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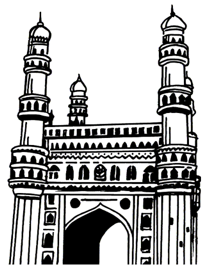

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UNIT I

ENTREPRENEUR AND ENTREPRENEURSHIP:

Understanding Concept of Entrepreneurship – Evolution of Entrepreneurship – Characteristics of Entrepreneur – Types of Entrepreneurs – Growth of Entrepreneurship in India – Role of Government in promotion of Entrepreneurship – Recent Trends in Entrepreneurship Development – Role of Entrepreneurship in Economic development in India – Rural Entrepreneurship, Need and Importance of Rural Entrepreneurship – Problems and Perspectives of Rural Entrepreneurship.

1.1 Understanding Concept of Entrepreneurship

Q1. Explain in brief the concept of entrepreneurship.

(OR)

Define Entrepreneurship.

Ans :

Meaning

The word 'entrepreneurship' typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16th century, the term was used to denote army leaders. In the 18th century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in developing countries demolishes the contention that entrepreneur is a rare animal and an elusive character.

In India the definition of an entrepreneur being the one who undertakes to organize, own and run a business has been accepted in a National Seminar on entrepreneurship organized in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.

Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyse the characteristics of an entrepreneur in terms of caste, family, social status etc. Psychologists analyse their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking, decision making, creativity, leadership etc. The economists analyze them on the basis of occupational background, access to capital, business and technical experiences.

Definitions

(i) According to McClelland, identifies two characteristics of entrepreneurship. Firstly, doing things in a new and better way (Schumpetrian's innovator). Secondly, decision making under uncertainty (Cantillon's entrepreneur). McClelland emphasized that entrepreneurial manager should have a high need for influencing other (need for power), a low need to establish emotional relationships (low need for affiliation) and a high capacity to discipline one's own self (inhibition). In other words, entrepreneurship means the function of creating something new, organizing and coordinating and undertaking risk and handing economic uncertainty.

(ii) According to Higgins "Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise".

(iii) According to Joseph A. Schumpeter, "Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of:

(a) Introduction of a new product.

(b) Use of a new method of production.

(c) Opening of a new market.

(d) The conquest of new source of supplying raw material.

(e) A new form of organization .

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

(v) According to A. H. Cole, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services".

(vi) According to Robert K. Lamb, "Entrepreneurship is that form of social decision making which is performed by economic innovators".

(vii) According to V.R. Gaikwad, "Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true".

(viii) According to Musscleman and Jakson, "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful".

In all above definitions, entrepreneurship refers to the functions performed by an entrepreneur in establishing an enterprise. Just as management is regarded as what managers do, entrepreneurship may be regarded as what entrepreneurs do. In other words, entrepreneurship is the act of being an entrepreneur. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise. It is, thus, process of giving birth to a new enterprise.

Entrepreneurship	=	Entrepreneur	+	Enterprise
↓		↓		↓
(Process)		(Person)		(Object)

1.1.1 Evolution of Entrepreneurship

Q2. Explain the evolution of Entrepreneurship.

(OR)

Trace the evolution of entrepreneurship in India.

Ans : **(Imp.)**

The word entrepreneur is derived from the French entreprendre, meaning "to undertake." The entrepreneur is one who undertakes to organize, manage, and assume the risks of a business. In recent years, entrepreneurs have been doing so many things that it is now necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these efforts.

The entrepreneur is the aggressive catalyst for change in the world of business. He or she is an independent thinker who dares to be different amid a background of common events. The literature of entrepreneurial research reveals some similarities, as well as a great many differences, in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, a strong desire to achieve, perseverance, hard work combined with high activity level, and an ability to take risks. Other characteristics include aggressiveness, competitiveness, goal-oriented behavior, confidence, opportunistic behavior, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.

Although no single definition of entrepreneur exists and no one profile can represent today's entrepreneur, research is beginning to provide an increasingly sharper focus on the subject. A brief review of the history of entrepreneurship illustrates this. In India, the liberalization, which was started in 1991, and the information technology boom of the mid-late 90s have been significant factors leading to a wave of entrepreneurship sweeping through the country.

Entrepreneurship during Pre-Independence

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

Evidently, organized industrial activity was observable among the Indian artisans in a few recognizable products in the cities of Banaras, Allahabad, Gaya, Puri and Mirzapur which were established on their river basins. Very possibly, this was because the rivers served as a means of transportation facilities. These artisan industries flourished over the period because the Royal Patronage was to them to support them. The workshops called 'Kharkhanas' came into existence. The craftsmen were brought into an association pronounced as 'guild system'. On the whole, perfection in art, durability beyond doubt and appeal to the eye of the individual were the distinguishing qualities inherent in the Indian craftsmanship that brought much ever lasting laurels of name and fame to the illustrious India in the past. To quote, Bengal enjoyed world-wide celebrity for corah, Lucknow for chintzes, Ahmedabad for dupttas and dhotis, Nagpur for silk-bordered cloths, Kashmir for shawls and Banaras for metal wares. Thus, from the immemorial till the earlier years of the eighteenth century, India enjoyed the prestigious status of the queen of the international trade with the help of its handicrafts.

Unfortunately, so much prestigious Indian handicraft industry, which was basically a cottage and small sector, declined at the end of the eighteenth century for various reasons. These may be listed as:

1. Disappearance of the Indian Royal Courts, who patronised the crafts earlier;
2. The lukewarm attitude of the British Colonial Government towards the Indian crafts;
3. Imposition of heavy duties on the imports of the Indian goods in England;
4. Low-priced British-made goods produced on large scale which reduced the competing capacity of the products of the Indian handicrafts;

5. Development of transport in India facilitating the easy access of British products even to far-flung remote parts of the country;

6. Changes in the tastes and habits of the Indian, developing craziness of foreign products, and

7. Unwillingness of the Indian craftsmen to adapt to the changing tastes and needs of the people.

Entrepreneurship during Post-Independence

After taking a long sigh of political relief in 1947, the Government of India tried to spell out the priorities to devise a scheme for achieving balanced growth. For this purpose, the Government came forward with the first Industrial Policy, 1948 which was revised from time to time. The Government in her various industrial policy statements identified the responsibility of the State to promote, assist and develop industries in the national interest. It also explicitly recognized the vital role of the private sector in accelerating industrial development and, for this, enough field was reserved for the private sector. The Government took three important measures in her industrial resolutions:

(i) to maintain a proper distribution of economic power between private and public sector;

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

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

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

The recapitulation of review of literature regarding entrepreneurial growth in India, thus, leads us to conclude that prior to 1850, the manufacturing entrepreneurship was negligible lying dormant in artisans. The artisan entrepreneurship could not develop mainly due to inadequate infrastructure and lukewarm attitude of the colonial political structure to the entrepreneurial function. The East India Company, the Managing Agency Houses and various socio-political movements like Swadeshi compaign provided, one way or the other, proper seedbed for the emergence of the manufacturing entrepreneurship from 1850 onwards.

