

**CONCEPT AND NEED OF ENTREPRENEURSHIP DEVELOPMENT**

**STRUCTURE**

- 1.0 OBJECTIVES
- 1.1 INTRODUCTION
- 1.2 DEFINITION
- 1.3 CONCEPT OF ENTREPRENEURSHIP DEVELOPMENT
- 1.4 NEED FOR ENTREPRENEURSHIP DEVELOPMENT
- 1.5 OBJECTIVES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMMES
- 1.6 PHASES OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME
  - 1.6.1 Pretraining Phase
  - 1.6.2 Training Phase
  - 1.6.3 Follow Up Phase
- 1.7 PROBLEMS FACED IN CONDUCT OF EDP'S
- 1.8 CRITERIA FOR ASSESSEMENT & EVALUATION OF EDP'S
- 1.9 VARIOUS INSTITUTIONS CONDUCTING EDP'S IN INDIA
  - 1.9.1 Entrepreneurship Development Institute Of India( EDII)
  - 1.9.2 National Institute For Entrepreneurship And Small Business Development(NIESBUD)
  - 1.9.3 National Science &Technology Entrepreneurship Development Board (NSTEDB)
  - 1.9.4 Science & Technology Entrepreneurship Parks(STEPs)
  - 1.9.5 Technical Consultancy Organisations (TCOs)
  - 1.9.6 Kerala Industrial &Technical Consultancy Organisation
  - 1.9.7 Institutes For Entrepreneurship Development (IED)
  - 1.9.8 National Productivity Council (NPC)
- 1.10 SUMMARY
- 1.11 GLOSSARY

- 1.12 REFERENCES/BIBLOGRAPHY
- 1.13 FURTHER READINGS
- 1.14 MODEL QUESTIONS
- 1.15 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ

## **1.0 OBJECTIVES**

After studying this lesson , students will be able to :-

- a) Define the term entrepreneurship development
- b) Explain the concept & need for entrepreneurship development
- c) Identify the objectives, phases, need & barriers of entrepreneurial development programmes.
- d) Delineate information about institutions conducting EDP's in India.

## **1.1 INTRODUCTION**

Entrepreneur is the person with a vision, with the drive and with the ability to bear risk. He is a pivot around which the entire industry rotates because of his foresight, knowledge, optimism, hard work, persistence and efficient management of the enterprises that brings success to the enterprises. He is the 'spark plug' who transforms the economy of a country. This shows how important an entrepreneur is in the economic system of the country. Hence, it is said that an economy is an effect for which entrepreneurship is the cause. Entrepreneurship Development (ED) has, therefore, become a matter of great concern in all developing and under developed countries all over the world. It refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes.

Entrepreneurial development means to help a person in inculcating and strengthening his entrepreneurial skills, abilities and capabilities , so that they can achieve their entrepreneurial goals more efficiently & effectively. Entrepreneurial development is a prerequisite for an overall economic development of a county. An entrepreneur is one who always looks for a change, reacts to it and exploit it as an opportunity .Entrepreneur development is an act of human resource development in which qualities like motivation, knowledge, opportunity creation etc can be injected to entrepreneurs through proper training programmes.

## **1.2 DEFINITIONS:-**

**According to Joseph E.Schempter**, “Intelligence, motivation, knowledge & opportunity are the prerequisites of entrepreneurial development”.

Joseph E.Schempter(1934),for the first time , put the human agent at the centre of process of economic development and assigned a critical role to the entrepreneurship in his theory of economic development.

**According to C.B. Gupta and N.P Srinivasan** , “ Development of an entrepreneur means inculcating entrepreneurial traits into person , imparting the required knowledge ,developing the technical ,financial marketing and managerial skills, and building the entrepreneurial attitude”.

It has been found out that ‘n Ach’ factor developed by **David McClelland**, the behavioural scientist, is the most important quality for entrepreneurial development. In order to prove that the need for achievement could be induced, he conducted an experiment in collaboration with the erstwhile Small Industries Extension and Training Institute (SIET) of Hyderabad at Kakinada, Andhra Pradesh. Young persons were selected and put through rigorous training for a period of three months to guide them to set new goals. The achievement motivation has a positive impact upon their task performance.

## **1.3 CONCEPT OF ENTREPRENEURSHIP DEVELOPMENT**

Entrepreneurial competencies & talent can be raised by conducting various Entrepreneurship development programmes (EDP). EDP means programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skill and capabilities necessary for playing his entrepreneurial role effectively. In other words, EDP is primarily concerned with developing and motivating entrepreneurial talent and growing him to be an effective entrepreneur. Entrepreneurial development has been conceived by successive government as a programme of activities to enhance the knowledge, skill, behaviour and attitudes of individual and groups to assume the role of entrepreneurs.

EDP helps in inculcating entrepreneurial traits into a person, imparting the required knowledge, developing technical, financial, marketing and managerial skills and building the entrepreneurial attitude. EDP has been recognised as an effective human resource development tool. It is primarily for developing the first-generation entrepreneurs who on their own cannot become successful entrepreneurs. EDP through its continuous process of training and motivation help them to set up their own profitable enterprise and become successful entrepreneurs in their own right. An entrepreneurship development programme should help aspiring entrepreneurs to recognize and design unique, innovative business opportunities, based on an analysis of local

conditions and their own special skills. The programme can help the entrepreneur to diversify based on his/her basic knowledge of a product or skill in a certain sector without distorting the local markets. In a truly entrepreneurial approach, innovative capacity matters more than the size of the market.

It is not merely a training programme, rather it is a comprehensive programme involving the following process:

- i. It is a process which enhances the knowledge, skill and motivation of the potential entrepreneur.
- ii. It is a process which instills entrepreneurial behaviour in the minds Of entrepreneur in their day-to-day activities, and
- iii. It is a process through which the potential entrepreneurs can develop and set up their own enterprise.

EDP by itself therefore, aims at achieving the specific objectives of the programmes through continuous training and motivation.

#### **1.4 NEED FOR ENTREPRENEURIAL DEVELOPMENT PROGRAMME:-**

##### ***i. Helps in removing Poverty and Unemployment:***

EDPs are in a massive scale undertaken in backward and rural areas which are confronted with chronic problem of poverty and unemployment. EDPs help the people in getting self-employment. It helps in creating employment opportunities for the unemployed there by increasing the standard of living. The government of India has initiated various schemes like Nehru Rozgar Yojna, National Rural Employment etc in order to eliminate poverty & generate gainful employment opportunities for the unemployed.

##### ***ii. Prevents Industrial Slums:***

EDPs help in removing the industrial slums which are created in highly congested industrial areas. The entrepreneurs through EDPs are able to set up their enterprises in different places best suited to their product. They learn through EDPs about various schemes, incentives, facilities, infrastructural requirements etc. for their enterprise. This helps in the dispersal of industrial units which ultimately prevents growth of industrial slums and industrial pollution.

##### ***iii. Helps in achieving Balanced Regional Development:***

The need for EDPs arise in order to solve the problem of regional imbalances which is an important feature of underdeveloped nations. EDPs are basically provided to establish small

scale industrial units in remote areas with little financial resources (mostly backward and underdeveloped areas) in order to accelerate the pace of industrialization. It helps in the reduction of concentration of economic power, thus leads towards achievement of balanced regional development.

***iv. Uses locally available resources:***

EDPs help the entrepreneurs in harnessing the available local resources for creating a healthy base for sound economic growth and rapid industrialization. It help in channelizing on right lines the talent and energies of unemployed youth. It thus helps in easing social tension.

***v. Capital formation:***

Adequate funds are essential to start a new enterprise . Entrepreneur mobilizes the idle savings of the public in productive use because he act as an organizer of facts of production by employing his own & borrowed resources. Various public & private banks and state financial corporation's provide financial help to new entrepreneurs through various agencies involved in EDP.

***vi. Improvement in standard of living:***

EDP provides necessary support to entrepreneurs by educating them about new & latest innovations & market trends. This enables to ensure easy availability of quality products at lower prices to consumers which result in improvement in standard of living of the people.

**1.5 OBJECTIVES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME:-**

1. To identify and train the potential entrepreneurs .
2. To develop necessary knowledge and skills among the participants in EDPSs.
3. To impart basis managerial knowledge and understanding;
4. To provide post-training assistance;
5. To develop and strengthen entrepreneurial quality and motivation;
6. To analyze the environmental issues related to the proposed project;
7. To help in selecting the right type of project and products;
8. To formulate the effective and profitable project;
9. To enlarge the supply of entrepreneurs for rapid industrial development;
10. To develop small and medium enterprises sector which is necessary for employment generation and wider dispersal of industrial ownership;
11. To industrialize rural and backward regions;
12. To provide gainful self-employment to educated young men and women;
13. To diversity the source of entrepreneurship;

14. To provide knowledge and information about the source of help, incentives and subsidies available from government to set up the project;
15. To impart information about the process, procedure and rules and regulations for setting up a new projects.

## **1.6 PHASES OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME:-**

There are three different phases of EDP like:

- Pre-training phase
- Training phase
- Follow-up phase

### **1.6.1 Pre-training phase:**

Pre-training phase consists of all activities and preparation to launch training programme. It is also called as initial phase. Pre-training phase of EDP consists of the following activities :

- Identification of operationally-promising area, normally a district
- Selection of entrepreneurs for the training programme.
- Arrangements of infrastructure are for the programme like selection of place of training.
- Deciding guest faculty for the programme from education industry and banks.
- Taking necessary steps for inauguration of programme.
- Formation of selection committee to select trainees from the programme.
- Making provision with regard to publicity and campaigning for the programme.
- Selection of a project leader/course coordinator to coordinate the programme
- Establishing contacts with business personalities, NGOs and related agencies which can contribute to the programme both directly and indirectly
- Getting the application forms printed and making them available at different centers along with instructions

### 1.6.2. Training Phase:

The primary objective of training programme is to develop motivation and skill or competency amongst the potential entrepreneurs. Care should be taken to impart both theoretical and practical knowledge to various trainees. Training potential entrepreneurs are providing them proper guidance for setting up enterprise constitutes the cornerstone of EDP. Most of the Entrepreneurship Development institutes generally conduct training programmes of 4-6 weeks duration on full time basis. The training phase of EDP will be so designed that it will answer the following questions:

- (a) Whether the attitude of the entrepreneur has been turned towards the proposed project or no.
- (b) Whether the trainee has been motivated to accept entrepreneurship as a career.
- (c) How the trainee behaves like an entrepreneur.
- (d) Whether the trainee has sufficient knowledge on resources and technology or not.
- (e) What kind of entrepreneurial traits he lacks and what steps should be taken to set it.

### Training Phase: Programme Design

Objectives	Focus	Inputs
Motivation and reinforcement of entrepreneurial traits, confidence building	Entrepreneur	Behavioral inputs
Facilitating decision-making process to set up a new venture	Enterprise establishment	Business opportunity guidance, information and project planning inputs, technical inputs
Successful and profitable operation of enterprise. Industrial exposure	Enterprise management, first-hand knowledge of factory layout, business sites etc	Management inputs, plant visit/in-plant training

### 1.6.3. Follow-up Phase:

Follow up phase of EDP has been termed as post-training phase. During this phase, post-training support services are rendered to the participants who have successfully completed the Entrepreneurship Development Programme (EDP). This is because of the fact that, very often, the potential entrepreneur after undergoing the training confronts a number of problems while implementing the action plan for grounding the project. So during this phase, the training organization helps the entrepreneur in sorting out the problems through counseling support. A committee is formed consisting of members generally drafted from the leading bank of the

district, State Financial Corporation, training organization and above all, the District Industries Centre to help the entrepreneurs with the following objectives during the follow-up:

- i) To provide a meaningful direction to the trainees in grounding their enterprise
- ii) To review the progress made by the trainees in implementation of the project
- iii) To review the post-training approach
- iv) To provide escort services to the trainees by involving financial institutions and promotional agencies

The ultimate objective is to develop competent entrepreneurs, so that they can start their project. Post-training phase is a review phase of training programme. It consists of reviewing of work in the following manner:

- Review of pre-training work
- Review of actual training programme
- Review of post training programme so that cost effectiveness of the present programme can be evaluated.

**Activity 1.1**

Plan an entrepreneurial venture and pen down its 3 phases of EDP .

### **1.7 PROBLEMS FACED IN CONDUCT OF EDPs**

The low level of performance is usually attributed to the following problems involved in organizing and conducting EDP trainings:

- a) Shortage of adequate number of specialized and committed organizations
- b) Insufficient trainer motivators to motivate people for undergoing EDPs and to impart training
- c) Identification and selection of wrong projects
- d) Lack of entrepreneurial culture
- e) Apathetic attitude of the support agencies like banks and financial institutions to support entrepreneurs
- f) Lack of forward and backward linkages



- g) Selection of wrong person for training
- h) Improper identification of projects
- i) Inadequate counseling support after training
- j) Lack of continuous follow-up action or post-training support services for grounding the projects
- k) No Policy at the National Level.

### **1.8 CRITERIA FOR ASSESSMENT OR EVALUATION OF EDPS:**

Following criteria are being used by the behavioral scientists to assess the effectiveness of EDPS in the country.

- i) New enterprise creation
- ii) Employment generation in quantifiable terms
- iii) Creation of job opportunities both directly and indirectly
- iv) Increase in sales and profit
- v) Enterprise expansion
- vi) Enterprise transformation
- vii) Improvement in quality of product or services
- viii) Repayment of loans

#### **Self Assessment Question 1.1**

Fill in the Blanks:-

- 1) The need for EDPS arise in order to solve the problem of .....which is an important feature of underdeveloped nations.
- 2) Follow up phase of EDP has been termed as .....phase.
- 3) Entrepreneur is the person with a....., with the .....and with the ability to bear risk.
- 4) The government of India has initiated various schemes like....., .....etc in order to eliminate poverty.
- 5) .....phase is called initial phase.

### **1.9 VARIOUS INSTITUTIONS CONDUCTING EDP'S IN INDIA:-**

### **1.9.1 Entrepreneurship Development Institute Of India( EDII)**

The Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for-profit institution, set up in 1983, is sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd. ICICI Ltd and State Bank of India (SBI). The Institute is registered under the Societies Registration Act 1860 and the Public Trust Act 1950. The Government of Gujarat pledged twenty-three acres of land on which stands the majestic and sprawling EDI campus. The EDI has been selected as a member of the Economic and Social Commission for Asia and the Pacific (ESCAP) network of Centres of Excellence for HRD Research and Training.

EDII promotes research, training and institution building activities for encouraging the active participation of backward regions & special target groups in entrepreneurship.

### **1.9.2 National Institute For Entrepreneurship And Small Business Development (NIESBUD)**

NIESBUD is the apex institute established in 1983 by Ministry of Micro, small & medium Enterprise, Government of India for developing entrepreneurship through training, research, consultancy etc. The basic objects for which the Institute has been established are: Promotion and Development of Micro, Small and Medium Enterprises including Enhancement of their Competitiveness through Various Activities. The Institute has Conducted a total of 5023 Training Programmes covering 1,33,863 Participants which includes 151 International Training Programmes with 2,285 Participants from more than 125 Countries till 31st October 2012.

#### **Main objectives of NIESBUD:**

- 1) To promote and develop entrepreneurial environment through training, research & consultancy with an ultimate objective to promote setting up small business in the country
- 2) To mentor / guide/ assist organizations, both governmental & non – governmental in developing and promoting entrepreneurship & self employment in the country.
- 3) To coordinate and collaborate with other organizations in undertaking training and research activities
- 4) Providing consultancy and mentoring services to MSMEs

#### **Functions of NIESBUD:-**

- It act as an Apex Institute.
- It organize the various training programmes.
- It helps in setting up of self employment ventures.

- It publishes literatures for furtherance of entrepreneurship & small business development.
- It conducts various examinations , tests& confer certificates to trainers.
- It also co-ordinates the training activities of various institutes and organization in country providing training in entrepreneurship.
- It also provides national and international forums for interaction &exchange of views with agencies engaged in various aspect of entrepreneurship.

### **Activity 1.2**

Pen down the latest developments by NIESBUD.

### **1.9.3 National Science & Technology Entrepreneurship Development Board (NSTEDB):-**

The National Science & Technology Entrepreneurship Development Board (NSTEDB), established in 1982 by the Government of India under the aegis of Department of Science & Technology, is an institutional mechanism to help promote knowledge driven and technology intensive enterprises. The Board, having representations from socio-economic and scientific Ministries/Departments, aims to convert "job-seekers" into "job-generators" through Science & Technology (S&T) interventions.

#### **Objectives of NSTEDB:**

1. To promote and develop high-end entrepreneurship for S&T manpower as well as self-employment by utilising S&T infrastructure and by using S&T methods.
2. To facilitate and conduct various informational services relating to promotion of entrepreneurship.
3. To network agencies of the support system, academic institutions and Research & Development (R&D) organisations to foster entrepreneurship and self-employing using S&T with special focus on backward areas as well.
4. To act as a policy advisory body with regard to entrepreneurship.

### **1.9.4 Science & Technology Entrepreneurship Parks(STEPs):-**

IDBI has assisted seven STEPS i.e, those sponsored by:-

- 1) The Birla Institute of Technology (BIT), Ranchi;
- 2) National Entrepreneurs Chemical Park (NECP);
- 3) Regional Engineering College Trichy(TREC)

- 4) Harcourt Butler Technological Institute (HBII), Kanpur;
- 5) Sri Jayachamarajendra College of Engineering (SJCE), Mysore;
- 6) Guru Nanak Engineering College, Ludhiana;
- 7) Maulana Azad College of Technology, Bhopal

**1.9.4(i) Birla Institute of Technology - Science and Technology Entrepreneurs' Park (BIT-STEP):-** (earlier Small Industries Research and Development organization) at Birla Institute of Technology, Mesra, Ranchi is the first Science and Technology Entrepreneurs' Park approved and established by National Science and Technology Entrepreneurship Development Board (NSTEBD), Department of Science and Technology, Government of India. The Science and Technology Entrepreneurs' Park (STEP) programme was initiated to provide a reorientation in approach to innovation and entrepreneurship involving education, training, research, finance, management, and government.

**Objectives:-**

BIT-STEP's aims have to be considered within the overall goals of BIT - which themselves were formulated in the context of State industrial development. BIT-STEP aims:

1. To forge a close linkage between university, academic and R&D institutions on the one hand and industry on the other
2. To promote entrepreneurship among science and technology persons and
3. To provide R & D support to small scale industries mostly through interaction with research institutions.

**1.9.5 Technical Consultancy Organisations (TCOs) -**

All India financial institutions and state governments have set a net work of technical consultancy organizations. The functions of the TCOs include, conducting surveys on industrial potential, preparing project profiles, undertaking techno-economic appraisal of projects, carrying out market research, providing technical and managerial assistance to entrepreneurs, assistance in modernisation, technology up gradations and rehabilitation programmes and organizing information cell and Data Bank concerning industrial and economic activities and provide these to entrepreneurs.

TCO identify potential entrepreneurs ,train them and provide post training counseling and guidance in selecting projects, preparing profiles and establishing their own units

### **1.9.6 Kerla Industrial & Technical Consultancy Organisation :-**

KITCO Limited (formerly Kerala Industrial and Technical Consultancy Organisation Ltd.), India's first TCO (Technical Consultancy Organisation), was established in 1972 by Industrial Development Bank of India (IDBI) and Govt. of Kerala along with Public Sector Banks for aiding in Industrialization of the state of Kerala. The aim of this initiative, which had the blessing of Govt. of India and the Reserve Bank of India, was to provide professional technical consultancy assistance to banks by appraisal of projects for priority sector lending and to entrepreneurs in the SME Sector by way of preparation of Project Reports & Market Studies and by conducting training programmes for entrepreneurship development. Subsequently similar TCOs were set up in almost all the states with one of the National Financial Institution (IDBI, IFCI or ICICI) as the prime shareholder.

Today, 49% shares of the company are held by Small Industries Development Bank of India. Other shareholders are Govt. of Kerala, Kerala State Industrial Development Corporation, Kerala Financial Corporation, 7 Govt. sector banks, Industrial Finance Corporation of India and ICICI Bank.

### **1.9.7 Institutes For Entrepreneurship Development(IED):-**

IDBI had announced the proposal to set up Institutes for Entrepreneurship Development in association with other financial institutions, banks and Government as part of strategy of giving special attention to entrepreneurship development needs of more backward states. IEDs set up in U.P, Bihar, Orissa are in operation.

### **1.9.8 National Productivity Council (NPC):-**

NPC is an autonomous institute functioning under the overall supervision of the Ministry of Industry, Government of India. The primary objective of NPC is to act as a catalyst in enhancing the productivity of all sectors of the economy. NPC is active in the field of consultancy & training and has number of specialized divisions to provide tailor made solutions to agriculture & industry.

These divisions, manned by trained consultant, deal with issues related to industrial engineering, plant engineering energy management etc. NPC is a member of Asian Productivity Organisation(APO) and has number of Entrepreneurship Development Programmes which is designed to identify persons with entrepreneurial abilities and to train them to set up new small/ tiny industries.

### Self Assessment Question 1.2

Fill in the blanks:-

1. Full form of NPC is.....
2. .... Is India's first TCO (Technical Consultancy Organisation), was established in 1972
3. ....is a member of Asian Productivity Organisation(APO).
4. ....Act as apex institute for developing entrepreneurship through training , research, consultancy etc.
5. The ..... an autonomous body and not-for-profit institution, set up in 1983.

### 1.10 SUMMARY

Entrepreneurs play a predominant role in accelerating the socio-economic development of a country. They are regarded as the nation builders and wealth creators. They are the change agents who initiate economic activities to create wealth. They undertake the business initiative, employ themselves in that business and open up employment avenues for others. Therefore, the role of entrepreneur is of fundamental importance to a country like India where the twin problems of poverty and unemployment coexist. Considering the importance of Entrepreneurship in employment creation and economic development, the Government of India envisaged promotional packages to facilitate setting up of new enterprises. In order to bring about entrepreneurial growth, the policy makers and financial institutions started thinking in terms of imbuing entrepreneurship culture through training interventions. Thus, Entrepreneurship Development Programmes (EDPs) conducted for a selective group of energetic and potential entrepreneurs who had the willingness and desire to achieve the goal set by them.

### 1.11 GLOSSARY:-

**Entrepreneurship** :- The capacity and willingness to develop , organize and manage business venture.

**Entrepreneurship development programmes:-** EDP is a programme meant to develop entrepreneurial abilities among the people.

**Structured training:-** Structured training is a standard practice for orienting human resources.

**Economic development:-**Economic development usually refers to the adoption of new technologies , transition from agriculture based to industry based economy and general

improvement in living standards

### **1.12 REFERENCES/ BIBLIOGRAPHY**

1) Entrepreneurship and Small Business: Purnima Sehgal&Manjinder Singh

### **1.13 FURTHER READINGS**

1) Entrepreneurship :Robert D Hisrich(McGraw-Hill co.)

2)Entrepreneurship Development & Project Management: Lipika K.Guliani& R.K Gupta(Himalaya Publications)

### **1.14 MODEL QUESTIONS:-**

1. Define EDP and what are its objectives.
2. What is the importance of Entrepreneurship Development.
3. What are the different phases of EDPs
4. Describe the role of financial institutes in the entrepreneurship development.
5. Discuss the major problems faced in conducting EDP.
6. What is Entrepreneurial Development? Explain the role &relevance of EDPs.

### **1.15 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ**

#### **Self Assessment Question 1.1**

1) Regional imbalances (2) Post-training (3) vision, drive (4) Nehru Rozgar Yojna, National Rural Employment etc . (5) Pre-training

#### **Self Assessment Question 1.2**

1)National Productivity Council (2) KITCO Limited (3) NPC (4) NIESBUD (5) Entrepreneurship Development Institute of India (EDI)

## Lesson 2

### ENTREPRENEUR: DEFINATION, NATURE, CONCEPT & COMPARATIVE STUDY

#### **STRUCTURE**

- 2.0 OBJECTIVES
- 2.1 INTRODUCTION
- 2.2 CONCEPT
- 2.3 DEFINITION
- 2.4 CHARACTERISTICS OF AN ENTREPRENEUR
- 2.5 TYPES OF ENTREPRENEURS
- 2.6 FUNCTIONS OF ENTREPRENEURS
- 2.7 DISTINCTION BETWEEN AN ENTREPRENEUR AND A MANAGER
- 2.8 DISTINCTION BETWEEN AN ENTREPRENEUR AND BUSINESSMAN
- 2.9 DISTINCTION BETWEEN AN ENTREPRENEUR AND AN INTRAPRENEUR
- 2.10 HOW TO BECOME A SUCCESSFUL ENTREPRENEUR
- 2.11 SUMMARY
- 2.12 GLOSSARY
- 2.13 REFERENCES
- 2.14 FURTHER READINGS
- 2.15 MODEL QUESTIONS
- 2.16 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

#### **2.0 OBJECTIVES**

After studying this lesson, students will be able to:

- 1) Explain the concept, meaning, nature & characteristics of an entrepreneur.
- 2) Learn about different types of entrepreneurs & its functions



- 3) Identify the difference between an entrepreneur, manager, businessman & intrapreneur

## 2.1 INTRODUCTION

Entrepreneur is an Economic Agent who plays a vital role in the economic development of a country. Economic development of a country refers steady growth in the income levels. This growth mainly depends on its entrepreneurs. An Entrepreneur is a person who perceives a need and bring together manpower, material and capital required to meet that need. An **Entrepreneur is an individual with knowledge, skills, initiative, drive and spirit of innovation who aims at achieving goals**. An entrepreneur identifies opportunities, gather the necessary resources , seizes opportunities for economic benefits and ultimately responsible for the performance of the organization.

Entrepreneur is an organizer who combines various factors of production to produce a socially viable product& uses his initiative skill and motivation to set up a business or enterprise of his own and who always looks for high achievements. He is the catalyst for social change and works for the common good.

## 2.2 CONCEPT OF AN ENTREPRENEUR

The term **entrepreneur** is a [loanword](#) from [French](#), and is commonly used to describe an individual who organizes and operates a business or businesses, taking on financial risk to do so. Entrepreneur in French literally means “between taker” or “go between”. The term was first defined by the Irish-French [economist Richard Cantillon](#) as the person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise. The term first appeared in the French Dictionary "Dictionnaire Universel de Commerce" of Jacques des Bruslons published in 1723 & the word “Entrepreneur” means “to undertake”.

## 2.3 DEFINITIONS

Over time, scholars have defined the term in different ways. Here are some prominent definitions.

- **(1803): Jean-Baptiste Say:** An entrepreneur is an economic agent who unites all means of production- 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 rent of land, wages to labour, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.
- **(1934): Schumpeter:** Entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services.
- **(1961): David McClelland:** An entrepreneur is a person with a high need for achievement [N-Ach]. He is energetic and a moderate risk taker.

- **(1964): Peter Drucker:** An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource.
- **(1971): Kilby:** Emphasizes the role of an imitator entrepreneur who does not innovate but imitates technologies innovated by others. Are very important in developing economies.
- **(1975): Albert Shapero:** Entrepreneurs take initiative, accept risk of failure and have an internal locus of control.
- **(1985): W.B. Gartner:** Entrepreneur is a person who started a new business where there was none before.

## 2.4 CHARACTERISTICS OF ENTREPRENEUR

*“The five essential entrepreneurial skills for success are concentration, discrimination, organisation, innovation and communication.” –Henry Reed.*

There is no such thing as a typical entrepreneur. Some entrepreneurs are quiet and hard-working, while others are more outgoing and flamboyant. The key to being a successful entrepreneur lies in the ability to take an idea and then, through the process of innovation, develop it in such a way that it becomes a marketable product or service. Research indicates that there are a number of characteristics that are quite likely to be present in high-achieving entrepreneurs.

Entrepreneur is a key figure in economic progress. He is the person who introduces new things in the economy. He is considered as the business leader and not as simple owner of capital. He is a person with telescopic faculty, drive and talent who perceives business opportunities and promptly seizes them for exploitation. **M.M.P.Akhouri**, formerly Executive Director, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, describes entrepreneur “as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concerns for excellence and who is persistent in achieving the goal.” To be successful, an entrepreneur should have the following characteristic features.

**1. Innovative:** Innovation means doing things in a new & better way. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things .Innovation may take in following way:-

- a)Introduction of new products;
- b)Introduction of new techniques of production;
- c)Opening of a new markets for products;
- d)New source of raw material;
- e)New type of organization and industry

Innovation is the specific tool of entrepreneur, the means by which they exploit change as an opportunity for a different business or services.

**2. Need to achieve:** Entrepreneurs have got strong desire to achieve higher goals. Their inner self motivates their behaviour towards high achievement: most of the people dream of success but do not take any action towards achieving these dreams. Entrepreneurs with high n-Ach factor act continuously to achieve the goal and make their dreams come true. For them, winning is achievement.

**3. Independence:** Most of the entrepreneurs start on their own because they dislike to work for others. They prefer to be their own boss and want to be responsible for their own decisions.

**4. Optimistic:** The successful entrepreneurs does not get disturbed by the present problems faced by them. They are optimistic for future that the situation will become favourable to business in future.

**5. Locus of control:** According to Rotter's locus of control theory, an individual perceives the outcome of an event as being either within or beyond his personal control. Entrepreneurs believe in their own ability to control the consequences of their endeavor by influencing their socio-economic environment rather than leave everything to luck.

**6. Perseverance:** Entrepreneur has got the quality of sticking to job he decides to undertake. Once committed to a specific goal and course of action, entrepreneurs become absorbed to it. They personally solve the problems that come across their way while setting up the project. They also work sincerely until the whole project is successfully implemented.

**7. Positive self-concept:** Entrepreneurs are always positive in their action. Being an achiever, he directs his fantasies and dreams towards achievement of worthwhile goals and sets extraordinary standard of excellence in what he is doing. This is based upon his awareness of SWOT analysis, i.e. his strengths, weaknesses, opportunities and threats. He utilizes his positive knowledge to support his thinking. He never exhibits any negative attitude.

**8. Ability to find and explore opportunities:** Entrepreneurs are always alert to opportunities. They are very much quick to see and grab opportunities. They exhibit an innovative turn of mind and convert the problems into viable opportunities. They plan intellectually and anticipate carefully how to achieve their goals in realizing an opportunity.

**9. Hope of success:** Hope of success is a significant quality of entrepreneurial personality. Entrepreneurs set their goals with a hope of success rather than fear of failure. This is because they set their goals on the basis of facts and their ability to maneuver them to their advantage.

**10. Flexibility:** Most of the successful entrepreneurs measure the pros and cons of a decision and tend to change if the situation demands. They never feel reluctant to revise their decisions. They are the persons with open mind without rigidity.

**11. Analytical ability of mind:** Entrepreneurs are unaffected by personal likes and dislikes. They stand beyond these types of prejudices as they are realistic in their approach. At the time of their need they select experts rather than friends and relatives to assist them. They usually avoid emotional and sensitive attitude towards their business or problem.

**12. Sense of efficacy:** Entrepreneurs are always oriented towards action for accomplishment of their goals. Being confident of their abilities, they find themselves as problem solvers rather than problem avoiders. They chalk out their goals for future and make planning to achieve them.

**13. Openness to feedback and learning from experience:** Successful entrepreneurs like to have immediate feedback of their performance. They modify their plans on the basis of the feedback they receive from the environment around them. They learn from their experience and never get discouraged having received unfavorable information. On the contrary, they are stimulated by unfavorable information to involve themselves sincerely in their own tasks to reach their desired goals.

**14. Confronting uncertainty:** Successful entrepreneurs are always optimistic and take every odd as the opportunity. They maneuver their environment in such a way that the works get accomplished rationally. Thus, they win by the application of their extraordinary insight and skill.

**15. Interpersonal skills:** Entrepreneurs are always comfortable while dealing with people at all levels. They interact with raw material suppliers, customers, bankers, etc for different activities. As successful entrepreneurs, they should be persons who like working with others possessing the much needed quality of interpersonal skill to deal with people.

**16. Stress takers:** Entrepreneurs are capable of working for long hours and solving different complexities at the same time. As the captain of an industry or an enterprise, an entrepreneur faces a number of problems and in right moment he takes right decisions which may involve physical as well as mental stress. He can face these challenges if he has the capability to work for long hours and keep himself cool under monotony.

**17. Time orientation:** Entrepreneurs anticipate future trends basing upon their past experience and exposure. They stick to the time pragmatically while doing their jobs.

**18. Calculated risk taker:** Successful entrepreneurs has ability to take calculated risk to achieve pre-determined industrial objectives. A risk situation involves potential gain or loss. They constantly put their efforts in introducing new products, new method of production, opening new markets and recognizing the enterprise and it's very risky that the new product will be accepted by the market or not. He takes the responsibility for loss that may arise due to uncertainties of future.

Entrepreneurs are the persons who take decisions under uncertainty and thus they are willing to take risk, but they never gamble with the results. They choose moderate risk rather than play wild gamble. They, therefore, undertake calculated risk which is high enough to be exciting, but with a fairly reasonable chance to win.

**19. Business communication skill:** In order to motivate others in the business entrepreneurs must possess good communication skill. Both written and oral communication skills are necessary for the entrepreneurs for running enterprise efficiently.

**20. Telescopic faculty:** Successful entrepreneurs always tend to think ahead. They have got telescopic faculties which make them think for the future. Future orientation makes them quite alert to the changing conditions of the time and they tend to produce goods and commodities as per the changing demands.

**21. Leadership:** Entrepreneurs should possess the quality of leadership. Leadership is the ability to exert interpersonal influence by means of communication towards the achievement of goals. Entrepreneurs as the leaders should provide the necessary spark to motivation by guiding, inspiring, assisting and directing the members of the group for achievement of unity of action, efforts and purpose. Hence, entrepreneurs by their own leadership styles and behaviour reduce the problems by proper handling of situations. Good administrative work depends upon effective leadership of the entrepreneur.

**22. Business planning:** Planning implies deciding in advance what, when and how to do a thing. Entrepreneurs should be equipped with skill and knowledge to prepare their business plan. A successful entrepreneur always follows the principles of management while planning for his business. The planning can act as a bridge between the present position and expected future shape of the enterprise. It provides a sense of vision to the entrepreneurs to cope with risky and uncertain situation.

**23. Decision making:** Decision-making skill is a fundamental characteristic of an entrepreneur. This implies the function of choosing a particular course of action at every stage of creation of an enterprise out of several alternative courses for the purpose of achieving specified goals. Hence, decision making is necessary at all times and mostly at conditions of uncertainty and risk.

**24. Ability to mobilize resources:** Entrepreneurs must have the ability to marshal all the inputs to obtain the end product. They have to mobilize 6Ms, i.e. Man, Money, Material, Machinery, Market and Method effectively to realize the final product as entrepreneurship is a function of gap filling and input completing.

**25. Self-confidence:** Entrepreneurs must have self-confidence to accomplish the task effectively and efficiently. They must take decisions on their own in uncertain and risky situation and should stick to it confidently even if there occurs initial setbacks.

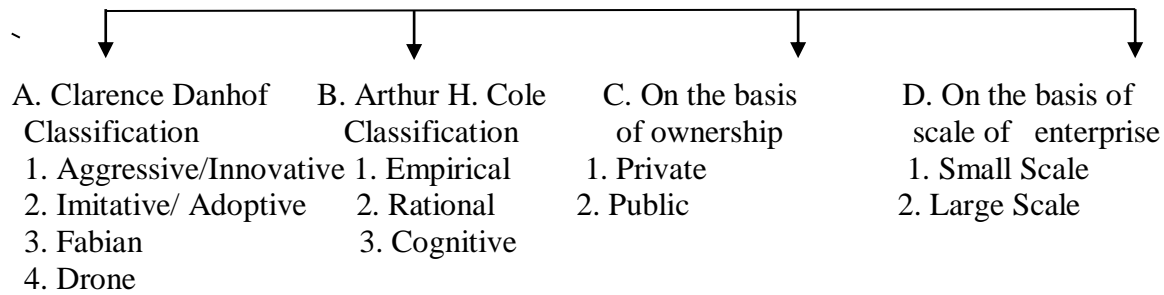
### Activity 2.1

**Pen down the your entrepreneurial characteristics.**

## 2.5 TYPES OF ENTREPRENEURS

Following are the classification of entrepreneurs on the basis of common characteristics

## Types of Entrepreneurs



### A. Clarence Danhof Classification:

Clarence Danhof classifies entrepreneurs into four types.

- 1. Innovative:** Innovative entrepreneur is one who assembles and synthesis Information and introduces new combinations of factors of production. They are characterized by the smell of innovativeness. These entrepreneurs sense the opportunities for introduction new ideas, new method of production, new technology, discovers new markets and creating new organizations. Innovative entrepreneurs are very much helpful for their country because they bring about a transformation in life style.
- 2. Imitative/ Adoptive:** Imitative entrepreneur is also known as adoptive entrepreneur. He simply adopts successful innovation introduced by other innovators. These entrepreneurs imitate the existing entrepreneurs and setup their enterprise in the same manner. Instead of innovating, they just imitate the technology and methods innovated by others. These entrepreneurs are very helpful in less developed countries or developing countries as they contribute significantly in the growth of enterprise and entrepreneurial culture in these countries. Further by adopting the technology, which is already tested, they generate ample employment avenues for the youth and therefore they are treated as agent of economic development.
- 3. Fabian:** The Fabian entrepreneur are characteristics by very cautious ,timid and skepticism in experimenting any change in their enterprise. He imitates other innovations only if he is certain that failure to do so may damage his business. They are very much skeptical in their approach in adopting or innovating new technology in their enterprise. They are not adaptable to the changing environment. They love to remain in the existing business with the age-old techniques of production as they are termed as lazy & shy. They only adopt the new technology when they realize that failure to adopt will lead to loss or collapse of the enterprise.
- 4. Drone:** These entrepreneurs are conservative or orthodox in outlook. They are characterized by refusal to adopt opportunities to make changes. They never like to get rid of their traditional business and traditional machinery or systems of the business. They always feel comfortable with their old fashioned technology of production even though the environment as well as the society have undergone considerable changes.

