discriminatory pricing strategy: Some times people i.e. the marketer may follow a differential of discriminatory pricing policy, charging different prices for different customers or allowing different discounts to different buyers.

Other terms related to pricing:

Markup and Margins: Regular gain to retailer or wholesaler (middleman in distribution channel) are usually referred to as MARKUP or MARGIN.

MARKUP is calculated on the basis of cost.

MARGIN is calculated on the basis of price.



Though the amount of profit is the same. Both Markup & Margins differ in terms of percentage.

Distributors are interested in MARGINS sine it gives them the idea of direct gain in relation to the volume of sale.

Procedures are interested in MARKUP since it gives them the idea of gain on investment.

f. PROMOTION: Promotion, which is one of the marketing mix, consists of four major components

(1) Advertising

(2) Personal selling and

(3) Sales promotion

(4) Publicity.

All these are the tools available to a firm to influence the customers in favour of its product through communication with them.

1.Advertising: Advertising is mass, paid communication under clear sponsorship, the ultimate aim of which is to impart information, develop attitude, and induce action beneficial to the sponsored. The objective of advertising is to reach a large number of people, and to develop a positive disposition of the target group towards the product or service.

The primary goal of advertising is to improve the likelihood of customers buying the advertised product.

Besides, it is used to perform certain other functions such as:-

- To make an announcement of a sales-promotion scheme
- To expand the distribution network
- To counteract the competitors' move
- To buildup enthusiasm of the dealers towards the company's products
- To support the personal selling efforts; and
- To boost the image of the company;

Media generally used for advertising are:-

- Newspapers
- Magazines
- Trade Journals

- Television
- Radio
- Cinema (Slides of films)
- Outdoor-billboards, Posters, display cards (e.g. on buses).
- Yellow Pages
- Direct Mail
- Speciality advertising (e.g. distribution of such items as calendars, shopping bags. Writing pads, etc.)

One or more of these media selected on the basis of their effectiveness in reaching the advertising message to the target customers.

Designing an Advertisement: while designing an advertisement, what is to be said, and how it is to be said are of equal importance. The advertisement should be able to persuade the customers to buy a product by conveying to them a persuasive and unique proposition, called 'unique selling proposition(USP)'. The presentation of the proposition should be such that it given an added force to it.

A check-list for accessing the effectiveness of an advertisement includes:

- Does the advertisement place emphasis on the right things?
- Is the presentation persuasive?
- Is the advertisement interesting to read?
- Is it easy to read?
- Is it able to draw attention?

2. Personal Selling: Personal selling is man to man selling and thus, it is a two way communication process between the seller and the buyer. Personal selling is used to perform several functions such as:

- Order booking
- Enquiry generation
- Technical assistance to the customers
- Customer service

- Price negotiation
- Collection of payments
- Market information

Personal selling is extensively used for selling industrial products. In case of consumer products, the role of personal selling is predominantly to meet the requirements of the trade.

What makes a good salesman?

Salesman in different companies differ widely in terms of their education, skills, and even salaries, some of them are successful and others just perform the duties assigned to them as a routine. Characteristics that distinguish a good salesman from the ordinary are:

a. Thorough Knowledge of the Merchandise:

The salesman is supposed to know his subject well. He must be in a position discuss the advantages, various uses, and special features of the merchandise.

b. preparation for each visit:

A good Salesman plan every visit properly and make preparations. Previous appointment is helpful in eliciting positive response from the customer. The salesman ready with all the relevant information and support material that may be required during meeting.

c. Understanding of the Buyer's Interests:

Selling involves the matching of the interests of the buyer and the seller. A good salesman notes and appreciates the viewpoint of the buyer. He anticipates the objections of the customers and provides sound and satisfying answers.

d. Trustworthiness

A good salesman generates confidence in the customers through fair dealing, helpful attitude and honouring his commitments. He does not make false claims or give false assurances. Developing trustworthiness takes time but the benefits are lasting.

3. Sales promotion

Advertising provides the customers with a reason to buy a product; whereas sales promotion provides an incentive. There are a large number of sales promotion tools or methods. These may be directed towards the consumers or the members of the trade. Some of these are:

Price offs: Offers a discount in price for a special period

Samples: Distribution of free or subsidized samples.

Premium: Offer of an article (e.g. a spoon or a cake of a soap) as an incentive to buy the product.

Quantity Offs: Offering more quantity of product at no extra cost.

Contests: The consumers are invited to participate in contest or campaigns and are given prizes.

Buying Allowances: Special discounts offered to the trade for a specific period.

Display Goods: Special display items like racks, banners etc. distributed free to the dealers.

Advertising Allowances: A part of the expenditure incurred by dealers on advertising is reimbursed.

Dealer Sales Contests: The dealers are invited to participate in sales contests and win prizes.

g. PLACE (Distribution): When a manufacturer produces something, it has to be moved nearer to the place of consumption. Consumers may be scattered in large areas and, a firm usually has to take the help of middleman to reach them.

Basically there are three alternatives available to a firm to reach its consumers:

DIRECT SELLING (Zero level channel)

Manufacturer → Retailer → Consumer

MANUFACTURER TO RETAILER TO CONSUMER (One level channel)

Manufacturer → Wholesaler → Retailer → Consumer

MANUFACTURER TO WHOLESALER TO RETAILER TO CONSUMER (Two level channel)

Manufacturer → Jobber → Wholesaler → Retailer → Consumer

MANUFACTURER TO JOBBER TO WHOLESALER TO RETAILER TO CONSUMER (Three level channel)

The channels which are used by various firms to reach the ultimate consumers are called Marketing Channels. The various intermediate member of the marketing channel, like wholesalers and retailers are called intermediaries.

Wholesalers are those intermediaries who buy goods from the producers and sell them to the retailers or other bulk customers.

Retailers are those intermediaries who sell primarily to the ultimate consumers. They usually sell in small lots, and deal in a large variety of products.

A firm should consider the following important aspects while selecting the alternative channels.

a. Nature of the product
b. Level of its operations
c. Buying habits of the consumers
d. The industry practice
e. Dispersion of the consumers

For example if the firm is making high value capital goods which are sold to institutional customers located in a small geographical area, it can possibly employ direct selling method which has no intermediary.