The wave of entrepreneurial growth gained sufficient momentum after the Second World War. Since then the entrepreneurs have increased rapidly in numbers in the country Particularly, since the Third Five Year Plan, small entrepreneurs have experienced tremendous increase in their numbers. But, they lacked entrepreneurial ability, however. The fact remains that even the small entrepreneurship continued to be dominated by business communities though at some places new groups of entrepreneurs too emerged. Also, there are examples that some entrepreneurs grew from small to medium-scale and from medium to large-scale manufacturing units during the period. The family entrepreneurship units like Tata, Birla, Mafatlal, Dalmia, Kirloskar and others grew beyond the normally expected Size and also established new frontiers in business in this period. Notwithstanding, all this happened without the diversification of the entrepreneurial base so far as its socio-economic ramification is concerned.

Q3. What is the criteria which an entrepreneur require to become successful?

(OR)

Entrepreneurs can fail even if they are committed and have the characteristics needed to be successful. Why do you think this can happen?

Ans : **(Imp.)**

Sometimes, entrepreneurs can fail even if they are committed and have the characteristics needed to be successful. Because, entrepreneurship may not be applicable for every individual. They may lack the qualities, aptitude and technical know ledge to become a successful entrepreneur. However, this may happen if entrepreneurs are not aware about the following criteria of entrepreneurship,

1. Self Assessment

Entrepreneur may fail if he is not able to assess his strengths and weaknesses. However, for assessing strengths and weaknesses he can do the following things,

(a) Ask others about his performance.

(b) Conduct professional tests for themself.

(c) Prepare a checklist of strengths and weakness and put checkmarks on his own belief.

2. Assessment of Interest

Entrepreneur may fail if he is not interested in his current job or business. However, for assessing area of interest, he can do the following things,

(a) Analyze past experience and

(b) Find out the hobbies.

3. Assessment of Aptitude

Entrepreneur may fail if he is not able to learn the requirement of a job. Aptitudes are the abilities or requirements which are needed for performing a job. Every job requires a different type of aptitude. For example, insurance agent must have the interpersonal skills. However, entrepreneur can find out the aptitudes required for his actual job by preparing a checklist of his responsibilities, under which he can just identify the type of aptitudes he already possesses.

Q4. The advantages of entrepreneurship outweigh the disadvantages-take a stand, either in favour of the statement or against it.

Ans :

Advantages

The following are the advantages of entrepreneurship,

1. Under entrepreneurship business, entrepreneurs are the owners of enterprises who can take their own decisions for success of the business.

2. Under this, entrepreneurs can implement their own ideas in the business. For examples, starting new venture, adopting latest technologies etc.

3. Under this, entrepreneur has the complete authority to select that type business in which he is interested.

4. Entrepreneurship business provide high level of profits.

5. Entrepreneurs are creative, they express their creativity by executing their new and creative ideas and creating a successful enterprise.

6. Entrepreneurship is exciting, because entrepreneurs enjoy their work as each day comes up with new opportunities which challenge their determination, skills and abilities.

7. Entrepreneurs can set their own income and invest targets in the business as they own the enterprise.

8. Entrepreneurs can actively involve in social family activities as entrepreneurship gives them flexibility.

Disadvantages

The disadvantages of entrepreneurship are as follows,

1. Entrepreneurship involves high level of risk.
2. Under entrepreneurship entrepreneur's income is uncertain i.e., he may earn income in one month and loose in next month.
3. If entrepreneurship is in partnership form then the authority of making decisions get divided between partners.
4. Entrepreneur have to work hard (day and night) for the success of enterprise. Even he may not take a single leave during heavy work load.

   From the above listed advantages and disadvantages of entrepreneurship it is apparent that the advantages of entrepreneur ship outweigh the disadvantages of entre-preneurship.

Q5. State the features of Entrepreneurship.

(OR)

What are the distinguishing features of a successful Entrepreneurship?

Ans : **(Imp.)**

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably, using various traits like leadership, decision making, innovation, managerial caliber etc. Entrepreneurship is a set of activities performed by an entrepreneur. In a way, entrepreneur precedes entrepreneurship.

The main features of entrepreneurship as are follows:

Features

(i) Economic Activity

Although classical economists like Adam Smith and Richard Cantillon and many others didn't recognize entrepreneurship as an economic activity but since last few decades entrepreneurship catching up and is primarily becoming an economic function because n involves creation and operation of an enterprise.

Cantillon also pointed out that entrepreneur-ship involves conscious decision making about resource allocations. It also implies seeking the best opportunities for using resources for their highest commercial yields. Adam Smith viewed that there was no difference between an entrepreneur and an industrialist. He agreed that economic change could be brought through entrepreneurs.

Entrepreneurship is a continuous economic process which recognizes the need to change and entrepreneur is a key person to initiate any change.

(ii) Innovative Activity

Innovation is the process of doing new things. Drucker elaborates: "Innovation is the means by which the entrepreneur either creates new wealth-producing recourses or endows existing resources with enhanced potential for creating wealth." Entrepreneurship is innovation where new products, services, ideas and information is produced, new efficient production techniques are introduced by the firms, new market opportunities are identified and better ways of meeting existing demands are looked into. Whenever a new idea occurs, entrepreneurial efforts are essential to convert the idea into practical application.

According to Schumpter, innovation may occur in any of the following ways :

(a) The introduction of a new good with which the customer is not yet familiar.

(b) The introduction of a new method of production which is not tested by experience in the branch of manufacture concerned;

(c) The opening of a new market the customers are not yet familiar with the product and the market for that innovative product has not previously been entered;

(d) The conquest of new source of supply of raw-material irrespective of the fact whether that source already exists or it has been created.

(e) The creation of a new organization of an industry a new innovation may create the monopoly for that product or break the monopoly of similar existing product.

(iii) A function of High Achievement

People differ not only in their ability to do but also in their will to do, or motivation. The motivation, in turn depends on the strength of their motives sometimes defined as needs, wants, drives or impulses within the individuals.

McClelland identified two features of entrepreneurship

(a) doing things in a different and better way

(b) decision making under uncertainty. He found that looking at the history of industrial development, money of the pioneers who built up industrial empires are strongly motivated by need for power and achievement. Thus, people having high need for achievement and power are more likely to succeed as entrepreneurs and this is a very critical factor that leads one towards entrepreneurship. Researches also show that stable personality characteristic like motive are laid down in childhood.

(iv) Creative and Purposeful Activity

Creativity is "the ability to bring something new into existence". The definition emphasizes on "ability" and not the "activity" of bringing something new into existence. A person may conceive of something new and also visualize its usefulness but unless he takes necessary action to convert it into reality, his ideas will not be termed as creative. Innovation is the process of doing new things. Innovation, therefore, is the transformation of creative ideas into useful applications but creativity is a prerequisite to innovation.