They are laggards as they continue to operate in their traditional way and resist changes. His entrepreneurial activity may be restricted to just one or two innovations. They refuse to adopt changes in production even at the risk of reduced returns. They struggle to exist, not to grow.

### **B. Arthur H. Cole Classification:**

Arthur H. Cole classifies entrepreneurs as:-

1. **Empirical:** He is an entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.
2. **Rational:** The rational entrepreneur is well informed about the general economic conditions and introduces changes which look more revolutionary.
3. **Cognitive:** Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

### **C. Classification on the Basis of Ownership:**

1. **Private:** Private Entrepreneurs is when the enterprise is set up by individual or group of individual privately by arranging finance. Private entrepreneur is motivated by profit and it would not enter those sectors of the economy in which prospects of monetary rewards are not very bright.
2. **Public:** In the underdeveloped countries government will take the initiative to share enterprises.

### **D. Classification Based on the Scale of Enterprise:**

1. **Small scale:** This classification is especially popular in the underdeveloped countries. An undertaking having investment plan in plant & machinery of not more than 1 crore. Small entrepreneurs do not possess the necessary talents and resources to initiate large scale production and introduce revolutionary technological changes.
2. **Large scale:** In the developed countries most entrepreneurs deal with large scale enterprises. They possess the financial and necessary enterprise to initiate and introduce new technical changes. The result is the developed countries are able to sustain and develop a high level of technical progress.

In recent years, some new classifications have been made regarding entrepreneurs, which are discussed further.

- 1. Solo operators:** These entrepreneurs prefer to set up their business individually. They introduce their own capital, intellect and business acumen to run the enterprise successfully. They operate their business mainly in the form of proprietorship type of concern.
- 2. Active partners:** Entrepreneurs of this type jointly put their efforts to build enterprise pooling together their own resources. They actively participate in managing the daily routine of the business concern. As such, the business houses or the firms which are managed by the active partners become more successful in their operation.
- 3. Inventors:** These entrepreneurs primarily involve themselves in Research and Development (R & D) activities. They are creative in character and feel happy in inventing new products, technologies and methods of production
- 4. Buyers (entrepreneurs):** These entrepreneurs explore opportunities to purchase the existing units which may be seized or are in running condition. If the units they purchase are sick they turn them around using their experiences, expertise and business acumen. By purchasing these units they make themselves free from the hassles of building infrastructures and other facilities.
- 5. Technical Entrepreneurs:** A technical entrepreneurs develops new & improved quality of goods due to his craftsmanship. The skill in production techniques is the greatest strength of technical entrepreneurs.

#### Self Assessment Question 2.1

Fill in the blanks:-

- 1) A .....develops new & improved quality of goods due to his craftsmanship.
- 2) On the Basis of Ownership, entrepreneurs are divided into.....& .....
- 3) According to Arthur H. Cole Classification, entrepreneurs are classified as ....., ..... and .....
- 4) ..... entrepreneurs are conservative or orthodox in outlook.
- 5) ..... entrepreneur is also known as adoptive entrepreneur.

## 2.6 FUNCTIONS OF ENTREPRENEURS

An entrepreneur is an opportunity seeker. He is also the organizer and coordinator of the agents of production. He has to execute many functions while establishing an enterprise. He not only perceives the business opportunities but also mobilizes the other resources like 5 M's-man, money, machine, materials and methods.



However, the main functions of the entrepreneurs are discussed further.

- 1. Risk-bearing function:** The functions of an entrepreneur as risk bearer is specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks are not insurable and incalculable. In simple terms such risks are known as uncertainty concerning a loss. The entrepreneur, according to Knight, "is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured nor capitalized nor salaried too." Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price. Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimize by his initiative, skill and good judgment. J.B. Say and other have stressed risk taking as the specific function of the entrepreneur.
- 2. Idea generation:** This is the most important function of the entrepreneur. Idea generation can be possible through the vision, insight, observation, experience, education, training and exposure of the entrepreneur. Idea generation precisely implies product selection and project identification. Ideas can be generated through environmental scanning and market survey. It is the function of the entrepreneurs to generate as many ideas as he can for the purpose of selecting the best business opportunities which can subsequently be taken up by him as a commercially-viable business venture.
- 3. Innovative Function:** The basic function an entrepreneur performs is to innovate new products, services, ideas and information for the enterprise. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things. According to Peter Drucker, "Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth". Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application. J.A. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurs by instituting new combinations of production, *i.e.* innovation. According to him innovation may occur in any one of the following five forms:-

  - a. The introduction of a new product in the market with which the customers are not get familiar with.
  - b. Introduction of a new method of production technology which is not yet tested by experience in the branch of manufacture concerned.
  - c. The opening of a new market into which the specific product has not previously entered.
  - d. The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.

- e. The carrying out of the new form of organisation of any industry by creating of a monopoly position or the breaking up of it.
- 4. Determination of objectives:** The next function of the entrepreneur is to determine and lay down the objectives of the business, which should be spelt out on clear terms. In other words, entrepreneur should be very much clear about the following things:
- a. The nature of business
  - b. The type of business

This implies whether the enterprise belongs to the category of a manufacturing concern or a service -oriented unit or a trading business, so that the entrepreneurs can very well carry on the venture in accordance with the objectives determined by him.

- 5. Organisational Function:** Entrepreneur as an organiser and his organising function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organisation and supervision. According to him, an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. In this way, he describes an entrepreneur as an organiser who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.
- 6. Raising of funds:** Fund raising is the most important function of an entrepreneur. All the activities of a business depend upon the finance and its proper management. It is the responsibility of the entrepreneur to raise funds internally as well as externally. In this matter, he should be aware of the different sources of funds and the formalities to raise funds. He should have the full knowledge of different government sponsored schemes such as PMRY, SGSY, REGP, etc. by which he can get Government assistance in the form of seed capital, fixed and working capital for his business.
- 7. Procurement of raw materials:** Another important function of the entrepreneur is to procure raw materials. Entrepreneur has to identify the cheap and regular sources of supply of raw materials, which will help him to reduce the cost of production and face the competition boldly.
- 8. Procurement of machinery:** The next function of the entrepreneurs is to procure the machineries and equipments for establishment of the venture. While procuring, he should specify the following details:
- (a) The details of technology
  - (b) Installed capacity of the machines
  - (c) Names of the manufacturers and suppliers
  - (d) Whether the machines are indigenously made or foreign made

- (e) After-sales service facilities
- (f) Warranty period of the machineries

**9. Managerial Function :**Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organisation of sales procuring machine and material, recruitment of men and undertaking, of business operations. He also undertakes the basic managerial functions of planning, organising, co-ordinating, staffing, directing, motivating and controlling in the enterprise.

**10. Market research:** The next important function of the entrepreneur is market research and product analysis. Market research is the systematic collection of data regarding the product which the entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently in order to know the details of the intending product, i.e. the demand for the product, the supply of the product, the price of the product, the size of the customers, etc. while starting an enterprise.

**11. Recruitment of manpower:** Entrepreneur has to perform the following activities while undertaking this function:

- a. Estimating manpower need of the organization
- b. Laying down of selection procedure
- c. Devising scheme of compensation
- d. Laying down the rules of training and development

**12. Implementation of the project:** Entrepreneur has to work on the implementation schedule or the action plan of the project. The identified project is to be implemented in a time-bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun, as well as competition.

**13. Decision Making Function:** The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities of the enterprise. A. H. Cole described an entrepreneur as a decision maker and attributed the following functions to him. He determines the business objectives suitable for the enterprise, he develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization, he decides in securing adequate financial resources for the organisation and maintains good relations with the existing and potential investors and financiers, he decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process,he decides the development of a market for his product, develops new product or modify the existing product in accordance with the changing consumer's fashion, taste and preference.

**14. Determining the size of Enterprise:** The size of the firm or the scale at which the proposed enterprise is to be started is an important function performed by an enterprise. Its essential for an entrepreneur to prepare both short term & long term forecast of sales before taking any decision about the size of the firm. Size of the enterprise is very important as on the basis of size only rest of the decisions regarding finance, manpower, machinery etc can be taken.

### Activity 2.2

Think of an entrepreneurial venture and pen down its functions in sequence.

## 2.7 DISTINCTION BETWEEN AN ENTREPRENEUR AND A MANAGER:-

The terms Entrepreneur and Manager are considered one and the same. But the two terms have different meanings. The following are some of the differences between a manager and an entrepreneur:-

- 1) The main reason for an entrepreneur to start a business enterprise is because he comprehends the venture for his individual satisfaction and has personal stake in it where as a manager provides his services in an enterprise established by someone.
- 2) An entrepreneur and a manager differ in their standing, an entrepreneur is the owner of the organization and he bears all the risk and uncertainties involved in running an organization where as a manager is an employee and does not accept any risk.
- 3) An entrepreneur and a manager differ in their objectives. Entrepreneur's objective is to innovate and create and he acts as a change agent where as a manager's objective is to supervise and create routines. He implements the entrepreneur's plans and ideas.
- 4) An entrepreneur is faced with more income uncertainties as his income is contingent on the performance of the firm where as a manager's compensation is less dependent on the performance of the organization.
- 5) An entrepreneur is not induced to involve in fraudulent behavior where as a manger does. A manager may cheat by not working hard because his income is not tied up to the performance of the organization.
- 6) Entrepreneur is required to have certain qualifications and qualities like high accomplishment motive, innovative thinking, forethought, risk-bearing ability etc. Conversely it's mandatory for a manager to be educated in the fields of management theories and practices.

7) An entrepreneur deals with faults and failures as a part of learning experience where as a manager make every effort to avoid mistakes and he postpones failure.

8)“An entrepreneur could be a manager but a manager cannot be an entrepreneur”. An entrepreneur is intensely dedicated to develop business through constant innovation. He may employ a manager in order to perform some of his functions such as setting objectives, policies, rules etc. A manager cannot replace an entrepreneur in spite of performing the allotted duties because a manager has to work as per the guidelines laid down by the entrepreneur.

## 2.8 DISTINCTION BETWEEN AN ENTREPRENEUR AND BUSINESSMAN

<b>Businessman</b>	<b>v/s</b>	<b>Entrepreneur</b>
1.Starts a business from an existing idea or concept		1.Starts a business from his own unique idea or concept
2. Focuses on competition		2. Focuses on cooperation
3.Usually plays safe		3.Bold and ambitious
4.Profit oriented		4.People (i.e., employee, customer, public) oriented
5.Hire people to increase business productivity		5.Hire people to give them productivity
6.A market player		6.A market leader
7.May be purchased, donated or inherited		7.Creates his own idea and realize it as a business
8.Traditional businessmen, as the name suggest, like to stick to crowded markets.		8.Entrepreneurs tend to pick up niches that are not over-crowded. In fact, they create new niche and market segments.

<b>Self Assessment Question 2.2</b>
<p><b>True/False</b></p> <ol style="list-style-type: none"> <li>1. An entrepreneur creates his own idea and realize it as a business.</li> <li>2. Businessman usually plays safe .</li> <li>3. Generating an idea is not an important function of an entrepreneur.</li> </ol>

4. Active entrepreneurs primarily involve themselves in Research and Development (R & D) activities
5. An entrepreneur could be a manager but a manager cannot be an entrepreneur.

## **2.9 DISTINCTION BETWEEN AN ENTREPRENEUR AND AN INTRAPRENEUR:-**

### **Entrepreneur**

An entrepreneur is a person who starts a business venture with his own business idea. He/She funds the venture, that is, invests all of the necessary capital. He/She also assumes the associated risk and is the primary decision maker & decides how much of the goods or service will be produced, where it will be produced, how it will be produced and who the target market is. An entrepreneur is a single owner, a partner or the individual who owns the most shares in a corporation, Business Dictionary reports. In the process of bringing the new project into market, the entrepreneur undertakes number of responsibilities such as perceiving opportunities for profitable investment, explores the prospects of starting an enterprise, obtains the licence, arrange the required capital etc. So entrepreneur is an economic agent who unites all means of production to maximize his profits by innovations.

### **Intrapreneur**

Organizations sometimes give creative employees the opportunity to act as entrepreneurs. This is called intrapreneurship, according to U.S. Legal. The term intrapreneur was put to use in America in the late 70's. In America some of the business executives left their jobs & started their own business because they don't get to chance to explore their innovative ideas earlier & these executive turned entrepreneurs posed threat to the organizations they left. So, Gifford Pinchot III in his book used the word 'Intrapreneur' who left their jobs & launched their own business. So now a days these executives are provided with enough opportunities with in the firm to come up with the innovative ideas, suggestions, proposals & enable them to grow. Eg:-A company is launching a new product, such as a new type of cell phone. The company may give a certain employee the authority to decide where the parts for the cell phone are obtained; where the cell phone is manufactured; and who the target market is, i.e., teenagers, young adults or middle-aged adults. Therefore, the employee is acting as an entrepreneur within the organization.

Intrapreneurs have a different mindset. They can perform many similar acts to entrepreneurs, but they tend to do so without taking the personal financial risk. Intrapreneurs live within established organisations and whilst their ego may be dented and indeed their career prospects may be dented if their intrapreneurial project doesn't work, they are unlikely to suffer the financial consequences that befall the entrepreneur when their venture fails.

## 2.10 HOW TO BECOME A SUCCESSFUL ENTREPRENEUR

- ▶ Knowledge of organization
- ▶ Technical Knowledge
- ▶ Administrative Ability
- ▶ Ability to Instruct and Inspire
- ▶ Creative
- ▶ Ability to listen and judge people
- ▶ Leadership Qualities
- ▶ Social Sensibility
- ▶ Physical Qualities

## 2.11 SUMMARY :

Entrepreneur is an important agent for economic development. Economic growth & development means steady growth in income levels. This growth mainly depends upon Entrepreneurs. An Entrepreneur is a person who identifies opportunities and exploits it for economic development. An entrepreneur can be regarded as a person who has the initiative skill and motivation to set up a business or enterprise of his own and who always looks for high achievements. The word “Entrepreneur” is derived from the French verb ‘**entreprendre**’. It means ‘**to undertake**’. Since that time the word entrepreneur means one who takes the risk of starting a new organization or introducing a new idea, product or service to society.

## 2.12 GLOSSARY

**Intrapreneur:** A manager within a company who promotes innovative product development and marketing.

**Decision making:** Decision-making is regarded as the cognitive process resulting in the selection of a belief or a course of action among several alternative possibilities

**Market research:** The process of assessing the viability of a new product or service through techniques such as surveys, product testing and focus groups

**Sense of efficacy:** Capacity or power to produce a desired effect.

## **2.13 REFERENCES**

- 1) Entrepreneurship Development: Acharya N.G.Ranga Agricultural University
- 2) Entrepreneurship and Small Business: Purnima Sehgal & Manjinder Singh

## **2.14 FURTHER READINGS**

- 1) Entrepreneurship Development & Project Management: Lipika K.Guliani& R.K Gupta(Himalaya Publications)

## **2.15 MODEL QUESTIONS:**

- 1) Define Entrepreneur and discuss the characteristics of an entrepreneur.
- 2) What are the various functions of an entrepreneur?
- 3) What are the various types of Entrepreneurs?
- 4) Differentiate between an entrepreneur & manager?
- 5) Define Entrepreneur?What are the various requirements to become a successful entrepreneur?

## **2.16 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ**

### **Self Assessment Question 2.1**

- 1) Technical Entrepreneur
- 2) Public & Private
- 3) Empirical, Rational and Cognitive.
- 4) Drone entrepreneurs
- 5) Imitative

### **Self Assessment Question 2.2**

- 1) True (2) True (3)False (4)False (5) True



**ENTREPRENEURSHIP & INTRAPRENEURS: OPPORTUNITY  
ANALYSIS & COMPARATIVE STUDIES**

**STRUCTURE**

3.0 OBJECTIVES

3.1 INTRODUCTION

3.2 DEFINITION

3.3 CHARACTERISTICS OF ENTREPRENEURSHIP

3.4 INNOVATION AND ENTREPRENEURSHIP

3.4.1 Characteristics of Innovation In Entrepreneurship

3.4.2 Types of Innovation

3.4.3 Sources of Innovation

3.4.4 Innovation vs. Invention

3.4.5 Barriers in Innovation

3.5 CREATIVITY AND THE BUSINESS IDEA

3.5.1 Stages of Creative Process

3.5.2 Business Idea

3.5.3 Sources of Business Idea

3.6 OPPORTUNITY RECOGNITION

3.6.1 Steps In Identification Of Business Opportunity

3.6.2 How To Select The Right Opportunity

3.7 INTRAPRENEURS /CORPORATE ENTREPRENEURS

3.7.1 Activities Related to Intrapreneurship

3.7.2 Advantages & Disadvantages

3.7.3 Role of Intrapreneurs

3.7.4 Essentials for Intrapreneurship

3.7.5 Responsibilities of Intrapreneurs

3.8 SUMMARY

3.9 GLOSSARY

3.10 REFERENCES/BIBLIOGRAPHY

3.11 FURTHER READINGS

3.12 MODEL QUESTIONS

### 3.13 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

## 3.0 OBJECTIVES

After studying this lesson, students will be able to :-

- 1) Define the term entrepreneurship & its characteristics
- 2) Learn the relationship between innovation & entrepreneurship
- 3) Identify the role of creativity, opportunity & its sources
- 4) Delineate the role and responsibilities of Intrapreneur/ Corporate entrepreneur

## 3.1 INTRODUCTION

Entrepreneurship comes from the French verb 'entreprendre' which means 'To undertake'. It is the act and art of being an [entrepreneur](#) or one who undertakes [innovations](#) or introducing new things, finance and business acumen in an effort to transform innovations into economic goods. This may result in new [organizations](#) or may be part of revitalizing mature [organizations](#) in response to a perceived opportunity. So it is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, social risk and receiving the resulting monetary rewards & personal satisfaction.

Entrepreneurship is a process of action an entrepreneur undertakes to establish his enterprise. So, is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. It is a dynamic activity which helps the entrepreneur to bring changes in the process of production, innovation in production, new usage of materials, creator of market etc.

## 3.2 DEFINITIONS

According to Cole “Entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services”.

According to Higgins “Entrepreneurship is meant the function of foreseeing investment and production opportunities, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique, discovering new resources or raw materials and selecting top managers for day to day operations of the enterprise”.

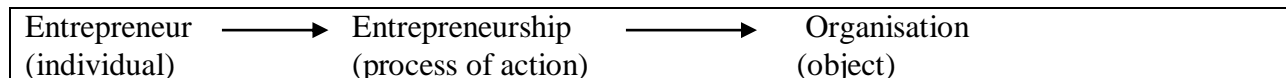
According to Joseph A. Schumpeter, “Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in form of 1)introduction of new product; 2) Use of new method of production; 3)Opening of new market; 4)The conquest of new source of supplying raw material 5)A new form of organization.”

According to Peter Drucker, “Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice.”

Thus, entrepreneurship is defined as purposeful activity to initiate, maintain, and develop a profit-oriented business .The above definitions highlights risk bearing, innovating and resource organizing aspects and an individual or group of people achieve goal through production or distribution of products or services. To conclude entrepreneurship is set of activities performed by an entrepreneur thus, entrepreneur proceeds entrepreneurship.

### 3.3 CHARACTERISTICS OF ENTREPRENEURSHIP

- 1) Innovation:- Entrepreneurship is an innovative activity as it involve doing things in new & better way .Joseph Schumpeter argued that the defining characteristic of entrepreneurial ventures was innovation. By finding a new "production function" in an existing resource, a previously unknown means through which a resource could produce value, the entrepreneur was innovating. An innovation could take place in product design, organization of the firm, marketing devices, or process design. Nevertheless, innovation was what separated the entrepreneur from others who undertook closely related endeavors.
- 2) Economic Activity:- Entrepreneurship is an economic activity because it involve creation & operation of new enterprise. An entrepreneur adds wealth (or at least the potential for gain) to the economy when he or she presents the economy with new ways to use the resource as a means of gaining some kind of value. It is concerned with the processing and satisfying the needs of customer with the help of production & distribution of goods and services.
- 3) Risk bearing capacity:- Risk is the inseparable part of entrepreneurship . Entrepreneurs assume the risks because they make significant investments in their ventures. These risks include market uncertainties (whether customers will actually buy a new product or service), production uncertainties, and resource uncertainties.
- 4) Organization Building:- Entrepreneurship implies the skill to build an organization. Entrepreneurship is process which helps in creation of organization.



- 5) Function of high achievement:- People having high need for achievement are more likely to become successful entrepreneurs. Many entrepreneurs start their business from scratch but they

accept challenges and have high need for achievement only then they become successful entrepreneurs. E.g:-Dhirubai Ambani.

### 3.4 INNOVATION AND ENTREPRENEURSHIP

Innovation is the development of new customers value through solutions that meet new needs, inarticulate needs, or old customer and market needs in value adding new ways. This is accomplished through more effective [products](#), [processes](#), [services](#), [technologies](#), or [ideas](#) that are readily available to [markets](#), [governments](#), and [society](#). The word innovation derives from the Latin word *innovates*, which is the noun form of *innovare* "to renew or change,"

To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas are applied by the company in order to further satisfy the needs and expectations of the customers. In a social context, innovation helps create new methods for alliance creation, joint venturing, flexible work hours, and creation of buyers' purchasing power. Innovations are divided into two broad categories:

- (1) Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes and
- (2) Revolutionary innovations (also called discontinuous innovations) which are often disruptive and new.

Innovation is synonymous with risk-taking and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets.

#### Activity 3.1

Pen down your at least 5 innovative ideas in order to start your entrepreneurial venture.

#### 3.4.1 Characteristics Of Innovation In Entrepreneurship

- 1) Introduction of new product with which customers are not yet familiar or introduction of new variant of an existing product.
- 2) Introduction of new method of production that has not yet been tested.
- 3) Opening of new markets.
- 4) Discovery of new source of raw material
- 5) Carrying of new organization

### 3.4.2 Types Of Innovation

TYPE	DESCRIPTION	EXAMPLES
Invention	Totally new product, service or process	Wright brothers-airplane Thomas Edison –lightbulb Alexander Graham Bell-telephone
Extension	New use or different application of an already existing product, service or process	Ray Kroc-Mc Donald Nolan Bushnell-Atari
Duplication	Creative replication of an existing concept	Wal Mart-department store Pizza Hut-Pizza Parlor
Synthesis	Combination of existing concepts and factors into a new formulation or use	Fred Smith—Federal Express

#### Self Assessment Question 3.1

- 1) Give few examples of Extension( Refer 3.4.2)
- 2) Differentiate between Revolutionary & Evolutionary innovation ( Refer 3.4)
- 3) Discuss different types of innovations. (Refer 3.4.2)
- 4) What are the various characteristics of innovations (Refer 3.4.1)

### 3.4.3 Sources Of Innovation

Peter Drucker, one of the greatest management thinkers from the last century, defined in his book “Innovation and Entrepreneurship” (1986) 7 classes of “OPPORTUNITIES”. He named these the "SOURCES OF INNOVATION", namely:

1. **The Unexpected Occurance:** Sometimes unexpected success or failure prove to be a major innovation. These happenings are normally unplanned. An example of the unexpected is the development of Nutrasweet. A chemist developed a new chemical. Accidentally he got some of it in his mouth. To his surprise it tasted very sweet. This was the start of a development trajectory, that took many years before Nutrasweet was introduced by Searle into the market.
2. **Incongruities:** Incongruities means conflicts between opposing functions i.e difference exists between the expectations & reality. It may be the start of an innovation.
3. **Process Needs:** An old proverb says that “necessity is the mother of invention”. So innovation takes place due to the demand of the situation.

4. **Industry And Market Structure:** Industry markets and market structure may offer opportunity's for new types of services. Outsourcing of activities such as maintenance of the IT infrastructure is an example. Other examples are the merging of industry's such as for example the merging of the computer industry with consumer electronics or IT with business consulting services. The X box of Microsoft is just one example from many.
5. **Demographics:** Demographics have long been a major source of innovation creating opportunities for new types of products and services. It includes changes in lifestyle, population, education etc helps in innovation.
6. **Changes In Perception:** An example of changes in perception as source of innovation is the following. In older days health was seen as related to body mass, meaning fatter people were perceived as more healthy. In the last century this perception changed as a result of medical study's that revealed that overweight was a risk factor. Since that time many light products have come to the market. Many substitutes of sugar have been developed such as Nutrasweet. Also substitutes of fat have been developed although these have not been successfully introduced into the market yet.
7. **New Knowledge:** Last but not least new knowledge has produced many opportunities for new products. The emergence of micro-electronics and new programming methods and tools, biotechnology, nano-technology etc have been the main motors of innovation and progress over the last decades .

#### 3.4.4 Innovation vs. Invention

Invention means to come up with a unique idea, thought or fabrication; a new object, device or process that no one has seen or heard of before. An **invention** is a unique or novel [device](#), method, composition or process. It may be an improvement upon a machine or product, or a new process for creating an object. On the other hand innovation refers to application of inventions . Innovation differs from [invention](#) in that innovation refers to the use of a better and, as a result, novel idea or method, whereas invention refers more directly to the creation of the idea or method itself.

So, Invention is conceiving new ideas while innovation means to put these ideas into action. An important distinction is normally made between invention and innovation that Invention is the first occurrence of an idea for a new product or process while innovation is the first attempt to carry it out into practice. Therefore in order to be inventive, one has to be creative and in order to become an innovator, one has to be an entrepreneur.

#### 3.4.5 Barriers To Innovation:-

1)Lack of confidence

- 2) unwillingness to try anything new
- 3) Fear of failure
- 4) Incapacity to use unconscious perception
- 5) Lack of zeal & drive
- 6) Failure to distinguish between cause & effect
- 7) Rigidity of thinking
- 8) Stereotyped pattern of habit, perception & judgement.

### **3.5 CREATIVITY AND THE BUSINESS IDEA:-**

Creativity is the ability to bring something new into existence . Being creative means solving a problem in a new way, taking risks and ignoring doubt and facing fears. So it is an important attribute of a successful entrepreneur. Creativity can also be defined "as the process of producing something that is both original and worthwhile" .Creativity and innovation are considered to be inseparable from entrepreneurship, which is in turn manifested in the act of starting up and running an enterprise. DO IT is a **process** for creativity. DO IT is an acronym that stands for:

**D**-Define problem

**O**-Open mind and apply creative techniques

**I** – Identify best solution

**T** – Transform

According to Torrance,” Creativity is a process of sensing gaps or disturbing, missing elements, forming ideas of hypothesis concerning them, testing these hypothesis ; and communicating the results possibly and retesting the hypothesis.”

Entrepreneurs implement creative ideas to introduce innovative products or services, or to deliver products or services in a new, more efficient, and hence innovative way.

#### **3.5.1 Stages Of Creative Process:**

G. Wallas (1926), a forerunner in creativity theory, proposed four stages of creative thought:

1. Generation of Idea:- Generation of idea is the start of any creative process. Ideas can be generated from various sources and most creative ideas come out of individual's interest or curiosity.

2. Preparation—It is a stage in which the problem is investigated. During the stage of preparation, regulated thought is employed. This is a logical stage of examination and preparation. The time for research, fact gathering, assembling materials, gathering needed information before the creative act.

3. Incubation—It is a stage in which the problem is thought about unconsciously. This is the period of gestation, of letting go so that the mind, the unconscious, intuition, and emotion can mull over the information and put it into its own original perspective. Dreaming may be a part of this period.

4. Illumination—It is a stage in which ideas come together to form a possible solution. In the illumination stage, ideas arise from the mind to provide the basis of a creative response. These ideas can be pieces of the whole, i.e. seeing the entire concept or entity all at once. Unlike the other stages, illumination is often very brief, involving a tremendous rush of insights within a few minutes or hours.

5. Verification—It is a stage in which result is evaluated and deemed acceptable. Verification is the development stage. This is often tedious & requires perseverance by an individual committed to finding a way to harvest the practical results of his/ her creation.

### **3.5.2 Business Idea:-**

A business idea is a [concept](#) which can be used for [commercial](#) purposes. It typically centers around a [commodity](#) or [service](#) that can be sold for money, according to a unique model. There are several methods for developing and testing a business idea. The ability to come up with a business idea can be transformed into a viable business, where ideas supported by feasibility and a business plan can then be sold to interested investors, firms, and interested parties for a lump sum or a management contract, or as agreed. Business ideas are always available through different sources; however, it is the application applied on these ideas, and timing makes all the difference in failure or success.

### **3.5.3 Sources Of Business Idea:-**

1) Consumers:- Potential entrepreneurs should continually pay close attention to potential customers as it act as very good source of business idea. There must be proper arrangement so that the consumer must get the opportunity to express their opinion. But care should be taken to ensure that the idea or need represent a large enough market to support a new venture.

2) Existing Product & Services:- Potential entrepreneurs should monitor & evaluate competitive product & services in the market. These analysis uncovers ways to improve an offerings that may result in a new product or service that has more market appeal.



3)Distribution Channels:-Distribution channel act as very good source of business idea as they are familiar with the needs of the market.These channels frequently give suggestions for completely new product and also help in marketing the entrepreneur's newly developed products.

4)Federal Government:-Sometimes new product ideas come in response to government regulation. Eg:- Restriction on polythene bags by government give new ideas to entrepreneurs to make eco friendly bags or paper bags from sugarcane waste.

5)Research& development:-The largest source of new idea is the entrepreneur's own "research and development". The research & development department of the organization continuously work on the generation of new idea , checking the feasibility of the idea and testing the same.

6)Unfulfilled Market demand:- Unfulfilled demand of a product will open the door for new products i.e:- need of the market always act as a very good source of business idea.

7)Social & Economic trends:- Social & Economic status of people is always dynamic in nature & offer wide opportunities.An entrepreneur should observe such change as it act as very good source for business idea.

#### **3.5.4 Methods Of Generating Ideas:-**

1)Focus Groups:- This is very important method of generating ideas and is used for variety of purposes since 1950.It means group of individuals providing information in a structured format. It includes open in depth discussion. The group of 8-14 participants is stimulated by comments from other group members in developing a new product idea to fulfill a market need. In addition to generating new ideas ,the focus group is an excellent method for initially screening ideas & concept.

2) Brainstorming:- This is the most widely used method for generating ideas. **Brainstorming** is a group or individual creativity technique by which efforts are made to find a conclusion for a specific problem by gathering a list of ideas spontaneously contributed by its member(s). The term was popularized by Alex Faickney Osborn in the 1953 book Applied Imagination. Osborn claimed that brainstorming was more effective than individuals working alone in generating ideas, although more recent research has questioned this conclusion. Today, the term is used as a catch all for all group ideation sessions.

3)Nominal group technique:-The nominal group technique is a type of brainstorming that encourages all participants to have an equal say in the process. It is also used to generate a ranked list of ideas. Participants are asked to write their ideas anonymously. Then the moderator collects the ideas and the group votes on each idea. The vote can be as simple as a show of hands in favor of a given idea. This process is called distillation. After distillation, the top ranked ideas may be sent back to the group or to subgroups for further brainstorming. For example, one group may work on the color required in a product. Another group may work on the size, and so forth. Each group will come back to the whole group for ranking the listed ideas. Sometimes ideas that were previously dropped may be brought forward again once the group has re-evaluated the ideas

4)Problem Inventory Analysis:- It's a method for obtaining new ideas and solutions by focusing on problems. However, instead of generating new ideas themselves, consumers are provided with the list of problems in general product category. Then they are asked to identify & discuss products in this category that have the particular problem. Now company can easily relate known products to suggested problems and arrive at new product idea.

5)Reverse Brainstorming:-Its similar to Brainstorming, except that in this criticism is allowed in order reach at end result. In fact, the technique is based on finding fault by asking questions. The process usually involves the identification of everything wrong with an idea, followed by discussion of ways to overcome these problems.

6)Gordon Method:-In this method, group members are not known with the exact nature of the problem. In this entrepreneur starts by mentioning a general concept associated with the problem then the group responds back with number of ideas. Then the actual problem is revealed, enabling the group to make suggestions for final solution.

7)Free Association:-This is developing of new idea through chain of word association. First, a word or phrase related to the problem is written then another & another is written with each new word attempting to add something new to ongoing thought. This helps in forming a chain of ideas which help in forming a new product idea.

8) Group passing technique:-Each person in a circular group writes down one idea, and then passes the piece of paper to the next person, who adds some thoughts. This continues until everybody gets his or her original piece of paper back. By this time, it is likely that the group will have extensively elaborated on each idea.

### Activity 3.2

Collect the data from actual entrepreneurs and pen down their methods after idea generation.

### 3.6 OPPORTUNITY RECOGNITION:-

A business opportunity represents a possibility for the entrepreneurs to meet enough unsatisfied need and entrepreneurs must have ability to recognize business opportunity. Main factors which helps in recognition of the opportunity are:-Education, experience(personal & work), prior knowledge of market & customer problems, entrepreneur alertness & networking. Those entrepreneurs who have ability to recognize meaningful business opportunities are in position to successfully launch new venture.

“Opportunity can be defined as an attractive and excellent project idea which, an entrepreneur search for and accept such idea as a basis for his investment decision.”

Opportunity is defined as: ‘the potential for change, improvement or advantage arising from our action in the circumstances’.

Casson (2003) defined entrepreneurial opportunities as ‘those situations in which new goods, services, raw materials and organising methods can be introduced and sold at greater than their cost of production’.

### **3.6.1 Steps in Identification Of Business Opportunity:-**

1)Preliminary Evaluation :-It is the first step in identification of business opportunity. An entrepreneur has to analyse & evaluate the investment opportunities against set of specific criteria. It can include the feasibility check on various grounds like:- Compatibility with government rules & regulations, cost of project, availability of raw material etc.

2)Selection of the Product or Service .

3)Market Survey , which include the survey regarding the availability of raw material, equipment, marketing & distribution, Consumer Behaviour etc.

4)Contractual Programmes to collect sufficient information about proposed ventures.

5)Succeeding the market by proving the right product, at right time, at right place, with right and appropriate value in order to satisfying the customer demand.

### **3.6.2 How to Select the Right Opportunity**

Step 1:Identify Your Business and Personal Goals

Step 2:Research Your Favourite Industries

Step 3:Identify Promising Industry Segments

Step 4:Identify Problem Areas and Brainstorm Solutions

Step 5:Compare Possible Solutions with Your Objectives and Opportunities in the Marketplace

Step 6:Focus on the Most Promising Opportunities

### **3.7 INTREPRENEURS /CORPORATE ENTREPRENEURS:-**

We operationalize intrapreneurship as employees developing new business activities for their employer, including establishing a new outlet or subsidiary and launching new products or product-market combinations (Discussed in lesson 2). Phenomenon is usually called 'corporate entrepreneurship', 'corporate venturing' or 'intrapreneurship'. Intrapreneurship refers to initiatives by employees in organizations to undertake new business activities. Although intrapreneurship is related to corporate entrepreneurship, these concepts differ in the following sense. Corporate entrepreneurship is usually defined at the level of organizations and refers to a top-down process, i.e. a strategy that management can utilize to foster more initiatives and/or efforts to achieve improvement from their workforce and organization. Intrapreneurship relates to the individual level and is about bottomup, proactive work-related initiatives of individual employees. Intrapreneurship represent the initiation and implementation of innovative systems

and practices within an organization, by some of its staff under the supervision of a manager who takes the role of an intrapreneur, in order to improve the economical performance of the organization, by using a part of its resources, namely those that previously have not been used in an appropriate manner.

Intrapreneurship is a special type of entrepreneurship and thus shares many key behavioral characteristics with this comprehensive concept, such as taking initiative, pursuit of opportunity, and some element of 'newness'. At the same time, intrapreneurship also belongs to the domain of employee behavior and thus faces specific limitations that a corporate hierarchy and an intraorganizational context may impose on individual initiative, as well as specific possibilities for support that an existing business may offer to a nascent intrapreneur. Intrapreneurship improves the economical and financial performance of the company, by applying a more efficient use of the resources and by using a suitable motivational system for its employees.

### 3.7.1 Activities related to Intrapreneurship :

- 1) Opportunity perception
- 2) Idea generation
- 3) Designing a new product or another recombination of Resources
- 4) Internal coalition building
- 5) Persuading management
- 6) Resource acquisition
- 7) Planning and organizing.

Key behavioral aspects of intrapreneurship are personal initiative, active information search, out of the box thinking, voicing, championing, taking charge, finding a way, and some degree of risk taking.

### 3.7.2 Advantages & Disadvantages of Intrapreneurship

<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>
Ability to stay in a friendly, well known Environment	Reward may not be up to expectation
Practicing your skills within an organization – lower risk	Innovation may not be appreciated Accordingly
Using companies resources, good name, Knowledge	You can be innovative but to a certain limit
Access to customers, infrastructure	Not provided with adequate resources
Practical innovation is rewarded.	Increase internal competition

### Self Assessment Question 3.2

#### Fill in the blanks

- 1)..... is the first step in identification of business opportunity.
- 2) Each person in a circular group writes down one idea, and then passes the piece of paper to the next person, who adds some thoughts is called.....
- 3) .....is a stage in which the problem is thought about unconsciously.
- 4) The five stages of creative process is –  
....., ....., ....., ..... &.....