UNIT - V

FINANCING OF ENTERPRISE

NEED FOR FINANCIAL PLANNING

Finance is one of the important prerequisites to start an enterprise. In fact, it is the availability of finance that facilities an entrepreneur to bring together land, Labour machinery and raw material to combine them to produce goods. The significance of finance in production is elucidated like a lubricant to the process of production. Financing an enterprise – whether large or small-is a critical element for success in business. Instances are galore to cite that many enterprises, though potentially successful, failed because they were under-capitalised. Therefore, every enterprise should clearly chalk-out its future financial requirements in its very beginning itself.

Financial planning deals with futurity of present decision in terms of financial aspects of an enterprise. In short, financial planning is a financial forecast made for the enterprise in the beginning itself.

In a financial plan/financial forecast, the entrepreneur should clearly answer the following three questions:

1. How much money is needed?
2. Where will money come from?
3. When does the money need to be available?

The money needed can be estimated by developing a statement of various assets required by the enterprise. While estimating the money needed, the entrepreneur should take the following three things into consideration:

a. There should be adequate money to pay the purchase considerations

b. There should be sufficient capital at his/her disposal to support the business operations up to the three initial months of the enterprise.

c. Enough provision should be made to meet unexpected/unplanned business expenses; the general practice has been to provide for from 10 to 15 per cent of purchase consideration to cover such expenses.

The total of these three amounts will constitute the total money needed to start the enterprise. Integral to total amount needed is to decide about its arrangement or sources.

Capital is arranged from two sources-internal and external. Internal sources refer to the owner's own money known as 'equity'. Particularly in the case of small enterprises, the owner's money called equity is very thin. Therefore, an overwhelming portion of money needed is arranged from the external sources like the financial institutions and commercial banks,

There are two ways of classifying the financial needs of an enterprise:

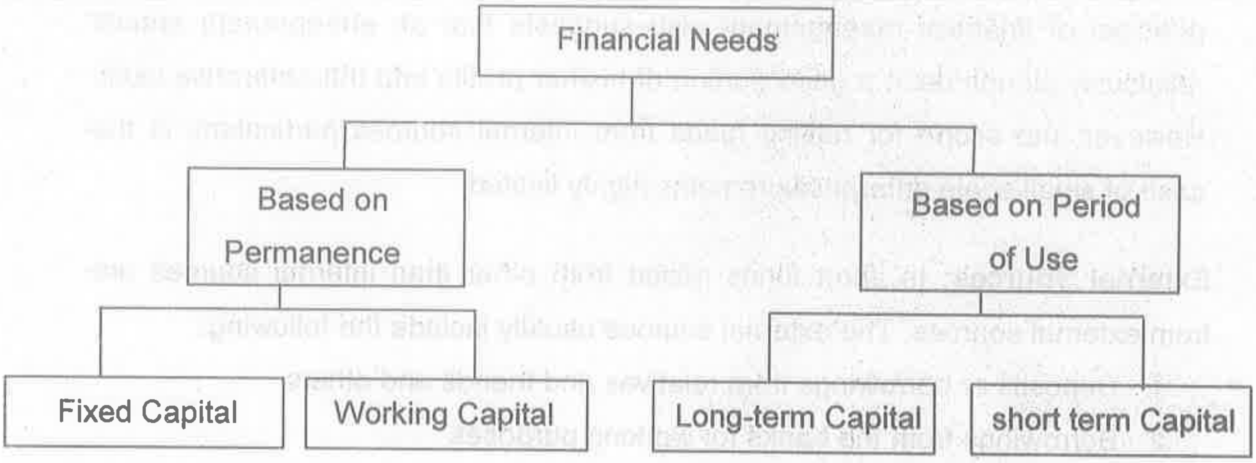
1. On the basis of extent of performance, the financial needs are classified into two types:
   (a) Fixed Capital
   (b) Working Capital.
2. On the basis of period of use, we can classify the financial needs into the following two types:
   (a) Long-term Capital/Finance
   (b) Short-term Capital/Finance.

1.a Fixed Capital: The money invested in some fixed assets or durable assets like land, building, machinery, equipment, furniture, etc., is known as fixed capital. These assets are required for permanent use, that is, for a long period of time.

1.b. Working Capital: The money invested in current assets like raw material, finished goods, debtors, etc., is known as working capital. In other words, money required for day-to-day operations of business/enterprise is called 'working capital'.

2.a. Long-term capital: This is such money whose repayment is arranged for more than five years in future. The sources of long-term finance could be owner's equity, term-loans from financial institutions, credit facilities from the commercial blanks, hire-purchase facilities from specific organisations, etc.

2.b. Short-term Capital: This is a borrowed capital/money that is to be repaid within one year. The sources of short-term finance include bank borrowings for working capital deposits or borrowing from friends and relatives, etc,



The theory of financial management suggests that, in order to ensure sound financial health of an enterprise, short-term finance/ funds should be utilized for acquiring current assets. Current assets, for example, include the items like raw material, finished goods, semi-finished goods, debtors, etc. Basically, these are the items, which keep changing their shape. They can normally be converted into cash within a period of one year. On the other hand, long-term finance should be used for acquiring assets, which are of long nature. These are commonly termed as 'fixed assets'. The examples of fixed assets could be, land and building, plant and machinery, furniture, etc.

SOURCE OF FINANCE

The various sources from which an enterprise can raise the required funds could broadly be classified into two sources. These are

1. Internal Sources
2. External Sources

Internal Sources: Under this source, funds are raised from within the enterprise itself. The internal source of financing could be owner's capital known as equity, deposits and loans given by the owner, the partners, the directors, as the case may be, to the enterprise. One source is raising funds internally may be personal loans taken by the entrepreneurs on his/her personal assets like Provident Fund, life Insurance Policy, buildings, investments, etc. in addition to these, in case of a running enterprise, funds could also be raised through the retention of profits or conversion of some assets into funds. The cardinal principal of financial management also suggests that an entrepreneur should religiously plough back a good portion of his/her profits into the enterprise itself. However, the scope for raising funds from internal sources particularly in the case of small-scale enterprises remains highly limited.