Entrepreneurship is virtually a creative and a purposeful activity. The entrepreneur passes through the five stages during the process of entrepreneurship viz. idea germination, preparation, incubation, illumination and verification. Earning profits is never the sole objective but to introduce something new and creative is the purpose of entrepreneurship. The benefits of his creativity are enjoyed by people at large, e.g. Internet benefits are being enjoyed by more than 50 million people world over.

(v) Organising function

J.B. Say describes entrepreneurship as an organizing function whereby the entrepreneur brings together various factors of production, ensures the continuing management and renders risk-bearing functions as well. According to J.B. Say, an entrepreneur is one who combines the land of one, the labour of another, and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land, wages to labourers and what remains is his profit. Thus, J. B. Say clearly distinguishes between the role of a capitalist as a financer and the entrepreneur as an organizer. Marshall also advocated the significance of organization among the services of special class of business undertakes.

Q6. Explain various theories of Entrepreneurship.

Ans :

Entrepreneurial history is left to be interdisciplinary in approach and, thus, it is difficult to label entrepreneurship as purely a theory of economics or sociology or psychology or a anthropology. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have been evolved from over a period of more than two centuries.

Theories of entrepreneurship can a broadly be classified into four categories:

i) Economic Theory

ii) Sociological Theory

iii) Psychological Theory

iv) Anthropological Theory

(i) Economic Theory

Economics is the social science that deals most directly with contemporary economic reality. Economists have done little work on entrepreneurship and therefore, have tended to be in minority. Economists like Adam Smith and David Richard assigned no significance toentrepreneurial role in economic development. Richard Cantillon (1755) was the first person to recognize the role of entrepreneurs in economic theory. He stated that, "the farmer is an entrepreneur who promises to pay the land owner for his farm or land, a fixed sum of money without assurance for the profit he will derive from his enterprise".

He described an entrepreneur as a person bearing risk. He makes profit by buying good at a known price and by selling at an increased higher price but there is always an element of uncertainty in market. Hence, entrepreneur is always at a risk of bearing losses if he would be unable to sell the goods at a higher price. Cantillon stressed on the economic function of entrepreneur over his social status or his personality. JB Say broadened the definition and role of an entrepreneur to include the concept of combining factors of production, also noting that the entrepreneur must have special personal qualities.

The economic theory of entrepreneurship centres around Joseph Schumpeter which is versatile and multi-disciplinary. J. Schumpeter (1934) added the concept of innovation to the theory of entrepreneurship. He visualized the entrepreneurs as the key figure in economic development because of his role in introducing innovations. For Schumpeter, the ability to identify new opportunities in the market is a central entrepreneurial activity which creates disequilibrium in the economy. He states that the entrepreneur is the bearer of the 'mechanism for change'. Changes can occur from inside and outside the economy. Joseph, in one of his books, attempts to develop a number of economic theories of interest, capital, credit, profit and the business cycle by relating them to the theory of entrepreneurship. He centres the whole new economic theory around the entrepreneur rather than just a theory of the entrepreneur emphasis the vital role played by the entrepreneur in an economy.

(ii) Sociological Theory

Sociologists suggest that entrepreneurship can be conceptualized as a social movement an entrepreneurs exist not only in the economy but in other spheres of society as well. S. M. Lipset argues that cultural values deeply affect entrepreneurship and the level of economic development. Mark Granovetter points that family ties may create an obstacle for a businessman if he cares for his family too much; but the same strong family feelings can turn into an advantage once the businessman has emigrated as long as the distant family members stay behind. He also discusses the role of trust in entrepreneurial ventures. According to him, in social groups and societies where people are isolated from each other, it may be difficult to develop the kind of confidence that is absolutely necessary to start a firm or otherwise cooperate in economic matters. Thus, Mark Granovetter emphasizes the role played by society and family-members in growth of entrepreneur-ship.

According to Cochran, the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirement of the job. Society's values are the most important determinant of attitudes and role expectations.

According to Everett. E. Hagen in his book 'On The Theory of Social Change' (1962) argues that people who have grown up in certain minorities develop a much stronger psychological propensity for entrepreneurship than who have not. Hagen's theory may well contain a grain of truth but his approach is discredited by others. Hagen also concluded that entrepreneurs have emerged from certain communities and castes.

Thus, Hagen disregard the complicated institutional environment that surrounds the entrepreneur.

(iii) Psychological Theory

Psychological theory of entrepreneurship has a fairly high status among social scientists who study entrepreneurship because it is very difficult to single out one or several psychological traits as typical for the entrepreneurial personality. However, advocates of this theory assert that entrepreneurship is most likely to emerge when a society has sufficient psychological characteristics.

Joseph Schumpeter states that the entrepreneur is mainly motivated and driven by three things :

(i) the dream and the will to found a private kingdom;

(ii) the will to conquer;

(iii) the joy of creating;

J. Schumpeter's formulation can be translated as :

(i) the desire for power and independence;

(ii) the will to succeed;

(iii) the satisfaction of getting things done.

According to him, money is not what ultimately motivates the entrepreneur. 'Entrepreneurs', according to Schumpter, 'are certainly not economic men in the theoretical sense'. Thus, he supports the psychological theory and not the economic theory He asserts that what matters is the behaviour, and not the actor.

According to David Mc Clelland's book The Achieving Society (1961), entrepreneurship has to do with an individual's so called need for achievement (referred to n-Achievement). He identified three features of entrepreneurs that were related to their need for achievement :

(1) Desire to accept responsibility for solving problems, setting goals and reaching the goals;

(2) A willingness to accept moderate risks;

(3) A desire to know the outcomes of their decisions. It was widely believed that a high achievement motivation has a strong likelihood of predicting entrepreneurial behaviour. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance.

(iv) Anthropological Theory

Fredrik Barth made his first attempt to develop an anthropological theory of entrepreneur-ship. According to Barth, entrepreneurship has essentially to do with connecting two spheres in the society, between which there exists a difference in value. Something which is cheap in one sphere, may be expensive in another sphere. Barth, one of the leading anthropologists of the world, states that entrepreneurial behaviour means to connect two different spheres in the society, between which there is a huge discrepancy in value.

Each of the above theories is incomplete and none of them is right or wrong. Theories of entrepreneurship are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, achievement motivation, ability and ambition which largely determines whether an individual become an entrepreneur or not.

Q7. Explain the scope of Entrepreneurship

Ans :

Entrepreneurship works in different ways in different economic systems such as capitalism, socialism and mixed economy.

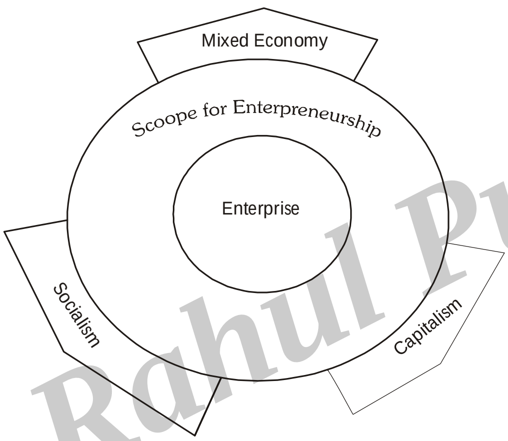

Fig. : Scope of Entrepreneurship

1. Capitalism

A capitalist economy represents free enterprise, means freedom to save and invest, free competition, consumer sovereignty and very less interference from the government. Price of the product will be determined on the basis of the force of demand and supply with reference to cost of production. The entrepreneur controls all the activities with reference to the process of production and distribution. Entrepreneurs play vital and prominent role in the enterprise because; they controls domestic market by assuming the role of a competitor.