### 3.7.3 Role Of Intrapreneurs/Corporate Entrepreneurs:-

**1)Innovator:-**Intrapreneurs are innovators. They find new, more efficient ways for production, new products, new markets and sometimes different type of raw material will can reduce the cost of oranisation. They also save their companies money on overhead and supplies, keeping their organization's finances healthy.

**2)Business Development:-** The corporate entrepreneur is an individual that exists within an organisation to generate [product](#) and [process](#) ideas that will create value for the organisation, its stakeholders and its consumers that buy its products. Sustainable business development (SBD) is the art of the societal marketing philosophy which aims to create value for consumers in the long term by providing superior value to consumers and its stakeholders by the adoption of six sigma and the triple bottom line (Environmental, Social and Economic) approach. Which pertains to create value superior than its competitors by focusing its resources on sustainable business strategies and activities.The Corporate entrepreneur's role in sustainable business development to create a product or process that under the guidelines of SBD creates a sustainable business strategy that makes the company unique within its market.The allocation of resources in the corporate environment is also important in the growth of SBD as highly sustainable practices can be expensive to the organisation but creates superior value in the future.

**3)Project Manager:-**Intrapreneurs are expected to develop, implement and lead projects as necessary. They must have the foresight and experience to bring forward the best in the people, redirect their staff's energy when necessary and motivate them toward the project completion.

#### 4) [Interpersonal roles](#)

Interpersonal are roles that involve people (subordinates and persons outside the organization) and duties that are ceremonial and symbolic in nature. The three interpersonal roles are.

**a. Figurehead** Symbolic head; obliged to perform a number of routine duties of a legal or social nature like greeting visitors, signing legal documents.

*b. Leader* Responsible for the motivation of subordinates, responsible for staffing, training and associated duties like performing virtually all activities that involve subordinates.

*c. Liaison* Maintain self developed network of outside contacts and informers who provide favors and information like acknowledging mail, doing external board work, performing other activities that involve outsiders.

### **5) Informational roles**

Informational roles involve receiving, collecting and disseminating information. The three informational roles are

*a) Monitor* Seek and receives wide variety of internal and external information to develop thorough understanding of organization and environment like reading periodicals and reports and maintaining personal contacts.

*b) Disseminator* Transmits information received from outsiders or from subordinates to member of the organization like holding informational meetings, making phone calls to reply information.

*c) Spokesperson* Transmits information to outsiders on organization's plan, policies, actions and results like holding board meetings, giving information to the media.

### **6) Decisional roles**

Decisional roles revolve around making choices. The four decisional roles are.

*a) Entrepreneur*, Searches organization and its environment for opportunities and initiates improvement projects" to bring about changes like organizing strategy and review session to develop new programs.

*b) Disturbance handler*, Responsible for corrective action when organization faces important, unexpected disturbance like organizing strategy and review session that involve disturbance and crises.

*c) Resource allocator* Responsible for allocation of organizational resources of all kinds, making or approving all significant organizational decisions like scheduling, requesting authorization, performing any activity that involves budgeting and the programming of subordinate's work.

*d) Negotiator* Responsible for representing the organization at major negotiations like participating in union contract negotiations.

### **7) Development of new markets:-**

Intrapreneurs has important role in the development of B.O.P(Bottom of pyramid) market. With their innovations & out of box thinking intrapreneurs are able to give more ideas regarding the production of new goods at the lesser price which can be easily purchased by the people having low or mid income.

### **8)Development of Economy:-**

With the innovations in the production, process, development of new market or development of new product at lower cost intrapreneurs are able to contribute towards the development of economy.

### **3.7.4 Essentials For Intrapreneurship:-**

Fradette& Michaud described for main elements essential for the success of intrapreneurship:-

- 1)The structural & strategic environment should be “right” within the organization.The ambience should not stifle innovation & freedom to the employees should be given to make limited changes.
- 2)An appropriate work force of enterprising people should be built in which scientific recruitment is made. Talents of the employees are recognized & their key skills are trained.
- 3)Support system, team working , information sharing & learning are essential for invoking the dormant talents of employees.They should be encouraged to collaborate & network naturally.
- 4)Successful employees should be suitably rewarded while they should not be panalised for their mistakes to such extent that they are dissuaded from further initiatives.

### **Other Essentials:-**

- 1)New ideas enclouraged.
- 2)Failures allowed
- 3)Support of Top Management
- 4)Resources available & accessible
- 5)Trial & Error encouraged to some extent
- 6)Appropriate reward system
- 7)Multidiscipline teamwork approach
- 8)Encourage open discussion

### **3.7.5 Responsibilities Of Intrapreneurs:-**

- 1)Intrapreneurs must take the responsibility of his/ her actions.

2)They must give their ideas by keeping in mind the availability of the resources like:-raw materials, capital & labour

3)They must check the feasibility of the ideas.

4)It is the responsibility of the Intrapreneurs to check the practical implementation of the ideas given.

5)They must keep in mind that the ideas given must work within the boundaries of law.

6)It is the responsibility of the intrapreneurs that the innovations must not give rise to any type of conflicts within or outside the organization.

7)They must keep the secrecy of the innovative idea from the competitors. So that it must not get leaked out before the actual implementation of the idea.

### **3.8 SUMMARY:-**

Entrepreneurship is the cycle of actions an entrepreneur undertakes to start a new enterprise. It is described as a process of handling economic activity, undertaking risk, creating something new & organizing resources. So it's a purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit oriented business unit. It is an innovative & creative activity which includes the search of business ideas and opportunity recognition. But it is different from intrapreneurs/corporate entrepreneurs.

The corporate entrepreneur is an individual that exists within an organisation to generate [product](#) and [process](#) ideas that will create value for the organization.

### **3.9 GLOSSARY**

**Innovation:-** introduction of something new; a new idea, method, or device

**Invention:-** discovery / findings

**Creativity:-** the use of the imagination or original ideas, especially in the production of an artistic work.

**Business idea:-** A business idea is a concept that can be used for financial gain that is usually centered on a product or service that can be offered for money.

### **3.10 REFERENCES**

1)Entrepreneurship & small business-Rajesh Marwaha



### **3.11 FURTHER READINGS**

1) Entrepreneurship- Robert D hisrich, Michael P Peters

2) Entrepreneurship Development & Project Management: Lipika K.Guliani& R.K Gupta(Himalaya Publications)

### **3.12 MODEL QUESTIONS**

1) Explain Entrepreneurship and explain its main characteristics?

2) What do you mean by innovation & what are its characteristics?

3) What is innovation & how it is different from invention?

4) What are the various sources & barriers of innovation?

5) What do you mean by business idea & what are its different sources.

6) What do you mean by corporate entrepreneurs? What are the various roles , responsibilities & essentials of corporate entrepreneurs.

### **3.13 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ**

#### **Self Assessment Question 3.1**

1)Refer 3.4.2 (2) Refer 3.4 (3)Refer 3.4.2 (4)Refer 3.4.1

#### **Self Assessment Question 3.2**

1) Preliminary Evaluation (2) Group passing technique (3) Incubation (4) generation of idea, preparation, incubation , illumination and verification

# **ENTREPRENEURSHIP: CHANGING ROLE OF ENTREPRENEUR, SUSTAINING & MAINTAINING COMPETITIVE ADVANTAGE**

## **STRUCTURE:**

### 4.1 ENTREPRENEURSHIP AS A CAREER

#### 4.1.1 Conceptual Model for Understanding Entrepreneurial Career

### 4.2 ENTREPRENEURSHIP AS STYLE OF MANAGEMENT

### 4.3 THE CHANGING ROLE OF THE ENTREPRENEUR: MID CAREER DILEMMAS

### 4.4 SUSTAINING COMPETITIVENESS

#### 4.4.1 Conditions for Sustaining Competitiveness

- a) Distinctive Capabilities
- b) [Leadership](#)
- c) [Systemic Innovation](#)
- d) [Radical Innovation](#)
- e) Customers for Life
- f) Corporate Culture as a Fundamental Competitive Advantage
- g) Leveraging Opposite Forces
- h) Cross-Functional Excellence

#### 4.4.2 Types of Competitive Advantage

#### 4.4.3 Five criteria of Sustainable competitive Advantage

#### 4.4.4 Maintaining competitive advantage

#### 4.4.5 Skills of effective competitor

### 4.5 SUMMARY

### 4.6 GLOSSARY

### 4.7 REFERENCES/BIBLIOGRAPHY

### 4.8 FURTHER READINGS

### 4.9 MODEL QUESTIONS

### 4.10 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

## **4.1 ENTREPRENEURSHIP AS A CAREER:**

Entrepreneurs start new businesses and take on the risk and rewards of being an owner. This is the ultimate career in capitalism - putting your idea to work in a competitive economy. Some new ventures generate enormous wealth for the entrepreneur. However, the job of entrepreneur is not for everyone. You need to be hard-working, smart, creative, willing to take risks and good with people. You need to have heart, have motivation and have drive.

One of the best things about pursuing a career as an entrepreneur is the wide-open possibilities. There is room in many economies throughout the globe for entrepreneurship - such as India, Brazil, Dubai, the U.S. or Kenya. There are many industries where wealth creation is possible be it the Internet and IT, personal services, media, engineering or small local business (e.g., dry cleaning, electronics repair, restaurants). But there is a downside of entrepreneurship too. Your life may lack stability and structure. Your ability to take time off may be highly limited. And you may become stressed as you manage cash flow on the one hand and expansion on the other. Three out of five new businesses in the U.S. fail within 18 months of getting started.

It's important to be savvy and understand what is and is not realistic. Understand that the market is more or less efficient - which means that if a bunch of people know a sure way to be a millionaire then the opportunity has probably already been competed away. On the other hand, look for inefficiencies in markets. Places where a better idea, a little ingenuity or some aggressive marketing could really make a difference. Think about problems that people would pay to have a solution to. It helps to know finance. It's a must to really know your product area well. What do consumers want? What differentiates you from the competition? How do you market this product? A formal business plan is not essential, but is normally a great help in thinking through the case for a new business. You'll be investing more in it than anyone else, so treat yourself like a smart, skeptical investor who needs to be convinced that the math adds up for the business you propose starting.

The possibilities in entrepreneurship are endless. The rewards can be high. And the risks are undoubtedly high too. But, if you have drive, creativity and the desire to be your own boss, this may very well be the career for you.

#### **4.1.1 Conceptual Model for Understanding Entrepreneurial Career:-**

A conceptual model for understanding entrepreneurial career views the career stages as dynamic one ,with each stage reflecting and interacting with other stages & events in individuals life – past, present & future. The life cycle approach conceptualizes entrepreneurial career in nine major categories:-

- a) Educational environment
- b) The individual's personality
- c) Childhood family environment
- d) Employment history
- e) Adult development history

- f) Adult non work history
- g) Current work situation
- h) Individuals current perspective
- i) Current family situation

All the above said points have positive & negative impact on entrepreneurial careers.

#### **Activity 4.1**

Take a survey of the entrepreneurs in the nearby area and collect the motivational factors which help them choose entrepreneur as career.

#### **4.2 ENTREPRENEURSHIP AS STYLE OF MANAGEMENT:-**

Globalization and business competition around the globe has made entrepreneurial strategies an important concept in new and well established businesses . Styles of managing and enterprise are determined by enterprise culture, the nature of work, the nature of employee and the personal attribute and skills of the leaders. This means that leadership style is determined by prevailing conditions and permits the leaders to practice different leadership styles as the circumstances many necessitate .Having an entrepreneurial style of managing may be thought of as having the structure and flexibility to assist an organization to succeed. The manager implementing an entrepreneurial style must be flexible in adapting to the rapid changing of the market conditions and ideas which are important factors for developing strategies for a company's growth. Entrepreneurial managers may be thought of as being aggressive, survivalist, creative, passionate, honest, and an innovator of ideas. They often strive to make the vision of the organization a reality. More organizations are beginning to adopt an entrepreneurial structure which often provides an intimate and enthusiastic organization. One in which the company is "malleable and responsive" to leadership's plan.

By and large, the existing business knows how to manage but needs to learn how to become entrepreneurial and how to innovate. The non-business, public-service institution too faces different problems, has different learning needs, and is prone to making different mistakes. The new venture, on the other hand, needs to learn how to be an entrepreneur and how to innovate and, above all, how to manage. Today's businesses, especially the large ones, are not likely to survive in this period of rapid change and innovation unless they acquire entrepreneurial competence. This is not only in their self-interest; they also have a social responsibility to do so. Based on our observations, we have identified a few tendencies that really work well for leaders of small companies or start-ups but could become a problem as the company grows larger. These are:

- **Loyalty to comrades:** Leaders tend to be loyal to those few colleagues who were there at the start of the business. However, blind loyalty to these people can become a major liability in managing the organization as it becomes large and complex.

- **Task orientation:** Focusing on the job at hand, say, in driving a big product launch, is critical but excessive attention to detail can cause a large organization to lose its focus.
- **Single-mindedness:** This is an important attribute in a visionary who wants to unleash a revolutionary product or service. Yet, this quality can turn into tunnel vision if the leader cannot take a broader view of things as the business grows.
- **Working in isolation:** While it is acceptable for a brilliant scientist focused on an ingenious idea to work in isolation, it could be disastrous for a leader whose growing organization must depend on the customers, investors, analysts, media, government officials, and various other stakeholders.

#### **Self Assessment Question 4.1**

True/ False

- 1) Entrepreneurs start new businesses and take on the risk and rewards of being an owner.
- 2) New ventures does not generate economic wealth.
- 3) Entrepreneur need to be hard-working, smart, creative, willing to take risks and good with people.
- 4) Education is a motivational factor behind entrepreneurship.

### **4.3 THE CHANGING ROLE OF THE ENTREPRENEUR: MID CAREER DILEMMAS:**

Start your own business and you can begin to make your own rules. For example, you can set your work hours, make employee hiring decisions and release new products and services without having to wait for approval from another supervisor or manager. Become an entrepreneur and you'll also face dilemmas that other workers may not have to deal with, dilemmas that may cause you to lose sleep or wonder if you made the right choice when you decided to open your own company.

Entrepreneurs, particularly during the first few years they're in business, can find themselves filling two or more job responsibilities. For example, the owner of a restaurant might order food, operate the cash register, interview and hire employees, market the restaurant, help clean the restaurant, oversee budgets, manage payroll and pay other business expenses. Furthermore, if a business has few employees, entrepreneurs also might perform administrative tasks such as mailing business correspondence, filing paperwork, handling all incoming telephone calls and scheduling client meetings. By wearing multiple hats, entrepreneurs can start to lose sight of the company's mission and sales goals, causing their business to experience lack of growth, an event a successful entrepreneur wants to avoid. After all, as reported in "Inc's" September 6, 2012 "The Many Hats of an Entrepreneur" article, "Growth, and new business, should always be the focus of the entrepreneur, because if the business is not growing, it's slowly dying."

**Various dilemmas are:-**

## **Financial Resources**

Even when the economy is strong, entrepreneurs may find it challenging to secure cash to cover start-up costs and everyday expenses such as payroll, utilities and rent for office space. "Entrepreneur" reports in its "How to Better Manage Your Cash Flow" article that, "The lag between the time you have to pay your suppliers and employees and the time you collect from your customers is the problem, and the solution is cash flow management." Should companies start losing profits due to events such as a decline in customer sales or lawsuit, entrepreneurs must find ways to strengthen business cash flows to keep their companies from becoming insolvent. For example, business owners might have to sell equipment, ask vendors to give them extensions on invoice due dates or borrow money from a bank.

## **Time Away from Work**

To meet demands for things such as developing new products, marketing business services and addressing customer complaints, entrepreneurs might work seven days a week. They also might work when they are ill. For example, Angel Wilkes, owner of Children's Party Plus, is reported in "The Wall Street Journal's" March 22, 2012 "Personal Time Gets Short Shrift" article as saying, "If I don't work, I don't eat." Taking time off from work may cost entrepreneurs money. For this reason, entrepreneurs might struggle to gain work/life balance. They also might put themselves at risk of becoming burned out or overly stressed due to work obligations.

## **Succession Planning**

Because entrepreneurs may not want to relinquish control of companies they spent years building, they might avoid selecting and training someone to replace them. As the "Harvard Business Review's" February 2008 "The Founder's Dilemma" article stated, "Four out of five entrepreneurs are forced to step down from the CEO's post. Most are shocked when investors insist that they relinquish control." Additionally, lack of succession planning can leave businesses at risk of being bought and taken over by competitors, especially if founders die before a successor has been identified and trained.

## **Others are:-**

**The Dilemma of Survival:** Can survival issues be identified?

**The Dilemma of Ethics:** Is honesty important to an entrepreneur?

**The Dilemma of Cultural Diversity in the Workforce:** Is diversity an issue in a small company?

**The Dilemma of Harvest/Exit Strategy:** Will I know when?

**The Dilemma of Instinctual vs. Analytical Decision-making:** How do entrepreneurs make successful decisions?

**The Dilemma of Growth:** Is growth good or bad and how will I know?

**The Dilemma of Experience:** Should I keep my day job?

**The Dilemma of Partners:** Can't live with them, can't live without them

**The Dilemma of Money and Control:** Owning a little of a lot or a lot of a little?

**The Dilemma of Building a Team:** Can engineers & scientists co-exist with marketers & accountants?

#### Activity 4.2

Pen down your dilemmas which can be the obstacles in your entrepreneur career.

#### 4.4 SUSTAINING COMPETITIVENESS:

Sustainable competitive advantage is the focal point of your [corporate strategy](#). It allows the maintenance and improvement of your enterprise's competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time. It includes how to survive against your competition over a long period of time and succeed in business. Sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy based on unique combination of internal organizational resources and capabilities that cannot be replicated by competitors.

##### ***Case in Point: Warren Buffet's Investment Criteria***

When asked what is the most important thing he looks for when evaluating a company to invest in, without hesitation, Warren Buffet replied, "Sustainable competitive advantage. It is the future growth and prosperity of the company, not its current price, that is most important. A company's prosperity, in turn, is driven by how powerful and enduring its competitive advantages are." Sustainable competitive advantage gives a company the edge that keeps competitors at bay and reap extraordinary growth and profits. "The key to investing is determining the competitive advantage of any given company and, above all, the durability of that advantage. The products or services that have wide, sustainable moats around them are the ones that deliver rewards to investors."

Detail of core competences:-

1. They should make a disproportional contribution to stakeholder value
2. They should open doors to other opportunities
3. They should represent such a unique blend of tacit and explicit knowledge that it cannot be copied by others

Eg:- **Amazon.com**

New [business model](#) developed by Amazon.com [creates value for customers](#) by offering a [synergistic](#) combination of the following benefits:

1. Shopping convenience
2. Ease of purchase
3. Speed
4. Decision-enabling information
5. A wide selection
6. Discounted pricing
7. Reliability of order fulfillment

No single aspect of [Amazon.com's business model](#) is sufficient to create a sustainable competitive advantage. It is the [synergistic combination](#) of all of these information services and logistical processes that [creates value for customers](#) and comprise Amazon.com's competitive advantage

#### **4.4.1 New Path to Sustainable Competitive Advantage:-**

How are today's firm reacting to the challenge? The response has been dramatic. A veritable cornucopia of new strategic initiatives have preoccupies executives time over the past decade. These include right sizing , unbundling, focusing on core businesses while divesting others , business process reengineering , total quality management, team work and many more. Meanwhile , major companies have found themselves eliminating millions of jobs , closing plants and moving operations to low-cost countries and attempting to become "Lean and Mean". Yet they continue to struggle.

There are important lessons to be learnt from this. First of all, turbulence in the external environment is causing a fundamental transformation on the internal operations of companies . Or, more simply put, external change forces internal change. Second, there is no simple formula for success in the new competitive environment. It is all about experimentation, as management looks for right structure , approach to control , leadership style and way to reward employees. Thirdly, there is an important upside to external environments as they become more complex, dynamic and hostile. Turbulence also mean opportunity. That is, change in markets, technologies, regulations and other areas . Market fragmentation also means new market segments are appearing , new technologies create new company capabilities, a regulatory change results in some sort of new need and so on. While some companies focus only on defending themselves against treats, other understand that there is a new opportunity to be found behind every threat.

But what is the real quest as managers sort through the various theories ,concepts and new techniques and tools? The answer is and always will be sustainable competitive advantage. But the rules have changes here as well. Traditionally , competitive advantage was achieved by having lower cost than the competition , achieving higher quality or product performance , adding a new product feature or delivering better customer service . Unfortunately, this game of " one- upmanship" can no longer produce sustainable advantage. Whatever one firm does in these areas is quickly matched by the other firms. Moreover to be successful in any industry today, firm must continually reduce cost, improve quality, enhance customer service and so



forth. Such continuous improvement is a minimal criterion for remaining in the competitive game. Remaining competitive is very different from achieving sustainable competitive advantage. The quest for competitive advantage requires that companies and the managers within them continually reinvent themselves. Specifically, we believe advantage drives from five key company capabilities. These include:-

a) **Adaptability**:- The ability to adjust on a timely basis to new technologies, customer needs, regulatory rules and other changes in conditions without losing focus or causing significant disruption of core operations and commitments.

b) **Flexibility**:- The ability to design company strategies, processes and operational approaches that can simultaneously meet the diverse and evolving requirements of customers, distributors, suppliers, financiers and other stakeholders.

c) **Speed**:- The ability to act quickly on emerging opportunities, to develop new products and services more rapidly and to make critical operational decisions without lengthy deliberations

d) **Aggressiveness**:- An intense, focused and proactive approach to eliminating competitors, delighting customers and growing employees.

e) **Innovativeness**:- A continuous priority placed on developing and launching new products, services, processes, markets, technologies and on leading the marketplace.

Firms that are more adaptable, flexible, fast aggressive and innovative are better positioned not only to adjust to a dynamic, threatening and complex external environment, but to create a change in that environment. They do not take external environment as a given, and instead of following them, creating new markets, and rewriting the rules of the competitive game. Entrepreneurship is the core source of sustainable advantage.

#### **4.4.2 Conditions for Sustaining Competitiveness:-**

**a) Distinctive Capabilities**:- Distinctive capabilities are the basis of your competitive advantage. According to the new [resource-based view](#) of the company, sustainable competitive advantage is achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions. Among these resources and capabilities, in the new economy, [knowledge](#) represents the most important value-creating asset.

The opportunity for your company to sustain your competitive advantage is determined by your capabilities of two kinds – distinctive capabilities and reproducible capabilities - and their unique combination you create to achieve [synergy](#). Your distinctive capabilities - the characteristics of your company which cannot be replicated by competitors, or can only be replicated with great difficulty - are the basis of your sustainable competitive advantage. Distinctive capabilities can be of many kinds: [patents](#), exclusive licenses, strong brands, [effective leadership](#), [teamwork](#), or [tacit knowledge](#). Reproducible capabilities are those that can be bought or created by your competitors and thus by themselves cannot be a source of competitive advantage.

#### **b) Leadership**

[Leadership](#) is the necessary condition for long-term competitiveness. In particular in the [knowledge economy](#), what is proving to be most effective is "the emerging style of [values-](#)

[based leadership](#), both as motivation for constant innovation up and down all organization levels and as a source of unity and coherence across fragmented firm boundaries."<sup>4</sup> Harnessing your abilities to [lead](#) through the power of intellect, will, persistence, and [vision](#) creates [synergies](#) that propel successful companies in the quest for, and achievement of, competitive advantage.

### **c)Systemic Innovation**

[Innovation](#) used to be a linear trajectory from new knowledge to new product. Now innovation is neither singular nor linear, but [systemic](#). It arises from complex interactions between many individuals, organizations and environmental factors. Firms which are successful in realizing the full returns from their technologies and innovations are able to match their technological developments with complementary expertise in other areas of their business, such as manufacturing, distribution, human resources, marketing, and customer relationships.

### **d)Radical Innovation**

Long-term corporate success linked to the ability to innovate. Although corporate investment in [improvements](#) to existing products and processes does bring growth, it is new game changing breakthroughs that will launch company into new markets, enable rapid growth, and create high return on investment.

### **e)Customers for Life**

The two most important words to keep in mind in developing a successful customer base are [Positioning](#) and [Differentiation](#). Differentiation refers to your ability to separate yourself and your product or service from that of your competitors. And it is the key to building and maintaining a competitive advantage. This is the advantage that you and your company have over your competitors in the same marketplace – the unique and special benefits that no one else can give your customer.

### **f)Corporate Culture as a Fundamental Competitive Advantage**

The strength of your [organizational culture](#) is one of the most fundamental competitive advantages. If you can build and preserve an [innovation-adept culture](#), a culture of commitment, one where employees passionately pursue your organization's [cause](#) and [mission](#), you will be better positioned for success.

### **g)Leveraging Opposite Forces**

You can find a strategic competitive advantage in an organizational and cultural context by seeking to leverage, rather than diminish, opposite forces. "An important but widely overlooked principle of [the business success](#) is that integrating opposites, as opposed to identifying them as inconsistencies and driving them out, unleashes power. This is true on both a personal level and on [organizational level](#) as well."<sup>2</sup> To be successful in [today's complex, rapidly changing and highly competitive world](#), you must embrace and manage critical opposites.

### **h)Cross-Functional Excellence**

Although [innovation](#) is driven by technology, required competence extends beyond technical know-how. In the [new knowledge economy](#) and [knowledge-based enterprises](#), [systemic innovative solutions](#) arise from complex interactions between many individuals, organizations and environmental factors. The boundaries between products and services fade rapidly too. If you wish to be a [market leader](#) today, you must be able to integrate in a balanced way different

types of know-how that would transform stand-alone technologies, products and services into a seamless, value-rich solution.

#### **4.4.3 Types of Competitive Advantage:-**

There are three parts of competitive advantage:-

**a)Basic competitive advantage:-** This is like the entry ticket for entrepreneur to the global hyper competition game. It implies product/ service with internationally competitive quality, cost and after sale service.

**b)Revealed competitive advantage:-** This is the advantage which is reflected by the market share of the entrepreneur in the market.

**c)Sustainable competitive advantage:-** This allows the enterprise for the maintenance and improvement of enterprise's competitive position in the market.

#### **4.4.4 Five criteria of Sustainable competitive Advantage:-**

- 1)Unique
- 2)Difficult to replicate
- 3)Superior to competition
- 4)Sustainable
- 5)Applicable to multiple situations

#### **4.4.5 Maintaining competitive advantage:-**

- 1) Balanced approach to business system i.e proper balance between customer, innovation ,finance& process and increase stakeholder value.
- 2) Managing change & moving with speed
- 3) Competitive & differentiation strategies
- 4) Visionary & daring growth strategies
- 5) Wining organization & people.
- 6)Radical Innovation, it is new game changing breakthroughs that will launch company into new markets, enable rapid growth, and create high return on investment. Radical innovation, concerned with exploration of new technology, is fundamentally different from incremental innovation that is concerned with exploitation of existing technology. "Radical innovation is a product, process, or service with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost."<sup>1</sup> It creates such a dramatic change in processes, products, or services that they transform existing markets or industries, or create new ones.

#### **4.4.6 Skills of effective competitor**

Knowing: the ability to get hard information.

Vision: the ability to foresee the future.

Action: the ability to move or stay where we are.

Positioning: the ability to use the Ground to find success

#### Self Assessment Question 4.2

##### Fill in the Blanks:-

- 1) The various skills of effective competitor are....., .....,..... &.....
- 2) Balanced approach to business system means.....
- 3) Five criteria of Sustainable competitive Advantage.....
- 4) Various types of Competitive Advantage are ....., .....&.....

#### 4.5 SUMMARY:-

Entrepreneurship is the creation of value through the pursuit of opportunity. The ability to seek new ways of doing things and to systematically exploit opportunities is fundamental for management in all forms of organization. Entrepreneurs take risks and are innovative, opportunistic, creative, flexible, dynamic and growth-oriented. Entrepreneurs can also be classified as opportunity-driven or necessity-driven. Individuals, who perceive a business idea and pursue it as a career option willingly, are opportunity driven entrepreneurs. However, in some cases, entrepreneurship might stem from the need to be entrepreneurial. Due to the absence of other career options or a lack of satisfactory options, some individuals are forced to become entrepreneurs. These days many young person are opting entrepreneurs as career. Such individuals are called necessity-driven entrepreneurs. Entrepreneurs are known for innovation & creativity and in order to compete they have to maintain & sustain competitiveness through various means.

#### 4.6 GLOSSARY:

**Career:**an occupation or profession, especially onerequiring special training, followed as one'slifework:

**Competitor:-** an organization or person that is engaged in commercial or economic competition with others

**Dilemmas:-** a situation requiring a choice between equally undesirable alternatives.

**Succession Planning:-** Identification and development of potential successors for key positions in an organization, through a systematic evaluation process and training.

#### **4.7 REFERENCES/ BIBLIOGRAPHY**

Entrepreneurship & innovation: Satayabir Bhattacharyya

#### **4.8 FURTHER READINGS**

Competitive Disruption: R. D'Adveni, Author of *Hypercompetition*

Entrepreneurship Development & Project Management: Lipika K. Guliani & R.K. Gupta (Himalaya Publications)

#### **4.9 MODEL QUESTIONS:-**

- 1) Explain Entrepreneurship as career.
- 2) What do you mean by mid career dilemmas?
- 3) What are the conditions for Sustaining Competitiveness?

#### **4.10 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ**

##### **Self Assessment Question 4.1**

1) True (2) False (3) True (4) True

##### **Self Assessment Question 4.2**

- 1) Knowing, vision, action & positioning
- 2) proper balance between customer, innovation, finance & process and increase stakeholder value
- 3) unique, difficult to replicate, superior to competition, sustainable & applicable to multiple situation.
- 4) Basic competitive advantage, Revealed competitive advantage & Sustainable competitive advantage

## **THEORIES OF ENTREPRENEURSHIP (I)**

### **STRUCTURE**

5.0 OBJECTIVES

5.1 INTRODUCTION

5.2 ROLE OF DIFFERENT THEORIES IN EXPLAINING ENTREPRENEURSHIP

5.3 INNOVATIVE THEORY OF ENTREPRENEURSHIP

5.3.1 Schumpeter's Classification Of Innovation

5.3.2 Limitations Of Innovative Theory Of Entrepreneurship

5.4 OTHER INNOVATION THEORIES

5.4.1 Systematic Innovation Theory

5.4.2 Dynamic Entrepreneurship Innovation Theory

5.5 THEORY OF HIGH ACHIEVEMENT BY Mc CLELLAND

5.5.1 Detail of Theory

5.5.2 Thematic Apperception Test

5.6 SUMMARY

5.7 GLOSSARY

5.8 REFERENCES

5.9 FURTHER READINGS

5.10 MODEL QUESTIONS

5.11 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

### **5.0 OBJECTIVES**

After studying this lesson, students will be able to :-

- a) Learn about evolution of entrepreneurship theories.
- b) Define the different management thoughts used in entrepreneurship.

## **5.1 INTRODUCTION**

The concept of entrepreneurship is as old as civilization. But theories of entrepreneurship have been evolved over a period of three centuries. Different authors have explained entrepreneurship in different ways. The concept of entrepreneurship is an evolved and undergone tremendous change and the topic of entrepreneurship has been surveyed by many economists .So the theories of entrepreneurship have advanced from the classical economists to the post Keynesian analysts. A consistent universal theory does not exist in entrepreneurship, but rather it consists of several different approaches including psychology, sociology, anthropology, regional science and economics.

## **5.2 ROLE OF DIFFERENT THEORIES IN EXPLAINING ENTREPRENEURSHIP**

### **1) Psychological Theories**

Psychological theories such as those developed by McLelland pay attention to personal traits, motives and incentives of an individual and conclude that entrepreneurs have a strong need for achievement (McLelland & Winter(1971). A similar focus is found in locus of control theories that conclude that an entrepreneur will probably have strong internal locus of control. This means that an entrepreneur believes in his or her capabilities to commence and complete things and events through his or her own actions. Brockhaus (1982) suggests that an internal locus of control, even if it fails to distinguish entrepreneurs, may serve to distinguish the successful entrepreneur from the unsuccessful one. Moreover, achievement motivation is the most important factor contributing in explaining variation of growth rates and entrepreneurship. Achievement motivation is perhaps the only convincing person logical variable associated with new venture creation.

This definition compared with the others includes the most characteristics listed above.

- \* Internal locus of control is included in "To master and manipulate physical objects, human beings, or ideas," in "To overcome obstacles and attain a high standard," and in "To excel one's self."
- \* High risk-taking propensity is connected with "To overcome obstacles and attain a high standard."
- \* Tolerance of ambiguity is associated with "To accomplish something difficult."
- \* High needs for autonomy, dominance, and independence coincide with "To master, manipulate, or organize physical objects, human beings, or ideas as independently as possible."

\* The capacity for endurance or capability for intense effort is parallel to "To overcome obstacles and attain a high standard," "To accomplish something difficult," "To rival and surpass others," "To do this as rapidly," and to "To excel one's self."

In addition to the above traits, the definition of need for achievement includes traits as competitive mind, self-consciousness, and an itch to self development and learning. In analyzing entrepreneurial behavior we should pay more attention to expectations, motives and incentives

### **Activity 5.1**

Collect the data about the various psychological factors that are having direct impact on entrepreneurs.

## **2) Entrepreneurship and Sociological Theories**

The sociological theory centers its explanation for entrepreneurship on the various social contexts that enable the opportunities entrepreneurs leverage. Paul D. Reynolds, a George Washington University research professor, singles out four such contexts: social networks, a desire for a meaningful life, ethnic identification and social-political environment factors. It explains the entrepreneurship by placing it within the context of culture and examining how cultural forces, such as social attitudes, shape both the perception of entrepreneurship and the behaviors of entrepreneurs. Social values, religious beliefs, customs etc influences the behaviour of individuals in a society. The characterization of an entrepreneur's role points out the meaning of environmental context (scouts around). This links different approaches to different environments that provide profit potential for different ventures. Thus the entrepreneur's role as the highly visible hand depends on the environmental(social) context. Johnson's (1990) study refers to the sociological perspective of entrepreneurship by proposing that a detailed description of the environmental context is required before achievement motivation research will make further progress. The main focus of sociological enterprise is to identify this social context. Reynolds (1991) differentiates with four social contexts in relation to entrepreneurial opportunity; (1) social networks, (2) life course stage, (3) ethnic identification and (4) population ecology stage. Social network theories emphasize trust, not opportunism, as an integral part of the relationship. Sociological theories that start from ethnic identification try to explain entrepreneurship as a process where the individual's sociological (disadvantageous) background is one of the decisive "Push" factors to become an entrepreneur.

## **5.3 INNOVATIVE THEORY OF ENTREPRENEURSHIP**

Joseph Schumpeter has been pioneering work in the field of entrepreneurship. Innovation theory is the given by Joseph Schumpeter only. According to him, entrepreneurship is essentially a creative activity. It refers to do things which are generally not done in ordinary course of business. The basics of Schumpeter's theory of innovation are found in his economic model of the circular flow. This circular flow describes a stationary situation of equilibrium and perfect competition similar to a so called Walrasian state of equilibrium. Innovation is defined as the stage of successful introduction of new products & processes. In explaining the change over from routine economic growth to 'dynamic' economic development, Schumpeter introduced the



notion of so-called 'new combinations'. These new combinations refer to the introduction of new product or a new quality of a product, a new method of production, a new market, a new source of supply of raw material or half manufactured goods, and finally implementing the new organization of any industry. According to him, entrepreneurs are essentially motivated and talented class of people. The innovative entrepreneur foresees the potentially profitable opportunity and tries to exploit it. Although Schumpeter referred to innovation as new combinations in most of his writings, he also defined innovation 'as setting up of a new production function'. In that context it is worth noting that Schumpeter introduced three broad definitions of production function i.e. as the given technological possibilities as seen by producers, blueprints with 'cost neutral' technical alternatives and a 'realistic' production function constructed on the basis of factual observations distinct from 'logically pure' production function.

Innovations involve problem solving and entrepreneur is a problem solver. An entrepreneur gets satisfaction from using his capabilities in attacking problems.

### **5.3.1 Schumpeter's classification of innovations and the Walrasian system**

#### **1) Product innovation**

A new product is introduced in a new firm's production function and in some of the consumers' consumption functions i.e. introduction of new product with which consumers are not yet familiar or introduction of a new quality of an existing product.

#### **2) Process innovation**

New production function for an existing consumption product i.e. the introduction of a new method of production that has not been yet tested in the branch of manufacture concerned. This need not be scientific discovery and can also be a new way of handling a commodity commercially.

#### **3) Market innovation**

An existing consumption product is introduced in the consumption function of a new group of buyers (e.g. in a new country). i.e. the opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

#### **4) Input innovation**

The supplying firm introduces a new production function and some buyers introduce the novelty in their production functions i.e. the conquest of a new source of supply of raw materials or semi finished goods, irrespective of whether this source already exists or whether it has first to be created.

#### **5) Organisational innovation**

A change in the routines for the economic behavior of a firm – typically by changing the market structure (e.g. a new cartel) i.e. the carrying out of a new organization, like the creation of a monopoly situation or the breaking up of a monopoly position.

Schumpeter has made the distinction between innovator and inventor. An inventor discovers new methods and new material whereas, an innovator is one who uses and applies

inventions and discoveries in order to make new combinations and to produce new and better goods which yield both satisfaction & profits. The innovator implements the new ideas produced by inventor as the invention refers to new concepts or products that derive from individual's ideas or from scientific research. The innovation on the other hand, represents the commercialization of the invention itself. Moreover an inventor is concerned with his technical work of innovation whereas an entrepreneur converts the technical work into economic performance. Schumpeter's definition of innovation as 'new combinations' is broad as it relates technical, marketing and organizational aspects of subjects. All three aspects are important for understanding the complexity of innovation.