External Sources: In short funds raised from other than internal sources are from external sources. The external sources usually include the following:

1. Deposits or borrowings from relatives and friends and others
2. Borrowings from the banks for working purposes
3. Credit facilities from the commercial banks
4. Term-loans from financial institutions
5. Hire-purchase or leasing facility from the National Small Industries Corporation (NSIC) and state Small Industries Corporations (SSICs)
6. Seed/Margin money subsides from the Government and the financial institutions.

If we now lump both the sources together, these can broadly be classified as follows:

1. Personal Loans from relatives and friends
2. Mortgage Loans
3. Term-Loans
4. Subsidiaries

CAPITAL STRUCTURE:

Enterprise/business raises funds from the internal and external sources. These take the forms of ownership capital and borrowed capital respectively. The former is also known as equity and the later as debt. The composition of equity and debt in overall capital of an enterprise is called 'capital structure? In simple words, capital structure is the ratio between debt and equity capital. Hence, it is also expressed as the debt-equity ratio.

Here, it must be noted that the term capital structure differs from financial structure. Capital structure means the permanent financing of the enterprise represented primarily by long-term sources of funds, i.e., debt and equity. Thus, it excludes funds raised from short-term sources. But, financial structure refers to how the firm's assets are financed by raising funds from both long-term and short-term sources.

A business enterprise needs to maintain a proper ratio between these two in order to function smoothly and efficiently. Then, what should be the proper, or say, optimum capital structure? In fact, it depends inter alia upon the business conditions of the enterprise concern. As a general principle, for a successful business in favorable conditions, debt capital may be twice or even more than equity capital. But, for a business reeling under unfavorable conditions, say incurring losses, the proportion of debt capital should be as low as possible. This is because on account of fluctuation in earnings and inadequacy of cash, the enterprise may not pay interest and the amount of loan. In consequence, the creditors and suppliers will look upon the financial position of the enterprise is unreliable and, hence, may stop extending credit. Such position will culminate to make the enterprise insolvent.

In simple words, an optimum capital structure can be defined as a financing mix incurring the least cost but yielding the maximum returns. It is obtained when the market value per equity share is the maximum.

Ezra Solomon has defined capital structure in the following words: Optimum leverage can be defined as that mix of debt and equity, which will maximize the market value of a company, i.e., the aggregate value of the claims and ownership interests represented on the credit side of the Balance Sheet.

Further, the advantage of having an optimum financial structure, if such an optimum does exist, is two-fold. It minimizes the company's cost of capital which is turn enhances its ability to increase and find new wealth by creating investment opportunities. Also, by increasing the firm's opportunity to engage in future wealth-creating investment, it increases the economy's rate of investment and growth."

An optimum capital structure bears the following features:

1. The capital structure should involve the minimum cost and the maximum yields.
2. The adopted capital structure should be flexible enough to fulfill the future requirements of the capital as and when needed.
3. The use of the debts should be within the repaying capacity of the enterprise. In fact, failure to recognize this important aspect/fact is the common cause of financial strain among the small-scale enterprises.
4. The capital structure should ensure the proper control over the affairs of the enterprise. In any case, it should not be a control diluting one.

While one can add certain other features to these for some particular enterprises, the said features appear to be common and major ones,

Factors Determining Capital Structure

Maintaining the capital structure in any enterprise depends on a variety of factors. Let us now discuss about important ones of these factors.

1. **Nature of Business:** The nature of the business is one of the factors determining capital structure to be maintained. The businesses subject to wide fluctuations in sales need to maintain smaller proportion of borrowed funds, i.e., debt capital. Companies manufacturing televisions, refrigerators, machine tools and like are examples of businesses subject to fluctuations in their sales. On the contrary, the business firms dealing to items/goods having inelastic demand like essential consumer goods may have larger proportion of borrowed capital. The reason is that these firms generally have stable earnings.

The capital structure of companies is also determined by the competitiveness found among them. For example, in case of ready-made garments industry, competition is mainly based on styles and fashions that are subject to frequent and unpredictable changes. As such, these firms have to depend less on borrowed capital and more on equity or owner's capital.

2. **Size of the Enterprise:** Small enterprises have to rely less on borrowed capital and depend more on owner's capital. This is because

investors consider lending to small firms more risky. On the other hand, large enterprises are considered less risky. Therefore, investors believe that their money is safe and, hence, prefer to lend money to large enterprises. This enables the large enterprises to raise funds from different sources.

3. **Trading on Equity:** In case the rate of return on capital employed is more than the rate of interest on debentures or rate of dividend on preference shares, it is called trading on equity or leverage effect. In such case, there is greater dependence on borrowed capital in the capital structure.

4. **Cash Flows: The** ability of a business to discharge its fixed obligations depends upon the availability of cash, i.e., cash flows. As such more the cash inflows more will be the proportion of borrowed capital in the capital structure. Reverse will happen in a converse situation.

5. **Purpose of Financing:** The purpose of financing also affects the capital structure of the enterprises. In case funds are required for some directly productive purposes, for example, purchase of new machinery, the enterprise may rely on external sources for raising the required funds. This is because the enterprise will be in a position to pay the fixed charges, or say, interest out of the profits so earned. In contrast, in case the enterprise is required to raise funds for unproductive purposes like spending on the employee's welfare facilities, it will have to depend on owner's capital. In other words, it will raise funds by issue of equity shares.

6. **Provision for Future:** The scope of changing the capital structure in future happens to be a basic consideration for determining the capital structure of an enterprise. As a general principle, it will always be safe to keep the best security to be issued in the last instead of issuing all types of securities in one stroke only.

In this regard, what Gerestenberg opined is worth mentioning:

"Manager of corporate financing operations must always think of rainy days or the emergencies. The general rule is to keep your best security or some of your best securities till the last".

TERM LOANS

Simply stated, loans taken for a definite period of time are called 'term loans'. Based on period, loans are broadly classified into two types:

1. Short-term Loans, and
2. Long-term Loans.

The term 'Term Loans " is used for long-term loans. Therefore, let us discuss, in detail, long-term loans.