2. Socialism

Private entrepreneurship is absent in a socialist economic system. Economic and financial experts play important role in the development of entrepreneurship in the system. Such entrepreneurship is there mainly to serve the society not to mint money or to make profit only.

Central Authority in the socialism economy is appointed by the Government to make policies, frame plans and procedures for the proper and efficient mobilization of resources, and mobilization and allocation of resources into those industries of national prominence. In this system of economy private entrepreneur has neither a role nor responsibility.

3. Mixed Economy

The mixed economy is characterized by coexistence of both the private and public sectors in the same line of production. Consumer goods are left to the private enterprises. Government undertakes the production of capital goods.

In a mixed economy, restrictions are placed by the Government to eliminate the problems of monopoly capitalism. Government under this type of economy curbs the growth of monopolies and encourages competition. Mixed economy has built-in stabilizers, which solve the problems of production, pricing and distribution in a better manner, apart from satisfying and helping in the various enterprise goals, mixed economy also helps in reducing of inequality of incomes among people, fixation of minimum wages, etc., in an efficient and effective way.

Thus entrepreneurship plays a great and vital role in all major economic systems. Its importance stands beyond challenges and making of huge profit in every economic system.

1.2 Entrepreneur

Q8. Define the term Entrepreneur.

Ans :

Meaning

The word 'entrepreneur' is derived from French word 'Entrependre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments.

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

Definitions

Some more important definitions of entrepreneur:

1. **According to F.A. Walker,** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".
2. **According to Marx,** regarded entrepreneur as social parasite.
3. **According to Gilbraith,** "An entrepreneur must accept the challenge and should be willing hard to achieve something".
4. **According to Peter F. Drucker,** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.
5. **According to E.E. Hagen,**"An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".
6. **According to Mark Casson,**"An entrepreneur is a person who specializes in taking judgement decision about the coordination of scarce resources".
7. **According to Frank Young,** defined entrepreneur as a change agent.
8. **According to Max Weber,** "Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs".
9. **According to International Labour Organization (ILO),** defines "entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success".
10. **According to Akhouri,** describes "entrepreneur as a character who combines innovativess, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence and who is persistent in achieving the goal".

1.2.1 Characteristics of Entrepreneur

Q9. Describe the various Characteristics of an Entrepreneur.

(OR)

Briefly explain the characteristics of an Entrepreneur.

Ans : **(Imp.)**

An entrepreneur should possess all such characteristics with the help of which he can perform various responsibilities successfully. The following characteristics are :

1. **Innovator**

   Schumpeter differentiates between an inventor and innovator. An inventor discovers new methods and new materials and an innovator is the one who utilizes those discoveries and inventions. Not only this, the entrepreneur further exploits the inventions commercially and thus produces newer and better goods which give him profit and satisfaction.

Innovation may occur in the following forms :

(i) The introduction of new goods.

(ii) The introduction of new methods of production.

(iii) The opening of a new market.

(iv) The conquest of a new source of supply of raw-material.

(v) The carrying out of the new form of organization of any industry.

The entrepreneur locates ideas and puts them into effect in the process of economic development. According to Baumol, an entrepreneur is a Schumpetarian innovator and something more than a leader.

2. Risk-taker

Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved.

An entrepreneur is a calculated risk-tasker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge and he avoids high-risk situation because he wants to succeed. He likes achievable challenges.

An entrepreneur likes to take realistic risks because he wants to be successful. He gets greater satisfaction in accomplishing difficult but realistic tasks by applying his own skills.

Hence, low-risk situation and high-risk situation both are avoided because these do not satisfy the entrepreneur.

3. Organiser

An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organizer. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance. He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

4. Creative

Creatively, as field knowledge, seeks to explain how humans, either individually or collectively, reach solutions that are both novel and useful. Innovation means the effort to create purposeful ventures.

Harry Nystrom states that innovation may be defined as radical discontinuous change and creativity is the ability to devise and successfully implement such changes. Successful innovations depend on creativity and one of the most important requirements of an entrepreneur is to be creative as creativity may be taken as the cause and successful innovation as the effect.

5. Motivator

McClelland explicitly introduces the need for achievement motivation as a psychological motive and implicitly emphasised the need for achievement as the most directly relevant factor for explaining economic behaviour.

Achievement motivation is a drive to overcome challenges, to advance and to grow. An entrepreneur is an achievement-oriented person, not ‘money hungry’. He works for his desire for challenge, accomplishment and service to others.

Achievement concerns refers to the accomplishment of excellent, innovative and risk involving tasks. The organizational goal of an entrepreneur can be boosted by inculcating in him the need for achievement.

6. Technical Competent

Success of an entrepreneur depends largely upon his ability to adopt latest technology. Technical knowledge implies the ability to devise and use new and better ways of producing and marketing goods and services. An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the ability that people can acquire with hard work.

An entrepreneur who has a high level of administrative ability, mental ability, communication ability, human relations ability and technical knowledge can be more successful than a person with low level of these abilities. A dynamic entrepreneur must also be interested in changing the pattern of production to suit the requirements.

7. Self-confident

It is necessary for an entrepreneur to be self-confident. He should have faith in himself only then he can trust others.

In an expanded business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority. He can seek cooperation of his staff and inculcate a sense of team work in them.

8. Socially Responsible

The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others. On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others. He may invent new products and new manufacturing methods. He may innovate new ways of doing things. All these have social consequences. An entrepreneur should think of projects of social significance and of importance to others. He should expand his entrepreneurial activities, in order to help in creating conditions for social change and for development of business which benefit the society. Such an attitude for others raises the level of entrepreneurship from that of an individual activity to a meaningful social endeavour.

9. Optimistic

An entrepreneur should approach his task with a hope of success and optimistic attitude. He attempts any task with the hope that he will succeed rather than with a fear of failure. Such a hope of success enhances his confidence and drives him towards success.

10. Equipped with Capability to Drive

Drive is a person's motivation towards a task. It comprises of such personality traits as responsibility, vigour, initiative, persistence and ambition. An entrepreneur must exert considerable effort in establishing and managing his business. Those entrepreneurs who work hard in planning, organizing, co-ordinating and controlling their business are more likely to have a successful business than the entrepreneur who is lost and haphazard.

11. Blessed with Mental Ability

Mental ability that contributes to the success of an entrepreneur consists of overall intelligence, i.e. IQ, creative thinking ability and analytical thinking ability. An entrepreneur must be intelligent, adaptable, creative and he must be able to engage in analysis of various problems and situations in order to deal with them.