Moreover, Schumpeter stressed the role of the entrepreneurial function in economic development. Schumpeter's innovating entrepreneur represents the most vigorous type of enterprise. In the view of above, Schumpeter's theory of entrepreneurship has got the following features:-

- a) Distinction between invention & innovation
- b) Emphasis on entrepreneurial functions i.e Schumpeter has given emphasis on the role of entrepreneurial functions in economic development.
- c) Presentation of disequilibrium situation through entrepreneurial activity.
- d) Characteristic motives of the entrepreneurial conduct.

### **5.3.2 Limitations Of Innovative Theory Of Entrepreneurship**

Schumpeter's focus on innovation and innovation theory however ignores the entrepreneur's risk taking ability and organizational skills, and place undue importance on innovation. This theory applies to large-scale businesses, but economic conditions force small entrepreneurs to imitate rather than innovate. Schumpeter's focus only innovation without much attention for pre-market conditions of technological development resulted not only in the abstraction from early phases of technology; it also meant that minor technological changes were somewhat neglected. Furthermore Schumpeter's understanding of innovations as more or less radical changes with a great impact on sectors of industry and business cycles made minor day to day technical improvements apparently less important. Schumpeter's concept of innovation is too restricted. Some other limitations of the theory are as under:-

**1) Emphasis on Innovative Function only:-** The theory stressed much on the innovation function of an entrepreneur and it neglects the other important functions like;- risk taking, decision making, managerial function of organization and leadership which are equally vital to perform entrepreneurial activity effectively.

**2) Study of Large Businessman:-** This theory assumes entrepreneur as a big businessman running large scale enterprise. According to Schumpeter, entrepreneur is a person who always creates something new. But in reality an entrepreneur cannot always create new things and cannot operate on large scale in the beginning rather it has to start from the small scale only and later it got extended to large scale.

**3) Non-Practicable in Developing countries:-** Innovative entrepreneurs are non –practicable in developing countries. Entrepreneurs in developing countries generally imitate technique of production from the developed economy. So they never goes for innovation at their own and therefore imitative entrepreneurs are suitable than innovative entrepreneurs for developing countries.

**4)No Study on established businessmen:-** The theory excludes the individuals who merely operate an established business without performing any innovative activity.

#### Self Assessment Question 5.1

- 1) Psychological theories such as those developed by McLelland pay attention to.....,..... and ..... of an individual
- 2) Tolerance of ambiguity is associated with "....."
- 3) The .....centers its explanation for entrepreneurship on the various social contexts.
- 4) High risk-taking propensity is connected with High risk-taking propensity is connected with .....

### 5.4 OTHER INNOVATION THEORIES:-

#### 5.4.1 Systematic Innovation Theory:-

Systematic innovation theory has been developed by Peter Drucker (1909-2005).Peter Drucker holds innovation, resources, and an entrepreneurial behavior as the keys to entrepreneurship. Drucker treats entrepreneurship as practice or discipline that has a knowledge base. It is a purposeful task that can be organized and learnt. The focus should not be on psychology or character traits of entrepreneurs but on their actions and behavior. Systematic innovation consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such change might offer for economic or social innovation. According to him entrepreneurship involves

1. increase in value or satisfaction to the customer from the resource
2. creation of new values
3. combination of existing materials or resources in a new productive combination

According to Drucker, systematic innovation means monitoring sources of Innovative Opportunity , these are:-

- 1) Internal: unexpected, incongruity, process need, changes in industry structure
- 2)External: demographics, changes in perception, mood, and meaning, new knowledge

- 3) The unexpected success, unexpected failure and unexpected outside event.
- 4) The incongruity between reality what it is actually and reality what is assumed to be or as it ought to be.
  - Between different economic realities.
  - Between industry reality and assumptions.
  - Between industry effort and values and expectations of customers.
  - Internal logic of a process.
- 5) New knowledge both scientific and non-scientific.
- 6) Innovation in industry structure or market structure that catches everyone unaware.
- 7) Changes in perception, mood & meaning.
- 8) Innovation is based on process need.

Outside of the Enterprise are:-Demographic, Changes in perception & new knowledge(both scientific & non scientific)

### **Principles of Innovation:-**

- Begin with analysis of opportunities.
- Innovation as conceptual and perceptual.
- Simple and focused.
- Start small.
- Aims at leadership

Further, Peter Drucker laid down three basic conditions of systematic innovation which often go disregarded by the majority. These are :-

- a) Innovation is work. It requires knowledge . It requires great ingenuity. When all is said and done innovation becomes hard, focused on purposeful work, working very great demands on diligence on persistence and on commitment.
- b) To succeed, innovation must build on their strengths.
- c) Innovation always has to be closed to the market, focused o market, indeed market driven.

### **Limitations of Systematic Innovation Theory**

- 1) The sources of innovative opportunities are not very reliable and cannot be predicted with accuracy.
- 2) The theory stresses on market –driven innovation and ignores the innovation in production or technology.
- 3) It demands too much diligence , persistence and commitment , which may be a hard fact to find in today's youth .

#### **5.4.2 Dynamic Entrepreneurship Innovation Theory :-**

This theory was given by Schumpeter. He considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. According to Schumpeter , the entrepreneur can activates the economy to a new level of development by embarking upon new combinations of the factors of production which terms as innovation. The concept of innovation and its corollary development embraces five functions:-Introduction of new product, introduction of new method of production, opening of new market, conquest of new source of supply of raw materials and carrying out a new organization of any industry.

Schumpeter represents a synthesis of different notions of entrepreneurship. His concept of innovation included the elements of risk taking, superintendence and co-ordination. Therefore, Schumpeter stressed the fact that these attributes unaccompanied by the ability to innovate would not be sufficient to account for entrepreneurship.

According to him, innovation occurs when the entrepreneur

- a) Introduces a new product.
- b) Introduces a new production method
- c) Opens up a new market
- d) Finds out a new source of raw material supply
- e) Introduces new organization in any industry

Moreover, the theory put emphasis on innovation by ignoring the risk taking & organizing abilities of an entrepreneur.

#### **Activity 5.2**

Collect the details of five innovative ventures which are innovative as per the details given by Schumpeter

#### **5.5 THEORY OF HIGH ACHEIVEMENT BY Mc CLELLAND:-**

Over the years behavioral scientists have observed that some people have an intense need to achieve; others, perhaps the majority, do not seem to be as concerned about achievement. This phenomenon has fascinated David C. McClelland. For over twenty years he and his associates at

Harvard University studied this urge to achieve. McClelland's research led him to believe that the need for achievement is a distinct human motive that can be distinguished from other needs. More important, the achievement motive can be isolated and assessed in any group. The theory of entrepreneurship is developed by Mc Clelland. Mc Clelland has identified the two characteristics of entrepreneurship namely: - 'doing things in a new and better way' and 'decision making under uncertainty'. David McClelland (1917-1988) considers entrepreneurs as people who do things in a better way and makes decisions in times of uncertainty. The dream to achieve big things overpowers monetary or other external incentives. McClelland's experiment revealed that traditional beliefs do not inhibit an entrepreneur, and that it is possible to internalize the motivation required for achievement orientation through training.

Mc Clelland stressed the need for achievement or achievement oriented as the most directly relevant factor for explaining economic behavior. Mc Clelland made efforts to identify the motivational factors that motivate a person to become an entrepreneur to exploit business opportunities and to take advantage of favourable trade conditions. According to him, the strong desire for high achievement is one of the motivational factors among successful entrepreneurs. Achievement-motivated people are that they seem to be more concerned with personal achievement than with the rewards of success. They do not reject rewards, but the rewards are not as essential as the accomplishment itself. They get a bigger "kick" out of winning or solving a difficult problem than they get from any money or praise they receive. Money, to achievement-motivated people, is valuable primarily as a measurement of their performance. It provides them with a means of assessing their progress and comparing their achievements with those of other people. They normally do not seek money for status or economic security.

### **5.5.1 Detail Of Theory**

The theory suggests that motivation for human behavior stems from the underlying assumption that we have a natural or instinctive need to attain high levels of success in our various pursuits.

The theory was proposed by David Clarence McClelland in 1941 while he was working towards achieving his doctorate. Dr. McClelland is known as one of the pioneers of the motivational thinking designed for the environment of the workplace. He is also one of the first to encourage the use of competency-based assessments for employers, which he felt were much more effective than the standard personality-based and IQ tests. Actually observing and testing the ability of the employee to do his or her current job, McClelland theorized, was a better way to determine immediate job skills. His theory is broken into three main points or groups of motivational needs. These three groups are the "n-ach, the "n-pow," and the "n-affil" needs. The presence of these needs can be examined in various ways, but McClelland drew upon Murray's use of projective pictures as a way of identifying the position of these needs in a leader.

#### **Power Needs (nPOW)**

A high need for power may be expressed as "personalized power" or "socialized power." People with high personalized power may have little inhibition or self control, and they exercise power impulsively. Correlated with this are tendencies to be rude, excessive use of alcohol, sexual

harassment, and collecting symbols of power (e.g., big offices, desks, fancy cars, etc.). When they give advice or support, it is with strategic intent to further bolster their own status. They demand loyalty to their leadership rather than to the organization. When the leader leaves the organization there is likely disorder and breakdown of team morale and direction. Socialized power need is most often associated with effective leadership. These leaders direct their power in socially positive ways that benefit others and the organization rather than only contributing to the leader's status and gain. They seek power because it is through power that tasks are accomplished. They are more hesitant to use power in a manipulative manner, are less narcissistic and defensive, accumulate fewer material possessions or symbols of power or status, have a longer range perspective, and are more willing to receive consultation and advice. They realize that power must be distributed and shared, and that everyone must have a sense of influence over their own jobs. Effective leaders empower others who use that power to enact and further the leader's vision for the organization. For technical managers, need for achievement was predictive of advancement through lower levels of management, but power was predictive of higher levels of attainment.

### **Achievement Need (nACH)**

Achievement is reflected in stories about attaining challenging goals, setting new records, successful completion of difficult tasks, and doing something not done before.

High need achievers prefer a job in which success depends on effort and ability rather than on chance and factors beyond their control (locus of control). They prefer tasks that enable them to exercise their skills and initiation in problem solving. They want frequent and specific feedback about performance so they can enjoy the experience of making progress toward objectives. People scoring high are often found in jobs such as sales representative, real estate agent, producer of entertainment events, and owner-manager of small business. For managers in large organizations, moderate to high achievement is secondary to higher power needs. If achievement is dominant, the manager may try to achieve objectives alone rather than through team development.

### **Affiliation Need (nAFF)**

Affiliation themes are revealed in stories about establishing or restoring close and friendly relationships, joining groups, participating in pleasant social activities, and enjoying shared activities with family or friends. It reflects behaviors toward others that are cooperative, supportive, and friendly and which value belonging and conformity to the group. They obtain great satisfaction from being liked and accepted by others, and prefer to work with others who prefer group harmony and cohesion (e.g. relationship-centered, Jungian Type F's).

A person low in affiliation tends to be a loner who is uncomfortable socializing with others except for a few close friends or family (introversion?). They may lack motivation or energy to maintain high social contacts in networking, group presentations, public relations, and building close personal relations with peers and subordinates so necessary for most managers.

Those with strong nAFF are reluctant to let work interfere with harmonious relationships. Moderate nAFF is related to effective management, since strong needs often lead to avoidance of unpopular decisions, permitting exceptions to rules, and showing favoritism to friends. This often leads to subordinates feeling confused about rules, playing to the manager's likes, and becoming anxious about what might happen next (inequity).

Let's take a closer look at how to manage team members who are driven by each of McClelland's three motivators: -

### **A) Need for Achievement**

Entrepreneurs having a high need for achievement always feel ambitious to be successful. People motivated by achievement need challenging, but not impossible, projects. They thrive on overcoming difficult problems or situations, so make sure you keep them engaged this way. People motivated by achievement work very effectively either alone or with other high achievers.

When providing feedback, give achievers a fair and balanced appraisal. They want to know what they're doing right – and wrong – so that they can improve. They like to face challenges, decide high aims for achievement, take calculated risk.

### **B) Need for Affiliation**

According to McClelland entrepreneurs desire to be liked and accepted by others. These types of entrepreneurs develop and maintain cordial and friendly relations with their employees. People motivated by affiliation work best in a group environment, so try to integrate them with a team (versus working alone) whenever possible. They also don't like uncertainty and risk. Therefore, when assigning projects or tasks, save the risky ones for other people.

When providing feedback to these people, be personal. It's still important to give balanced feedback, but if you start your appraisal by emphasizing their good working relationship and your trust in them, they'll likely be more open to what you say. Remember that these people often don't want to stand out, so it might be best to praise them in private rather than in front of others.

### **C) Need for Power**

An entrepreneur has high need for power. He always desired much concerned for dominance and control. The need for power in an entrepreneur has the features like:-excelled in position with status and prestige, prefer to be placed into highly competitive and status oriented situation, likes to order others and demand obedience. Those with a high need for power work best when they're in charge. Because they enjoy competition, they do well with goal-oriented projects or tasks. They may also be very effective in negotiations or in situations in which another party must be convinced of an idea or goal.



When providing feedback, be direct with these team members. And keep them motivated by helping them further their career goals.

McClelland stressed the need for achievement as the most directly relevant factor for explaining economic behaviour. This motive is defined as the tendency to strive for success in a situation which involves an evaluation of performance of one person against some standard of excellence. People having high need for achievement are more likely to succeed as entrepreneur. McClelland's Human Motivation Theory states that every person has one of three main driving motivators: the needs for achievement, affiliation, or power. These motivators are not inherent; we develop them through our culture and life experiences. Achievers like to solve problems and achieve goals

### **5.5.2 Thematic Apperception Test**

McClelland used the Thematic Apperception Test (TAT) as a tool to measure the individual needs of different people. The TAT is a test of imagination that presents the subject with a series of ambiguous pictures, and the subject is asked to develop a spontaneous story for each picture. The assumption is that the subject will project his or her own needs into the story.

Psychologists have developed fairly reliable scoring techniques for the Thematic Apperception Test. The test determines the individual's score for each of the needs of achievement, affiliation, and power. This score can be used to suggest the types of jobs for which the person might be well suited.

#### **Self Assessment Question 5.2**

- 1) Give full form of TAT.
- 2) What are the three motivators given by McClelland .
- 3) nAFF means?
- 4) McClelland has identified the two characteristics of entrepreneurship namely:- 'doing things in a new and better way' and 'decision making under uncertainty'

### **5.6 SUMMARY**

Major theories view the entrepreneur as performing various functional roles as risk taker, decision maker, organizer or co-ordinator, innovator, gap seeker etc. All the theories ascribe a functional role to entrepreneur in the productive process and entrepreneurial rewards are explained by degree of success attained by fulfilling that function.

According to Schumpeter an entrepreneur is an innovator and Innovation is defined as the stage of successful introduction of new products & processes. Schumpeter is the first major theorist to put human agent at the centre of the process of economic development and according to him an entrepreneur is the prime mover in economic development and his function is to innovate and to carry out new combinations. McClelland identified two characteristics of entrepreneurship namely:- doing things in a new and better way and decision making under

uncertainty .Moreover he stressed upon need for achievement , power and affiliation as relevant factor for explaining economic behavior.So different economists give different view about the entrepreneur and entrepreneurship.

## **5.7 GLOSSARY**

**Achievement** :- the act of achieving something; a result gained by effort.

**Motivation**:- Internal and external factors that stimulate desire and energy in people to be continually interested and committed to a job

**Power**:- the capacity or ability to direct or influence the behavior of others or the course of events

## **5.8 REFERENCES/ BIBLIOGRAPHY**

- 1)Entrepreneurship & Small Business-Rajesh Marwaha
- 2)The Dynamics of Entrepreneurial Development and Management-Vasant Desai

## **5.9 FURTHER READINGS**

- 1)Entrepreneurship & small Business-Sharma Publications
- 2)Fundamentals of Entrepreneurship-Sangram Keshari

## **5.10 MODEL QUESTIONS:-**

Ques1:- Critically analyses the theory of innovation given by Schumpeter.

Ques2:- Give detail explanation of the theory of high achievement given by McClelland.

Ques3:- Explain different theories of entrepreneurship.

## **5.11 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ**

### **Self Assessment Question 5.1**

- 1) personal traits, motives and incentives of an individual
- 2) "To accomplish something difficult"

3) Sociological theory

4) "To overcome obstacles and attain a high standard"

**Self Assessment Question 5.2**

- 1) Thematic Apperception Test
- 2) Need for Affiliation, Need for Achievement and Need for Power
- 3) Affiliation Need
- 4) doing things in a new and better way' and 'decision making under uncertainty'

**Lesson 6**

**THEORIES OF ENTREPRENEURSHIP (II)**

**STRUCTURE**

6.0 OBJECTIVES

6.1 INTRODUCTION

6.2 X-EFFICIENCY THEORY BY LEIBENSTEIN

6.2.1 The Individual In X- Efficiency Theory

6.2.2 The Dual Personality

6.3 VARIOUS THEORIES OF PROFIT

6.4 THEORY OF PROFIT- KNIGHT

6.5 THEORY OF SOCIAL CHANGE –EVERETT HAGEN

6.5.2 Summary Of Theory

6.5.2 Limitations Of Theory

6.6 OTHER THEORIES OF ENTREPRENEURSHIP

6.6.1 Theory Of Religious Belief

6.6.2 Leadership Theory

6.6.3 Theory Of Social Behaviour

6.6.4 Theory Of Adjustment

6.7 SUMMARY

6.8 GLOSSARY

6.9 REFERENCES/BIBLOGRAPHY

## 6.10 FURTHER READINGS

## 6.11 MODEL QUESTIONS

## 6.12 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

### **6.0 OBJECTIVES**

After studying this lesson, students will be able to :-

- a) Outline the evolution of entrepreneurship.
- b) Define the different management thoughts used in entrepreneurship.
- c) Delineate the theory of profit by Knight and theory of social change by Everett Hagen

### **6.1 INTRODUCTION:-**

The concept of entrepreneurship is complex and its content is not influenced only by economical aspects but also by sociological , political, psychological, ethical, religious and cultural values. The concept also bears testimony to courage, creativity, determination, networking, hardworking etc. Over the years the social scientists have interpreted the phenomenon of entrepreneurship differently in accordance with their perception and economic environment. Entrepreneurship as a process has and is undergoing changes and keeping these changes, different theories of entrepreneurship have been evolved by different thinkers.

### **6.2 X-EFFICIENCY THEORY BY LEIBENSTEIN:-**

This theory has recently used to analyse the role of the entrepreneur. The concept of x-efficiency was proposed by economist Harvey Leibenstein in a 1966 paper and in his 1968 AER paper “Entrepreneurship and Development”, and in his 1978 book *General X-Efficiency Theory and Development*, Leibenstein applied his theory of X-efficiency to the study of development. It is worth mentioning that his (initial) presentation of the theory of X-efficiency had nothing to do with the study of development. Rather, as argued by Heinz Arndt, he developed this concept: “in the context of the efficiency of resource use within the (modern) firm, to explain why some firms

in a given industry are more efficient than others". The X in X-efficiency represents an unknown factor responsible for a non allocative type of inefficiency. X-Efficiency is the degree of inefficiency in the use of resources within the firm. It measures the extent to which the enterprise fails to realize its productive potential. These (X) unexploited opportunities are due to factors such as lack of motivation, human inertia, and biases in human decision making that lead to non-maximizing behavior, suboptimal performance, and waste. These unexploited opportunities are a form of inefficiency, but not allocative inefficiency. These inefficiencies are not related to prices and markets per se. They are related to intra firm activities and to both type-1 and type-2 errors made by individuals, which affect the firm's performance. Productive potential is identified with the point on Neo-classical production frontiers for a given set of inputs . X-efficiency arises either because the resources of the enterprises are used in the wrong way or because they are wasted which means not used at all.

Leibenstein identifies two main roles for the entrepreneur:-

- 1) Input Completion:- It involves making available inputs that improve the efficiency of existing production method or facilitates the introduction of new ones. The role of the entrepreneur is to improve the flow of information in the market.
- 2) Gap filling:- The second role is closely asking to the arbitrage function emphasized by Kirzner. Leibenstein provides a very vivid description of gap filling , visualizing the economy as a net made up of nodes and pathway

Moreover it explains how the individual's "internal" environment (personality) and "external" environment can produce both these types of behaviors. XE theory will be discussed in the following sequence. First, we will discuss the psychology and behavior of the individual. Second, we will discuss the individual as a group member. Third, we will present the implications of the theory. Fourth, we will provide an application of the theory to the determination of productivity.

### **Activity 6.1**

Suppose you are the entrepreneur in automobile industry, then pen down the various methods by which you can increase the efficiency of the organization with the available resources.

#### **6.2.1 The Individual In X Efficiency Theory:-**

XE theory is largely a reaction to two things: orthodox economic theory which presents production as technologically determined, and formal and anecdotal evidence seemingly

inconsistent with this theory. If production is not the outcome of merely technological forces, then what does determine input: output relations? In part, XE theory explains both these issues by exploring the component parts, or meanings, of some commonly used words and terms, including decision making, effort (physical and/or mental), pressure, maximization, and rationality. In each case, the reader will see a tendency to think of these as being defined by a range of possibilities; for example, decision making can be either "tight" or "loose," and effort and pressure can vary from a little to a great deal. The reader will also recognize a tendency for XE theory to inquire about the behavioral or procedural aspects of these words.

For example, what are the component parts of effort, and under what conditions is a high effort level more likely to be forthcoming? Similar to Herbert Simon, rationality is used in a procedural sense. That is, what procedures are necessary for a rational decision to be made?

### **6.2.2 The Dual Personality**

The concept that an individual can contribute to X-(in)efficiency arises from the dual nature of the human personality. On the one hand, we want to adhere to standards, to strive for the maximum, and to strive by being calculating and attentive to details. In other words, this aspect of the personality is our rational self, the part of us that uses "tight," focused, or rational decision-making procedures. Leibenstein refers to this aspect of our personality as the "superego function." (Although this term was used by Freud, it would be incorrect to assess its use here as implying that Leibenstein is attempting to incorporate Freudian psychology into economic theory.) The other tendency is for each of us to "kick back," to use "loose" decision-making procedures, to follow our "animal spirits." Leibenstein refers to as the "id function." It is the id function that leads us to be "unconstrained," that is, unwilling but not necessarily unable to be calculating, attentive, rational. XE theory assumes that, on the average, each individual is influenced by both functions in a way that leads to a compromise between the two. That is, each of us forges a compromise between the way we feel we must behave and the way we would like to behave were it not for a sense of obligation to duty or to a set of standards. In other words, each individual strikes a compromise that provides them with a sense of (psychological) "comfort." The words "constrained" and "unconstrained" have been used in the context of an individual's ability and willingness to be attentive to details, to calculate, to be rational. "Constrained" and "unconstrained" are now going to be considered as the two end points of a personality trait that could be measured on a continuous scale. That is, the personality could exhibit complete constraint concern, at one end of the spectrum, and a complete lack of concern for constraints at the other end. Thus, an individual could employ the full power of his or her attention to details and to calculating costs and benefits. Such an individual would be completely or fully rational. On the other hand it is possible to imagine an individual placing less than 100% of this power on the details and calculations necessary to make a fully informed decision. Such an individual is referred to as "selectively rational." Rationality is thus a continuous variable with an "economic person" exhibiting complete constrain concern. The economic person is thus a limiting case: a characteristic of the decision-making procedures used by some people at some times but not necessarily characteristic of all people at all times.

### **6.3 VARIOUS THEORIES OF PROFIT:**

There are various theories of profits given by different economists. These are as under:-

### **(A) The Dynamic Theory**

Prof. JB Clark propounded the dynamic theory of profit and according to him; profit is the difference between the price and the cost of production of the commodity. But the profit is the result of dynamic change. In a dynamic state, “five generic changes are going on, every one of which reacts on structure of society.” They are (1) population is increasing (2) Capital is increasing (3) Methods of production are improving (4) The forms of industrial establishment are changing the less efficient shops etc. are passing from the field and the most efficient are surviving (5) The wants of consumers are multiplying.

### **(B) The Innovative Theory**

Prof. Schumpeter attributes profit to dynamic changes resulting from an innovation. To start with he takes a capitalist closed economy which is in a stationary equilibrium. This equilibrium is characterised by what Schumpeter calls a “circular flow” which continues to repeat itself for ever. In such a static state, there is perfectly competitive equilibrium. The price of each product just equals its cost of production and there is no profit.

Only exogenous factors like whether conditions can cause changes in the circular flow position. In the circular flow position goods are being produced at a constant rate. This routine work is being performed by the salaried managers. It is the entrepreneur who disturbs the channels of this circular flow by the introduction of an innovation. Thus Schumpeter assigns the role of an innovator not to the capitalist but to the entrepreneur.

### **(C) The Risk Theory**

The risk theory of profit is associated with FB Hawley who regards risk taking as the main function of the entrepreneur. Profit is the residual income which the entrepreneur receives for the reason that he assumes risks. The entrepreneur exposes his business to risk and receives in turn a reward in the form of profit since the task of risk taking is infuriating. Profit is an excess of payment above the actuarial value of risk. No entrepreneur will be willing to undertake risks if he gets only the normal return. Hence the reward for risk taking must be higher than the actual value of risk.

### **(D) The Uncertainty Bearing Theory**

Prof. Frank H knight regards profit as the reward of bearing non insurable risks and uncertainties. He distinguishes amidst insurable and non-insurable risks. Certain risks are measurable in as much as the probability of their occurrence can be statistically calculated. The risk of fire theft of merchandise and of death by accident is insurable. Such risks are borne by the insurance company. There are certain unique risks which are incalculable. The probability of their occurrence cannot be statistically computed for the reason that of the presence of uncertainty in them.

Such unforeseen risks relate to changes in prices, demand and supply etc. No insurance company can calculate the loss expected from such risks and hence they are non-insurable. Profit according to Knight is the reward of bearing non-insurable risks and uncertainties. It is a deviation arising from uncertainty between earning ex post and ex ante.

### **(E) Shackle's Theory**

Prof. GLS Shackle has extended Knight's theory of profit by introducing expectations under conditions of uncertainty. According to him, expectations are of two types: general and particular. General expectations relate to variables general to the economy as a whole. They are associated with such micro variables as the future reaction of a particular marketing strategy adopted by a firm, the future pricing policy of a competitive firm etc.

The decisions of the business community are generally based on general expectations. If it regards them favourable investments are made. But there is subjective certainty in the case of general expectations. Their time horizon is about 12 months. As the general expectations have subjective certainty and their time horizon is also of reasonable duration, the business community is able to anticipate price and income increases correctly for the economy as a whole and by adopting appropriate inventory policies it earns windfall profit.

### **(F) Rent Theory of Profit**

The rent theory was developed by an American economist Francis L Walker. Walker maintains that profit is the rent of ability. Like different grades of land, entrepreneurs are also of different abilities. Entrepreneurs of superior ability earn profit just as superior lands earn rent. According to Walker just as there is the marginal or no rent land, similarly there exists a marginal or no profit entrepreneur who earns only wages only wages of management. The marginal or no profit entrepreneur is the least efficient one earning profit not beyond an amount just sufficient to keep him in his present industry.

The industry managed by the marginal entrepreneur is similar to the marginal land. Just as land at the margin is no rent land, similarly the marginal entrepreneur earns no profit.

#### **Self Assessment Question 6.1**

- 1) Who proposed the X-efficiency theory?
- 2) What the 2 main roles of for the entrepreneur identified by Leibenstein.
- 3) Who gave the theory of innovation?
- 4) The risk theory of profit is associated with whom?
- 5) **Who gave the Rent Theory of Profit**

## **6.4 THEORY OF PROFIT- KNIGHT**



Frank H. Knight held two different concepts of uncertainty. The first is based on the possibility of insuring against an outcome. The second refers to all instances where individuals have subjective expectations about the future. The second meaning forms the basis of Knight's (1921) theory of profit and entrepreneurial action (Knight I). Knight I is limited; it provides no explanation of the incentive for entrepreneurial action. Knight's (1942) much neglected second theory of profit (Knight II) highlights the deficiencies of Knight I by offering a clear incentive for entrepreneurial action. The differences between the two theories of profit reflect the impact of incorporating historical timing into economic analysis. The discussion of Knight's contribution to these related literatures has been based almost entirely on *Risk, Uncertainty and Profit* (1921, RUP hereafter).

Knight (1921, 1942) is consistent in defining profit as a residual. Providing productive services, labour and capital, and earning marginal products is the economic equivalent of a closed mechanical system. Profit is outside of this system, it is a residual that is not determined by any activity within the system. Uncertainty is the condition necessary for profit to exist. If the future is merely risky, then profit cannot exist. "(I)t is this "true" uncertainty, and not risk ... which forms the basis of a valid theory of profit since risk, in the ordinary sense, does not preclude perfect planning, such risk cannot prevent the complete realization of the tendencies of competitive forces, or give rise to profit". Knight continues by claiming that even if the future is risky, no profit can be earned if: "all the alternative possibilities are known and the probability of occurrence of each can be accurately ascertained" (1921, p. 198).

According to Frank Knight, profit is a residual; the reward for bearing risk is a factor payment for an economic activity, earned in proportion to the amount of risk borne. Thus, even though all incomes are not necessarily certain in advance, they are always a reward for a measurable function or activity. Further according to Knight, The economy is static, free from all "progressive" changes (technology, population, etc.), and exogenous forces are assumed away. When uncertainty is absent no profits can be earned. When introduced, the amount of uncertainty is determined by the length of the production period, the level of the economic activity (more complex societies have greater uncertainty), and the extent to which uncertainty has been reduced by insurance and hedging. Entrepreneurs, facing uncertainty, must forecast demand before contracting the factors of production and producing output. The production period that is strictly positive, and consumer preferences change through time. Profit arises as a result of errors in forecasting future demand.

Knight claims the entrepreneur as the owner of the firm and the bearer of risk/uncertainty.<sup>5</sup> Knight (1921, p. 293) justifies the claim of the entrepreneur as owner on the basis that all decisions are made by agents appointed by the owner, who bears ultimate responsibility for all decisions made within the firm. It is worth summarizing the elements of the theory First, profit arises out of short term fluctuations, not "progressive" changes. Progressive changes include invention and innovation. Entrepreneurs earn profits by forecasting the future better than other entrepreneurs. In addition to forecasting the future, entrepreneurs have the responsibility of bearing uncertainty. The decision to become an entrepreneur is then based on the belief of superior ability in forecasting, as well as an appetite for bearing uncertainty. The profit itself is the result of a contracting error; the owners of the factors of production negotiate fixed incomes different to their marginal value in the eventual output. Net profits for all entrepreneurs are probably negative, and this is a reflection of the likely over optimism of entrepreneurs. Finally, this activity occurs in a very specific setting, a static economy in which

production takes time, consumer preferences change over time, and all other factors are held constant. Knight defines "progressive" as changes in the population, technology and business organization, wants, and the accumulation of capital. The role of innovation is perhaps the most important, as this forms the basis of Schumpeter's (1961) theory of entrepreneurial action. To Knight (RUP, p. 148) long-run changes are not the primary cause of profits. Successful entrepreneurs have characteristics that correspond with their role as entrepreneurs. The first is the ability to forecast the future: "Men differ in their capacity by perception and inference to form correct judgments as to the future course of events in the environment. This capacity, furthermore, is far from homogeneous, some persons excelling in foresight in one kind of problem situations, others in other kinds, in almost endless variety" .The decision to become an entrepreneur relies not only on this inherent ability, but also on one's degree of faith in one's ability. The second attribute of the entrepreneur is a willingness to bear uncertainty: "Any degree of effective exercise of judgement or making decisions, is in a free society coupled with a corresponding degree of uncertainty bearing, or taking responsibility for those actions"

F.H Knight , in his book Risk, Uncertainty and profit propounded the theory of profit. He points out that entrepreneurs are a specialized group of people who bears risk and deals with uncertainty. Given the construction of the theory Knight arrives at profit as being: a residue after deduction of the payment for the other agencies. The residue is not a product residue, but a margin of error in calculation on the part of the non-entrepreneurs who do not force the successful entrepreneurs to pay as much for the productive services as they could be forced to pay. The choice of the word error is perhaps unfortunate as it detracts from the role of expectations and gives profit the appearance of a mistake. Knight identifies the entrepreneur as a recipient of pure profits. According to knight, pure profit is bearing the cost of uncertainty with regard to the entrepreneur. Knight identifies uncertainty with a situation where the probabilities of alternatives outcomes cannot be determined. Knight argues that business uncertainty can be reduced through 'consolidation'. Consolidation is a method of reducing total uncertainty by pooling individual instances. Consolidation is to uncertainty is what insurance is to risk. So Knight's theory has following features:-

- a) **Pure profits**:-Knight identified entrepreneurs as the recipient of pure profit. Pure profit refers to the reward for bearing the cost of uncertainty.
- b) **Situation of uncertainty**:- Uncertainty, according to knight ,is identified with a situation where the probability of alternative cannot be determined either by a prior reasoning or by statistical inferences.
- c) **Risk-bearing capabilities**:- Risk bearing implies assuming the responsibilities of loss or gain that may occur due to unforeseen contingencies of the future. According to Knight, an entrepreneur is a person who willingly carries on those responsible activities which are neither insured nor salaried.
- d) **Guarantee of specified sum**:- While undertaking the responsibility of the business enterprise, entrepreneur guarantees interest to lender, wages to employees and rent to landlord. Thus, specified sums of money are guaranteed by the entrepreneur for the assignment made to them. However, the supply of entrepreneurship depends upon the following three factors as per his opinion:-
  - 1)Ability of the entrepreneur

2)Willingness of the entrepreneur

3)The power to extend guarantees to others.

e) **Identification of socio-economic and psychological factors:-** Knight identified the social, economic and psychological factors which influence the supply of entrepreneur since entrepreneurial motivation and abilities are long run problems. Economic, social and psychological factors should be combined to promote entrepreneurship.

f) **Use of consolidation technique to reduce business uncertainty:-** Knight's entrepreneurs specifically commit their capital and bear the resultant risk and uncertainty . He argued that business uncertainty can be reduced by using the technique of consolidation to increase the profits. Through the help of consolidation in which individual instances are pooled , total uncertainty can be reduced.

### Activity 6.2

Taking the example of your favorite entrepreneur , pen down its features given by Mr.Knight

## 6.5 THEORY OF SOCIAL CHANGE –EVERETT HAGEN

The problem which Professor Hagen has posed is why, in the contemporary world, some of the technologically undeveloped nations are quick to adopt Western technology while others are resistant. The solution he proposes, after a rapid survey and discarding of existing theories of the causes for economic growth, is found in his idiosyncratic version of personality theory. Everett Hagen in his work “ Theory of Social Change” explains how economic growth begins?His creative personality is an individual characterized by a high need for achievement , order and autonomy.He view the entrepreneur as a creative problem solver interested in things in the practical and technological realm, and driven by a duty to achieve.

Hagen considers the withdrawal of status, of respect, as the trigger mechanism for changes in personality formation. Status withdrawl occurs when members of some social group perceive that their purposes and values in life are not respected by the groups in the society they respect, and whose esteem they value. Hagen postulates four types of events which can produce status withdrawal:-

A) Displacement of a traditional elite group from its previous status by another traditional supply physical force.

b) Denigration of valued symbols through some change in the attitude of the superior group.

c) Inconsistency of status symbols with a changing distribution of economic power.

d) Non-acceptance of expected status on migration to a new society.

Following McClelland's concept that a level of development is correlated with achievement motivation, Hagen tried to explain why this achievement motivation varies between societies and their classes and strata. He argues that in traditional societies the status of

individuals is fixed. Children learn to act according to established norms, and deviations are punished. If by external influences a new group gains power, the status of the old elite is challenged and weakened. The insecurity and frustration leads to changed behaviour which has consequences on the family structure. Children tend to become dissatisfied with the society and readily accept new values. In time, they become innovative personalities. If these persons become dominant groups in the society, this causes economic development. Similar phenomena may happen as far as the changing situation of marginal groups or minorities is concerned.

Moreover, Traditional agricultural societies have begun to rapidly progress technologically, which in turn impacts both economic growth and social change. In order for countries, including those with low incomes, to experience economic growth, two factors must exist:-

(1) extensive levels of creativity, including the identification of and implementation of problem-solving skills, and

(2) viewpoints which promote creative approaches towards production technology.

The characteristics of a traditional agricultural society are discussed, including the typical hierarchical, authoritarian social structure and the impact of family status upon an individual's perceived social status. Additionally, an individual's personality may also impact their role and status within a society, as well as their impact upon a society's economic growth. Utilizing a Freudian, psychoanalytic approach, personality development of the individual is analyzed at length by studying the function of parental influence, as well as environmental factors, upon child personality development. Several examples of social change among historically authoritarian societies are presented. As an explanation for social change within these traditional societies, the study theorizes that alienated, creative individuals often seek to break away from traditional social patterns after being marginalized by society for being different. As a result, they pursue projects which will utilize their creative talents, while also allotting them the power and retribution they seek against their elitist society.

### **6.5.1 Summary of the theory:-**

Everett E. Hagen, in his theory of social change, propounded how a traditional society becomes one in which continuing technical progress takes place. The theory exhorts the following features which presume the entrepreneur's creativity as the key element of social transformation and economic growth.

**1)Presentation of general model of the society:-**The theory reveals a general model of the society which considers interrelationship among physical environment , social structure , personality and culture.