Long-Term Loan: These are the loan taken for a fairly long duration of time ranging from 5 years to 10 or 15 years. Long-term loans are raised to meet the financial requirements of enterprise/company for acquiring the fixed assets, which include the following:

1. Land and site development
2. Building and civil works
3. Plant and machinery
4. Installation expenses
5. Miscellaneous fixed assets comprising vehicles, furniture and fixtures, office equipment and so on.

In case of units to be located in backward areas, another element of miscellaneous fixed cost includes expenditure to be incurred of infrastructure facilities like roads, railway sidings, water supply, power connection, etc.

Term loans, or say, long-term loans are also required for expansion if productive capacity by replacing or adding to the existing equipment.

Sources of Term Loans: The following are the sources of term loans:

1. Issue of shares
2. Issue of Debentures
3. Loans from Financial Institutions
4. Loans from Commercial Banks
5. Public Deposits
6. Retention of profits.

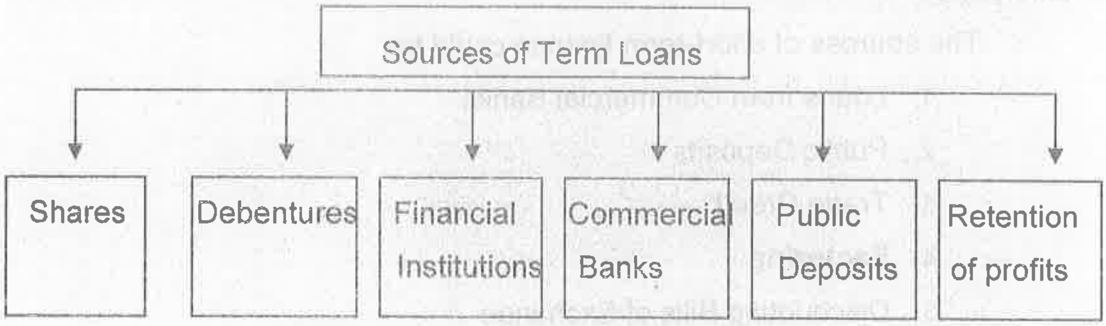
Sources adopted by enterprises for raising term (long) finance/loans.

Shares: Share is unit into which the total capital of a company is divided. As per section 85 of the Companies Act, 1956, a public limited company can issue the following two kinds of shares:

(a) Preference Shares

(b) Equity Shares

Preference Shares: These are the shares, which carry a preferential right over equity shares with reference to dividend. They also carry a preferential right over equity shares with reference to the payment of capital at the time of winding upon repayment of capital.



Sources of Raising Term (Long) Loans

The preference shares may be of various types such as cumulative and non-cumulative redeemable and irredeemable, participating and non-participating and convertible and non-convertible.

Equity Shares: What is not preference share is equity share. In other words, equity shares are entitled to dividend and capital after the payment of dividend and capital on preference shares. Based on the types of shares, these are two types of capitals:

(i)Preference Share Capital, and (ii) Equity Share Capital.

Debentures: Issue of debentures is another method of raising term loans from the public. A debenture is an instrument acknowledging a debt by a company to a person or persons. Section 2(12) of the Indian Companies Act, 1956 defines a debenture as follows:

"Debenture includes debenture stock, bonds and any other securities of the company whether constituting a charge on the company's assets or not."

A company can issue various types of debentures, viz. redeemable and irredeemable, registered and bearer, secured and unsecured and convertible and non-convertible debentures.

SOURCES OF SHORT-TERM FINANCE

Short-term finance is obtained for a period up to one year. These are required to meet the day-to-day business requirements. In other words, short-term finance is obtained to meet the working capital requirements of the enterprise.

The sources of short-term finance could be

1. Loans from Commercial Banks
2. Public Deposits
3. Trade Credit
4. **Factoring**
5. Discounting Bills of Exchange
6. Bank Overdraft and Cash Credit
7. Advances from Customers
8. Accrual Accounts.

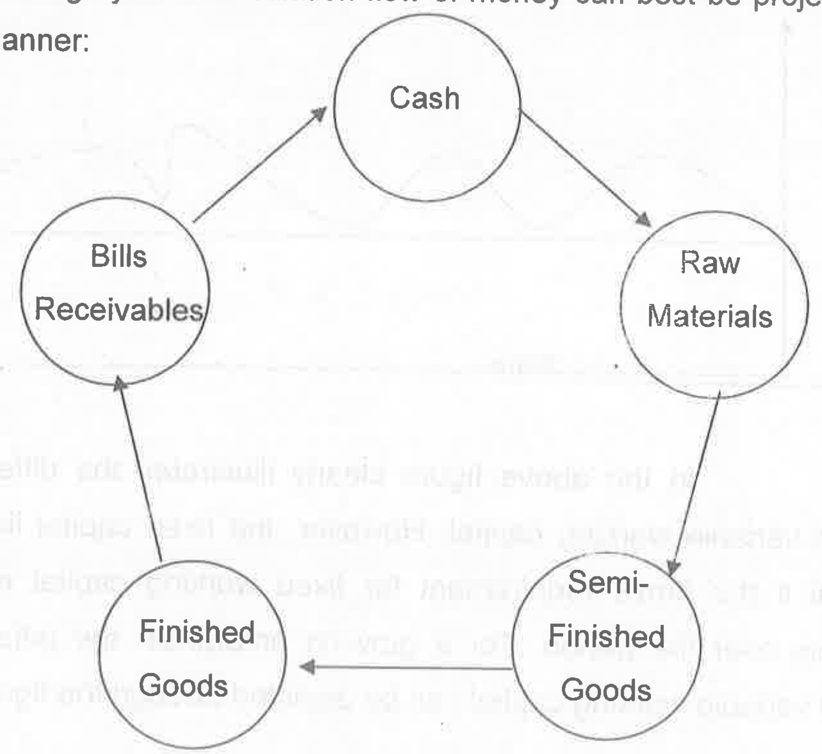
WORKING CAPITAL: Working capital is that amount of funds which is required to carry out the day-to-day operations of an enterprise-whether big or small. It may also be regarded as that portion of an enterprise's total capital, which is employed in its short-term operations. These operations consist of primarily such items as raw materials, semi-processed goods, sundry debtors, finished products, short-term investments, etc. Thus, working capital also refers to all the short-term assets known current assets used in day-to-day operations of an enterprise.