12. Human Relations Ability

Personality factors such as emotional stability, personal relations, sociability, consideration and tactfulness are important contributors to entrepreneur's success. One of the most important facets of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. This is the ability to practice empathy.

The entrepreneur must have good relations with his employees, customers etc. He must be aware of the needs and motivations of customers if he is to adequately train his employees to maintain good customer relations.

13. Communication Ability

An entrepreneur must possess the quality of communicating effectively in written and oral communications. Good communication also means that both the sender and the receiver understand and are being understood.

14. Decision-Making

An entrepreneur must be clear and creative when it comes to decision-making. He must believe in himself and should be possessing ability to take decisions effectively. Decisions taken should be based on quantitative facts. Decisions which effect organization's future and are likely to be irreversible must be taken with great care.

Here are some tips to become a good decision-maker

(1) Define the problem,

(2) Collect information and relevant data,

(3) Begin with a brain storming session and discuss the problem with each other,

(4) Never criticize or reject any solution suggested during the brain storming session,

(5) Encourage group members to come up with potential solutions,

(6) Reduce the number of alternatives to three or four after discussion,

(7) Consider each alternative extensively and determine the best to meet your needs and

(8) Implement decisions.

Decision-making is an art; the more one practices it, better expert he/she becomes.

15. Business Planning

The decision to become an entrepreneur is the first step followed by the choice of the product. As the business venture is undertaken, need for planning arises. It is the rigor and thoroughness of the business plan which could be behind the successful entrepreneur throughout his venture's life.

Planning is really nothing more than decision-making, that is, deciding what to do, how to do and when to do. It is vital for the success of a business. As a business person puts it:

"Planning is so important today that it occupies a major part of the time of the most respective men in business. Planning allows us to master change. It forces us to organize our expectations and develop programs to bring them about. Planning is the most effective way to draw out the best in all of us-our best thinking, out best interests and aims and to enable us to develop the most efficient way of achieving our maximum goals".

1.3 Types of Entrepreneurs

Q10. Explain the classification of an Entrepreneurs.

Ans : **(Imp.)**

I) According to the level of willingness

1. **Innovative entrepreneurs:** These entrepreneurs have the ability to think newer, better and more economical ideas of business organization and management. They are the business leaders and contributors to the economic development of a country.

   Inventions like the introduction of a small car Nano' by Ratan Tata, organized retailing by Kishore Biyani, making mobile phones available to the common may by Anil Ambani are the works of innovative entrepreneurs.

2. **Imitating entrepreneurs:** These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. Such entrepreneurs are found in countries and situations marked with weak industrial and institutional base which creates difficulties in initiating innovative ideas.

3. **Fabian entrepreneurs:** The dictionary meaning of the term fabian' is a person seeking victory by delay rather than bya

decisive battle. Fabian entrepreneurs are those individuals who do not show initiative in visualizing and implementing new ideas and innovations wait for some development which would motivate them to initiate unless there is an imminent threat to their very existence.

4. **Drone entrepreneurs:** The dictionary meaning of the term drone' is a person who lives on the labor of others'. Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination in gaining market leadership. In other words, drone entrepreneurs are die-hard conservatives and even ready to suffer the loss of business.

5. **Social Entrepreneur:** Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

II) According to the Type of Business

1. **Business entrepreneur:** Business entrepreneurs are those entrepreneurs who conceive the idea of a new product or service and then translate their ideas into reality. Entrepreneur examines the various possibilities of sources of finance, supply of labour, raw-materials or finished product as the case may be.

   Business entrepreneur may be undertaking the trading business or manufacturing business but initially the size of the business is very small. As the entrepreneur flourishes, he tends to expand his business.

2. **Trading entrepreneur:** As the very name indicates trading entrepreneur is concerned with trading activities and not manufacturing. Trading means buying the finished product from the producer and selling off to the customer directly or through a retailer.

   A trading entrepreneur has to be creative enough as he has to identify the market. He has to identify potential market, create demand through extensive advertisement of his product and thus inspire people to buy his product. For this is inevitable for him to find out the desires, tastes and choices of his customer in domestic as well as international market.

3. **Industrial entrepreneur:** As the very name indicates, an industrial entrepreneur is one who sets up an industrial unit. He perceives the opportunity to set up his unit, complies with necessary formalities of getting license, power connection, pollution control clearance (if the need be) arrange initial capital, providing securities and guarantees to the financial institutions, making payment of wages and supply necessary technical know-how. An industrial entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. Manufacturer of leather products, textiles, electronics, food items and the like are industrial entrepreneurs.

4. **Corporate entrepreneur:** Corporate entrepreneur is the one who plans, develops and manages a corporate body. He is a promoter, an essential part of board of directors, an owner as well as an entrepreneur. He gets his corporate body registered under the requisite Act which gives his company the status of separate legal entity.

5. **Agricultural entrepreneur:** Agricultural entrepreneur is the one who is engaged in the agricultural activities. He uses latest technology to increase the productivity of agriculture and also adopts mechanization.

III) According to Motivation

1. **Pure entrepreneur:** Pure entrepreneur is one who may or may not possess an

aptitude for entrepreneurship but is tempted by the monetary rewards or profits to be earned from the business venture. He is status-conscious and wants recognition.

2. **Induced entrepreneur:** Induced entrepreneur is attracted by the various incentives, subsidies and facilities offered by the government. An entrepreneur is not born this is no doubt true as every person can be trained to become a good entrepreneur. Most of the entrepreneurs who enter into business are induced entrepreneur as various kinds of financial, technical and managerial facilities are provided by the government to promote entrepreneurship. An entrepreneur can develop himself much more by attending EDPs and they can make a stand in the market. Import restrictions, allocation of production quotas to SSIs, reservation of products for small industry etc. have forced many young people to set up a small industry.

   Non-Resident Indians (NRIs) and educated unemployed seeking self-employment or newly married bridegrooms by taking financial support of their in-laws may be described as induced entrepreneur. This class of entrepreneur accounts for maximum number of failures because there is no proper screening of misfits.

IV) According to the Use of Technology

1. **Technical entrepreneur:** The strength of a technical entrepreneur is in his skill in production techniques. He concentrates more on production than on marketing. He possesses craftsman skill in himself which he applies to develop and to improve the technical aspect of the product.

2. **Non-technical entrepreneur:** Unlike technical entrepreneur, non-technical entrepreneur is not concerned with the technical aspect of the product rather he spends more time in developing alternative strategies of the marketing and distribution to promote his business. His target is not to change the production technique but how to increase the demand of the product in which he is dealing.

3. **Professional entrepreneur:** Professional entrepreneur means an entrepreneur who is interested in floating a business but does not want to manage or operate it. Once the business is established, he sells it out and catches on to float a new business.

V) According to Stages of Development

1. **First generation entrepreneur:** First generation entrepreneur are those entrepreneurs who do not possess any entrepreneurial background. They start an industrial unit by means of their own innovative skills.