**2)Economic growth :** Product of social change and political change:- According to Hagen , most of the economic theories of underdevelopment are inadequate . He viewed entrepreneur as a

creative problem shooter who brings about economic development which is mingled with political and social change.

**3) Historic shift as a factor of initiating change:-** Hagen, in his book 'How Economic Growth Begins', depicts historic shift as the crucial force which has brought about social change and technological progress thereby leading to the emergence of entrepreneurial class from different castes and communities. The historic shift caused some groups of the lesser elite, who previously held commanding position in the social hierarchy, feel that they were no longer valued and regarded. As a result of this, their inner urge was kindled to take up entrepreneurial venture through personality formation and thus they become competent enough to take up any kind of venture.

**4) Withdrawal of status respects as the mechanism for rigorous entrepreneurial activity:-** Closely consistent with the historic shift it is the social group that plunges into rigorous entrepreneurship which experiences the status withdrawal or 'withdrawal of status respect'. According to Hagen, they are a group of individuals, creative and alienated from traditional values, driven by burning drive to prove themselves, preferably an area in which they can gain power. Their inner urge will culminate into entrepreneurship disregarding their traditional values and turning to innovative entrepreneurship. When withdrawal of status respect occurs, it leads to four different responses and creation of four different personality types:-

**a) Retreatist :-** One who constantly does his work in the society but remains indifferent to his own position.

**b) Ritualist:-** One who adopts a kind of defensive personality and acts in the ways accepted and approved in his society without any hope of improving his opposition.

**c) Reformist:-** One who initiates rebellion and attempts to establish a new order in the society.

**d) Innovator:-** A creative individual who converts all odds into opportunities and is likely to become an entrepreneur.

Hence, Hagen's creative personality is the admixture of Schumpeter's innovation and McClelland's high need for achievement.

### **6.5.2 Limitations of theory:-**

Hagen's analysis fails to give policy measures for backward countries which are striving for economic development as he identifies status withdrawal as the casual factor in the emergence of creative personality and withdrawal of status. Hagen's thesis of disadvantaged minority groups has its own limitations. There are many disadvantaged minority groups in India which have not supplied a good number of entrepreneurs.

## **6.6 OTHER THEORIES OF ENTREPRENEURSHIP**

### **6.6.1 Theory of Religious Belief-Max Weber:-**

Max Weber has propounded the theory of religious belief. According to him, entrepreneurship is a function of religious belief and the impact of religious shapes the entrepreneurial culture. He emphasized that the entrepreneurial energies are exogenous supplied by means of religious belief. The central features of Weberian theory of social change, therefore consists in his treatment of the protestant ethic and the spirit of capitalism.

### **6.6.2 Leadership Theory:-**

This theory of entrepreneurship was developed by Huselitz . According to him, entrepreneurship is a function of managerial skills and leadership. An entrepreneur must possess leadership qualities to perform his entrepreneurial activities. According to this theory, entrepreneurial leadership involved the following attributes:-

- a) Entrepreneurial leadership is the process of influencing behavior of workforce , superiors, suppliers and competitors.
- b) It directs the people to attain entrepreneurial goals.
- c) It influences work team
- d) Entrepreneurial leadership directs and coordinates the activities of an enterprise.

### **6.6.3 Theory of Social Behaviour:-**

The social behavior theory of entrepreneurship was developed by John H.Kunkel. According to him, the most critical factor towards the success of entrepreneurship is the behavior of entrepreneur under different social systems and structures and physical conditions. In the view of Kunkel, entrepreneur has to perform many activities. Some activities of entrepreneur are accepted by the society while others are discarded by the society. Therefore the social behavior found in the society directly affects the supply of entrepreneurship .

### **6.6.4 Theory of Adjustment :-**

Israel M.Kirzner , has coined the theory of adjustment of price. According to him, the essential entrepreneurial element is the alertness to information rather than its possession alone. He contends that those entrepreneurs who have the superior telescopic faculty keep themselves all the while alert to confront any disequilibrium in the market. His theory has got the following features:-

- a) Adjustment of price
- b) Alertness to disequilibrium.

#### **Self Assessment Question 6.2**

- 1) Who gave the Theory of Adjustment .
- 2) What are the features of Theory of Adjustment ?
- 3) Who gave the Theory of Social Behaviour?
- 4) Who gave the Leadership Theory?

## **6.7 SUMMARY**

Entrepreneurship is an evolved thing. With the advancement of science and technology ,it has undergone metamorphosis and emerged as a critical input for socio-economic development. Various writers have developed various theories on entrepreneurship and popularized the concept among the common people. The theories propounded by them can be categorized as:- Sociological, economic, cultural & psychological theories. Each of the entrepreneurship theories discussed are inter-disciplinary and are influenced by multitude of factors.It is intergration of external environment , dreams, ambition, passion, achievement , motivation etc.

## 6.8 GLOSSARY

**Entrepreneurship** :- The capacity and willingness to develop , organize and manage business venture.

**Disequilibrium**:-It is a situation where internal and/or external forces prevent from being reached at equilibrium position.

**Infuriating**:- causing or tending to cause anger or outrage

## 6.9 REFERENCES/ BIBLIOGRAPHY

- 1) Fundamentals of Entrepreneurship-Sangam Keshari
- 2)Entrepreneurship and Small Business-Rajesh Marwaha& J.S Mehandipur

## 6.10 FURTHER READINGS

- 1) Frantz, Roger. 1997, X-Efficiency: Theory, Evidence and Application, second edition, Boston/New York: Kluwer Academic Publishers.
- 2)Leibenstein, Harvey, 1978, General X-Efficiency Theory and Economic Development, New York, Harvard University Press.

## 6.11 MODEL QUESTIONS

Ques1:-Explain various theories of entrepreneurship?

Ques2:- Give detail explanation of X-Efficiency Theory by Leibenstein.

Ques3:- Give view about the different theories of profit .

Ques 4:- Discuss the Theory of Profit by Knight and Theory of Social change by Everett Hagen

## 6.12 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ

Lesson 7

### PROJECT MANAGEMENT & FEASIBILITY ANALYSIS

#### STRUCTURE

7.0 OBJECTIVES

7.1 INTRODUCTION

7.2 MEANING

7.3 DEFINITIONS

7.4 CHARACTERISTICS OF PROJECT

7.5 PROJECT IDENTIFICATION

7.5.1 Sources Of New Ideas

7.5.2 Screening Of Project Ideas

7.5.3 Importance Of Project Identification

7.6 PROJECT MANAGEMENT

7.6.1 Approaches Of Project Management

7.6.2 Project Management Processes

7.7 FEASIBILITY REPORT

#### **Self Assessment Question 6.1**

- 1) Harvey Leibenstein (2) Input Completion & Gap filling (3) Prof. Schumpeter (4) FB Hawley (5) Francis L Walker

#### **Self Assessment Question 6.2**

- 1) Israel M.Kirzner (2) Adjustment of price, Adjustment of disequilibrium (3) John H.Kunkel (4) Huselitz

7.8 PROJECT FEASIBILITY ANALYSIS

7.8.1 Technical Feasibility

7.8.2 Financial Feasibility

7.8.3 Market Feasibility

7.8.4 Management Feasibility

7.8.5 Economic Feasibility

7.9 PROJECT REPORT

7.10 SUMMARY

7.11 GLOSSARY

7.12 REFERENCES/BIBLOGRAPHY

7.13 FURTHER READINGS



## 7.14 MODEL QUESTIONS

## 7.15 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

### 7.0 OBJECTIVES

After studying this lesson, students will be able to :-

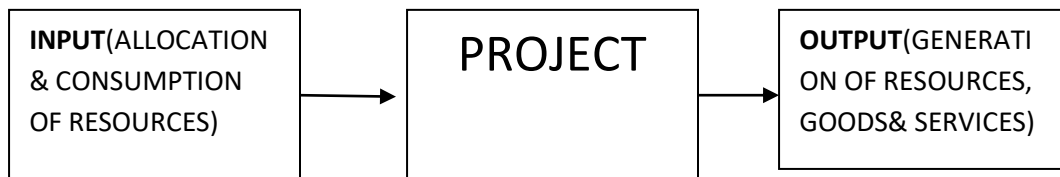
- a) Identify the term project, project management & technical, financial, marketing aspects.
- b) Prepare the project report.
- c) Check the feasibility analysis of the various aspects of the project.

### 7.1 INTRODUCTION

Project is an important aspect of any enterprise. The success & failure of an enterprise is largely dependent upon the project. The word project comes from the [Latin](#) word Verga which mean "before an action". When the English language initially adopted the word, it referred to a plan of something. So according to dictionary meaning, project is known as -a scheme of something to be done. In each & every enterprise there is a need of undertaking of different types of projects and for that an entrepreneur has to identify the need of the market & has to take necessary steps to meet the need of the market by starting different projects. For that an entrepreneur has to identify the suitable project. There is no set rules & regulations for the identification of the project but the success of the project greatly depend upon the selection of the right type of project. A project can be considered to be series of activities and tasks that have a specific objectives to be completed within certain specifications.

### 7.2 MEANING

A project is defined as one shot, time bound, goal oriented activity which require the commitment of various resources & skills. It is also known as combination of human & non human resources which work together in a temporary organization to achieve set objectives .It can be considered as a proposal involving capital investment for the purpose of developing facilities. A project involve allocation & consumption of resources on one hand and generation of resources, goods & services on the other.



A project is a productive activity which can be analyzed, appraised & monitored independently. It is defined as scientifically evolved work plan devised to achieve a specific objectives with a specific period of time. Three basic attributes of a project are:-

- a) course of action
- b) specific objectives
- c) definite time perspective

So, a project is an organized unit dedicated to the attainment of a goal & the successful completion of a project means the attainment of objectives, within budget, in time & in conformance with pre-determined programme specifications. For example, you have to start a new business. To start a new business is a simple example of project. Either you can make its planning by yourself or you can take the help of CA. CA will make your project report and it will explain your estimated cost of fixed assets, estimated resources of earning and market area. On this basis, you can get loan for your business. With the help of project accounting, we can easily track the progress of a project. In business area there are large number of projects like Construction projects IT projects, Product development projects, RD projects, Organisation development projects, Logistics projects, Marketing projects, Community projects and Cultural projects.

### 7.3 DEFINITIONS:-

1) **According to Harrison**, “A project can be defined as a non –routine, non –repetitive , one off undertaking normally with discrete time, finance & technical performance goals.”

2) **According to Project Management Institute ,USA**: “A project is one shot, time limited goal directed ,major undertaking , requiring the commitment of varied skills & resources . It also

described project as a combination of human & non-human resources pooled together in a temporary organization to achieve a specific purpose. The objective & set of activities differ from one project to another project.”

3) **According to World Bank**, “A project is an approval for a capital investment to develop facilities to provide goods& services.”

#### 7.4 CHARACTERISTICS OF A PROJECT:-

- Projects have a purpose: Projects have clearly-defined aims and set out to produce clearly-defined results. Their purpose is to solve a "problem", and this involves analysing needs beforehand. Once these aims/objectives are achieved the project ceases to exist.
- Projects are realistic: Their aims must be achievable, and this means taking account both of requirements and of the financial and human resources available.
- Projects are time bound: They have a beginning and an end and are implemented in (a) specific place(s) and context.
- Projects are complex: Projects call on various planning and implementation skills and involve various partners and players.
- Projects are collective: Projects are the product of collective endeavors. They involve [teamwork](#) and various partners and cater for the needs of others.
- Projects are unique: Projects stem from new ideas. They provide a specific response to a need (problem) in a specific context. They are innovative and no two projects are exactly same. The location, infrastructure, aim, people make the project unique.
- Projects are an adventure: Every project is different and ground-breaking; they always involve some uncertainty and risk.
- Projects can be assessed: Projects are planned and broken down into measurable aims, which must be open to [evaluation](#).
- Projects are made up of stages: Projects have distinct, identifiable stages .
- Projects involve risk: Every project involves the element of risk & uncertainty. The degree of risk depends upon how project has passed from different stages of its life cycle.

#### Activity 7.1

Plan a project which will be beneficial you and the society.

#### 7.5 PROJECT IDENTIFICATION:-

Project identification means identification of a suitable project for the enterprise. Project identification is concerned with the collection, compilation & analysis of economic data for the purpose of locating possible opportunities for investment. There are various opportunities available to an entrepreneurs but he has to select the right opportunity with care and according the availability of resources & skills. An entrepreneur has a vast choice of investment opportunities. The ability to identify an **Investment Opportunity** which can be converted into a

viable business proposition (after careful and systematic consideration) ensures entrepreneurial success.

### **7.5.1 Sources of New Ideas:**

There are a number of sources from which an entrepreneur can gain knowledge about Project ideas. Any decision to embark on a Project after considering only the obvious or immediately available opportunities may lead to a Lost Opportunity. It would be advisable to scout for new ideas from these sources:

a) A study of the performance of existing units in an industry with particular reference to profitability of units and capacity utilisation would allow an entrepreneur to identify relatively risk-free opportunities. For example: If a majority of the hotels in a town enjoy a 80% occupancy rate, it indicates that there is still a need for lodging facilities.

b) A study of projects being encouraged by financial institutions ensures that the areas of these projects are deemed highly viable. This is because the financial institutions back projects after careful and thorough analysis.

c) A study of economic trends and consumption patterns of individuals will help in the identification of Project Ideas. For example: The increasing affluence of the middle class and larger expenditure on tourism, travel and leisure indicates a vast potential for Travel Agencies.

d) An enquiry into Social and Cultural Trends may provide valuable insights. For example: The search for an Indian Identity has caused a boom in the sales of ethnic fashion wear in India.

e) An enquiry into business practices in foreign Countries may also provide valuable clues for business opportunities. For example: Adventure sports as a part of Tourism has been essentially borrowed from foreign Countries.

f) An investigation into locally available resources and, raw materials and skills may indicate - the availability of business opportunities. For example: The Kondapalli Toys made in Kondapally, Andhra Pradesh enjoy a world wide market and opportunities still exist for their marketing within the country.

g) A study of developments in Technology may also provide new product ideas. Often, new technologies allow a better utilisation of locally available raw materials as witnessed in the Coir Industry.

h) A constant search for unfulfilled needs of the market allows identification of a series of business opportunities. The development of any product & service which satisfies a human need earlier not catered to ensures a steady market. This phenomenon can be aborved in the quick success of Fast Foods, Pre- School Nurseries and labour saving devices in the kitchen.

i) In a country like India where the Government plays a positive role in the economic development of the nation as a regulatory and promotional agency, the policies of the Government must be taken into consideration while scouting for new ideas.

### **7.5.2 Screening of Project Ideas:**

In the preceding stage, the primary objective was to ensure that no worthwhile idea would be ignored by the entrepreneur. It would be impossible for us to submit a large number of proposals to such an exercise. Hence, the need arises for a Preliminary Screening of ideas to eliminate Project ideas which are not prima facie promising. The following factors may be used as Screening Devices to eliminate such alternatives:

**a) Organisation Strengths and Weaknesses :** Project ideas must be compatible with the organisation. A Project idea which falls in the area of an organisation's strength can be converted into an effective Project. A Project idea, however profitable basically, which falls in the area of a company's weaknesses cannot be converted into a successful Project.

**b) Adequate Market:** Every Business Organisation requires a minimum level of business . Where the market is restricted and cannot allow the organisation to reach the break even point in the near future, the prospects of success are rather limited. So idea to be select must be screened from the point of view of markets.

**c) Availability of Infrastructure:** No business venture can succeed in the absence of basic services like transportation, electricity, water supply etc. In most of the cases, the business organisation cannot create these services independently. So the projects are dependent on other organizations for these services and in order to screen the idea there must be check on the availability of infrastructure.

**d) Availability of Essential Inputs and Labour :** The entrepreneur must consider whether there is a regular and assured supply of essential inputs and labour to ensure regularity of operations essential for success of the venture.

**e) Cost Constraints:** If the estimated cost of producing the product/service is ' comparatively very high in view of factors like high material costs or labour costs or any related reasons, the Project idea should be eliminated.

**f) Risk Consideration :** Risk levels associated with various projects differ on the basis of factors like changes in technology, changes in fashion, and vulnerability to trade cycles. So the idea must be screened by taking into consideration the risk involved in the selected idea.

### **7.5.3 Importance Of Project Identification:**

- 1) Well identified projects comes for processing & become the agent of economic development.
- 2) It provide the long term benefits.

3)It result in the development of basic infrastructure.

4)It helps in the overall development of the economy in terms of employment& income generation.

5)It act as framework for future activities.

**Self Assessment Question 7.1**

- 5) The word project comes from the [Latin](#) word Verga which mean "....."
- 6) Discuss the 5 stages of project
- 7) What are the three basic attributes of a project ?
- 8) Discuss the various sources of idea under project identification.

## **7.6 PROJECT MANAGEMENT:-**

Project management means management of the project. It is the discipline of planning, organizing, motivating, and controlling resources to achieve specific goals. A [project](#) is a temporary endeavor with a defined beginning and end (usually time-constrained, and often constrained by funding or deliverables), undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value.

The primary challenge of project management is to achieve all of the project goals and objectives while honoring the preconceived constraints. The primary constraints are [scope](#), time, quality and [budget](#). The secondary — challenge is to [optimize](#) the [allocation](#) of necessary inputs and integrate them to meet pre-defined objectives. Project management is a methodical approach to planning and guiding project processes from start to finish. According to the **Project Management Institute**, the processes are guided through five stages:

(a)initiation (b) planning (c) executing (d) controlling and (e)closing.

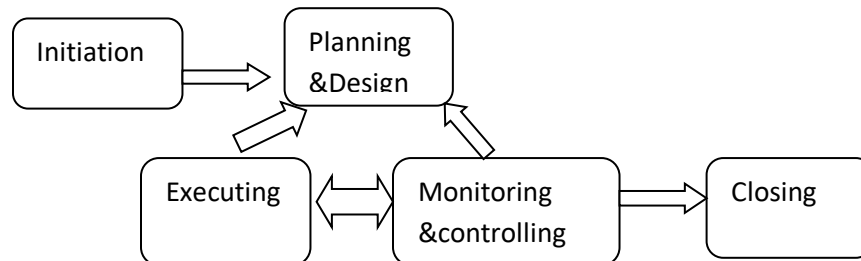
Project management can be applied to almost any type of project and is widely used to control the complex processes of software development projects. Project management includes functions for developing the optimal project schedule, producing a financial model, scheduling & tracking of effort against plan, managing cost against budget & reporting of status. Projects are usually outcome of- market demand, business need, customer request, legal requirement, technological advancement & social need. The systems development life cycle (SDLC) is one example of a methodology for guiding the project management process.

### **7.6.1 Approaches of project management**

There are a number of approaches to managing project activities. Regardless of the methodology employed, careful consideration must be given to the overall project objectives, timeline, and cost, as well as the roles and responsibilities of all participants and stakeholders.

#### **A) The Traditional Approach**

A traditional phased approach identifies a sequence of steps to be completed. In the "traditional approach", five developmental components of a project can be distinguished (four stages plus control):



Not all projects will have every stage, as projects can be terminated before they reach completion. Some projects do not follow a structured planning and/or monitoring process. And some projects will go through steps 2, 3 and 4 multiple times.

#### **B) PRiSM (Projects integrating Sustainable Methods)**

**PRiSM** is a process-based, structured project management methodology that highlights areas of sustainability and integrate them into four core project phases in order to maximize opportunities to improve sustainability and the use of finite resources. The methodology encompasses the management, control and organization of a project with consideration and emphasis beyond the project life-cycle and on the five aspects of sustainability.

#### **C) Agile project management:-**

Agile project management approaches based on the principles of [human interaction management](#) are founded on a process view of human collaboration. It is "most typically used in software, website, technology, creative and marketing industries." This contrasts sharply with the traditional approach. In the [agile software development](#) or [flexible product development](#) approach, the project is seen as a series of relatively small tasks conceived and executed as the situation demands in an adaptive manner, rather than as a completely pre-planned process.

#### **D) Critical chain project management (CCPM) –**

It is a method of planning and managing projects that puts more emphasis on the resources required to execute project tasks.

### **7.6.2 Project Management Processes**

Project management process is the management process of planning and controlling the performance or execution of a project. Typical phases include:

1. Initiation
2. Planning and design
3. Execution and construction
4. Monitoring and controlling systems
5. Completion

## 7.7 FEASIBILITY REPORT:-

A **feasibility study** is an evaluation and analysis of the potential of the proposed project which is based on extensive investigation and research to give full comfort to the decisions maker. Feasibility studies aim to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats as presented by the [environment](#), the [resources](#) required to carry through, and ultimately the prospects for [success](#). In its simplest terms, the two criteria to judge feasibility are [cost](#) required and [value](#) to be attained. As such, a well-designed feasibility study should provide a historical background of the business or project, description of the [product](#) or [service](#), accounting statements, details of the [operations](#) and [management](#), [marketing research](#) and policies, financial data, legal requirements and tax obligations. Generally, feasibility studies precede technical development and [project](#) implementation

Before starting an enterprise, it is mandatory for an entrepreneur to consult Director of Industries Services Institute located in the state. Director of Industries services Institute guides entrepreneur as to type of industry to start, where to start & how to start. It also help en entrepreneur to select the various items to be manufactured according to the area & scope , technical guidance in order to select raw material and also guides for the preparation of the project report.

### Activity 7.2

Prepare a feasibility report for the project decided by you in activity 7.1

## 7.8 PROJECT FEASIBILITY ANALYSIS:-

A project feasibility analysis means the checking of the feasibility of the project with regards to various aspects like:-technical, financial, market etc. It includes the various analysis like:-market analysis, technical analysis, financial analysis & socio profitability analysis. Although every feasibility analysis is different and is tailored to suit the product but its goal is to check the existing strength & weakness of the project. In this in depth study is done in order to check the threats attached with the aspects project & moreover idea is examined from the point of view of



internal & external constraints . At this stage, the project is examined from the point of view of whether to go in for a detailed investment proposal or not.

### **7.8.1 Technical Feasibility:**

Technical feasibility studies whether the project is technical feasible or not. It aimed at ensuring that all the physical facilities required for successful implementation of the project are available and the best of the alternative facilities are selected for the Project. Moreover it provides an opportunity for consideration of the effect of various technical alternatives on employment, ecology, infrastructure demands and other factors. The feasibility study includes the evaluation of technological alternatives available & select the most appropriate technology in terms of optimum combination of project components. It should review the techniques or processes to be applied . For this project broadly involves a critical study of following:-

#### ▶ **Proper location & site of the enterprise:-**

Proper location of the enterprise is a sine qua non for success. An industrial feasibility study aspects refers to the selection of the geographical area where the project should be located & also the required site. The word **Location** refers to the general location of the enterprise, whereas the word **Site** refers to a specific area within the location. Every individual project has its own requirements but some of the important factors that must be kept in mind while selecting the Location/Site are:

- a) The availability of land, the cost of land and presence of approach roads.
- b) The proximity to Markets.
- c) The availability of transportation & communication facilities.

#### ▶ **Selection of appropriate Technology, Plant & Machinery:-** Selection of Appropriate Technology, Plant & Machinery ensure efficient and economical operations. Technology must be chosen based on the specific requirements of the enterprise. A very important decision in the area of Plant and Machinery refers to the size or capacity of the facilities to be created. This decision must be taken after a consideration of demand and fluctuations in demand. In many industries there are certain technological plant capacities which are economical and if size is not optimal than it will cause diseconomies of scale.

#### ▶ **Availability of Raw Materials, Resources and other Inputs:-** Availability of Raw Materials and Other Inputs is essential for successful implementation of the project. The requirement of various inputs like raw materials and labour must be estimated on the basis of estimated turnover. The availability of inputs of the right quantity and the right quality on a regular and continuous basis is essential for continuity of operations. Wherever necessary, the enterprise must enter into supply contracts to ensure availability of essential inputs. The enterprise may also create its own sources of supply. Certain industries are located near the source of raw material and its true in the case of industries based on weight –losing localized material or industries using perishable raw material also tend to be located in closer proximity to raw material sources .

- ▶ **Establishing the Schedule of Project Implementation:-** Establishing the Schedule of Project Implementation ensures that the Project is completed within the planned time and commences commercial production on schedule. Delays in the implementation of Project quite often create Cost Over-Runs and may affect the profitability of the enterprise. In the case of large and complex project, Advanced Scheduling Techniques like Programme Evaluation and Review Technique (PERT) are utilised. It defines individual activities which constitute the project & their inter-relationship with each other. The sequence of events of the project is presented and detailed work plan of the project is prepared with time allocation for each activity.
- ▶ **Proximity to the markets :-** Certain industries has to locate near to the markets and it has to check whether the industries involves the manufacturing process which will increase in weight of the product. In such cases, transportation & distribution cost can be minimized by being closer to the market.
- ▶ **Power , fuel , water & transportation facilities:-** In order to check the technical feasibility there must be check on the availability of power, fuel, water & transportation. Cheap power, fuel, water & transportation and its uninterrupted supply is an important attraction for each & every industry. In a vast country like India, there is significant variation in the transport cost or fuel cost. Moreover government also provides various subsidies regarding power & transportation to the industries located in villages or hill stations.
- ▶ **Technical Collaboration Arrangements:-** The Government of India has issued a list of industries where no foreign collaboration is to be allowed in the view of indigenous technology. But looking to need for constant upgradation of production technology in line, the Administrative Ministries & Foreign Investment Promotion Board(FIPB) may permit import of technology in certain field.
- ▶ **Scale of operation:-** Scale of operation is an important factor. As if the scale is not perfect then it can lead to diseconomies of scale. There are many factors which has to be checked for deciding the scale Eg:-The market demand may be low which cannot absorb the output of the large plant or the availability of the raw material in the region may not be sufficient to feed the large plant. So the scale of operation is the important factor under technical feasibility & has to pay due consideration.

In view of the increasing environmental concern and Governmental regulations in this regard, the technical feasibility study must also outline the systems for safe and non-polluting disposal of effluents like solid and liquid wastes. Use of nonconventional energy resources like renewable energy from Sun, Windmills, etc. must also be taken account of.

### 7.8.2 Financial Feasibility:

Financial feasibility check is to ensure the initiation of financial conditions for the sound implementation and efficient operation. Financial Feasibility studies aim to ensure the

entrepreneur that: The Project can meet the burden of servicing the debt i.e., the project **can** ensure sufficient revenues to pay the interest cost of borrowed funds and meet the schedules for repayment of loans. The Project can earn sufficient revenues to satisfy the expectation of the owners of the promoting organisation. It also use various tools in order to assess the financial feasibility like:-trend analysis, variable analysis, ratio analysis, break even analysis etc.

It covers the following important aspects/ key areas :

- ▶ **Project Cost Determination:-**A proper determination of the cost of project is essential for determining the viability and profitability of the project. The entrepreneur generally approaches financial Institutions for loans on the basis of the Cost of Project estimates. If there is any Cost-Overrun, the entrepreneur will find it difficult to raise the extra funds required for completion of the project. This again would lead to a time-overrun on the project affecting all estimates of funds flow. Hence, there is a need for proper determination of Cost of Capital. The following are the essential elements of Project Cost : Land and Site Development cost, Buildings and Civil Works , Plant and Machinery, Technical Know-how Fees, Miscellaneous Fixed Assets, Provision for Contingencies etc.

- ▶ **Sources of Finance:-**It includes various sources from where the funds can be arranged. The cost of Project indicates the quantum of long-term finances needed by the organization to implement the project. The need for such funds is met out of:
  - a)Equity Capital and Preference Capital, and
  - b)Borrowed Funds

**a)Equity Capital** refers to the capital contributed by equity share holders of the organization in case of a company. The equity share holder is paid a dividend on capital subject to the availability of adequate profits during any financial year. It does not involve any fixed charge as in the case of Interest on loans which has to be paid irrespective of the availability of profits.

**Preference Capital** is the capital contributed by preference share holders who enjoy a preference over the equity share holders in the

i) payment of dividends and ii) Repayment of Capital at the time of liquidation

Both these sources represent the own sources of the organisation in the case of companies. In case of Partnership firms and Sole traders the Capital brought into the firm by the owners out of their resources represents Own Capital

**b) Borrowed Funds:** In addition to their own funds Promoters borrow funds from various sources to meet the cost of the Project. Generally, borrowed funds involve a fixed charge on the organisation in the form of interest. The cost of the project is met out of Long Term Borrowings. The word Long Term Borrowings refers to any loan amount which is not repayable within one financial year. Such long term borrowings are repayable in installments payable on a quarterly basis spread over 2-7 financial years. Eg:-Debentures, term loans, public deposits etc.

- ▶ **Profitability Estimates:**

Profitability estimates are estimates of expected sales revenues and costs related to the expected revenue. They determine the financial viability of the project in the long run. They are prepared for a period sufficient for repayment of the term loans required for the project. Profit is represented by the excess of Sales revenue over the costs needed to generate the estimated Sales. Profit is a signal for the allocation of resources & a yardstick for judging managerial efficiency. Profitability analysis is a useful tool to entrepreneurs to take right decisions in maximizing profits and to bankers & financial institutes to arrive at the viability of the enterprise and its financial needs.

- ▶ **Pricing:-** Under this prices of the products are fixed .The price must be fixed very judiciously , because the price & demand are correlated .If the price is high, the demand may be low and vice versa. Price has to fix according to the market trend, cost or competitor's pricing policies. An entrepreneur can opt penetrating pricing policies ,skimming price policies or discriminating pricing policies.
- ▶ **Ratio Analysis:-** Ratio analysis is an important tool in the study of financial feasibility of the project. Ratio analysis shows the relationship between two relevant figures which gave the decision –makers insights into company being assessed. It enables the company's management to analyze business situation and to monitor their performance .In assessing the financial stability of a firm, a management should apart from profitability be interested in relative figures rather than in absolute figures. There are number of ratios like:-

**a)Balance sheet Ratios:-**It deals with the relationship between 2 items or group of items which are both in the balance sheet .eg:-  $\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$ .

**b)Revenue Statement Ratio:-** It deals with the relationship between 2 items or group of items which are both in the revenue statement .Eg:-Ratio of gross profit to sales or gross profit margin

**c)Balance sheet & Revenue statement ratios:-** It deals with the relationship between items from revenue statement & items from the balance sheet eg:-composite ratios;Ratio of net profits to own funds.

Financial ratio analysis is a quantitative technique for assessing the financial health of a unit from the accounting data. Ratio analysis has great importance to the investors, bankers , customers, creditors and other parties as it shows the true picture of the financial health of the unit. Following is the classification & significance of the ratios:-

a)Liquidity ratios:- Liquidity refers to the ability of the firm to meet its obligations in the short run .These ratios helps in the determination of the solvency of the firm.

b)Leverage ratios:-Financial leverage refers to the use of debt finance which is riskier source. This ratio helps in assessing the risk arising from the use of debt capital.

c)Activity ratio:-Activity ratios are also called as turnover/ asset management ratio. It measure how efficiently the assets are employed by the firm . Rations such as Sales-

Inventory Ratio, Sales-Debtors Ratio, Average Collection Period, Sales-Gross Assets Ratio and Sales-Capital Employed Ratio fall under this category.

d) Profitability ratio:- It reflects the financial result of the business operation. It serves as indicators of the effectiveness & efficiency. Profitability Ratios measure the overall profitability of a project. Such ratios include Gross Profit - Sales Ratio, Net Profit - Sales Ratio, Net Profit - Capital employed Ratio and other similar ratios. The final test of the overall profitability of any organization is indicated by the Accounting Rate of Return on Investment (ARORI) which is equal to:-

$$\text{ARORI} = \frac{\text{Net profit}}{\text{sales}} \times \frac{\text{sales}}{\text{assets}} = \frac{\text{Net profit}}{\text{assets}}$$

- ▶ **Break even analysis;**- The break even analysis is an important measure to check the financial feasibility of the new project. It is also known as CVP (cost volume profit) analysis. It is a valuable control technique and a planning device in any business enterprise. It depicts the relationship between total cost & total revenue at the level of a particular output. A narrow view break even analysis refers to the level of activity where total cost is equal to total sales i.e. no loss, no profit point. In a broad view, it refers to a system of analysis that can be used to determine the probable profit at any level of activity. If an entrepreneur is aware of the product cost & its selling price, he can plan the volume of sale in order to achieve certain level of profit. Break even point establishes the level of output which evenly breaks the cost & revenue and it is the level of production at which the turnover just covers the fixed overheads and the unit starts making profits.

The project which reaches a breakeven point earlier is considered as a viable project. Breakeven point also determines the margin of safety i.e. excess of budgeted sales over the breakeven sales. This is an important factor in determining the feasibility of the project as bankers as lenders insist upon a reasonable margin of safety so that fixed costs are met at a fairly earlier stage.

- ▶ **Cash Flow Estimates;**- Cash Flow estimates Project, the physical movement of the cash into and out of the organization. Profitability estimates are concerned with long term viability of the project, whereas cash flow estimates deal with liquidity of the organization. The following is the basis of preparation of a cash flow estimate:-

### 1) Adjustments to the Profit and Loss Estimates:

**a) Adjustments to Income:** The income of an organization is the basis for cash in-flows. However, differences arise between income and cash in-flows due to the following factors:

**i) Income accrued but not received:** These amounts represent income that has been earned by the organization but not yet received like Credit sales.

**ii) Incomes received in advance:** These amounts represent income that has not yet been earned by the organization but received in the form of cash. For example, advances from buyers for supply of goods.

**b) Adjustments to Expenditure:** The expenditure of an organization is the basis for its cash out-flows. However, differences arise between expenditure and cash out-flow due to the following factors:

i) **Outstanding Expenditure:** These are amounts that are due for payment but not yet paid. For Example, Credit Purchases.

ii) **Prepaid Expenses:** These are expenses for which the organization has already paid cash but has not utilized the services. For Example, rent paid in advance.

c) **Adjustments for Depreciation:** Depreciation is shown as an expense in the Profit and Loss, estimates. However, depreciation does not involve any cash out-flow. Hence, it is added to the profits or deducted from losses while calculating cash flow.

## **2) Inclusion of Capital Items:**

The Income and Expenditure estimates take into consideration only revenue items and do not consider Capital receipts and Capital payments. These items are incorporated into the cash flow statements.

- ▶ **Social Cost- benefit analysis:-** The aim of social-cost benefit analysis is to find out the very economical choice of investment. It enables to select the best alternative which would give maximum benefit of highest profit to the investor. The term “social cost” refers to all those harmful consequences and damages which the community on the whole sustains as a result of productive processes and “social benefit” refers to all the benefits to the society which arise as a result of the project .SCBA as whole compares the social cost with the social benefits in order to select the best alternative which can give more social benefits than the cost. Cost benefit analysis will consider the project from national viability point of view. The main objective of SCBA is that project must be selected on the basis of their impact on the economy and this impact is evaluated by using national parameters reflecting national goals, social objectives and global facts.

### **7.8.3 Market Feasibility:**

Marketing is the corner stone for the success of any business activity. It is rightly pointed out that marketing is the source of revenue for any organization . *All* other activities involve only expenditure. According to Marketing Association marketing is, ”the performance of business activities that direct the flow of goods & services from producer to consumer or user”. Marketing Feasibility studies attempt to determine the size of the market for any product/service and its value in terms of revenue- generation. It’s a creative function and it co-ordinates finance, production & distribution and determines &directs the scale and value of total efforts .The following aspects form part of Marketing Feasibility Studies.

- ▶ **Definition of the Target Market :** The target market refers to the identifiable set of individuals (market segment) whose needs are attempted to be satisfied by the product/service of the organization .
- ▶ **Marketing Segmentation** helps an entrepreneur to select the target market and

accordingly produce the products or services to satisfy the needs of that segment as no organization can effectively serve all sections of the market. It is the process of dividing the market into distinctive sub markets. **Segmentation** based on factors like preference for tastes, size, quality-preference, price- preference etc., among customers. Market segmentation is a method for achieving maximum market response from limited marketing resources .It is also known as a strategy of divide & conquer i.e dividing the market in order to conquer it. Segmentation can be done on the basis of customer personal characteristics or customer response behavior .Market segmentation consists of following steps:-

- a) Identification of segments of a market.
- b) Evaluation of the target group of consumers
- c) Product positioning

▶ **Market positioning** is the process of distinguishing a product from its competitor and is the process by which marketers try to create an image or identity in the minds of their target market for its [product](#), [brand](#), or organization. .The process involves knowing what is the need of the market, then identification of the competitors strengths & weakness and assessing abilities to meet market requirements better then competitors. It is an effort to [influence consumer perception](#) of a [brand](#) or [product](#) relative to the perception of [competing brands](#) or [products](#). [Its objective](#) is to occupy a clear, unique, and advantageous [position](#) in the [consumer's](#) mind.

▶ **Marketing process** involves 3 basic inputs;-the product, the promotional methods & distribution system .These are the core of marketing programme and must be integrated to achieve maximum customer satisfaction & profits.It bring together the producers & consumers.This process starts with the knowledge of the customer & his needs and ends with customer purchase & satisfaction of those needs.

▶ **Marketing mix** is the marketing strategy which is the mix of all the marketing elements& resources which focus on target market. The marketing mix is a business tool used in [marketing](#) and by marketing professionals. The marketing mix is often crucial when determining a product or brand's offering, and is often synonymous with the four Ps: price, product, promotion, and place; in service marketing, however, the four Ps have been expanded to the [sevenPs](#) or eight Ps to address the different nature of services. Elements of marketing mix are:-

**a)Product Mix:-**This includes the brand, style, colour, design, product line, package , warranty & service related to the product.

**b)Price mix:-** This includes Pricing strategy, pricing policy, basic price, terms of credit, discounts, allowances related to the product.