The Accounting Principles Board of the American Institute of Certified Public Accountants, U.S.A., has defined working capital as follows: "Working capital, sometimes called net working capital, is represented by the excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital which constitutes a margin of buffer for maturing obligations within the ordinary operating cycle of the business.

Operating Cycle: Working capital is also called a circulating capital or revolving capital. That is because the money/capital circulates in various forms of current assets in a continued manner. For example, at a point of time, funds may be tied up in raw materials, then later converted into semi-finished products, then into finished/final; products and when these finished products are sold, it is converted either into account receivables or cash. This cash is reinvested in current assets. This, the amount always keeps on circulating or revolving from cash to current assets and back again to cash. That is why some people prefer to use the term liquidity management instead of working capital management. Although this circulating takes place at short intervals, the money is required again and again.

The American Institute of Certified Public Accountants defined the operating cycle as: "the average time intervening between the acquisition of material or services entering the process and the final cash realization."

The operating cycle or circulation flow of money can best be projected in the following manner:



Working Capital Operating Cycle

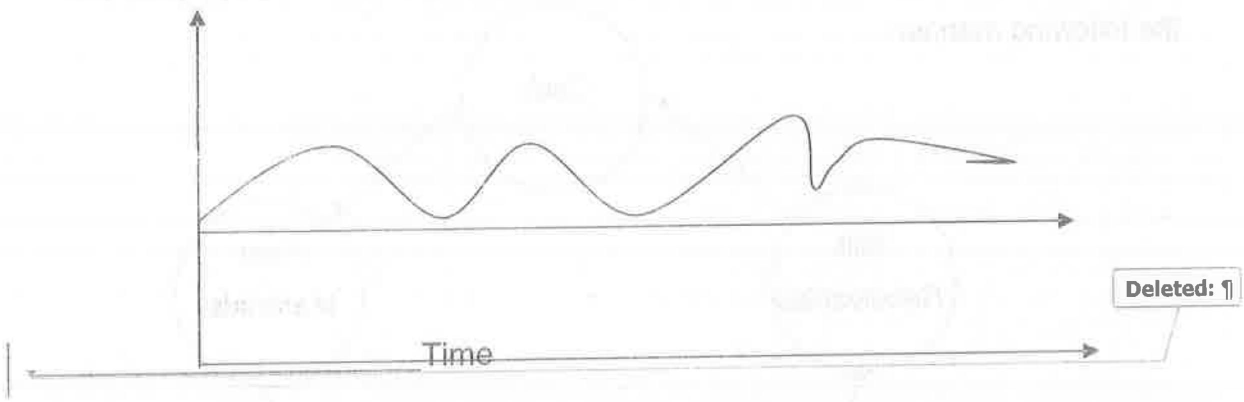
Capital/finance is regarded as lifeblood of any enterprise. Therefore, the significance of working capital in an enterprise lies in the fact that its circulation has to be properly regulated in the business. Because, any over-circulation or under-circulation may create problems just as improper blood circulation called high or low blood pressure, in the human body may create problems.

It is also noteworthy that the total working capital composed of two parts known as

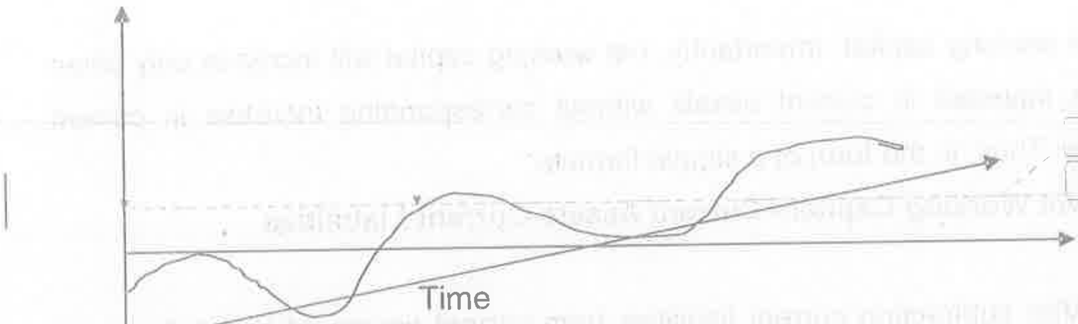
(i) Regular or fixed working capital

(ii) Variable working capital.

The amount which is needed, of course at short-intervals, to invest again and again in current assets is called Regular or Fixed Working Capital. In fact, this investment is irreducible minimum and remains permanently sunk in the enterprise. The other part of the working capital may vary due to the fluctuations-rise or fall-in the volume of business. Hence, it is called as the Variable Working Capital. The two parts of working capital are the below figure.



In the above figure clearly illustrates the difference between fixed and variable working capital. However, the fixed capital line need not be horizontal if the firm's requirement for fixed working capital is increasing or decreasing over the period. For a growing enterprise, the difference between fixed and variable working capital can be depicted through the figure.



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Concepts of working Capital

There are two concepts or senses used for working capital. These are

1. Gross Working Capital
2. Net Working Capital

Gross Working Capital: The concept of gross working capital refers to the total value of current assets. In other words, gross working capital is the total amount of available for financing of current assets. However, it does not reveal the true financial position of an enterprise. For example, a borrowing will increase current assets and, thus, will increase gross working capital but, at the same time, it will increase the current liabilities also. As a result, the net working capital will remain the same. The business community usually supports the concept as it raises their assets (current) and is in their advantage to borrow the funds form external sources such as banks and the financial institutions. The working capital is a financial concept. Thus

Gross Working Capital=Total Current Assets

Net working capital: The net working capital is an accounting concept, which represents the excess of current assets over current liabilities. Current assets consist of items such as cash, bank balance stock, debtors, bills receivables, etc. and current liabilities items such as bills payables, creditors, etc. Excess of current assets over current liabilities, thus, indicates the liquidity position of an enterprise. The ratio of 2:1 between current assets and current liabilities is considered optimum or sound. What this ratio implies is that the firm/enterprise has sufficient liquidity to meet operating expenses and current liabilities. It is important to mention that networking capital will not increase with every increase

In gross working capital. Importantly, net working capital will increase only when there is increase in current assets without corresponding increase in current liabilities. Thus, in the form of a simple formula:

Net Working Capital= Current Assets-Current Liabilities

After subtracting current liabilities from current assets what is left over is net working capital. This process functions much like the following:

Current Assets

-

Current Liabilities

=

Working Capital

Working capital normally refers to net working capital. The banks and financial institutions do also adopt the net working capital concept as sit helps assess the requirement of the borrower.