2. **Second generation entrepreneur:** Second generation entrepreneur are those entrepreneurs who inherit the family business firms and pass it from one generation to another.

3. **Classical entrepreneur:** A classical entrepreneur is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the unit but with or without an element of growth.

VI) According to Capital Ownership

1. **Private entrepreneur:** When an individual or a group of individuals set up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business with the intention to earn profits, he or the group is called us private entrepreneur/entrepreneurs.

2. **State entrepreneur:** As the name indicates, state entrepreneur means the trading or industrial venture undertaken by the state or the government itself.

3. **Joint entrepreneur:** Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.

Q11. Describe the various functions of an Entrepreneurs.

Ans : **(Imp.)**

An entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an entrepreneur.

1. Idea Generation

The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. Determination of Business Objectives

Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

3. Raising of Funds

All the activities of the business depend upon the finance and hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

4. Procurement of Machines and Materials

Another important function of an entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries, he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc. before procuring machineries.

5. Market Research

Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

6. Determining form of Enterprise

Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are also proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. Recruitment of Manpower

To carry out this function, an entrepreneur has to perform the following activities.

a) Estimate man power requirement for short term and long term

b) Laying down the selection procedure.

c) Designing scheme of compensation.

d) Laying down the service rules.

e) Designing mechanism for training and development.

8. Implementation of the Project

Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must 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 over run. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the entrepreneur. All the above functions of the entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

Q12. What are the differences between Entrepreneurs and Manager.

(OR)

Compare and Contrast Entrepreneurs and Manager.

Ans : **(Imp.)**

S.No.	Nature	Entrepreneur	Manager
1.	**Motive**	The main motive of an entrepreneur is to start a venture by setting up an enterprise. He understands the venture for his personal gratification.	The main motive of a manager is to render his services in an enterprise already set up by some one else.
2.	**Status**	An entrepreneur is the owner of the enterprise.	A manager is the servant in the enterprise owned by the entrepreneur
3.	**Risk-bearing**	An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in running the enterprise.	A manager as a servant does not bear any risk involved in the enterprise.
4.	**Rewards**	The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain.	A manager gets salary as reward for the services rendered by him in the enterprise. Salary of a manager is certain and fixed.
5.	**Innovation**	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers. Hence, he acts as an innovator also called a 'change-agent'.	A manager does is simply to execute the plans prepared by the entrepreneur. Thus, a manager simply translates the entrepreneur's ideas into practice.
6.	**Qualifications**	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability and so on.	On the contrary, a manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

Q13. Distinguish between entrepreneur and entrepreneurship.

Ans :

The term "entrepreneur" is often used interchangeably with "entrepreneurship". But, conceptually, they are different, yet they are just like the two sides of a coin. Their differences are as follows:

S.No.	Entrepreneur	S.No.	Entrepreneurship
1.	An entrepreneur one who undertakes and operates a new enterprise and assumes some accountability for the inherent risks.	1.	Entrepreneurship is the practice of starting new organizations, particularly new businesses generally in responses to identified opportunities.
2.	Entrepreneur is often synonymous with founder.	2.	Entrepreneurship ranges in scale from solo projects to major undertakings creating many job opportunities.
3.	The person who starts and operates a business enterprise is an entrepreneur.	3.	The process in which an entrepreneur starts and operates his business enterprise is entrepreneurship.
4.	The entrepreneur is a coordinator as he coordinates all the three elements of production i.e. land, labor and capital.	4.	Entrepreneurship is the coordination maintained by an entrepreneur.
5.	The person who innovates something new is an entrepreneur.	5.	The innovation of something new or the process of innovation is entrepreneurship.
6.	He who leads an enterprise towards its vision thorough leadership, motivation is an entrepreneur.	6.	The way in which an entrepreneur leads his manpower, motivates them for the achievement of the firms goal is entrepreneurship.

Q14. What are differences between Entrepreneur and Intrapreneur?

Ans :

S.No.	Nature	Entrepreneur	Intrapreneur
1.	**Ownership**	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	**Status**	An entrepreneur is independent in his operations.	The intrapreneur is dependent upon entrepreneur.
3.	**Capital formation**	Entrepreneur himself forms capital	Intrapreneur does not form capital
4.	**Risk**	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.
5.	**Operation**	An entrepreneur operates from outside	Intrapreneur operates from within the organization.
6.	**Guarantee of investment**	Entrepreneur gives guarantee to the investors for their investment	Intrapreneur himself is a manager, so he manages from within. Question of guarantee does not arise.
7.	**Management**	Entrepreneur manages the enterprise from outside.	Intrapreneur is a professional manager.
8.	**Professional qualification**	Entrepreneur need not possess professional qualification.	Intrapreneur must possess professional qualification.

1.4 Growth of Entrepreneurship in India

Q15. Explain the Growth of Entrepreneurship in India.

Ans : **(Imp.)**

Entrepreneurial growth in India is as old as Rigveda but there was no manufacturing as such before 1850. This manufacturing entrepreneurship was too confined to cottage & small scale industry. But it could not grow further due to various reasons such as lack of political unity, capital, network of custom barriers, and existence of multiple systems of currency.

Emergence of entrepreneurial class is as old as our ancient history itself dating back to the pre-vedic period when the Harappan culture flourished in India. However, history of entrepreneurship and emergence of entrepreneurial class in India may be viewed under the following periods:

1) Period 1 : Entrepreneurship in ancient period
2) Period II : Entrepreneurship in pre-independence era i.e. before 1850.
3) Period III : Entrepreneurship between 1850-1947
4) Period IV : Entrepreneurship after 1947 & onwards i.e. post independence period.

1. Period I : Entrepreneurship in Ancient Period

As per the ancient literature, the ancient Indians took up a variety of commercial vocations akin to present day entrepreneurial activities. The arrival of Aryans opened the first phase of entrepreneurship, with their innovative new crafts and occupations, evolving division of labour for the new handicrafts, breeding of cattle, & cultivating land which were nearly non-existing before them. The ancient literature like Manusmriti gives a more clear picture about the entrepreneurial class of people during pre-vedic period. According to him, vaisyas were the specialized class of people carrying entrepreneurial activities in agriculture, industry & banking sector. During the Gupta & Post-Gupta period, agriculture, crafts and handicrafts comprised the basic sources of occupation for the people.

2. Period II : Entrepreneurship in Pre-independence Era before 1850 AD

During the pre-independence period, agriculture was the main occupation of the people of India. Besides agriculture, the bania, Parsis, Cherriars & Gujaratis etc., specialized in the manufacturing of handicrafts, metal works, stone carving & jewellery designing etc. had dominated the industrial entrepreneurship sector in rural areas. These communities actually laid the foundation of entrepreneurship by carrying out trade & commerce activities initially & later by establishing manufacturing centers.

British colonialism in India dealt a severe below to the Indian entrepreneurship & industrial revolution in Great Britain reduced India to the status of material supplier for consumer market for the finished products manufacture in Britain.