**c)Promotion mix:-** This includes promotional strategies like:personal selling, advertising, publicity, sales promotion etc

**d) Place mix:-** This includes the various distribution channels like-wholeseller, retailers & agents and also transport, warehousing & inventory

- ▶ **Determination of Market Share :** Entrepreneurs must try to estimate the demand for their product/service. This *can* be done by :
  - a) Estimating the total demand for the product/service.
  - b) Estimating the market share of the organisation.
- ▶ **Techniques for Demand Forecasting :** Any organization which intends to estimate the present and future demand *can* depend either on Primary Data or Secondary Data. **Primary Data** refers to data generated by the organization intending to use it for a specific purpose. Such data can be generated through various techniques.

The following is a study of important techniques:

a) **Market Surveys :** Market Surveys gather information regarding the practices or intentions of the target market group. Generally, a sample is selected from the target group and their views are gathered through a Questionnaire a Schedule consisting of a series of questions. For example, an organisation planning a Package Tour for Bank employees may be faced with the problems of deciding the length of the package tour and sites to be covered in the Package Tour. It can select a sample of 100 Bank employees and gather their views on the above subject.

b) **Expert Opinion :** It is possible to gather relevant information from various individuals /organisations who are experts and have good contacts with the target market. For example, in designing a Package Tour, an organisation can learn about target market needs by consulting Tourist Guides, Tour Operators, Tourist Home employees, etc.

c) **Trend Analysis :** An analysis of past information allows us to identify the major trends in demand. This information can be projected into the future to estimate probable demand. For example, the tourist traffic to a particular hill resort has been growing at 20% per annum over the last five years. If the present years traffic is 20,000 we can forecast future demand with a reasonable degree of accuracy.

d) **Correlation Analysis :** Correlation Analysis tries to identify relationships between two or more variables. Where one of the variables is known, we can estimate the behavior of the other variable. For example, tourism expenditure is correlated to per-capita income of citizens of a country. If we can obtain data regarding per-capita income projections, we can also project the future expenditure on tourism. **Secondary data** refers to data collected by agencies other than the organisations intending to use the data. It is the data which has already collected by government or non government agencies. In many cases, it provides the base from which we **can** develop primary information. Generally, a judicious combination of both primary data and secondary data forms the basis for Demand Forecasting.

- ▶ **Marketing share can** be estimated by studying the marketing practices of competitors and



comparative evaluation of the organisation's marketing package. This requires the establishment of:-

- a) Price of Product/Service,
- b) Distribution policy to be pursued, and
- c) Sales Promotion Practices.

The Price of the Product/Service is always fixed taking into consideration the prices of the competitors. An organisation may charge a price higher than the competitors. Such a strategy is called **Skimming Strategy**. The objective is to establish the product/service as a **Premium Product**. On the other hand, the organisation may follow **Penetration Strategy**. In such a case, the organisation charges a price lower than the competitors to attract the price-conscious customers.

- ▶ **Distribution policy** of the organisation effects the marketing policies and practices. There are number of distribution channels available in the market. Organisations may prefer an extensive strategy where the attempt is to make the product/service available through a large number of intermediaries like wholesalers, retailers, agents etc . On the other hand, organisations may opt for distribution through restricted number of intermediaries.

Lastly, the organisation must determine its **Advertising and Sales Promotion Policy**. The Sales Promotion efforts of an organisation include Media Advertising, Personal selling, Discount and Bargain offer, Tie-ups and other such techniques.

#### **7.8.4 Management Feasibility:**

The success of any venture to a very large extent depends on efficient and effective management. As if the management is incompetent, even a good project may fail. Its clear that if the project is weak then it can be improved but if the management is weak from the point of view of business then it is difficult to reverse the situation. Hence, financial institutions carefully undertake an appraisal of the Management of the enterprise. If the proper appraisal of the managerial aspects is made in the beginning then future problems in this area can be avoided to a large extent. So, its necessary that the overall background of the promoters, their academic qualifications, business & industrial experience etc are looked in greater detail .For this importance is given to a study of:

- a)The character of the promoters.
- b)The involvement of promoters in the project.
- c)Their earlier track record **as** promoters.
- d)Their experience in business ventures of a similar nature.
- e)The technical competence and professional qualifications of key management personnel, etc.
- f)Promoters background –education , experience etc.
- g)Management perception and their vision, mission and commitment towards the project
- h)Resourcefulness and initial planning of the management.
- i)Culture of the management.

In the case of companies, the Board of Directors constitutes the Management for purpose of appraisal. In case of sole traders and partnership firms, the proprietors or partners constitute the Management for purpose of appraisal.

### **7.8.5 Economic Feasibility:**

Economic Feasibility studies attempt to evaluate the contribution of the project to the overall objectives of economic development and national priorities. It includes economic benefits that may arise out of a project include provision of employment, conservation of foreign exchange, contribution to research & Development efforts, role in meeting the defense needs of the country, etc. The economic benefits brought about by a successful project normally take the form of an increased output of goods or services either directly or indirectly. This increased production will also generate many different forms of additional income such as increased wages or employment of labour, larger government revenue, higher earnings for the owners of capital etc. For example, taxes paid by an organization are a cost for the organization but they are a source of income to the Government. Social costs include increased pollution, depletion of scarce natural resources, utilization of foreign exchange for import of raw materials and technology, etc., It is of course relevant only in the case of

very large projects. However inclusion of economic feasibility makes any Project Report more complete

and meaningful. Economic analysis look the project from the view point of whole economy. So various economic aspects are:-

- a) Increased output
- b) Enhanced Services
- c) Increased employment
- d) larger government revenue
- e) higher earnings
- f) Higher standard of living
- g) Increased national income
- h) Improved income distribution

#### **Self Assessment Question 7.2**

- 1) Pen down the phases of project management process.
- 2) What is CCPM?
- 3) What is PRISM?
- 4) What are the various types of feasibilities

### **7.9 PROJECT REPORT:**

Formulation of a Project generally culminates in the preparation of a Project Report. A Project Report is a document setting out in detail the nature of the activity proposed and the justification for Selection and Commitment of resources (men, materials, money) to the activity. A project report is based on the data & results obtained from varied detailed studies. Project report is prepared from feasibility report on various aspects with additional information:-

- a) Deviation if any from feasibility report
- b) physical topographical information
- c) rates from various cost estimations
- d) guarantees from concerned authorities for the supply of power, water etc.
- e) estimates covering all aspects of a project in sufficient detail
- f) General information like-import duty rates, freight etc.

Generally the following are the contents of a **Project Report**:

- 1) Details of the organisation promoting the Project.
- 2) Promoters and their Track Record with specific emphasis on their experience with the activity selected for the Project.
- 3) Particulars of the Project with specific reference to:
  - a) Technology and Technical Arrangements.
  - b) Location and Land & Buildings.
  - c) Plant and Machinery.
  - d) Raw Materials.
  - e) Utilities like power, Water Supply, Transportation, etc.
  - f) Labour.
  - g) Schedule of Implementation.
  - h) Cost of the Project.
  - i) Means of Financing.
  - j) Marketing and Selling Arrangements.
  - k) Profitability and Cash Flow.
  - 1) Economic Considerations.
  - m) Government Consent.
  - n) Declaration of the Promoter.

### **7.10 SUMMARY:-**

A Project refers to any investment opportunity which can be converted into a business proposition within a cost and time frame work. It is the foundation for the creation of a business organization. Any entrepreneur must search and screen economic opportunities before selecting an activity. He is expected to make a feasibility study of various aspects like:-technical, financial, market, management & economical which is concerned with the project to establish its viability. Finally, using the information generated, he or she prepares a project report. Financial institutions take a decision regarding the extension of financial facilities after making a thorough appraisal of the project report submitted by the entrepreneur

### **7.11 GLOSSARY:**

- 1) **Market Segmentation**:-The process of defining & subdividing a large homogenous market into clearly identifiable segments having similar needs, wants or demand characteristics.
- 2) **Viability**:- ability to live, especially under certain conditions

- 3) **Market positioning:-** Positioning defines where your product (item or service) stands in relation to others offering similar products and services in the marketplace as well as the mind of the consumer.

### **7.12 REFERENCES/ BIBLIOGRAPHY**

- 1) Project Preparation , Appraisal, Budgeting & Implementation-- Prasanna Chandra
- 2) The Dynamics Of Entrepreneurial Development & Management—Vasant Desai

### **7.13 FURTHER READINGS**

- 1) T-Kit Project Management – Published By Council Of Europe
- 2) Managing Financial Operations—Project Formulation & Appraisal(Unit 21)

### **7.14 MODEL QUESTIONS:-**

- 1) What do you mean by a project? Discuss its characteristics & importance.
- 2) What do you mean by project identification and what are the various sources of new ideas?
- 3) What do you mean by project management? Discuss its approaches.
- 4) What do you mean by feasibility study and give the detail & importance of technical feasibility.
- 5) What do you mean by financial , market , management & economic feasibility. How it can be checked.

### **7.15 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ:-**

#### **Self Assessment Question 7.1**

- 1) Before an action
- 2) (a) initiation (b) planning (c) executing (d) controlling and (e) closing.
- 3) (a) course of action (b) specific objectives (c) definite time perspective
- 4) Refer to 7.5.1

#### **Self Assessment Question 7.2**

- 1) Initiation, Planning and design, Execution and construction, Monitoring and controlling systems and Completion (2) Critical chain project management (3) Projects integrating Sustainable Methods (4) Technical Feasibility , Financial Feasibility , Market Feasibility , Management Feasibility , Economic Feasibility

**FINANCE SCHEMES OFFERED BY VARIOUS INSTITUTES**

**STRUCTURE**

8.0 OBJECTIVES

8.1 INTRODUCTION

8.2 MEANING

8.3 SOURCES OF FINANCE

8.4 MEANING OF FINANCIAL INSTITUTES

8.5 COMMERCIAL BANKS

8.5.1 Classification of Commercial Banks

8.5.2 Financing by Commercial Banks

8.6 TYPES & SCHEMES OFFERED BY COMMERCIAL & OTHER BANKS

8.6.1 S.B.I (STATE BANK OF INDIA)

8.6.2 IDBI Bank (Industrial Development Bank of India)

8.6.3 SIDBI(Small Industrial Development Bank of India)

8.6.4 ICICI Bank (The Industrial Credit and Investment Corporation of India)

8.6.5 SFC's( State Financial Corporation)

8.7 OTHER INSTITUTIONS

8.7.1 Venture Capital Funding

8.7.2 Angel Capitalist

8.8 SUMMARY

8.9 GLOSSARY

8.10 REFERENCES/BIBLOGRAPHY

8.11 FURTHER READINGS

8.12 MODEL QUESTIONS

8.13 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS TO SAQ

## **8.0 OBJECTIVES :**

After studying this lesson, students will be able to :-

- a) Delineate various sources of finance available to an entrepreneur.
- b) Have knowledge about financial schemes offered by various financial institutes.
- c) Know about venture capitals & angel financiers.
- d) Identify the factors governing the choice between different sources of funds.

## **8.1 INTRODUCTION:**

Finance is one of the basic requirement of any organization/ project. It is the prerequisite to start an enterprise. Finance is the key input of production, distribution and development. Availability of finance enables an entrepreneur to bring together various resources like:-land, labour, machinery & raw material in order to produce the product. Therefore finance is known as life –blood of enterprise as no business activity is possible without finance. The need of finance starts rightly from the start of the enterprise and continue till the business remain in existence and even the smooth running, expansion and growth of enterprise basically depends upon the proper management of finance.

## **8.2 MEANING**

An entrepreneur needs capital to start the business and needs financial assistance at every stage of the project. For this assistance , development banks and commercial banks plays an important role .They not only provide the finance for the start up but also for development at various stages.Types of industrial finance can be:-

a)Short term:- In this the funds are required for less than one year and the important sources for the short term finance can be:-borrowings from friends, relatives ,banks, trade credit and customer advances.

b)Medium term:-In this the funds are required for the period from one to five years. Medium term finance is usually required for working capital, small expansion, modifications etc . Various sources of medium term finance can be:- issue of shares, ploughing back of profits, borrowings from the bank etc

c)Long term:-In this funds are required for the longer period i.e more than 5 years. It is required for the permanent fixed capital, procuring of fixed assets, for the establishment

of new business etc. Various sources of long term capital can be:- issue of shares, debentures & loans from the financial institutes.

**8.3 SOURCES OF FINANCE:-** Raising finance for start-up requires careful planning. The entrepreneur needs to decide:-

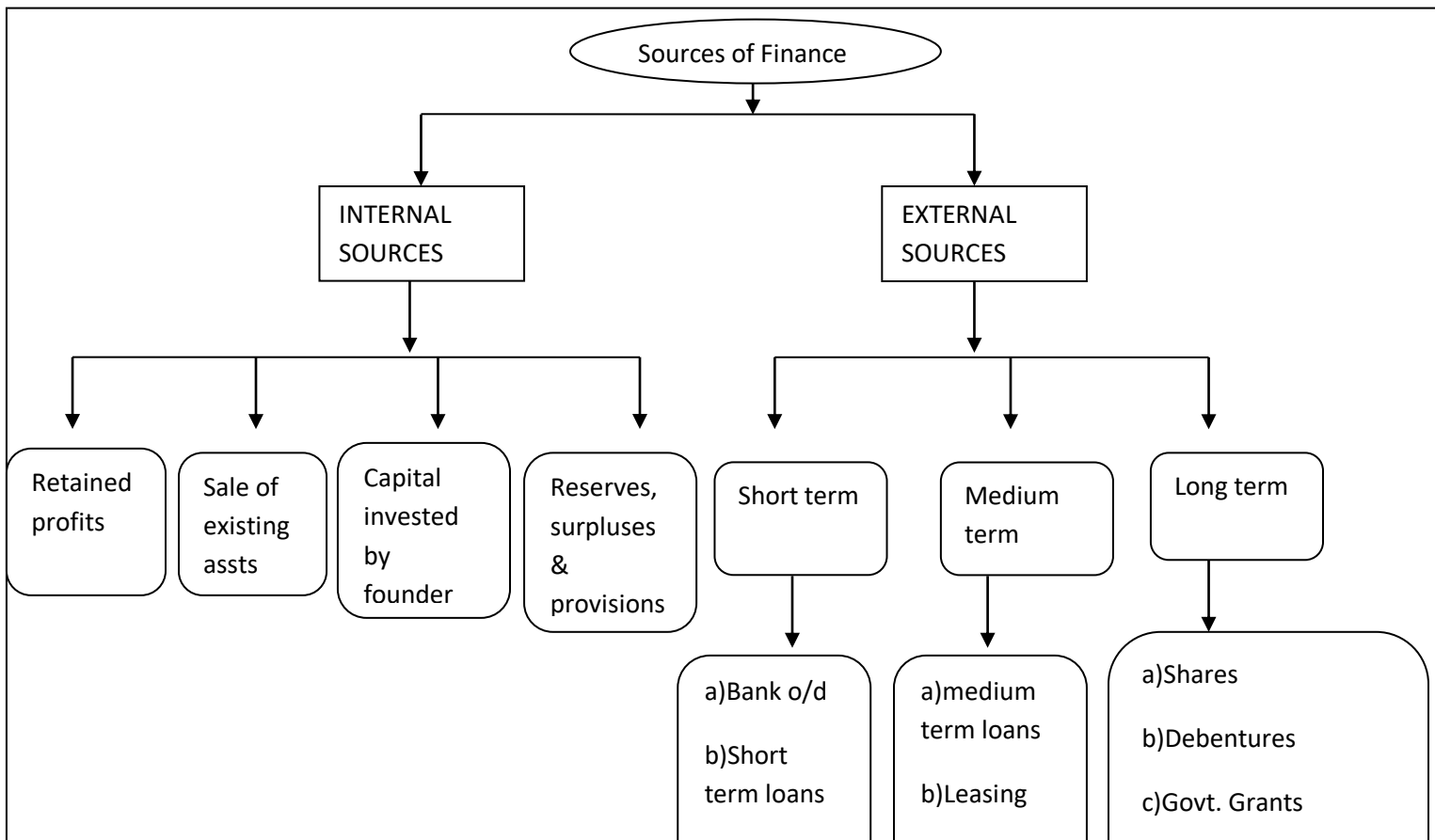
- How much finance is required?
- When and how long the finance is needed for?
- What security (if any) can be provided?
- Whether the entrepreneur is prepared to give up some control (ownership) of the start-up in return for investment?

The finance needs of a start-up should take account of these key areas:

- Set-up costs (the costs that are incurred before the business starts to trade)
- Starting investment in capacity (the fixed assets that the business needs before it can begin to trade)
- Working capital (the stocks needed by the business –e.g. r raw materials + allowance for amounts that will be owed by customers once sales begin)
- Growth and development (e.g. extra investment in capacity)

For the arrangement of finance various sources available to an entrepreneur i.e:-

1)Internal Sources(raised from within organization) 2)External sources(raised from outside)



1) **Retained profits:** Businesses (especially limited companies) usually keep some part of the profit every year for future use. This is also known as **ploughed back profit**. Over a period of time it can total up to a huge amount which can be used for financing the business. This is the cash that is generated by the business when it trades profitably. For any company, the amount of earnings retained within the business has a direct impact on the amount of dividends. Profit re-invested as retained earnings is profit that could have been paid as a dividend. The major reasons for using retained earnings to finance new investments, rather than to pay higher dividends and then raise new equity for the new investments, are as follows:

a) The management of many companies believes that retained earnings are funds which do not cost anything, although this is not true. However, it is true that the use of retained earnings as a source of funds does not lead to a payment of cash.

b) The dividend policy of the company is in practice determined by the directors. From their standpoint, retained earnings are an attractive source of finance because investment projects can be undertaken without involving either the shareholders or any outsiders.

c) The use of retained earnings as opposed to new shares or debentures avoids issue costs.

d) The use of retained earnings avoids the possibility of a change in control resulting from an issue of new shares.

2) **Sales of assets:** Business might sell off old, obsolete assets which are no longer used by the business to raise additional cash for the business. This money comes in from selling off fixed assets, such as: a piece of machinery that is no longer needed. But businesses do not always have surplus fixed assets which they can sell off and there is also a limit to the number of fixed assets a firm can sell off.

3) **Share capital – invested by the founder:** The founding entrepreneur (/s) may decide to invest in the share capital of a company, founded for the purpose of forming the start-up. This is a common method of financing a start-up. The founder provides all the share capital of the company, retaining 100% control over the business. This is money which comes from the owner/s own savings

- It may be in the form of start up capital - used when the business is setting up
- It may be in the form of additional capital – perhaps used for expansion
- This is a long-term source of finance

4) **Bank overdraft:** Bank overdraft is a short term finance and it is a facility given by banks to its business customers, people having current accounts. Through this facility the customers can overdraw their accounts to a greater value than the balance in the account. To overdrawn amount is



agreed in advance with the bank manager. The bank assigns a limit to overdraw from the account and the business can meet its short term liabilities by writing cheques to the extent of limit allowed. There is no need for collaterals or security. These are more flexible and the overdraft amount can be adjusted every month according to needs. but Interest rates are usually variable and higher than bank loans.

**5) Trade Credit:** Usually in business dealing supplier give a grace period to their customers to pay for the purchases. This can range from 1 week to 90 days depending upon the type of business and industry. By delaying the payment of bills for goods or services received, a business is, in effect, obtaining finance which can be used for more important expenditures. In this no interest has to be paid.

**6) Factoring :** It involves the business selling its bills receivable to a debt factoring company at a discounted price. In this way the business get access to instant cash. It is a type of financial service whereby a firm sells or transfers title to its accounts receivable to a factoring company, which then acts as principal, not as agent. The receivables are sold without recourse, meaning that the factor cannot turn to the seller in the event accounts prove uncollectible. Factoring can be done either on a *notification basis*, where the seller's customers remit directly to the factor, or on a *non-notification basis*, where the seller handles the collections and remits to the factor.

**7) Bank loans:** Banks are like the supermarket of debt financing. They provide short-, mid- or long-term financing, and they finance all asset needs, including working capital, equipment and real estate. This assumes, of course, that you can generate enough cash flow to cover the interest payments (which are tax deductible) and return the principal. Banks want assurance of repayment by requiring personal guarantees and even a secured interest (such as a mortgage) on personal assets. Unlike other financing relationships, banks offer some flexibility: You can pay off your loan early and terminate the agreement. When a banker is asked by a business customer for a loan or overdraft facility, he will consider several factors, known commonly by the mnemonic **PARTS i.e- Purpose, Amount, Repayment, Term & Security** of the loan.

**8) Leasing:** A lease is an agreement between two parties, the "lessor" and the "lessee". The lessor owns a capital asset, but allows the lessee to use it. The lessee makes payments under the terms of the lease to the lessor, for a specified period of time. Leasing is, therefore, a form of rental. Leased assets have usually been plant and machinery, cars and commercial vehicles, but might also be computers and office equipment. There are two basic forms of lease: "operating leases" and "finance leases". Leasing involves using an asset, but the ownership does not pass to the user. Business can lease a building or machinery and a periodic payment is made as rent, till the time the business uses the assets. The business does not need to purchase the asset.

**9) Hire purchase:** Hire purchase is a form of instalment credit. Hire purchase is similar to leasing, with the exception that ownership of the goods passes to the hire purchase customer on payment of

the final credit instalment, whereas a lessee never becomes the owner of the goods. Hire purchase agreements usually involve a finance house.

- i) The supplier sells the goods to the finance house.
- ii) The supplier delivers the goods to the customer who will eventually purchase them.
- iii) The hire purchase arrangement exists between the finance house and the customer.

It involves purchasing an asset paying for it over a period of time. Usually a percentage of the price is paid as down payment and the rest is paid in installments for the period of time agreed upon. The business has to pay an interest on these installments.

10) **Issue of share:** A share is one unit into which the total share capital is divided. Share capital of the company can be explained as a fund or sum with which a company is formed to carry on the business and which is raised by the issue of shares. The amount collected by the company from the public towards its capital, collectively is known as share capital and individually is known as share. It is a permanent source of finance but only available to limited companies. Public limited companies can sell further shares up to the limit of their authorized share capital. Private limited companies can sell further shares to existing shareholders. As per the provision of section 85 of the Companies Act, 1956, the share capital of a company consists of two classes of shares, namely: Preference Shares & Equity Shares.

11) **Debentures:** A **debenture** is defined as a certificate of acceptance of loans which is given under the company's stamp and carries an undertaking that the debenture holder will get a fixed return (fixed on the basis of interest rates) and the principal amount whenever the debenture matures. It is issued for a long periods of time. Debentures are generally freely transferrable by the debenture holder. Debenture holders have no voting rights and the interest given to them is a charge against profit. Debentures are a form of loan stock, legally defined as the written acknowledgement of a debt incurred by a company, normally containing provisions about the payment of interest and the eventual repayment of capital.

12) **Government assistance:** The government provides finance to companies in cash grants and other forms of direct assistance, as part of its policy of helping to develop the national economy, especially in high technology industries and in areas of high unemployment. For example, the Indigenous Business Development Corporation of Zimbabwe (IBDC) was set up by the government to assist small indigenous businesses in that country.

13) **Venture capital :** Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc. Venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (and consequently value).

### Activity 8.1

Out the above source select the most appropriate source of finance which suits you to start an

entrepreneurial venture.

**8.4 MEANING OF FINANCIAL INSTITUTES:-** Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of funds for the economy. These institutions provide a variety of financial products and services to fulfill the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development.

The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well developed structure of financial institutions in the country. These financial institutions can be broadly categorised into :-All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though, the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they provide the same type of financial assistance as the national level institutions.

**8.5 COMMERCIAL BANKS:-** Commercial banks play dominant role in economic development and growth of industries ever since independence. These are the most important constituents of banking business and these banks do banking business to earn profits. Commercial banks form a significant part of the country's Financial Institution System. Commercial Banks are profit seeking institutions which accept deposits from general public and advance money to individuals like household, entrepreneurs, businessmen etc. with the prime objective of earning profit in the form of interest, commission etc. The operations of all these banks are regulated by the Reserve Bank of India, which is the central bank and supreme financial authority in India. The main source of income of a commercial bank is the difference between these two rates which they charge to borrowers and pay to depositors.

#### **8.5.1 Classification of commercial banks**

1. **Scheduled banks :-** Banks which have been included in the Second Schedule of RBI Act 1934. The scheduled banks comprise scheduled commercial banks and scheduled cooperative banks. Further, the scheduled commercial banks in India are categorised into five different groups according to their ownership and/or nature of operation:- (i) Nationalised Banks; (ii) State Bank of India and its associates; (iii) Regional Rural Banks (RRBs); (iv) Foreign banks; and (v) Other Indian private sector banks. Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Co-operative Banks. They are also categorized as follows:

- **Public Sector Banks** :- are those banks in which majority of stake is held by the government. Eg. SBI, PNB, Syndicate Bank, Union Bank of India etc.
- **Private Sector Banks** :- are those banks in which majority of stake is held by private individuals. Eg. ICICI Bank, IDBI Bank, HDFC Bank, AXIS Bank etc.
- **Foreign Banks** :- are the banks with Head office outside the country in which they are located. Eg. Citi Bank, Standard Chartered Bank, Bank of Tokyo Ltd. etc.

At present, there are 170 scheduled commercial banks in the country, which includes 91 regional rural banks (RRBs), 19 nationalised banks, 8 banks in State Bank of India group and the Industrial Development Bank of India Limited (IDBI Ltd)

2. **Non scheduled commercial banks** :- Banks which are not included in the Second Schedule of RBI Act 1934.

**8.5.2 Financing By Commercial Banks:-** There are various types of credit schemes offered by commercial banks which are as under:-

**a)Cash credit:-** It is a very popular form of advancing loan. Under this scheme bank advances loans to the customer on the basis of current assets, receivables or fixed assets hypothecated in favour of bank .Cash credit is the issuance of a short term cash loan to a business .Under this the commercial bank specify a limit called ‘cash credit limit’ upto which the borrower can borrow against the security .The credit is given in the form of cash.Cash credit limits are sanctioned for one year and reviewed & renewed thereafter. It is always payable on demand and the borrower has to pay interest on the amount used by him.

**b)Overdraft:-** Discussed above(point 8.3).It means allowing the borrower to overdraw his current account and the drawee has to pay interest on the extra amount withdrawn. This facility is available to the reliable customers only and for short period.

**c)Demand Loans:-** Demand loan is a loan which can be recalled on demand i.e this is a term loan repayable within one year in installments or lump sum. It may be clean or secured. The salient feature of demand loan is that loan amount is paid in lump sum. All the amounts credited are reduced from the amount of loan and interest is generally levied on a quarterly basis on the outstanding debit balance.

**d)Term Loan:-** A term loan is loan which is sanctioned for specific period and the specific period could be one year or more. These types of loans are advanced against the security. It is mostly given for financing fixed assets or working capital needs.

**e) Money at call:-**It is the money lent for a very short period generally from 1-14 days . Such advances are usually made to other banks and financial institutes only. Money at call ensures liquidity.

**f) Consumer credit:-** Consumer credit is granted to consumers for their consumer needs. It is a short-term loans made to enable people to purchase goods or services primarily for personal, family, or household purposes. Consumer credit transactions can be classified into several different classes: **Installment credit** involves credit that is repaid by the borrower in several periodic payments; loans repaid in one lump sum are classified as **noninstallment credit**. Installment credit has expanded in popularity, with an increasing number of consumers buying goods on credit in order to spread repayment of the purchase price and the interest owed on the principal borrowed over an extended time.

**g) Bills Purchased:-** Bills are written instructions of a seller of goods to the purchaser for the payment of stipulated amount at a particular date. It is approved by the buyer and if the holder of the bill requires the amount of bill before its maturity, the bills are purchased by bank from its approved customers in whose favour regular limits are sanctioned. Bills may be clean or documentary. The bank hold the documents as security against advances.

**h) Bills Discounted:-** Bills discounted means the discounting of bills by the banks. Bills discounted is allowed against usance bills arising out of trade transaction and maturing after a given time. Bills of exchange which are discounted by the bank are debited to the bills discounted account. The amount of the bill after deducting the commission is credited to the customer account.

**Self Assessment Question 8.1**

- 9) What are the various credit schemes offered by commercial banks.
- 10) Types of scheduled commercial banks are?
- 11) What is the meaning of PARTS under bank loans?
- 12) .....involves the business selling its bills receivable to a debt factoring company at a discounted price.
- 13) List the internal sources of finance.

**8.6 TYPES & SCHEMES OFFERED BY COMMERCIAL & OTHER BANKS:-**

**8.6.1 STATE BANK OF INDIA(S.B.I):-** State Bank of India (SBI) is a banking and financial services company based in India. The bank traces its origin to the first decade of the 19th century. Later on, it was merged with the Imperial Bank. In the year 1955, the Government of India nationalized the Imperial Bank along with the Reserve Bank of India. Ever since that time, the bank acquired its present name that is SBI. The State Bank of India is India's largest commercial bank. The bank has been striving sincerely to adhere to the efforts of providing utmost customer satisfaction to the best possible extent. As of March 2012, it had assets of US\$360 billion and 14,119 branches, including 173 foreign offices in 37 countries across the globe making it the largest banking and financial services company in India. In 2008, the government took over the stake held by the Reserve Bank of India. SBI has been ranked 285th in the Fortune Global 500 rankings of the world's biggest corporations for the year 2012.

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 14 regional hubs and 57 Zonal Offices that are located at important cities throughout the country.

Various schemes by S.B.I:-

1) In 1967, the SBI launched a liberalized scheme for providing financial assistance to technically qualified or trained entrepreneurs to the extent of 100 % if necessary.

2) Under the equity fund scheme the bank may grant interest free loan for 25% of the project cost which is minimum contribution of an entrepreneur.

3) SBI has set up research & development fund of Rs.5 crores for assisting entrepreneurial development.

4) SBI and its group offer package of financial arrangement & assistance to small scale unit in their promotional & expansion activities and act as banker to capital issue.

5) Equipment Finance Scheme offered for acquisition of machinery / equipment, both indigenous and imported. Existing units in the SSI sector with good track record and sound financial position can obtain finance through this scheme. These units should have been in operation for at least three years and have earned profits and / or declared dividend during two years preceding to taking up the scheme. The units should not have defaulted in payment of its dues. Norms requirement of loans should not be less than Rs.7.5 million. The limits for states of Eastern Region, North-Eastern Region, Jammu Kashmir and Himachal Pradesh shall be Rs.5 million and Debt Equity Ratio - For projects - 2:1, for units - 1.5:1 and repayment has to be made within 5 years.

6) SSI Entrepreneur Scheme of State Bank of India grants financial assistance to technically qualified, trained and experienced entrepreneurs for setting up new viable industrial projects. Loans are extended to technocrats who are unable to meet the normal margin requirements under the liberalized schemes. The borrower has to be a technically qualified person (a degree/diploma holder in engineering or technology), a craftsman with adequate experience or training or a person possessing a degree in business or industrial management, a chartered accountant or a cost accountant with relevant experience. For requirements up to Rs 5 lakh, no margins are involved. For needs ranging from Rs 5 lakh to Rs 20 lakh, the margin is set at 10 per cent.

**8.6.2 IDBI BANK:-** The Industrial Development Bank of India Limited, popularly known as IDBI Bank is one of the leading public sector banks in India. Categorized as "other public sector bank" by Reserve Bank of India (RBI), IDBI Bank is also the 4th largest Indian bank. Founded in 1964 to provide credit and other facilities to its customers, IDBI Bank currently has 457 centers, 688 branches and 1020 ATMs across the nation. It is world's 10th largest development bank in terms of reach. IDBI Bank also built several institutions including the National Stock Exchange of India (NSE), the Stock Holding Corporation of India (SHCIL) and the National

Securities Depository Services Ltd. (NSDL) etc.  
IDBI Bank was founded on July 1, 1964 under an Act of Parliament. It was established as a wholly owned subsidiary of RBI (Reserve Bank of India). The ownership was however transferred to the Government of India on February 16, 1976. It worked as the main financial institution, whose main goal was to coordinate with other institutions associated with financing, developing and promoting the industry. With the public issue of IDBI Bank released in July 1995, the share holding of the Government came down below 100%. However, the majority of the share was still owned by the government, which is currently 52.3%. IDBI Bank started offering a wide array of products and services to its customers, which covered entire range of industrial activities including services and manufacturing. Products and Services;-IDBI Bank offers a wide array of products and services to its customers. For different customer groups and needs, there are different types of products and services including Personal Banking, Corporate Banking, SME Finance and Agri Business etc.

**Following products and services are offered by IDBI Bank for the corporates:**

Project Finance ,Infrastructure Finance ,Syndication, Underwriting & Advisory Services ,Carbon Credits Business ,Working Capital ,Cash Management Services ,Trade Finance ,Tax Payments ,Derivatives, Technology Upgradation Fund Scheme (TUFS) ,Direct Discounting Bills , Rehabilitation Finance

**Following SME Finance products are offered by the IDBI Bank:-**

1)Soft loan scheme:-This scheme is introduced in 1976 to provide financial assistance to productive units in selected industries e.g:-cement, cotton, textiles, jute, sugar and certain engineering industries to modernize, replace and renovate their plant & equipment. This scheme is implemented by IDBI with financial participation of IFCI & ICICI.

2)In 1988 IDBI launched National Equity Fund Scheme(NEFS) for providing support in nature of equity to tiny & small industries engaged in manufacturing cost not exceeding Rs. 5 lakh.

3)IDBI set up Voluntary Execution Corporation cell(VECC) to utilize the services of experienced professionals for counseling small units for providing consultancy support in specific areas.

4) Credit Guarantee Scheme for Micro and Small Enterprises (CGMSE):- Providing security for the loan availed by the micro/small enterprises units (MSEs) has been found to be a major roadblock for their inability to access banking systems. Keeping this in view, the Government of India and SIDBI had set up "Credit Guarantee Fund Trust for Micro & Small Enterprises" (CGTMSE). On the basis of the guidelines issued by CGTMSE, IDBI Bank offers collateral free loans up to Rs. 1 crore.

5)Sulabh Vyapar/ Business Solutions:- Traders act as a vital link between the manufacturers of goods/commodities and the consumer. The product aims to provide hassle free finance to traders and to meet their business and financial needs at competitive interest rates. Any individual or a firm (partnership or proprietorship) engaged primarily in buying and selling mercantile goods is eligible for this mode of finance. IDBI Bank offers solutions to all the financial needs of the

wholesalers/traders/retailers under the Product. Loan amount can be upto 500 lakh on the primary security of hypothecation of stock, assets or receivables or collateral can be immovable residential or commercial property.

6) Loans to Professionals & Self-employed:- All the Professionals and Self-Employed persons including:

- Chartered Accountants, Company Secretaries, Engineers, Architects, Surveyors, Contractors, Management Consultants
- Doctors/Medical Practitioner, Healthcare Centres
- Packaging, Storage & Warehouse Services
- Transport/Taxi Services, Travel & Tour Operators, Travel Agents
- Event Management, Publicity & Media Coverage

**Fund based facilities provided to professional are:** 1. Over Draft / Cash Credit & 2. Term Loan and non fund based : Bank Guarantee & Letter of Credit. Loan can be provided for minimum Rs. 5 lakh & maximum Rs.500 Lakh and tenor is 7 years.

7) SME Smart Line of Credit:- Bank has introduced this Product where financial assistance is offered to the MSMEs by way of pre-approved composite loan. Loan amount can be maximum 500 lakhs for corporate borrowers and maximum 250 lakh for non-corporate borrowers and term loan can be for maximum 5 years and for that guarantee and security has to provide to the bank.

**8.6.3 SIDBI(Small Industrial Development Bank of India):-** Small Industries Development Bank of India is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. Set up on October 1989 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. The bank commenced its operations from April 2, 1990. It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

**Following are the financial schemes offered by SIDBI :-**

1) Growth Capital and Equity Assistance Scheme provides assistance in form of Mezzanine/ Convertible Instruments, Subordinated debt and Equity .It bridge the gap in means of finance for scaling up/ expansion/ modernization projects. It access long term structured assistance especially for investments in intangible assets, Leverage Equity / Sub Debt Assistance from SIDBI for raising higher debt funds. Eligibility for this scheme is an MSME as per the definition of Government of India (MSMED Act) or Units with past 3 years of profitability and 2 years of satisfactory banking credit track record



(meeting internal credit rating criteria) and acceptable external rating from CRISIL, ICRA, D&B, SMERA etc would be desirable.

2) SIDBI Venture Capital Limited (SVCL) is a wholly owned subsidiary of SIDBI, incorporated in July 1999. It help the entrepreneur to manage his business more effectively and achieve rapid growth in internationally competitive environment SVCL use SIDBI's close functional linkages with domestic and international venture capital funds/ companies, Govt. agencies, financial institutions, commercial banks, foreign institutional investors, merchant bankers, consultancy agencies, management institutes, R&D organisations, software technology parks etc. to provide strategic support to assisted companies of this fund.

3) SIDBI provides indirect assistance to SSIs through a large network of 913 PLIs(Primary lending Institutes) ,SFC's & SIDC's spread across the country .The bank provides refinance to PLIs against the term loans granted by them for-setting up of new SSI projects and for expansion, technology up gradation etc.

4)SIDBI provides financial assistance to SSI unit under Technology development and modernization Fund(TDMF) Scheme.

5)Direct Assistance Schemes:-SIDBI directly assists SSIs under Project Finance Scheme, Equipment Finance Scheme, Marketing Scheme, Vendor Development Scheme, Infrastructural Development Scheme, ISO-9000, Technology Development & Modernisation Fund, Venture Capital Scheme, assistance for leasing to NBFCs, SFCs, SIDCs and resource support to institutions involved in the development and financing of small scale sector.