If in any particular case, the current assets are less than the current liabilities, then the difference between the two will be called 'working Capital Deficit.' What this deficit in working capital indicates is that the funds from current sources, i.e., current liabilities have been diverted for acquiring fixed assets. In such case, the enterprise cannot survive for a long period because which are insufficient.

SIGNIFICANCE OF WORKING CAPITAL

1. **Necessary Liquidity:** The term 'operating cycle' explains that it takes certain time from spending money on raw material to its realization through the sales of finished goods. Therefore, an enterprise needs necessary cash or liquidity to meet its obligations during the intervening period, i.e. operating cycle. This is made possible by working capital.
2. **Maximisation of Profits:** According to the cardinal principle of financial management, the maximisation of profits depends upon the proper balance between fixed capital and working capital. Working capital management strikes this balance between the two by properly synchronsing cash inflows and cash outflows.
3. **Smooth Functioning:** The significance of working capital is even more for small-scale enterprises as it ensures the timely purchase of inputs even at competitive prices and payment to the factors of production.
4. **Increasing Firm's Value:** Since working capital strikes proper balance between assets and liabilities, it results in increase in the market value of equity shares and, in turn, increase in the value of the enterprise.

ASSESSMENT OF WORKING CAPITAL: The requirement for working capital needs to be assessed correctly as far as possible. Both under and over working capitals are harmful for the enterprise. For example, over-estimation of working capital would result in blockage of scarce funds in idle assets. On the other hand, under-assessment of working capital would deprive the enterprise of profitable opportunities. It is here that the concept of operating cycle reveals its sharpness.

$$\text{Total Working Capital Requirements} = \frac{\text{Total Operating Expenses in the Last year}}{\text{Number of Operating Cycles in the year}}$$

FACTORS DETERMINING REQUIREMENTS OF WORKING CAPITAL

1. Sales

2. Length Operating Cycle
3. Nature of Business
4. Terms of Credit
5. Seasonal Variations
6. Turnover of Inventories
7. Nature of Production Technology
8. Contingencies

MANAGEMENT OF WORKING CAPITAL

Management of Working Capital means managing different components of current assets and current liabilities. They are as follows:

1. Management of Cash
2. Management of Inventory
3. Management of Accounts Receivable
4. Management of Accounts Payable.

UNIT - VI

MANAGING HUMAN RESOURCE IN SMALL BUSINESS

Human beings are the most precious assets on this earth. An organization, basically, comprises of human beings. All the factors of production, would remain idle and ineffective in the absence of people. Managing men is a very difficult, delicate, intricate and complicated task, which has to be shouldered by the entrepreneur. The success of his enterprise is dependent on its entirety, on the human element.

Functions of personnel management

The prime functions of personnel management are as follows

(1) MANPOWER PLANNING: Manpower planning can be defined as the process by which an entrepreneur ensures that he has the right number of people and right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

(2) JOB REQUIREMENTS: The job requirement identification involves the following:

1. **conducting job Analysis**

   This is an investigation into various aspects of a task in terms of skill, qualifications, duties and responsibilities. It covers job title, the department to which it relates, line of supervision, relationship with other jobs, types of material and equipment used, mental and manual dexterity, working conditions etc.

2. **Job Description**

   Simply stated, job description deals with what, why, when and how tasks are to be performed. In other words, it is a written statement of work conditions, time involvement and job responsibilities.

3. **Job Specification**

   Job specification is nothing but a description of the salient features of the person to be recruited in the specific job.

(3) RECRUITMENT: After determining the manpower requirements of the enterprise and finalizing job requirements of the tasks, the next problem is recruitment. Recruitment is a process of obtaining interested people/applicants.

Recruitment in small-scale industries is more difficult because these cannot compete with their larger counterparts in salary, fringe benefits and apparent stability. These limitations impose severe problems for small enterprises for attracting qualified and committed work force. There could be two sources of recruitment in small-scale enterprises:

1. Internal Sources
2. External Sources

Internal Sources

Internal sources refer to recruitment from the present work force of the enterprise itself. If there is a vacancy in the enterprise at any time, some one already working in the enterprise in promoted or transferred.

External Sources

The various external sources an enterprise can opt for recruiting his employees can broadly be classified into:

(i) Employees Referrals
(ii) Recommendations
(iii) Unsolicited Applications
(iv) Advertisements

In actual practice, as the various research studies indicate, the job-search-methods used by small-scale industries are mainly internal in nature.

(4) SELECTION: Selection process starts where recruitment ends. Comparing the requirements of a job with the qualifications and experience of a candidate. The common selection procedures used in small-scale enterprises in India are preliminary Interview

The basic purpose of the preliminary interview is to determine an applicant's suitability for further consideration. Basic question such as age, present occupation, and experience are asked in this interview.

Application Blank: Questions like work history, educational level, work experience and the type of work applied for are asked in the question blank. From a perusal of this record, the employer can form a broad idea about the applicant's potential.

Psychological Test: Psychological test generally includes the following:

Aptitude Test: This is a test measuring intelligence of the applicant and his ability to learn certain skills

Performance Test: It is a test that measures one's current knowledge of a specific subject.

Personality Test: Under this test, an applicant's personality traits such as dominance, sociability and conformity are measured.

Interest Test: As the name of the test itself denotes, this is a test that measures one's interest in various fields of work.

References: All good enterprises ask an applicant for the names of others who can tell them something about his past.

Interview: It is an interview that facilitates an interviewer to evaluate more effectively the applicant's potential for success in the particular job. The basic objective of an interview device should be to measure those qualities and traits that cannot be better measured by some other devices like testing or application blank.

Physical Examination : It gives the enterprise current information about the applicant's physical health at the time of selection or hiring.