Due to lack of support from the British Government and its discriminatory policies towards Indian made products, the industrial entrepreneurship suffered a great deal.

3. Period III : Entrepreneurship during 1850-1947

The mid nineteenth century opened up path for rapid industrialization with the introduction of railways in 1853, development of other infrastructural facilities like roads, ports etc. The eastern part of the country witnessed entrepreneurship mainly due to Europeans who engaged in export-oriented industries, like jute, textiles, tea, coal etc. whereas in the western part, entrepreneurship was mostly among the Indians. It is observed that during the last decades of the 18th century, the Parsis along with Marwaris & Gujaritis trading castes, took to entrepreneurial behaviour.

The adoption of the concept of swadeshi & boycott in 1905 to counter the discriminatory policies o the British Government encouraged the Indians to plunge into entrepreneurship. Jamshedji Tata established his first iron & steel industry with the help of 'swadeshi contribution'. Due to the swadeshi movement which emphasized on manufacturing & using indigenous goods by the Indian's, indigenous entrepreneurship developed in many types of activities such as textiles, soap, matches, oil, tanneries, potteries, banking, insurance etc.

As such, indigenous entrepreneurship grew at a rapid pace with emergence of entrepreneur classes such as Parsis, Marwaris & Gujaratis in the country on the eve of independence of India.

4. Period IV : Entrepreneurship in 1947 & onwards – Post-Independence period

In the post-independence period, the Government identified the need for rapid industrialization with the establishment of heavy & basic industries. The post independence period witnessed the emergence of Marwaris as big investors and industrialists. Before independence, where the Marwaris controlled only 6 companies, after independence, they had 618 directorships which rose to 1/4th of the total in 1951. The Monopolies Inquiry Commission in 1964 has mentioned in its report that the Marwaris accounted for 10 large industrial houses out of a total of 37 showing the strength of the Marwaris in the growth of entrepreneurship during this period. The Marwaris community emerged as a giant entrepreneurial class in the post independence period. The house of Birla, Singhania, Bajaj & others have created their image in the industrial market in the field of industrial development in India.

1.5 Role of Government in Promotion of Entrepreneurship

Q16. Describe the role of Government in promotion of Entrepreneurship.

Ans : **(Imp.)**

Government plays a very important role in developing entrepreneurship. Government develop industries in rural and backward areas by giving various facilities with the objective of balances regional development. The government set programmes to help entrepreneurs in the field of technique.finance.market and entrepreneurial development so that they help to accelerate and adopt the changes in industrial development various institutions were set up by the central and state governments in order to fulfill this objective.

1. Small industries development organization(SIDO)

SIDO was established in October 1973 now under Ministry of Trade. Industry and Marketing. SIDO is an apex body at Central level for formulating policy for the development of Small Scale Industries in the country, headed by the Additional Secretary & Development Commissioner Small Scale Industries)under Ministry of Small Scale Industries Govt, of India. SIDO is playing a very constructive role for strengthening this vital sector, which has proved to be one of the strong pillars of the economy of the country. SIDO also provides extended support through Comprehensive plan for promotion of rural entrepreneurship.

2. Management development Instituted (MDI)

MDI is located at Gurgaon(Haryana). It was established in 1973 and is sponsored by Industrial Finance Corporation of India with objectives of improving managerial effectiveness in the industry. It conducts management development programs in various fields. Inalso includes the programmes for the officers of IAS.IES. BHEL.ONGC and many other leading PSU's.

3. Entrepreneurship development institute of India(EDI)

Entrepreneurship Development Institute of India (EDI), an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions the IDBI Bank Ltd.. IFC1 Ltd.. ICICI 8ank Ltd. and the State Bank of India (SBI). EDI has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In the international arena, efforts to develop entrepreneurship by way of sharing resources and organizing training programmes, have helped EDI earn accolades and support from the World Bank. Commonwealth Secretariat. UNIDO. ILO. British Council. Ford Foundation, European Union. ASEAN Secretariat and several other renowned agencies. EDI has also set up Entrepreneurship Development Centre at Cambodia. Lao PDR. Myanmar and Vietnam and is in the process of setting up such centres at Uzbekistan and five African countries.

4. All India Small Scale Industries Board(AISSIB)

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advise to the Government on all issues pertaining to the small scale sector. It determines the policies and programmes for the development of small industries with a Central Government Minister as its president and the representatives of various organization i.e., Central Government State Government National Small Industries Corporations. State Financial Corporation. Reserve Bank of India. State Bank of India, Indian Small Industries Board. Non government members such as Public Service Commission. Trade and Industries Members.

5. National Institution of Entrepreneurship and Small Business Development (NIESBUD), New Delhi

It was established in 1983 by the Government of India. It is an apex body to supervise the activities of various agencies in the entrepreneurial development programmes. It is a society under Government of India Society Act of 1860. The major activities of institute are:

i) To make effective strategies and methods

ii) To standardize model syllabus for training

iii) To develop training aids, tools and manuals

iv) To conduct workshops, seminars and conferences.

v) To evaluate the benefits of EDPs and promote the process of Entrepreneurial Development.

vi) To help support government and other agencies in executing entrepreneur development programmes.

vii) To undertake research and development in the field of EDPs.

6. National Institute of Small Industries Extension Training

It was established in 1960 with its headquarters at Hyderabad. The main objectives of national Institute of Small Industries Extension Training are:

i) Directing and Coordinating syllabi for training of small entrepreneurs.

ii) Advising managerial and technical aspects.

iii) Organizing seminars for small entrepreneurs and managers.

iv) Providing services regarding research and documentation.

7. National Small Industries Corporation Ltd. (NSIC)

The NSIC v/as established in 1995 by the Central Government with the objective of assisting the small industries in the Government purchase programmes. The corporation provides a vast-market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

1.6 Recent Trends in Entrepreneurship Development

Q17. Explain about twenty first century trends in entrepreneurship.

Ans : **(Imp.)**

The 21st Century began with a boom in all the fields whether it's technology or academic. Technology remains flourishing till now and new researches keep on inventing every single day. As well as academic is concerned, a discipline like Entrepreneurship keeps on progressing with targeting domains. There are new trends seen in Entrepreneurship. From the start of 21st century till now it continues to emerge. More and more people seeks interest in this discipline of academic.

Some of the new trends that have been seen in Entrepreneurship are the areas which this discipline covers. The areas in which Entrepreneurship is applied in order to make better business are as follows:

1. Venture Financing

Venture Financing consists of both venture capital and angel capital. It has a mix of other financing methods that helps the business to flourish that emerged with an exceptional strength, powering entrepreneurship in the twenty-first century.

2. Corporate Entrepreneurship

Corporate Entrepreneurship deals with the adoption of entrepreneurship within large organizations. In Corporate Entrepreneurship, the entrepreneurial actions and cultures are followed inside the organization. Corporate entrepreneurship has attracted the attention of the C.E.O's of big firms over the past few years.

3. Social Entrepreneurship

This entrepreneurship is dealing with how entrepreneurs can help in dealing with the social problems. It mainly focuses on social problem solving.