6) National Equity Fund Scheme which provides equity support to small entrepreneurs setting up projects in Tiny Sector. National Equity Fund (NEF) under Small Industries Development Bank of India (SIDBI) provides equity type assistance to SSI units, tiny units at one per cent service charges. The scope of this scheme was widened in 1995-96 to cover all areas excepting Metropolitan areas, raising the limit of loan from Rs. 1.5 lakhs to Rs. 2.5 lakhs and covering both existing as well as new units.

8)Composite Loan Scheme for equipment and/or working capital and also for worksheds to artisans, village and cottage industries in Tiny Sector.

9)Mahila Udyam Nidhi (MUN) Scheme provides equity support to women entrepreneurs for setting up projects in Tiny Sector.

10) Technology Development & Modernisation Fund:-SIDBI has set up Technology Development & Modernisation Fund (TDMF) scheme for direct assistance of small sale industries to encourage existing industrial units in the sector, to modernise their production facilities and adopt improved and updated technology so as to strengthen their export capabilities. Assistance under the scheme is available for meeting the expenditure on purchase of capital equipment acquisition of technical know-how, upgradation of process technology and

products with thrust on quality improvement, improvement in packaging and cost of TQM and acquisition of ISO-9000 series certification.

#### **8.6.4 ICICI BANK (The Industrial Credit and Investment Corporation of India)**

ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI became the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE. ICICI Bank is India's second-largest bank with total assets of Rs. 4,736.47 billion (US\$ 93 billion) at March 31, 2012 and profit after tax Rs. 64.65 billion (US\$ 1,271 million) for the year ended March 31, 2012. The Bank has a network of 2,899 branches and 10,021 ATMs in India, and has a presence in 19 countries, including India.

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

#### **Financial schemes offered by ICICI Bank:-**

- 1) Construction Equipment Loans:-**Bank provides loan facilities to any individual / partnership firm / company with more than two years of business experience or existing owner of construction equipment Or applicants using equipment for self purpose, mine owners and contractors. It provides extended products like **funding of new equipments, refinance option on existing equipment etc.**
- 2) Assistance to projects to backward areas:-** ICICI has provided concessional loans and other facilities for setting up new units for the growth and development of backward areas.
- 3) Credit Rating Information Services of India Limited**  
In 1987, ICICI Ltd. along with UTI set up CRISIL as India's first professional credit rating agency. CRISIL offers a comprehensive range of integrated products and service offerings which include credit ratings, capital market information, industry analysis and detailed reports.
- 4) Entrepreneurship Development Institute of India :-**Entrepreneurship Development Institute of India (EDII), an autonomous body and not-for-profit society, was set up in 1983, by the erstwhile apex financial institutions like IDBI, ICICI, IFCI and SBI with the support of the Govt. of Gujarat as a national resource organisation committed to entrepreneurship development, education, training and research.

- 5) My Savings Rewards;- ICICI Bank has rolled-out the programme 'MySavings Rewards' from September 1, 2012, where reward points are offered to individual domestic customers for a variety of transactions done through the savings bank account. Reward points are offered automatically to customers for activating Internet banking, shopping online/ paying utility bills with Internet banking and auto-debit from savings account towards equated monthly installments for home/ auto/ personal loan/ recurring deposit. Customers are required to maintain a monthly average balance of Rs.15,000 or more.
- 6) Acquisition Finance: ICICI 's acquisition financing solutions are focused on delivering innovative debt financing to companies contemplating acquisitions or mergers. The solutions are structured to leverage existing assets and those of the acquisition candidate to help finance the transaction.
- 7) Revolving Credit:-Revolving Credit is a committed facility for a fixed tenor and is available for drawing as needed by the business. The line amount can be used, repaid and re-used within the term of the facility. Typically repaid from your business cash flow, revolving credit gives you flexibility to take advantage of business opportunities as they arise.
- 8) Programme for the Advancement of Commercial Technology(PACT):-ICICI has set up Programme for the advancement of commercial technology(PACT) with an assistance from USAID to assist market oriented research and development activity jointly undertaken by Indian and U.S Companies
- 9) Assistance under Soft Loan Scheme:- ICICI operated soft loan scheme for the modernization of industrial units in cement, sugar, cotton , textile etc in collaboration with IFCI and IDBI. The scheme was introduced with aim to provide assistance on soft terms for modernization, replacement & renovation of plant & equipment.

### Activity 8.2

Pen down the latest schemes offered by various commercial banks in India.

**8.6.5 SFC's( STATE FINANCIAL CORPORATIONS):-** In pursuance of the SFCs Act, 1951, SFCs were set up mainly to finance small and medium scale units. Their area of operation is generally restricted to the concerned States. The first SFC was setup in Punjab in 1953. SFCs also assist small scale units for their modernisation and technology upgradation programmes by providing soft loans, restructuring the sick small scale units through rehabilitation schemes and through equity type assistance under SIDBI's seed capital scheme.

At present, there are 18 SFCs (including TIIC i.e Tamil Nadu industrial investment corp. which was set up as a company) in existence for more than 40 years and operate as Regional Development Banks. The SFCs have played an important role in the evolution and growth of small and medium scale industries in their respective states. They provide financial assistance to

industrial units by way of term loans, direct subscription to equity, guarantees, etc. Over the years SFCs have expanded their activities and coverage of assistance.

One-Man Committee set up by RBI under the Chairmanship of former Secretary, SSI&ARI, to look into various problems regarding credit flow to SSI sector and support appropriate measures for their redressal has given the following recommendations in its report submitted to RBI which are being processed by them:-

-Restructuring of weaker SFCs by the Government.

- Funds for lending under Single Window Scheme by SFCs should be placed by SIDBI with the SFCs in adequate measures.

- Each SFC should get into an MOU with one or two Public Sector banks and participate in joint lending in which both term loan and working capital is provided jointly. For example, 80 per cent of the term loan could be given by SFC and 20 per cent by bank. In case of working capital which may be sanctioned at the same time as term loan, the proportion could be reversed, i.e., 80 per cent by bank and 20 per cent by SFC. However, the working capital account be managed and supervised by the bank through its specialised SSI branches.

- SIDBI should sign MOUs with the State Governments to provide some assistance to SFC prior to the approval of assistance packages by the Government of India/SIDBI.

- The staff of SFCs has to be adequately trained and SIDBI may be asked to make arrangements for this purpose.

#### **Schemes by SFC's are as under:-**

**1)Scheme for Business Loan under Relocation:** For proposed expenditure like installation of power connection, reconditioning of existing machinery, shifting expenses, renovation of building, working capital, repayment of unsecured temporary loans taken for above purposes incurred up to one year before the date of application. Maximum Quantum of Loan (Rs) is:- Maximum Rs. 25.00 Lakh and Minimum Rs.1.00 Lakh and Maximum Cost of Project :- Maximum Rs.10.00 Crore

**2) Equipment Finance Scheme:** To assist the existing SSI and service sector units for acquisition of machinery/equipment, both indigenous and imported. This would facilitate modernization / technology upgradation, expansion and diversification and quality Improvements or providing other facilities to an existing unit which is in operation for a period of at least 3 years and should have earned profits during 2 proceeding years. Maximum Quantum of Loan is:- Rs 5.00 Crore for companies and societies &Rs 2.00 Crore for proprietorship and partnership firms.

**3) Technology Development & Modernization for SSI Units (STDM):** To encourage existing industrial units in Small Scale Sector to modernize their production facilities and adopt improved

and updated technology so as to strengthen their manufacturing facilities . Maximum Quantum of Loan is Rs 80.00 Lakh

4) **Small Road Transport Operators (SRTTO) Scheme:** For the purchase of new chasis including fabrication of body purchase of tool kit, stepny and insurance and registration etc. by Small Road Transport Operators not owning more than 20 commercial vehicles including existing ones. Need based for upto 20 vehicles (incl. exiting ones). Maximum Quantum of Loan:-

i) Rs 5.00 Crore for companies and societies

ii) Rs 2.00 Crore for proprietorship and partnership firms.

#### **5)Credit Linked Capital Subsidy Scheme For Technology Upgradation of the Small Scale Industries(CLCSS)**

The scheme would cover the following products/ Sub-sectors in the SSI:- Leather and Leather products including footwear and garments,Food Processing (including ice-cream manufacturing), Information Technology (hardware),Drugs and pharmaceuticals etc.

i) Capital subsidy under the scheme shall be available only for such projects where term loans have been sanctioned on or after October 1,2000.

ii) Units upgrading with second hand machinery are not eligible.

iii) Replacement of existing equipment/ technology with the same equipment /technology will not qualify under the scheme.

iv) The beneficiary unit shall remain in commercial production for a period of at least 3 years after installation of eligible plant & machinery on which subsidy has been availed. Ceiling on loan under the scheme is raised from Rs.40.00 Lacs to Rs.1.00 Crore.

The Scheme aims to facilitate technology upgradation of SSI units in the specified products /sub sectors by providing 15% capital subsidy (12% pre-revised) for induction of proven technologies approved under the scheme.

6) **Mahila Udyam Nidhi Scheme (MUN) :-**The objective of the scheme is to provide equity type of assistance to women entrepreneurs for setting up new industrial venture with the project cost upto Rs. 10 lac in small scale sector. Terms of Assistance is Soft loan under the scheme @ 25% of the project cost subjected to the maximum of Rs. 2.5 lac per project. The minimum promoters contribution will be 10% of the cost of project. No interest is charged on soft loan component except service charges of 5% PA. Interest on term loan is linked with refinance rate of SIDBI and repayment period is seven years (including moratorium period of three years for soft assistance and 18 months for term loan)

## **8.7 OTHER INSTITUTIONS:-**

### **8.7.1 VENTURE CAPITAL FUNDING:-**

Venture capital is a new financial services and their emergence became necessary to help entrepreneurs to translate their dreams into realities. Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc. Venture capital comprises of 2 words i.e.”Venture” and “capital”. Venture is a course of processing, the outcome of which is uncertain but to which is attended the risk or danger of “loss”. “Capital” means resources to start an enterprise. To connote the risk and adventure of such fund , the generic name Venture Capital is coined. Venture capital has also been described as “unsecured risk financing” because venture capital involves investment in new or relatively untried technology, initiated by relatively new and professionally or technically qualified entrepreneurs with inadequate funds. A venture capitalist is a person that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. These funds are typically managed by a venture capital firm, which often employs individuals with technology backgrounds (scientists, researchers), business training and/or deep industry experience.

#### **8.7.1.1 FEATURES OF VENTURE CAPITAL**

1)High Risk:-Venture capital financing is highly risky and chances of failure are high as it provides long term startup capital to high risk-high reward ventures. Venture capital assumes four types of risks:-

- Management Risk:-Inability of management teams to work together.
- Market Risk:-Product may fail in the market.
- Product Risk:-Product may not be commercial viable
- Operation Risk:-Operations may not be cost effective

2)High Tech:-Venture capital investments are made in high tech areas using new technologies .

3)Equity Participation:-Investments are generally made in equity & quasi equity participation through direct purchase of shares ,options , convertible debentures.

4)Participation in Management:- venture capital provides value addition by managerial support, monitoring and follow up assistance .It monitors physical and financial progress as well market development initiative. They demand one seat in company's board of directors.

5)length of investment:-Venture capital help companies to grow, but they eventually seek to exit the investment in 3-7 years.

### 8.7.1.2 Funding

Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business. Venture capital is invested in exchange for an equity stake in the business. As a shareholder, the venture capitalist's return is dependent on the growth and profitability of the business. This return is generally earned when the venture capitalist "exits" by selling its shareholdings when the business is sold to another owner. Venture capitalists typically assist at four stages in the company's development:-

- Idea generation;
- Start-up;
- Ramp up; and
- Exit

### Financing stages

There are typically six stages of venture round financing offered in Venture Capital, that roughly correspond to these stages of a company's development.

- Seed funding: It is the financing of the initial product development or capital provided to an entrepreneur to prove the feasibility of a project and to qualify for start up capital.”
- Start-up: It is second stage . Here the business concept has been investigated and the business risk now becomes that of turning the concept into product.
- Growth (Series A round): Early sales and manufacturing funds
- Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit
- Expansion : Also called Mezzanine financing, this is expansion money for a newly profitable company
- Exit of venture capitalist : Also called bridge financing, 4th round is intended to finance the "going public" process.

#### Self Assessment Question 8.2

- 1) What is the full form of MUN?
- 2) CLCSS means?
- 3) Full form of SRTTO?

4) SFC Act came in which year?

What is Venture Capital funding?

### 8.7.2 ANGEL CAPITALIST:-

An angel investor or angel (also known as a business angel or informal investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies. Angels typically invest their own funds, unlike venture capitalists who manage the pooled money of others in a professionally-managed fund.

An angel investor is an individual with financial resources looking to invest into an organization that personally interests him. Companies with unique business models can benefit from an angel investor, as the angel investor tends to invest into unusual business ideas but with the intention of staying with the company for the long term. It is not unusual for an angel investor to remain with a company for five years or more. Angel investors traditionally do not want to get involved in the running of your company, but they may want to have a hand in making business decisions. The term "angel" originally comes from Broadway where it was used to describe wealthy individuals who provided money for theatrical productions. Many angel investors are retired executives or business owners who have the money, knowledge, and experience to mentor new entrepreneurs so they can stay abreast of developments in a particular area of industry. An experienced angel investor can provide valuable knowledge and skills to an entrepreneur on how to run their business during its early stages of development. They may also be a good source of useful contacts, allowing the entrepreneur the opportunity to network with others in their industry

#### 8.7.2.1 TYPES OF ANGEL CAPITALIST

Despite this adversity, many angel investors fall into three main categories:

Core angels- These investors are individuals with extensive business experience who have operated and owned successful businesses of their own. Their vast amount of wealth was accumulated over a relatively long period of time. They are committed to their job of angel investing and continue to be involved with high risk investments despite their losses. They possess a diversified portfolio that encompasses all industries, including public and private equity and real estate. They serve as valuable mentors and advisors to their invested companies.

High-tech angels- These investors may have less experience than core angels, but invest significantly in the latest trends of modern technology. Their investments primarily depend on the value of their other high-tech holdings, which can vary considerably. Many high-tech angels enjoy the risk of their deals as well as the exhilaration of bringing a novel technology to the



market place. Some may even prefer not to be actively involved in their invested companies simply because they dislike dealing with the daily challenges of operating a business.

**Return on investment (ROI) angels-** These investors are primarily concerned with the financial reward of high-risk investments. Their motivation behind investing is their perception of what other angels gross income may be. ROI angels tend to stay away from investing when market performance is poor and emerge once the market shows stability and improvement. They view each of their investments as another company added to their diversified portfolio and rarely become actively involved in the invested companies.

### **8.8 SUMMARY:-**

Finance is the important part of every business. Finance is the life blood of business. It flows in mostly from sale of goods and services. It flows out for meeting various types of expenditure. For the availability of finance an entrepreneur has to depend upon various financial institutions or banks. Financial institutions provide service as intermediaries of financial markets. They are responsible for transferring funds from investors to companies in need of those funds. Financial institutions facilitate the flow of money through the economy. There are various types financial institutions like:-commercial banks, development banks ,venture capitalist or angel investors. These institutions provide finance according to the need & feasibility of the project.

### **8.9 GLOSSARY:**

**Retained profits:** Retained earnings is the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt.

**Reserves:** also known as retained earnings which is kept aside.

**Bank overdraft:** A bank overdraft occurs when someone withdraws more money from their account than is available. This is also referred to as the account being overdrawn.

### **8.10 REFERENCES/ BIBLIOGRAPHY**

- 1)The Entrepreneurial Development and Management- Vasant Desai
- 2)Entrepreneurship and small business-Purnima Sehgal

### **8.11 FURTHER READINGS**

- 1) Management of Services-Banking& insurance-Sukhdev singh
- 2) Entrepreneurship Development & Project Management: Lipika K.Guliani& R.K Gupta(Himalaya Publications)

### **8.12 MODEL QUESTIONS:**

- 1) Discuss the role of financial institutions in the development of the entrepreneurs.
- 2) What are the various financial schemes of commercial banks for the entrepreneurs?
- 3) Write detailed note on IDBI, ICICI & SIDBI.
- 4) Write a detailed note on SFC and how it helps in the development of the economy.
- 5) Explain the steps taken by commercial banks & development banks to improve the flow of credit to entrepreneurs.
- 6) What do you mean by venture capitalist & angel capitalist?

### **8.13 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ**

#### **Self Assessment Question 8.1**

- 5) Cash Credit, overdraft, Demand Loans, Term Loan, Money at call, Consumer credit, B.P, Bills discounted
- 6) Public Sector Banks, Private sector banks and Foreign Banks
- 7) Purpose, Amount, Repayment, Term & Security of the loan.
- 8) Factoring
- 9) Retained Profits, Sale of existing assets, Capital invested by founder, Reserves

#### **Self Assessment Question 8.2**

- (1) Mahila Udyam Nidhi Scheme (2) Credit Linked Capital Subsidy Scheme For Technology Upgradation of the Small Scale Industries (3) Small Road Transport Operators Scheme (4) 1951 (5) Refer 8.7.1

## **Lesson 9**

### **ENTREPRENEUR DEVELOPMENT & ROLE OF GOVERNMENT**

#### **STRUCTURE**

##### 9.0 OBJECTIVES

##### 9.1 INTRODUCTION

##### 9.2 MEANING OF ENTREPRENEURSHIP DEVELOPMENT

##### 9.3 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

##### 9.4 ROLE OF GOVERNMENT IN ENTREPRENEURSHIP DEVELOPMENT

##### 9.5 VARIOUS SCHEMES & INCENTIVES BY CENTRAL GOVERNMENT

##### 9.6 ROLE OF STATE GOVERNMENT

##### 9.7 VARIOUS INCENTIVES & SCHEMES FOR EXPORT ORIENTED UNITS

9.8 SUMMARY

9.9 GLOSSARY

9.10 REFERENCES/BIBLIOGRAPHY

9.11 FURTHER READINGS

9.12 MODEL QUESTIONS

9.13 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

### **9.0 OBJECTIVES :**

After studying this lesson, students will be able to :-

- a) Identify the central level institutes /agencies supporting entrepreneurship development.
- b) Role of Government in promoting entrepreneurship
- c) Learn about incentives, subsidies, grants etc from state government in order to promote entrepreneurship.
- d) Meaning of export oriented units and government aid to these units.

### **9.1 INTRODUCTION :**

Entrepreneurship development is the prerequisite for the overall economic development of economy. A worldwide consensus on the critical role of competitive markets and entrepreneurs in economic development has emerged in the last decade. In developing countries, the primary barrier to economic growth is often not so much a scarcity of capital, labour or land as it is a scarcity of both the dynamic entrepreneurs that can bring these together and the markets and mechanisms that can facilitate them in this task. So the

development of the country depends upon its entrepreneurs. So Government of India has been taking number of steps and policies through various ministries to promote entrepreneurship. The Government has provided an impressive and effective policy framework for financial and technological support to entrepreneurs.

The Ministry of small-scale industries designs & implements policies and programmes through its field organizations and attached offices for promotion and growth of entrepreneurship & small industries.

### **9.2 MEANING OF ENTREPRENEURSHIP DEVELOPMENT:-**

Entrepreneurship development (ED) refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes . Entrepreneurship Development aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development. Entrepreneurship development focuses on the *individual* who wishes to start or expand a business. It concentrates on growth potential and innovation.

### **9.3 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT:-**

Entrepreneurship is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities. It plays an important role in the economic development of the country. It creates wealth for the nation. It provides employment and act as source of livelihood, also benefit through indirect opportunities more over it helps in the improvement of standard of living. In this way economic development & entrepreneurial activity are dependent upon each other. Entrepreneurship can help economic development in following ways:-

#### **(1)Improvement in standard of living:-**

The growth of entrepreneurship has enabled an improvement in standard of living of people. Entrepreneurship means innovation of new ideas. Moreover entrepreneur tries to make goods at cheaper rate so that it can be easily affordable which increases the standard of living. The growth of entrepreneurship increases production which will increase consumption and more consumption means better standard of living.

#### **(2) Develop new markets:-**

Under the modern concept of marketing, markets are people who are willing and able to satisfy their needs. In Economics, this is called effective demand. Entrepreneurs are resourceful and creative. They can create customers or buyers. This makes entrepreneurs different from ordinary businessmen who only perform traditional functions of management like planning, organization, and coordination and more markets means more

economic development.

**(3) Promotes Capital Formation:**

Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

**(4) Creates Large-Scale Employment Opportunities:**

Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

**(5) Promotes Balanced Regional Development:**

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries lead to more development of backward regions and thereby promotes balanced regional development.

**(6) Reduces Concentration of Economic Power:**

Economic power is the natural outcome of industrial and business activity. Industrial development normally lead to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

**(7) Wealth Creation and Distribution:**

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

**(8) Increasing Gross National Product and Per Capita Income:**

Entrepreneurs are always on the look out for opportunities. They explore and exploit opportunities,, encourage effective resource mobilisation of capital and skill, bring in new

products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

**(9) Promotes Country's Export Trade:**

Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

**(10) Induces Backward and Forward Linkages:**

Entrepreneurs like to work in an environment of change and try to maximise profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

**Activity 9.1**

Pen down the latest developments in Indian economy which was due to entrepreneurship.

**9.4 ROLE OF CENTRAL GOVERNMENT IN ENTREPRENEURSHIP DEVELOPMENT:-**

The Micro, Small and Medium Enterprises (MSME) sector has been recognised as engine of growth all over the world. Many countries of the world have established a SME Development Agency as the nodal agency to coordinate and oversee all Government interventions in respect of the development of this sector. In the case of India, also Medium establishment has for the first time been defined in terms of separate Act, governing promotion and development of Micro, Small and Medium Enterprises (MSME) i.e. Micro, Small and Medium Enterprises (MSME) development Act, 2006 (which has come into force from 02nd Oct, 2006) the Office of Development Commissioner (Micro, Small and Medium Enterprises) functions as the nodal Development Agency under the Ministry of Micro, Small and Medium Enterprises (MSME). Office of the Development Commissioner (MSME) provides a wide spectrum of services to the Micro, Small and Medium Industrial sector. These include facilities for testing, tool mentoring, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. Office of the Development Commissioner (MSME) provides economic information services and advises Government in policy

formulation for the promotion and development of SSIs. The field offices also work as effective links between the Central and the State Governments. Micro, Small and Medium-sized Enterprises (MSMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner. SMEs have strategic importance for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs. With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for success. So the government has created different types of support institutes for the development of entrepreneurship. These are as under :-

### **Training**

Basic training differs from product to product but will necessary involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions.

There are a number of Government organisations as well as NGOs who conduct EDPs and MDPs. These EDPs and MDPs and are conducted by MSME's, NIESBUD, NSIC, IIE, NISIET, Entrepreneurship Development Institutes and other state government developmental agencies.

### **Entrepreneurship Development Programmes(EDPs):-**

Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs. These EDPs are generally conducted in ITIs, Polytechnics and other technical institutions, where skill is available to motivate them towards self-employment. The course contents of such Entrepreneurship Development Programmes are designed to provide useful information on product/process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments,

project profile preparation, marketing avenues/techniques, product/service pricing, export opportunities, infrastructure facilities available, financial and financial institutions, cash flow, etc

### **Marketing Assistance**

There are Governmental and non-governmental specialised agencies which provide marketing assistance. Besides promotion of MSME products through exhibitions, NSIC directly market the MSME produce in the domestic and overseas market. NSIC also manages a single point registration scheme for manufacturers for Govt. purchase. Units registered under this scheme get the benefits of free tender documents and exemption from earnest money deposit and performance guarantee.

### **Promotional Schemes**

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality upgradation, common facilities, entrepreneurship development and consultancy services at nominal charges.

### **Concession on Excise Duty**

MSME units with a turnover of Rs. 1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crores are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas

### **Credit Facility To MSME**

Credit to micro, small and medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc. Loans upto Rs. 5 lakhs are made available by the banks without insisting on collaterals. Further Credit Guarantee Fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSME up to Rs. 25 lakhs extended by Commercial Banks and some Regional Rural Bank.

## **9.5 VARIOUS SCHEMES & INCENTIVES BY CENTRAL GOVERNMENT:-**

Various other schemes & incentives offered by central government are as under:-



**1) National Manufacturing Competitiveness Programme (NMCP) Schemes Under XI Plan** - The Government has announced formulation of National Competitiveness Programme in 2005 with an objective to support the Small and Medium Enterprises (SMEs) in their endeavor to become competitive and adjust the competitive pressure caused by liberalization and moderation of tariff rates. The scheme will be called the "Manufacturing Competitiveness Programme". The design of the scheme will be worked out by the National Manufacturing Competitiveness Council (NMCC) in consultation with the industry".

**2) Micro & Small Enterprises Cluster Development Programme (MSE-CDP) - DC(MSME)** launched MSE-CDP for holistic development of selected MSEs clusters through value chain and supply chain management on co-operative basis.

Objectives of the Scheme:

- 1) To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital, etc.
- 2) To build capacity of MSEs for common supportive action through formation of self help groups, consortia, upgradation of associations, etc.
- 3) To create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSEs.
- 4) To set up common facility centres (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc).

**3) Credit Linked Capital Subsidy Scheme for Technology Upgradation** - The Scheme was launched in October, 2000 and revised w.e.f. 29.09.2005. The revised scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of Plant and Machinery. Maximum limit of eligible loan for calculation of subsidy under the revised scheme is also been raised Rs. 40 lakhs to Rs. 100 lakh w.e.f. 29-09.2005. The scheme has been continues 10th five year plan to 11th five year plan. Under the scheme approximately 7396 units have availed subsidy of Rs. 315.21 crore upto August, 2009.

**4) Credit Guarantee Scheme** - Collateral free loans upto a limit of Rs.50 lakhs - *for individual MSEs*. The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The

scheme was formally launched on August 30, 2000 and is operational with effect from 1st January 2000. The corpus of CGTMSE is being contributed by the Government and SIDBI in the ratio of 4:1 respectively and has contributed Rs.1906.55 crore to the corpus of the Trust up to March 31, 2010. As announced in the Package for MSEs, the corpus is to be raised to Rs.2500 crore by the end of 11th Plan.

**5) ISO 9000/ISO 14001 Certification Reimbursement Scheme** - Incentive Scheme of Reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 certification/environment management (EMS) ISO 14001 certification to the extent of 75% or Rs.75,000/- whichever is lower. **The Scheme shall provide one time reimbursement only against a Entrepreneurship Memorandum Number. It means the total entitlement of reimbursement of acquiring one or more than on certifications shall be up to the maximum limit of Rs. 75,000/- only.** In case a unit has received reimbursement/subsidy/grant from Central Govt./State Govt./Financial Institution against any one of the certifications for an amount less than maximum limit of Rs. 75,000/-, the unit shall be eligible to receive the balance amount only.

**6) MSME MDA** - The scheme offers funding upto 75% in respect of to and fro air fare for participation by MSME Entrepreneurs in overseas fairs/trade delegations. The scheme also provide for funding for producing publicity material (upto 25% of costs) Sector specific studies (upto Rs. 2 lakhs) and for contesting anti-dumping cases (50% upto Rs. 1 lakh) - *for individual MSMEs & Associations.*

» **Participation in the International Exhibitions/ Fairs** - For registered Small & Micro manufacturing enterprises with DI/DIC.

» **Financial Assistance for using Global Standards (GS1) in Barcoding** - Recognized the importance of bar coding and avail financial assistance through Office of DC(MSME). In order to enhance the marketing competitiveness of MSEs in domestic as well as international market, Office of Development Commissioner (MSME), Ministry of MSME, provides the financial assistance for reimbursement of 75% of one-time registration fee (Under SSI-MDA Scheme) w.e.f. 1st January,2002 and 75% of annual recurring fee for first three years (Under NMCP Scheme) w.e.f. 1st June,2007 paid by MSEs to GS1 India for using of Bar Coding. The work of reimbursement has been decentralised and transferred to field offices i.e. MSME-DIs w.e.f. 1st April,2009 with a view to ensure speedy & timely and extensive implementation of the scheme.

**7)Purchase and Price Preference Policy** - This is administered through the Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases - *for individual MSMEs* . E.g:- Castor Oil, Boxes Leather, Boxes made of metal, Cleaning Powder, Clinical Thermometers etc.

**8)Marketing assistance and technology upgradation scheme:-**Assistance under the scheme will be available for the benefits of micro, small and medium enterprises in the manufacturing segments as per the definition of the Micro, Small

& Medium Enterprises Development Act, 2006 (MSMED Act).

### **9) Prime Minister's Employment Generation Programme (PMEGP)**

Government of India has approved the introduction of a new credit linked subsidy programme called Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. PMEGP will be a central sector scheme to be administered by the Ministry of Micro, Small and Medium Enterprises (MoMSME). The Scheme will be implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the administrative control of the Ministry of MSME as the single nodal agency at the National level. At the State level, the Scheme will be implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the Scheme will be routed by KVIC through the identified Banks for eventual distribution to the beneficiaries / entrepreneurs in their Bank accounts.

#### **Eligibility Conditions of Beneficiaries**

- (i) Any individual, above 18 years of age
- (ii) There will be no income ceiling for assistance for setting up projects under PMEGP.
- (iii) For setting up of project costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business /service sector, the beneficiaries should possess at least VIII standard pass educational qualification.
- (iv) Assistance under the Scheme is available only for new projects sanctioned specifically under the PMEGP.
- (v) Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme) are also eligible for assistance under PMEGP.
- (vi) Institutions registered under Societies Registration Act,1860;
- (vii) Production Co-operative Societies, and
- (viii) Charitable Trusts.
- (ix) Existing Units (under PMRY, REGP or any other scheme of Government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are not eligible.

10) **Scheme of National Award** - The Micro, Small &Medium Enterprises (MSMEs) in India have seen a vast development in the last five decades. The MSMEs have registered tremendous growth as also progress in terms of quality production, exports, innovation, product development and import substitution, very much beyond the expected objectives of setting up MSMEs by the planners of industrial production base in the country. The ministry of Micro, Small and

Medium Enterprises with a view to recognizing the efforts and contribution of MSMEs gives National Award annually to selected entrepreneurs and enterprises under the scheme of National Award. It includes:-To encourage and appreciate the outstanding efforts of MSMEs in three categories (i) Entrepreneurship, (ii) Quality upgradation and (iii) Research and Development.

- First National Award: Rs.1,000,000/- cash prize, a Trophy and a Certificate.
- Second National Award: Rs.75,000/- cash prize, a Trophy and a Certificate.
- Third National Award: Rs.50,000/- cash prize, a Trophy and a Certificate.
- Special National Award to Woman Entrepreneur: Rs.1,00,000/- cash prize, a Trophy and a Certificate.
- Special National Award for SC/ST Entrepreneur : Rs.1,00,000/- cash prize, a Trophy and a Certificate.
- Special National Award to Outstanding Entrepreneur from NER : Rs.1,00,000/- cash prize, a Trophy and a Certificate.
- Special Recognition Award to MSMEs Scoring Marks above 80% (50% in case of NER) : Rs.20,000/- cash prize, a Trophy and a Certificate each.

**11)Rajiv Gandhi Udyami Mitra Yojana:-** The objective of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed EDP/SDP/ESDP or vocational training from ITIs, through the selected lead agencies i.e. 'Udyami Mitras', in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles and in completion of various formalities required for setting up and running of the enterprise.It includes:-

- To provide handholding support to potential first generation entrepreneurs.
- Financial assistance @ Rs.4000/- per trainee for service enterprises and @ Rs.6000/- per trainee for manufacturing enterprises would be provided to Udyami Mitras as handholding charges.
- For the beneficiaries from NER the beneficiary's contribution of Rs.1000/- shall also be provided as grant.
- For empanelment as Udyami Mitra the interested institution to apply on prescribed format through the Director of Industries

**12)Scheme of Fund for Regeneration of Traditional Industries(SFURTI):-** Government has recently launched the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) under which 100 traditional industry clusters (of khadi, village industry and coir) would be taken up for comprehensive development over 5 year. The KVIC and the Coir Board are the nodal agencies for

the Scheme, which will be the first comprehensive initiative for regeneration of the khadi and village industries sector, based on the cluster development methodology. The guidelines for the SFURTI have been issued on 3.10.2005. Main objectives of this schemes are as under:-

- a) To develop clusters of traditional industries in various parts of the country
- b) To create sustained employment opportunities in traditional industries.

**13)Scheme for assistance to training institutions-**

The Scheme envisages financial assistance for establishment of new institutions (EDIs), strengthening the infrastructure of the existing EDIs and for supporting entrepreneurship and skill development activities. The main objectives of the scheme are development of indigenous entrepreneurship from all walks of life for developing new micro and small enterprises, enlarging the entrepreneurial base and encouraging self-employment in rural as well as urban areas, by providing training to first generation entrepreneurs and assisting them in setting up of enterprises. The assistance shall be provided to these training institutes in the form of capital grant for creation of infrastructure.

**14) Scheme To Support 5 Selected Universities / Colleges To Run 1200 Entrepreneurship Clubs.**

The scheme is to support 5 universities to run Entrepreneurship Clubs ( one each from Northern, Western, Eastern, Southern and North East region ). Each university will have to run 240 clubs per year and each club may have a membership of 50 entrepreneurs. In a period of 5 years, 3 lakh entrepreneurs are to be benefited in all.

**Objectives:**

The scheme has been devised to encourage entrepreneurs to run self-employment ventures of Micro or Small Enterprises. Moreover, this will be a very important scheme bringing the entrepreneurs, universities and MSME-Development Institutes (MSME-DI) together. In addition, this will create a base to entrepreneurs for coming together to solve their common problems a shift from Lobbying Mode to Facilitation Mode, giving hard intervention in the form of technology and soft intervention like arranging workshops, seminars, guidelines to obtain ISO certification, ISI Marks, participation in Trade Fairs, implementation of Quality Management Tools.

**Self Assessment Question 9.1**

- 14) The .....and the .....are the nodal agencies for SFURTI Scheme.
- 15) The objective of RGUMY is to provide handholding support and assistance to the .....

- 16) Prime Minister's Employment Generation Programme (PMEGP) is launched by merging the two schemes that were in operation till 31.03.2008 namely ....& ....
- 17) Full form of MoMSME is?
- 18) MSME Act came in which year?

## **9.6 ROLE OF STATE GOVERNMENT:**

In order to encourage setting up of industrial units in states, State Governments provide various schemes and incentives to entrepreneurs and micro & small scale industries. All the State Governments provide technical and other support services to small units through their Directorates of Industries, and District Industries Centres. Although the details of the scheme vary from state to state, the following are the common areas of support.

1. Development and management of industrial estates
2. Suspension/deferment of Sales Tax
3. Power subsidies
4. Capital investment subsidies for new units set up in a particular district
5. Seed Capital/Margin Money Assistance Scheme
6. Priority in allotment of power connection, water connection.
7. Consultancy and technical support

## **VARIOUS INCENTIVES & SCHEMES ARE AS UNDER:-**

**1) State Capital Investment Subsidy:-** In order to encourage setting up of various industrial units, state governments provide state capital investment subsidy to priority sector industries. This facility is available in Uttar Pradesh, Jammu & Kashmir, Sikkim, Andaman & Nicobar islands, Karnataka, Maghalaya, Himachal Pradesh, Gujarat, Punjab, Andhra Pradesh, Kerala, Maharashtra, Tripura & Manipur in order to encourage setting up of industrial units in their states.

**2) Mini Tool Rooms** -In order to meet the growing demand of Tools and dies in the country, particularly in the MSME sector, Govt. of India have decided to assist the State Govts to set up Mini Tool Room and Training Centres. The Central assistance will be in the form of one time grant-in-aid equal to 90% of the cost of machinery/equipment (restricted to Rs. 9.00 crores in each case) in the case of a new Mini Tool Room, and 75% of the cost of machinery/equipment (restricted to Rs. 7.50 crores) in case of an existing Mini Tool Room to be upgraded/modernised. The balance cost of machinery/equipment, the cost of land and buildings and the recurring costs would be met by the States/State Agencies.

The scheme will be implemented as a Centrally sponsored Scheme, for which approval of the Planning Commission has been obtained.

**2) Assistance to Entrepreneurship Development Institutes** - For strengthening training infrastructure in EDIs, assistance upto 50% or Rs. 50 lakhs whichever is less is provided .

**3) Madhya Pradesh Financial Corporation**-It is the premier institution in the State of Madhya Pradesh engaged in providing financial assistance to small and medium industries. This assistance has been extended in the form of a wide range of fund and non fund based services/ schemes. The fund based schemes are available for setting up of business ventures within the State, whereas, non fund based schemes are available throughout the country.

The fund based schemes include:-

- Term Loan
- Equipment Finance
- Asset Credit
- Short Term Loan
- Working Capital
- Loan Replenishment
- Finance for Market Activities
- Composite Loan
- Credit Linked Capital Subsidy for SSI

The non-fund based schemes include:-

- Public Issue Appraisal
- Credit Syndication
- Corporate Advisory Services

**4) Kerala Financial Corporation (KFC)**-It is incorporated under the State Financial Corporations Act of 1951 and is a trend setter in the field of industrial finance. It has been playing a major role in the development and industrialisation of Kerala by extending financial assistance well-suited for the requirements of the entrepreneurs. Its main objective is to extend term loan assistance for establishing new industrial units or to extend credit assistance for meeting expansion/diversification/modernisation costs of the existing units, in small scale or medium sectors. Some of its major schemes include:-

- General Scheme For SSI Units
- General Scheme For SME Units
- National Equity Fund (Nef) Scheme
- Working Capital Finance

- Scheme For Assistance To Information Technology And Software Development Sector
- Financial Assistance For Infrastructure Projects

### **5) INDUSTRIAL PROMOTION SUBSIDY SCHEME :**

Govt. of Maharashtra is one of the first States implementing Package Scheme of Incentives for decentralization of industries. Scheme is proven as most effective for industrial decentralization. Govt. involves the Chamber of Commerce & Industries, Indl. Organizations while framing the policies. Govt. has simplified the procedural Rule & Regulations while framing the policy and classified whole State in 6 categories like A, B, C, D, D+ .