Placement: Once a new employee has been selected, he/she is finally placed to perform the specific job. A new corner should be properly introduced to his fellow workers, shown the location of facilities available, informed of regulations, if any, and encouraged to ask my needed information. Considerations and reasonable attention to these points prove a good investment in personnel relations.

Orientation: The employees selected should be made familiar with their enterprises' objectives and activities and acquainted with their jobs.

(5) TRAINING AND DEVELOPMENT

Training may be defined as any procedure, initiated by an enterprise, which intends to foster and enhance learning among the employees working in the enterprise. The period of training varies depending upon the nature of work and the previous experience or training of the employee

Objectives of Training

(i) To improve ob performance by enhancing employees' knowledge and skill.

(ii) To prepare employees well competent to discharge the new responsibilities

(iii) To impart skill how to operate the new machinery and equipments

(iv) To reduce the wastages and accidents

(v) To build a second line for more responsible positions at a later stage.

Characteristics of a Successful Training Programme

The main characteristics of a training Programme are:

(i) Its objectives and scope are clearly defined

(ii) The training techniques are related directly to the needs and objectives of the organization

(iii) It employs accepted principles of learning

(iv) As far as possible, it is conducted in the actual job environment.

Methods of Training

1. **On-the-Job-Training (OJT):** - The oldest and most commonly used training technique in the small scale units is the on-the-job training. It consists of the employees receiving training from their supervisors or other departmental members while they perform their regular jobs.

Category of employees	Focus of training	Who should do the Training	Where to train
Unskilled workers	Improved methods of Handling machines	Immediate supervisor	On the job
Semi-skilled workers	Adoption of mechanization And technical process	More efficient workers, Supervisors	In the worker's department or in training shops
Skilled workers	New skills and techniques	Instructors	Training center
Sales persons	Art of salaesmanship, handling customers, planning	Instructors and professional managers	Short course in professional institution
Supervisory staff	Copying with increasing demands of enterprise, developing team spirit, improving supervision	Professional trainers, managers and bosses	Professional institutions

Training Programme of this kind consists of the following three stages.

(i) **Demonstration:** The job is demonstrated to the employees and each step involved in the process is explained thoroughly.

(ii) **Performance: The trainees** perform the task that they have learned in the step one.

(ii) **Inspection:** In the third and final step, the work performed by the employees, as mentioned in the step two, is inspected and immediate feedback of the job performance to the employees.

2. **Apprenticeship Training:** Apprentice training combines both formal classroom learning and on-the-job experience. This kind of training programme is provided mainly in the technical cadres, plumbers, electricians and bakers are examples of such training.

3. **Job Rotation:** This kind of training is particularly beneficial in the case of small-scale industries where each employee has a thorough understanding of the different functions performed in the enterprises. In this training Programme, employees are moved from job to job for a few hours a day, a few days or several weeks. Thus, if one employee is absent, another employee can well fill in the absence. One of the great advantages of this type of training is that it helps employees combat the problem of monotony, tiredness, fatigue and boredom because varied work experience.

4. **Outside Training:** The above types of training programmes are internal or inside training given in the enterprise itself. There are such types of training programmes also, which are given outside the enterprise. The outside training consists of the employees being trained at schools/institutes outside the enterprise. Broadly speaking, training is a continuous process of the employee development. Besides above mentioned types of training programmes, periodic internal training sessions, coaching on the job, attendance at manufacturer and distributor sponsored courses, seminars, etc. provide additional training facilities.

DEVELOPMENT

Development is concerned with the growth of an employee in all respects. The term development is generally used for employees working in the managerial ladder. It refers to a systematic process of training and growth by which managerial personnel learn new concepts evolved from time to time, skills, knowledge and insight to manage their work effectively and efficiently. Promotions, job rotations, planned progression, counseling, special training courses, etc. are designed to develop employees while at work.

6.REMUNERATION AND BENEFITS

Employees remuneration expressed in terms of wages is of critical concern to personnel relations in small-scale industry. Whereas wages represent income to the employees, they represent costs to the employer and potential taxes to the Government. Wages constitute the largest part of the employees' purchasing power and, therefore, have an important bearing on the level of economic activity. The wages in small enterprises are not fixed on well-established norms and principles of equal pay for equal work

Employee Benefits and Services

In addition to remuneration, i.e. wages to the employees for their work done, enterprises nowadays also pay for a wide variety of supplementary items- often called 'fringe benefits'. These benefits are the indirect payments made to the employees in addition to their direct wages and salaries. The Employers' Federation of India considers fringes as those benefits provided by the employer

(a) which materially add to the welfare of the employees either during the tenure of their service or after retirement

(b) The expenditure of which does not form part of his normal wages and other allowances.

All the fringe benefits can broadly be classified into four groups:

(i) Premium payments consisting of Bonus

(ii) Payments for Overtime

(iii) Payments for time not worked

(iv) Payments for employee welfare

(i) Premium and Bonus: The dictionary meaning of bonus is 'money given in addition to an agreed compensation. This concept was practically legalized by the Payment of Bonus Act, 1965. This act applies to every factory and to every other establishment employing 20 or more persons. A minimum of 30 days' working in a year qualifies an employee for bonus payment.

(ii) Overtime: As per the provisions of the Factory Act, 1948, any worker working for more than 9 hours in any day or for more than 48 hours in any week, he is entitled to overtime, the rate of overtime twice of his ordinary wages.

(iii) Payments for Time not worked: The employees are also given paid benefits for time not worked. Time-off benefits include payments for rest periods, lunch periods, wash-up time, clothes-change and get-ready times. Emergency situations like death of any family member, illness and marriage are also viewed sympathetically and workers are allowed to avail paid holidays but restricted between one and five depending on the emergency.

(iv) Welfare Payments: In view of adverse effects of illness and injury of the employees, their compensation is of great importance. The Government of India, after Independence, passed several acts like the Factories Act, the Employees State Insurance Act, and the Industrial Disputes Act, to ensure the employees welfare.

7. REGULATORY LAWS:

Modern business aims at advantage also and, therefore, is characterized by the applicability of various laws to it. These laws have been passed by the Central and State Governments to regulate the running of the business enterprises whether large or small.

The different laws of which the business owners should be aware of.

(i) The Factories Act, 1948
(ii) Industrial Disputes Act, 1947
(iii) Minimum Wages Act, 1948
(iv) Employees' Provided Fund Act, 1952
(v) Workmen's Compensation Act, 1923
(vi) Shops and Establishment Act
(vii) Payment of Bonus Act, 1985
(viii) Payment of Gratuity Act, 1972.

These legislation are enacted and amended then and there in order to benefit the working population of the country.

TOTAL QUALITY MANAGEMENT (TQM) FOR SMALL ENTERPRISES

Quality, over the period, has become a hallmark for business success. TQM has become a buzzword of the day in business Organisations. TQM is in all embracing term.

QUALITY: The concept of quality is an evolutionary, not a revolutionary one. It has traversed a long path over the period form operator's inspection to the Total

Quality Management (TQM). Table summarizes the evolution and development of the quality concept over the period.

Historical Development of the Quality Concept

Quality Imperatives	Period
Operator Inspection	1870-1890
Foreman Inspection	1890-1920
Quality Circle (QC) Departments	1920-1940
Statistical Quality Control (SQC)	1940-1960
Quality Assurance (QA) Departments	1960-1990
Total Quality Management (TQM) and Statistical Process Control (SPC)	1990 onwards

Quality is viewed as a continuous improvement in performance to satisfy the customer's needs and expectations. Experts have propounded a number of definitions over the period. Some of these are presented here:

According to **Joseph M.Juran**: "Quality is fitness for use or purpose".

Philib B. Crosby opines: "Quality is conformance to requirement".

In the opinion of **W. Edwards Deming** "Quality is a predictable degree of uniformity and dependability at low cost and suited to market".

ISO has defined quality as follows: " The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs of customers".

TOTAL QUALITY MANAGEMENT(TQM):

TQM is known by various names, such as total quality improvement (TQI) or total quality control (TQC), or simply as total quality or as Strategic Quality Management(SQM)

British Quality Association defined TQM as "management philosophy and company practices that aim to harness the human and material resources of an

TQM PROCESS IN SMALL-SCALE ENTERPRISES

The purpose of TQM is to meet the requirements of customers consistently by continuous improvement in the quality of work of all employees. For this, TQM involves the following process:

1. Customer Satisfaction
2. Processes
3. Continuous Improvement
4. Team Work
5. Personal Initiative

1. Customer Satisfaction: Customer is one who buys other's goods and services. Today, customer dictates production or market. The long-term success of any business, therefore, depends on customer satisfaction. This is especially true for small business where the impact of losing even a single customer can be serious. The first step in planning for customer satisfaction is to understand what customers expect from the product or service is to be provided to them.

For any business, there can be two types of customers: internal and external. Internal customers are those individuals or departments within an organization to whom another department provides their products and services. External customers are those who are the ultimate purchaser or end user of product or service.

The following steps can be followed to understand customer requirements:

1. Document the results of the work performed
2. Identify everyone (customer) who receives the outputs
3. Pinpoint the output characteristics the customer want, require, or expect.
4. Verify output requirements, determine requirement importance, and understand current level of satisfaction

2.Process: Process can be defined as a series of inter-dependent tasks that produce results. This requires transformation of inputs into outputs. Processes exist in every part of an organization. People mistakenly think of only production or manufacturing operations. In fact, the word 'process' is all embracing one. As every part of an organization performs work, all these should be systematically defined to include them in the process. Administration, billing, sales, maintenance, recruitment, and training are the examples of different parts of organization in which process exists. It may be true that there may be some processes in the organization that are obvious, while others may not be so obvious. Such processes needed to be clearly defined.

The various steps that can help define the processes that any organization performs are listed in the following below.

1. **List team outputs** (To document the results of the work performed.)
2. **Group similar outputs** (To create an outline of the process.)
3. **Name the process** (To allow it to be easily referenced.)
4. **Define process boundaries** (To establish beginning and ending points.)
5. **List process activities** (To provide examples of the tasks involved.)
6. **Identity inputs** (To determine the resources required.)

3.Contionuous Improvement Process: The third step involved in TQM is making efforts for continuous improvement in performance/process.

(i) The first step in improving a process is to eliminate the waste associated with the process. The various techniques like value-added assessment, minimize checks and inspections, and minimize administrative tasks help reduce/ eliminate waste in process.

(ii) Process simplification is the second step involved in improving process. Simplification means reducing the complexity of a process. Further, simplification can lead to fewer activities and fewer things to go wrong.

Experience suggests that the simpler a process is, the easier it is to learn and perform consistently. Reducing cycle time it yet another technique to improve process. Cycle time is the time required to deliver a product or service to customer. Cycle time includes delays, processing time, time required to check and handover, and so on. Ling cycle times not only prevent prompt deliveries to customers, but also increase costs. Hence, there is need for reduction in cycle time.

4. Team work: The fourth element involved in TQM process is teamwork. A team is a group of individuals who work together on one or more common processes. These individuals may all be from the same department, represent several departments, or involve an external supplier or customer. Effective teamwork has its foundations on consensus. Consensus is a general agreement by everyone involved. Consensus is arrived when all members of a team understand a decision, and, even if they do not completely agree with the decision, accept and support it.

5. Encouraging personal Initiative: TQM Process completes with encouraging personal initiative in organizational functioning. Empowerment breeds personal initiative. According to Stephen R. Covey, " An empowered organization is one which individuals have the knowledge, skill, desire, and opportunity to personally succeed in a way that leads to collective organizational success". Now, the question is how to create an empowered organization to make the employees. The key to preparing employees to take appropriate personal initiative is to train them in the concepts and techniques of TQM process. Such training helps employees manage the process they are responsible for performing.

Quality is the result of comprehension and action, not of some mystic system of procedures. It is the need of the hour that every small enterprise has to keep in mind and frame its quality policy accordingly in order to survive in this competitive era.

Question Pattern

Marks : 1OO

SECTION - A (5×5=25 Marks)

Answer any FIVE out of EIGHT.

SECTION - B (5×15 = 75 Marks)

Answer any FIVE out of EIGHT.