Nanded dist. is categorized as D+ zone and eligible up to 50% and 30% subsidy against the total fixed capital investment, done by the Micro/Small & Medium/Large Scale units respectively. Besides this, other incentives like Stamp duty/Electricity duty exemption, Royalty refund, Interest subsidy for Textiles. Special incentives for quality up gradation are also admissible.

### **6)REVISED SEED MONEY SCHEME :**

To encourage self employment venture amongst unemployed youths, Govt. has specially announced New Seed Money Scheme w.e.f.18.5.07 increasing project cost limit from Rs.10 lakhs to 25 lakhs, reducing rate of interest on seed capital from 10% to 6%. A special rebate of 3% is admissible for regular repayment of seed capital.

Eligible educated unemployed gets 15% soft loan from D.I.C @ 6% as seed money loan for the project cost upto Rs.25 lakhs and the upper limit of seed money Rs.3.75 lakhs. In the interest of social justice, for all backward categories and handicapped youths, 20% seed money loan is eligible for the project cost upto Rs.10 lakhs.

#### **Eligibility :**

1. Age limit - 18 to 50 years.
2. Minimum 7th Std. pass.
3. Domicile of Maharashtra State.

### **7)District Award to Small Scale Entrepreneurs**

Directorate of Industries has introduced in 1985 a scheme of District Awards for promoting entrepreneurship & recognizing the achievements of successful entrepreneurs in the sector of small scale industries. First Award is of Rs. 15,000/- in cash & Silver Plated Mementos & Shawl Second Award is of Rs. 10,000/- in cash & Silver Plated Mementos & Shawl. The awards will be granted in each



calendar year.

**Eligibility :-**

The SSI units permanently registered before 3 years of that calendar year and in continuous production at least 2 years and not defaulter of the Financial institutions. Units that have already been awarded National Awards are not entitled to this award.

**8)Quality Marking Centres.-** The Department of Industries, Punjab, has also set up Quality Marking Industrial Development Centres in the State for providing facilities of testing, marking and all types of services to the manufacturers. Quality control helps to secure uniformity of products. These centres facilitate constant improvement of processing in manufacturing. The uniformity in specifications also facilitates the inter-changeability in the products. Moreover, production cost can be reduced through continuous processing

**9) The Punjab Financial Corporation, Chandigarh.-** It was established in 1953 under the State Financial Corporation Act , 1951, with the object of providing medium and long term loans to the industrial concerns located in the State of Punjab. It was reconstituted under the Punjab Reorganization Act, 1966, on 1 April 1967.

It generally grants term loans for creation/acquisition of fixed assets like land, building, plant and machinery, provides guarantee against deferred payments for the purchase of capital goods and offers under-writing facility on issue of stocks and shares to companies. The corporation also provides financial assistance for setting up of hotels, nursing homes/small hospitals, development of industrial estates, purchase of transport vehicles, etc.

**10)Exemption from stamp duty and local taxes:-** State Governments exempt stamp duty in respect of land allotment by the government to the new industrial units. Machinery, equipments, raw materials and packing materials of new units are exempted from payment of octroi duty and other local taxes. The facilities are available in jammu & Kashmir, Sikkim, Daman, Karnataka, Meghalaya, Gujarat, Nagaland, Rajasthan, Haryana, Maharashtra and Manipur.

**11)Special facilities for export oriented units:-** State Governments provide special package of incentives and better infrastructural facilities for export oriented units. State Governments reimburse costs incurred by SSI units for shipment of export samples from the nearest port/container depot to the port of destination. The facilities are available in U.P, Himachal Pradesh, Karnataka, Punjab, Rajasthan and Tripura.

**12)Land ,Building & water at concessional rates:-** State governments acquire land & development industrial plots, sheds and industrial estates. State

Government allot land and industrial sheds to new units at nominal rates in their respective states. Moreover state governments and the local governments are providing water to small scale units at a concessional rate to encourage setting up of such units .

(Note:- There are many more schemes by different state governments so students can check it from various state government sites or [business.gov.in](http://business.gov.in))

### **Activity 9.2**

Pen down the latest schemes provides by central government for the upliftment of entrepreneurship in the country.

## **9.7 VARIOUS INCENTIVES & SCHEMES FOR EXPORT ORIENTED UNITS:-**

The Export Oriented Units (EOUs) scheme, introduced in early 1981, is complementary to the SEZ(Special Economic Zone) scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st December 2005, 1924 units are in operation under the EOU scheme. The main objectives of the EOU scheme is to increase exports, earn foreign exchange to the country, transfer of latest technologies stimulate direct foreign investment and to generate additional employment. Major Sectors in EOUs: Granite, Textile/Garments, Food Processing, Chemicals, Computer etc. To set up an EOU for the following sectors, an EOU owner needs a special license:-

- Arms and ammunition,
- Explosives and allied items of defense equipment,
- Defense aircraft and warships,
- Atomic substances,
- Narcotics and psychotropic substances and hazardous chemicals,
- Distillation and brewing of alcoholic drinks,
- Cigarettes/cigars and manufactured tobacco substitutes.

In the above mention cases, EOU owner are required to submit the application form to the Development Commissioner who will then put them up to the Board of Approvals (BOA).

The EOUs are required to achieve the minimum NFEP (Net Foreign Exchange Earning as a Percentage of Exports) and the minimum EP (Export

Performance) as per the provisions of EXIM Policy which vary from sector to sector. As for instance, the units with investment in plant and machinery of Rs.5 crore and above are required to achieve positive NFEP and export US\$ 3.5 million or 3 times the CIF value of imported capital goods, whichever is higher, for 5 years. For electronics hardware sector, minimum NFEP has to be 'positive' and minimum EP for 5 years is US\$ 1 million or 3 times the CIF value of imported capital goods, whichever is higher. NFEP is calculated cumulatively for a period of 5 years from the commencement of commercial production according to a prescribed formula.

### **Some incentives given to EOUs**

- No import licences are required by the EOU units and import of all industrial inputs exempt from customs duty.
- Supplies from the DTA to EOUs are regarded as deemed exports and are hence exempt from payment of excise duty which means that high quality inputs are available at lower costs.
- On fulfillment of certain conditions, EOUs are exempted from payment of corporate income tax for a block of 5 years in the first 8 years of operation. Export earnings continue to be exempt from tax even after the tax holiday is over.
- Industrial plots and standard design factories are available to EOUs at concessional rates.
- Single window clearance for EOU. For example, the State Government of Kerala as well of Karnataka has constituted single window clearance mechanisms such as District Single Window Clearance Board (in Kerala) and Karnataka Udyog Mitra (in Karnataka) for the purpose of speedy issue of various licences, clearances.
- Private bonded warehouses in the 7 EPZs can be set up for
  - Import and sale of goods including in the DTA, subject to payment of applicable duties at the time of sale.
  - Trading including re-export after repacking/labeling.
  - Re-export after repair, reconditioning or re-engineering
- EOUs and EPZs are permitted to sub-contract part of their production processes for job work to units in the DTA on a case by case basis.
- Supplies to the DTA under international competitive bidding against payment in foreign exchange to other EOUs and EPZ units and against import licenses are considered towards fulfillment at the export obligation.
- The FOB value of exports of EOUs and EPZ units can be clubbed with that of parent companies located in the DTA for the purpose of obtaining a Trading or Export House status.
- EOUs and EPZ units may export goods through Trading and Export Houses or other EOU and EPZ Units.
- Exchange earners foreign currency (EEFC) Account-Facility to retain 100% foreign exchange proceeds in EEFC Account&Facility to realize and repatriate export proceeds within twelve months.

### **Fiscal Incentives available to 100% EOUs :**

- Exemption from Customs and Central Excise duties on import/local procurement of Capital goods, raw materials, consumables, spares, packing material etc.
- Reimbursement of Central Sales Tax (CST) on purchases made from Domestic Tariff Area (DTA)
- Reimbursement of duty paid on fuels procured from domestic oil companies as per the rate of Drawback notified by the DGFT from time to time.

### **Special Package of Incentives for Star Export House EOUs (Fast Track Clearance):**

- Permissions and Customs clearances for both Imports and Exports on self declaration basis.
- Fixation of Input-Output norms on priority within 60 days.
- Exemption from compulsory negotiation of documents through Banks.
- 100% retention of foreign exchange in EEFC account.
- Exemption from furnishing of Bank Guarantee in Schemes under this policy.
- Exemption from examination of Import Cargo
- Install one Fax machine & Two computers in their Administrative/Registered Office on prior intimation only.
- Remove their Capital goods (or) part thereof for repairs under prior intimation to the jurisdictional Asst./Deputy Commissioner of Customs & Central Excise authority .
- DTA clearance of rejects on priority basis
- Personal carriage of samples of Gems & Jewellery without a need for prior permission
- DTA sale of finished products on prior intimation only
- Participation in exhibition for export promotion on prior intimation only

**(Source:-[infodriveindia.com-eximguru.com](http://infodriveindia.com-eximguru.com))**

### **Other Schemes & incentives:-**

**1)Export Promotion Capital Goods Scheme:-** The scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned

from the date of issuance of licence. Capital goods would be allowed at 0% duty for exports of agricultural products and their value added variants. The capital goods shall include spares (including refurbished/ reconditioned spares) , tools, jigs, fixtures, dies and moulds. EPCG licence may also be issued for import of components of such capital goods required for assembly or manufacturer of capital goods by the licence holder.

(source-Ministry of commerce& industry-dgft.govt.in)

## **2) Incentives available from Government of Andhra Pradesh :**

- 100% reimbursement of stamp duty and transfer duty paid by the industry
- 100% reimbursement of stamp duty for lease of land, shed or building
- 100% reimbursement of stamp duty and transfer duty paid by the industry on financial deeds and mortgages etc.
- Reimbursement of 25% of the cost of land purchased in the Industrial Development Areas of AP Industrial Infrastructure Corporation Ltd., subject to a limit of Rs.5 lakhs
- Infrastructure assistance to stand alone units by contribution of 50% of the cost of infrastructure from Industrial Infrastructure Development Fund with a ceiling of Rs.1 Crore
- Provision of a Corpus fund matching the contribution made by consortium industries in Industrial estates subject to a limit of Rs.25 lakhs
- 15% investment subsidy on fixed capital investment to Small Scale Industry (SSI) and Tiny Industrial Units subject to a limit of Rs. 15 lakhs
- 25% of the tax paid during one financial year will be ploughed back to all eligible industries as a grant by the Government towards the payment of tax during next year
- 3% interest rebate on the prime-lending rate (PLR) on term loans taken by new tiny/SSI units subject to a limit of Rs. 5 lakh per year. This will be 5% if SC and ST entrepreneurs promote the units
- An additional investment subsidy of 5% subject to a maximum of Rs. 5 lakh will be provided to women entrepreneurs. They will be also given a 5% interest rebate on PLR
- Projects with an investment of Rs.100 Crore and above are eligible for all the incentives available to large and medium scale industries
- The Government will also extend tailor-made benefits to suit to particular investments on case-to-case basis

## **3)Incentives available from Government of Chattisgarh :**

- EOUS will get infrastructure support to the extent of 25% of infrastructure cost subject to a maximum limit of Rs.1 Crore
- Mega projects (Rs.100 Crores & above) will be eligible for infrastructure support outside Industrial Estates upto 25% of the infrastructure cost subject to a maximum limit of 5 Years for Mega Units

- Electricity duty exempted for a period of 10 years and 15 years for Mega Units
- SSI units enjoy interest subsidy @ 5% per annum for 5 years upto Rs.5 lakhs
- Entry Tax and Stamp Duty exempted

4)**Incentives available from Government of Karnataka:-** The Government of Karnataka has announced a State Policy for Special Economic Zones-2009 to support and encourage development of SEZs in the State. These are:-

- Exemption of Sales Tax, VAT, Entry Tax and Special Entry Tax on all purchases (excluding petroleum products) from DTA.
- Exemption of Stamp Duty and Registration fees for Registration of Land and Loan/Credit Documents.
- **For Developers and Co-developers**, exemption of Electricity Duty or Taxes on sale, of self generated or purchased electric power for use in the processing area of SEZ.
- **Capital subsidy to Common Effluent Treatment Plant:**One time Capital subsidy up to 50% of the cost incurred by the Developer/ Co-developer for setting up of Common Effluent Treatment Plant is available subject to a ceiling of Rs.100.00 lakhs per CETP/SEZ.

#### **Self Assessment Question 9.1**

- 19) What is SEZ?
- 20) What is NEEP?
- 21) As on 31st December 2005, .....units came in operation under the EOU scheme.
- 22) No import licences are required by the .....
- 23) Full of SFURTI.....

### **9.8 SUMMARY**

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes like- providing incentives for quality upgradation, concession on excise duty and provides technical supportive services. Thus Government play supportive role in developing entrepreneurs. These include facilities for testing, tool mentoring, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy,

assistance for exports, pollution and energy audits etc. There are various incentives and schemes from central as well as state governments and special schemes for export oriented units. Different schemes are provided by different states in order to encourage the development of entrepreneurship and new industries in their respective states.

### **9.9 GLOSSARY –**

- 1) Gross National Product : It is a monetary measure of the market value of all final goods & services produced in a period (quarterly or yearly) of time.
- 2) Per Capita Income: A measure of the amount of money that is being earned per person in a certain area
- 3) Excise Duty: It is a tax on locally manufactured goods.

### **9.10 REFERENCES/ BIBLIOGRAPHY**

- 1) Entrepreneurship and small business- Rajesh Marwaha
- 2) MSME Act
- 3) Data is collected from Central & State government sites-like-sezindia.nic.in)
- 4) infodriveindia.com

### **9.11 SUGGESTED READINGS**

Entrepreneurship and Small Business: Purnima Sehgal&Manjinder Singh

### **9.12 TERMINAL AND MODEL QUESTIONS:-**

- 1) What is the need & role of Central Government in entrepreneurship development.
- 2) What are the various schemes & incentives provided by central government for the promotion of entrepreneurship?
- 3) Discuss the schemes and incentives provided by State Government for the development of industries in their respective states.
- 4) What do you mean by MSME Act and how it helps in the promotion of entrepreneurship?
- 5) What are the various schemes & incentives for the export oriented units?

### **9.13 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ**

**Self Assessment Question 9.1**

- 1) KVIC & the Coir Board
- 2) potential first generation entrepreneurs
- 3) Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP)
- 4) Ministry of Micro, Small and Medium Enterprises
- 5) 2006

**Self Assessment Question 9.2**

- 1) Special Economic Zones
- 2) Net Foreign Exchange Earning as a Percentage of Exports
- 3) 1924 units
- 4) EOU units
- 5) Scheme of Fund for Regeneration of Traditional Industries

**Lesson 10**

**ROLE OF VARIOUS AGENCIES IN ENTREPRENEURSHIP DEVELOPMENT**

**STRUCTURE**

10.0 OBJECTIVES

10.1 INTRODUCTION

10.2 DISTRICT INDUSTRIES CENTRES (DICS)

10.2.1 Structure Of DIC's

10.2.2 Functions And Role Of DIC's

10.2.3 Funding Of DIC's

10.3 SMALL INDUSTRIES SERVICE INSTITUTES (SISI)

10.3.1 Functions Of SISI

10.3.2 Sub-Contract Exchanges(SCXs) at SISIs

10.4 ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA(EDII)

10.4.1 Mission Of EDII

10.4.2 Training Programmes Of EDII



## 10.5 NATIONAL INSTITUTE OF ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

### 10.5.1 Objectives of NIESBUD

### 10.5.2 Activities of NIESBUD

## 10.6 NATIONAL ENTREPRENEURSHIP DEVELOPMENT BOARD (NEDB)

### 10.6.1 Objectives of NEDB

### 10.6.2 Eligibility

### 10.6.3 Entrepreneurship And Business Development Centres(EBDC's)

## 10.7 SUMMARY

## 10.8 GLOSSARY

## 10.9 REFERENCES

## 10.10 SUGGESTED READINGS

## 10.11 TERMINAL AND MODEL QUESTIONS

## 10.12 ANSWER TO CHECK YOUR PROGRESS/SUGGESTED ANSWERS TO SAQ

### **10.0 OBJECTIVES:**

After studying this lesson, students will be able to :-

- e) Delineate the role of various agencies in promoting entrepreneurship
- f) Identify the role of DIC,SISI,EDII,NIESBUD,NEDB

### **10.1 INTRODUCTION:**

Government has recognized the important role of entrepreneurs in the industrial development of the country, especially through the small scale industries (SSIs).SSIs are essential for Indian economy in terms of employment generation, foreign exchange earnings, its share in industrial output, and contribution to national income. The Government of India and State Governments are taking various steps for entrepreneurship development. In spite of financial assistance & concession provided by Government (Discussed in previous lessons) the small industries in the rural areas were not developing much due to lack of infrastructure facilities. In view of this central & state government institutes have come to support small entrepreneurs by providing them various types of assistance and facilities. Various institutes and agencies has been evolved for the

promotion of entrepreneurship in the country and the institution network is classified into Central Level, State Level and District Level .

## **10.2 DISTRICT INDUSTRIES CENTRES (DICS)**

The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. These centers are the focal points providing all the services and support required by small scale and village entrepreneurs under one roof. These serves as an integrated administrative framework at the district level for industrial development. The District Industries Centers (DIC's) programme was started with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DIC's consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

### **10.2.1 Structure of DIC's:-**

DIC consists of:-

- a) One General Manager,
- b) Four functional managers of whom three would be in the area of economic investigation , credit, and village industries .Fourth Manager may be entrusted with responsibility in any of area like raw materials/marketing/ training etc. depending upon the specific requirements of each district .
- c) Three Project Managers to provide technical service in the area relevant to needs of the district concerned. Their role is to facilitate modernization and upgradation of technology in small sector.

### **10.2.2 Functions and role of DIC's**

DIC's role is mainly promotional and development and to provide all support & services to small& village industries. The main functions of DIC's are as follows:

- a) It **conducts surveys** to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand, etc. It also provides investment advice to entrepreneurs based on these assessments.
- b) It **prepares an action plan** for industrial development that can be effectively

implemented in the concerned district on the basis of possibilities and endowments.

c) It **appraises** the various **investment proposals** received from entrepreneurs.

d) It **guides and assists** entrepreneurs in buying appropriate machinery ,equipment and raw material. It also interact with various authorities for the supply of scarce & critical raw materials

e) It suggests appropriate **marketing strategies** to entrepreneurs.

f) It maintains links with research and development institutions for upgradation of technology, quality improvement, industrial training etc.

g) It conducts **artisans training programmes**. It also function as the technical arms of DRDA in administering IRD and TRYSEM programmes, designing and implementing training programmes and identifying appropriate opportunities and projects for the beneficiaries.

h) It has been assigned operation responsibility for special schemes to provide self-employment to educated unemployed youths.

i) To prepare and keep model project profiles for reference of the entrepreneurs.

j) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e., industrial sector, service sector and business sector.

k) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.

l) To appraise the worthness of the project-proposals received from entrepreneurs.

m) To help the entrepreneurs in obtaining required licenses/permits/clearance.

n) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.

o) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.

p) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).

q) To help the specialized training organizations to conduct Entrepreneur development

programmes.

r) The DIC s have launched a scheme to assist the educated unemployed youth by providing them facilities for self employment . The youth should be in the age group 18-35 years with minimum qualification of Matric or Middle with I.T.I in Engineering or Technical Trade. Techocrates and women are given preference.

In fine DIC's function as the torch-bearer to the beneficiaries/entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.

### **10.2.3 FUNDING OF DIC's:-**

The DICs are funded by the State concerned and the centre jointly . The Government has provided substantial assistance to the DICs which can be spent by the DIC s on the construction of an office building, expenditure on furniture, fixtures , equipment, vehicles and other expenses.

### **10.3 SMALL INDUSTRIES SERVICE INSTITUTES (SISI)**

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective. These are operational throughout the country and the office of DC(SSSI) oversees their respective performances. They occupy a pivotal place in the central networks. These institutes employ regular staff for imparting training. The activities of SISIs are coordinated by the Industrial Management, Training Division of DCSSSI's office. The activities of SISIs are supervised by a Director at the headquarter. The training is imparted in the following areas:-

- a) Industrial Management
- b) Marketing Management
- c) Personnel Management
- d) Financial Management
- e) Production Management

#### **10.3.1 Functions of SISI:**

- (1) To serve as interface between central and state government.
- (2) To render technical support services & consultancy services.
- (3) To conduct entrepreneurship development programmes.
- (4) To initiate promotional programmes.
- (5) To promote Export promotion & liaison activities.

**The SISIs also render assistance in the following areas:**

- (1) Economic consultancy/information/EDP consultancy.
- (2) Trade and market information.
- (3) Project profiles.
- (4) State industrial potential surveys.
- (5) District industrial potential surveys.
- (6) Modernization and in plant studies.
- (7) Workshop facilities.
- (8) Training in various trade/activities.
- (9) Identify the potential for ancillary development through sub-contract exchanges.
- (10) Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.

Reports prepared by SISIs have been emphasizing the implementation of programmes on modernization, energy conservation, quality control/ upgradation and pollution control for the benefit of entrepreneurs. The Small Industries Service Institutes have been generally organizing the following types of EDPs on specialized courses for different target groups like energy conservation, pollution control, Technology up-gradation, Quality improvement, Material handling, Management technique etc. as mentioned earlier.

**10.3.2 Sub –Contract Exchanges(SCXs) at SISIs:-** Sixteen sub-contract exchanges have been established in the major SISIs in the country with the objective of promoting ancillarisation.

The activities of these Exchanges are to:-

- 1) Register spare capacities available in SSI and tiny units.
- 2) Identify the items required by large units on a regular basis and match this with spare capacity available.
- 3) Promote interaction between small & large units.

- 4) Organise vendor development programmes , exhibitions and promotional programmes.
- 5) Establish networking linkages with other SCX's in the country for flow of information

#### **Activity 10.1**

Pen down the latest activities & functions performed by SISI.

### **10.4 ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA(EDII)**

The Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for-profit institution, set up in 1983, is sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd, ICICI Ltd and State Bank of India (SBI). The Institute is registered under the Societies Registration Act 1860 and the Public Trust Act 1950. The Government of Gujarat pledged twenty-three acres of land on which stands the majestic and sprawling EDI campus. EDI has helped set up twelve state-level exclusive [entrepreneurship](#) development centres and institutes. Entrepreneurship has been taken to schools, colleges, science and technology institutions and management schools by including entrepreneurship in their curricula. The [University Grants Commission](#) appointed the EDI as an expert agency to develop a curriculum on Entrepreneurship. The EDI has been selected as a member of the Economic and Social Commission for Asia and the Pacific (ESCAP) network of Centres of Excellence for HRD Research and Training. EDI as a member of the Network will have interactive access to information on other 123 member institutions via Internet. The main mission of the EDII is committed to entrepreneurship education, training and research. The institute strives to provide innovative training techniques, competent faculty support, consultancy and quality teaching & training material.

#### **10.4.1 Mission of EDII:-**

- Creating a multiplier effect on opportunities for self-employment
- Augmenting the supply of competent entrepreneurs through training
- Augmenting the supply of entrepreneur trainer-motivators
- Participating in institution building efforts
- Inculcating the spirit of 'Entrepreneurship' in youth
- Promoting micro enterprises at rural level
- Developing and disseminating new knowledge and insights in entrepreneurial theory and practice through research
- Facilitating corporate excellence through creating intrapreneurs (entrepreneurial managers),
- Improving managerial capabilities of small scale industries

- Sensitizing the support system to facilitate potential and existing entrepreneurs establish and manage their enterprises
- Collaborating with similar organizations in India and other developing countries to accomplish the above objectives

In the international arena, the development of entrepreneurship by sharing resources and organising training programmes, have helped the EDI earn support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, British Council, Ford Foundation, European Union and other agencies. EDII has been superheading an entrepreneurship movement throughout the nation in the belief that entrepreneurs need not necessarily be born, they can be developed through well conceived and well-directed activities.

#### **10.4.2 Training Programmes of EDII are:-**

- 1) Entrepreneurship in Education
- 2) Micro-finance and micro –enterprise development
- 3) Performance and growth of existing entrepreneurs
- 4) Performance improvement of Entrepreneur development institute and Entrepreneur development programmes .

EDII has designed and successfully implemented several national & international training programmes and workshops for the academic community and for youth. EDII organises training programmes on Informal Micro Credit Delivery System (IMCDS) and management for strengthening the participating NGOs in the area of informal credit. To strengthen NGOs through building their managerial capabilities, the EDII has launched a programme on the sustainability of NGOs through better management. EDII has supported the creation of centres for entrepreneurship development and institutes of entrepreneurship development in various states to achieve institutionalization of ED activities.

#### **Self Assessment Question 10.1**

Give the full forms of the following:-

- 24) IMCDS
- 25) EDII
- 26) SCXs
- 27) SISI
- 28) PMRY

### **10.5 NATIONAL INSTITUTE OF ENTREPRENEURSHIP AND SMALL**

**BUSINESS DEVELOPMENT (NIESBUD):-** NIESBUD is an Apex Institute in the area of Entrepreneurship and Small Business Development under the Ministry of Micro, Small and Medium Enterprises Government of India. The basic objects for which the Institute has been established are: Promotion and Development of Micro, Small and Medium Enterprises including Enhancement of their Competitiveness through Various Activities. The Institute has Conducted a total of 5023 Training Programmes covering 1,33,863 Participants which includes 151 International Training Programmes with 2,285 Participants from more than 125 Countries till 31st October 2012.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. NIESBUD was set up in 1983 by the then Ministry of Industry [now Ministry of Micro, Small & Medium Enterprises (MSMEs)], Government of India. The Institute which is registered as a Society under Societies Registration Act, 1860 (XXI of 1860), started functioning from 6th July, 1983. The policy, direction and guidance to the Institute is provided by its Governing Council whose Chairman is the Minister of MSME. The Executive Committee consisting of Secretary (Micro, Small & Medium Enterprises) as its Chairman and Director General of the Institute as its Member-Secretary, executes the policies and decisions of the Governing Council through its whole-time Director General.

#### **10.5.1 Objectives Of NIESBUD:**

- To evolve standardised materials and processes for selection, training, support and sustenance of entrepreneurs, potential and existing.
- To help/support and affiliate institutions/organisations in carrying out training and other entrepreneurship development related activities.
- To serve as an apex national level resource institute for accelerating the process of entrepreneurship development ensuring its impact across the country and among all strata of the society.
- To provide vital information and support to trainers, promoters and entrepreneurs by organising research and documentation relevant to entrepreneurship development
- To train trainers, promoters and consultants in various areas of entrepreneurship development. To provide national/international forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.
- To offer consultancy nationally/internationally for promotion of entrepreneurship and small business development. To share internationally experience and expertise in entrepreneurship development.
- To share experience and expertise in entrepreneurship development across National frontiers.

#### **10.5.2 Activities of NIESBUD:-**



### **A) Assisting/Supporting EDP's**

- Evolving Standardized Materials, Research, Publications.
- Formulation of standardised procedures of identification and selection of potential entrepreneurs.
- Preparation of Training Aids Materials:-
  - Manuals
  - Handbooks
  - Lesson Plans
  - Learning Text
  - Case Studies
  - EMT Kits etc.

### **B)Research & Publications**

- Research on topics related to entrepreneurship and allied areas. Widely disseminates the findings. The Status Analysis Study on Entrepreneurship in India; Potential of Women Entrepreneurship in India; Successful Women Entrepreneurs: Their identity; Expectations and Problem and Directory of EDP Institutions in India are some of the notable &nbsp; research publications by the Institute.
- Information materials for entrepreneurs like Handbooks on Industrial Laws; Commercial Laws; Ready Reckoner for Product Selection etc. have been prepared.
- Directory of Experts.
- Newsletter covering Schemes; News; Views; Forthcoming Activities; Agency Profile; Entrepreneurial Profile etc.

### **C)Creation & Capacity Building Of EDP Institutions**

The Institute provides support and guidance in establishing EDP institutions. The assistance covers developing programmes & faculty, providing training ,library facilities and sharing experiences of conducting programmes at the initial stage(s).

### **D)Small Business In Focus**

The Institute focuses its attention on small business development by encouraging and supporting arrangements in remote and backward areas. The number and percentage of small business among small entrepreneurs is very large. The Institute concentrates its efforts on evolving methodology for training, supporting and sustaining this Group.

### **E)National/International Forum For Exchange Of Ideas & Experiences**

- The Institute organises National as well as International Meets for sharing experiences with a view to enhance success in implementation of entrepreneurship development programmes.
- Organises Workshops and Seminars on contemporary topics/issues such as sustaining entrepreneurship, emerging entrepreneurial opportunities etc.

- Encourages foreign delegations for mutual exchange of experiences.

### **F)Developing Entrepreneurial Culture**

- The Institute strives to creating climate conducive to emergence of entrepreneurs from all strata of society.
- Conducts awareness campaigns for students of school and college and Institutions of Higher Learnings.
- Produces and distributes material for use by mass media like TV, AIR etc.
- Organises group discussions representing a variety of cross-sections of the society.

### **G)Services To Affiliate Members**

The Institute affiliates individuals/ institutions/ organisations engaged in entrepreneurship development and related activities such as Ordinary, Associate and Corporate Members. The Institute offers the following services to the Members:-

- Become Member of the Society and thus contribute towards discussing strategy for propagating entrepreneurship.
- Provision of concessional Facilities.
- Free Services(Library, Documentation etc.)
- Free Academic Advice/Guidance.

### **G)Sustaining Entrepreneurship**

Sustaining existing entrepreneurs is an important activity. In this direction, the Institute organises Continuing Education Programmes for SSI Entrepreneurs besides providing counselling and consultancy. Short duration training programmes on Working Capital Management, Marketing, Project Identification & Selection, Accounting etc. are conducted on campus while counselling / consultancy is provided on and off campus.

#### **Activity 10.2**

Pen the latest initiatives made by government in order to develop entrepreneurship in India.

### **10.6 NATIONAL ENTREPRENEURSHIP DEVELOPMENT BOARD (NEDB):-**

The National Entrepreneurship Development Board (NEDB) is the body for entrepreneurship development in the country. It devises and recommends to the Government, schemes for promotion of entrepreneurship for encouraging self-employment in small scale industries and small business. The Board also recommends suitable facilities and incentives for entrepreneurship training. The Board may appoint

committees for specific purposes and also invite persons to the meeting of the Board, as and when necessary.

#### **10.6.1 OBJECTIVES OF NEDB:-**

1. To seek to evolve a ten years perspective plan of resource development and support services, required by micro, tiny, small and medium scale entrepreneurs to lead a national drive by the concerned governmental agencies both Central and State Government, R&D institutions, entrepreneurship promoting institutions and all others interested in supporting the cause of entrepreneurship and entrepreneurial ventures.
2. To articulate priorities and design and monitor the implementation of Action Plans thereby helping the area to cope with the business environment of 21<sup>st</sup> Century.
3. To identify & remove entry barriers for potential entrepreneurs (first generation and new entrepreneurs).
4. To focus on existing entrepreneurs in micro, tiny and small sector and identify and remove constraints to survivals, growth and continuously improve performance.
5. To facilitate the consolidation, growth and diversification of existing entrepreneurial venture in all possible ways.
6. To support skill upgradation and renewal of learning processes among practising entrepreneurs and managers of micro, tiny, small and medium enterprises.
7. To sensitise to support agencies in the area of entrepreneurship about the current requirement of growth.
8. To act as catalyst to institutionalise entrepreneurship development by supporting and strengthening state level institutions for entrepreneurship development as most entrepreneurship related activities take place at the grass root level and removing various constraints to their effective functioning.

Under NEDB, funds are provided for entrepreneurship development, training, studies etc. to meet the above mentioned objectives.

#### **10.6.2 Eligibility:-**

Any institution seeking the financial assistance for the activities mentioned above relating to entrepreneurship development under the NEDB Scheme may send their application giving details including objective, activities proposed to be covered, cost break-up, funding arrangements, details of the organization including audited accounts of last 3 years, etc. to Joint Secretary, Ministry of Small

Scale Industries,

### **10.6.3 Entrepreneurship And Business Development Centres(EBDC's):-**

In addition to the above activities, a new component of Entrepreneurship and Business Development Centres (EBDCs) to be established in selected Colleges/Universities/ Organisations has been included in the NEDB Scheme to motivate students to take up entrepreneurship as a career option with the objective to promote self-employment through creation of small, micro and tiny enterprises in the country which would not only provide self-employment opportunities but are also expected to create additional job opportunities in these enterprises. The Scheme will be implemented through selected Universities/Colleges, Regional Engineering Colleges and other Institutions/ Organisations. The Host Institution could be a university / a premier college (preferably autonomous) / organisation of repute; offering courses in management, liberal arts, social sciences, commerce, science or agriculture, engineering and technology etc., or associated with the industrial sector and should:

- (i) Be in existence for at least five (5) years.
- (ii) Have qualified and experienced faculty in the various related disciplines.
- (iii) Be in a position to spare or provide adequate space for establishing the Centre (at least two rooms) with lecture theatres/ class-rooms equipped with modern teaching aids (likeoverhead projector, VCR/Video, etc.), adequate computer facilities and other infrastructure and willing to commit for the use of the EBDC as and when required.
- (iv) Have good library facilities.
- (v) Preferably, have some experience in entrepreneurship development.
- (vi) Ideally, have access to industries nearby and preferably should have good networking with local industries.

During Tenth Plan a minimum of 5 EBDCs, one each in East, West, South, North and North-Eastern region of the country are to be set up under the Scheme. The financial assistance / grant will be provided to the EBDCs under the scheme initially for a period of 2 years and extendable by another 2 years depending on the performance . After 4 years it would be responsible of the host institution to continue the EBDCs and arrange funds for the same. The EBDCs are expected to organize fee based training programme and EDP courses. Each EBDC will be provided a one time capital grant of Rs. 5 lakh for setting up of the Centre,(for procurement of office equipments, furniture, computers, etc). A block grant / recurring grant of Rs. 10 lakh (@ Rs. 5 lakh per annum over a period of 2 years will be provided for expenditure including special incentive, books, stationaries, grant for conducting entrepreneurship/thematic programmes, travel, contingencies, trainers' training etc.

The EBDCs will maintain a separate bank account in a scheduled public sector bank, which will be jointly operated by the Head / Director of the EBDC and Head of the Host Institution. All financial receipts/funds received by the Centre will be credited to this account. Efforts should be made to make the EBDC financially viable at the earliest. All payments by the EBDC should be authorised jointly by the Head of the Host Institution and Head/Director of the EBDC.

**Self Assessment Question 10.2**

Fill in the Blanks:-

- 1) All payments by the EBDC should be authorised jointly by ....&.....
- 2) Each EBDC will be provided a one time capital grant of .....for setting up of the Centre,(for procurement of office equipments, furniture, computers, etc).
- 3) Under NEDB, funds are provided for .....,.... ,.... Etc.
- 4) ....is an Apex Institute in the area of Entrepreneurship and Small Business Development under the MSME.

**10.7 SUMMARY**

Keeping in view the contribution of small business to employment generation, balanced regional development of the country, and promotion of exports, the Government of India's policy thrust has been on establishing, promoting and developing the small business sector, particularly the rural industries and the cottage and village industries in backward areas. Governments both at the central and state level have been actively participating in promoting self employment opportunities in rural areas by providing assistance in respect of infrastructure, finance, technology, training, raw-materials, and marketing. The various policies and schemes of Government assistance for the development of rural industries insist on the utilisation of local resources and raw materials and locally available manpower. These are translated into action through various agencies, departments, corporations, etc., all coming under the purview of the industries department. All these are primarily concerned with the promotion of small and rural industries. There are various agencies at center and state level like;- EDII, NIESBUDetc

**10.8 GLOSSARY**

**Entrepreneurship Development Institutes of India:** Institutes set for the development of entrepreneurship

**10.9 REFERENCES/ BIBLIOGRAPHY**

Entrepreneurship & Small Business-Rajesh Marwaha

**10.10 FURTHER READINGS**

Entrepreneurship Development small business enterprises- Poornima MCharantimath

**10.11MODEL QUESTIONS**

Ques 1:-What do you mean by EDII and what is the mission behind it?

Ques2:- What do you mean by NIESBUD ?What are its objectives and the activities of NIESBUD?

Ques3:-Give detail description of various agencies which help in the promotion of entrepreneurship.

Ques 4:-what do you mean by-SISI, NEDB, NIESBUD,EDII &DIC.

## **10.12 ANSWER TO CHECK YOUR PROFGRESS/SUGGESTED ANSWERS**

### **Self Assessment Question 10.1**

- 1) Informal Micro Credit Delivery System
- 2) Entrepreneurship Development Institute Of India
- 3) Sub –Contract Exchanges
- 4) Small Industries Service Institutes
- 5) Prime Minister Rojgar Yojana

### **Self Assessment Question 10.2**

- 1) Head of the Host Institution and Head/Director of the EBDC.
- 2) Rs. 5 lakh
- 3) Entrepreneurship development, training, studies etc
- 4) NIESBUD