4. Entrepreneurial Cognition

Entrepreneurial cognition helps us observing the great variety of entrepreneurs and the techniques they adopted to succeed in their lives and set an example for others to follow.

5. Women Entrepreneurship

Women entrepreneurship mainly covers 1/3 of all entrepreneurs worldwide. They rose in exceptional numbers. They have the power to face the obstacles and difficulties and to solve them with their thinking and experience.

6. Family Businesses

It has become a robust focus of research. The economic and social assistance of entrepreneurs with family businesses have been shown to make enormously inconsistent contributions to job creation, innovation and economic renewal.

7. Entrepreneurial Education

Entrepreneurial Education being the "hot" subject for everyone. In the 21st century, entrepreneurship is one of the most wanted disciplines in all the business schools and engineering universities all over the world. Enormous growth have been seen in the teaching this Entrepreneurial Education.

1.7 Role of Entrepreneurship in Economic Development in India

Q18. Explain the role of entrepreneurship in Economic development of India.

(OR)

Discuss the entrepreneurship in Economic development of India.

Ans : **(Imp.)**

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The major roles played by an entrepreneur in the economic development of an economy is discussed in a systematic and orderly manner as follows.

1. 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.

2. 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.

3. 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.

4. 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.

5. **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.

6. **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 mobilization 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.

6. **Improvement in the Standard of Living**

Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

7. **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.

8. **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.

9. **Facilitates Overall Development**

Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

1.8 Rural Entrepreneurship

Q19. Explain the meaning of Rural Entrepreneurship.

(OR)

Discuss the meaning of Rural Entrepreneurship.

Ans :

Rural industries are generally associated with agriculture. According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees."

The definition of village industry has been recently modified by the government so as to enlarge its scope. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant and machinery is classified as a village industry. As a result of widening of the scope of village industries, 41 new village industries have been added making a total of 101 as against 70 industries earlier.

All the village industries have been grouped into seven major categories as follows:

i) Mineral - based industry,

ii) Forest - based industry,

iii) Agro - based industry,

iv) Polymer and chemical - based industry,

v) Engineering and non-conventional industry,

vi) Textile industry (including khadi), and

vii) Service industry.

1.8.1 Need and Importance of Rural Entrepreneurship

Q20. Explain the need for Rural Entrepreneurship.

Ans :

1. Rural industries being labour intensive, have high potential in employment generation. Thus, they serve as an antedote to the widespread problems of disguised unemployment or underemployment stalking the rural territory.
2. By providing employment, these industries have also high potential for income generation in the rural areas. These, thus, help in reducing disparities in income between rural and urban areas.
3. These industries encourage dispersal of economic activities in the rural areas and, thus, promote balanced regional development.
4. Development of industries in the rural areas also helps build up village republics.
5. Rural industries also help protect and promote the art and creativity, *i.e.* the age-old rich heritage of the country.
6. Rural industrialization fosters economic development in rural areas. This curbs rural-urban migration, on the one hand, and also lessens the disproportionate growth in the cities, reduces growth of slums, social tensions, and atmospheric pollution, on the other.
7. Last but no means the least, rural industries being environment friendly lead to development without destruction i.e., the most desideratum of the time.

Q21. Explain the Characteristics of Rural Entrepreneurship.

Ans :

The essential characteristics of rural entrepreneurship are following:

1. Labour Intensive

Rural industries are labour intensive because they give more employment of labour than machines. Rural entrepreneurs are generally labour intensive because they give much stress on human capital.

2. Use of Traditional Skill

Rural entrepreneurs give much emphasis on use of traditional skill during the course of production. They have no capacity to apply modem skill and technology in their industry.

3. Less Capital

Rural entrepreneurs generally invest less capital to produce goods and commodities in their industry. As they have no capacity to afford for much capital investment, they emphasis on less capital investment.

4. Decentralised Production

As rural industries are scattered and operated in a small scale, it encourages decentralised production.

5. Use of Local Raw Materials

Rural entrepreneurs make better use of local raw materials during the course of production. They usually make better and effective use of local raw materials because its transportation cost is less.

1.8.2 Problems and Perspectives of Rural Entrepreneurship

Q22. Explain the Problems and Perspectives of Rural Entrepreneurship.

Ans : **(Imp.)**

Some major problems faced by the rural entrepreneurship are as follows:

1. Financial Problems

i) **Paucity of Funds:** Most of the rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is too time-consuming that its delay often disappoints the rural entrepreneurs. Lack of finance available to rural entrepreneurs is one of the biggest problems which rural entrepreneur is bearing nowadays especially due to global recession.

ii) **Lack of Infrastructural Facilities:** The growth of rural entrepreneurship is not very healthy in spite of efforts made by government due to lack of proper and adequate infrastructural facilities.

iii) **Risk Element:** Rural entrepreneurship has less risk bearing capacity due to lack of financial resources and external support.

2. Marketing Problems

i) **Competition:** Rural entrepreneurship faces severe competition from large sized organizations and urban entrepreneurs. They incur high cost of production due to high input cost. Major problems faced by marketers are the problem of standardization and competition from large-scale units. They face the problem in fixing the standards and sticking to them. Competition from large scale units also creates difficulty for the survival of new ventures.

ii) **Middlemen:** They exploit rural entrepreneurs. The rural entrepreneurs are heavily dependent on middlemen for marketing of their products who pocket large amount of profit. Storage facilities and poor means of transport are other marketing problems in rural areas. In most of the villages, farmers store the produce in open space, in bags or earthier vessels, etc. So these indigenous methods of storage are not capable of protecting the produce from dampness, weevils, etc. The agricultural goods are not standardised and graded.

3. Management Problems

i) **Lack of Knowledge of Information Technology:** Information technology is not very common in rural areas. Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information and ideas. The intensity of family and personal relationships in rural communities can sometime be helpful but they may also present obstacles to effective business relationships. Business deals may receive less than rigorous objectivity and inter-community rivalries may reduce the scope for regional cooperation. Decision-making process and lines of authority are mostly blurred by local politics in rural areas.

ii) **Legal Formalities:** Rural entrepreneurs find it extremely difficult in complying with various legal formalities in obtaining licenses due to illiteracy and ignorance.

iii) **Procurement of Raw Materials:** It is really a tough task for rural entrepreneurs. They may end up with poor quality raw materials, may also face the problem of storage and warehousing.

iv) **Lack of Technical Knowledge:** Rural entrepreneurs suffer a severe problem of lack of technical knowledge. Lack of training facilities and extension services create a hurdle for the development of rural entrepreneurship.

v) **Poor Quality of Products:** Another important problem in growth of rural entrepreneurship is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

Q23. How can Rural Entrepreneurship be developed Elaborote?

Ans :

Establishing an industry and, thereby developing entrepreneurship is not one-man ac-tivity. In fact, it involves multi-pronged activities. Though the answer to the question how to develop entrepreneurship lies in the solutions of the problems faced in this regard, yet the following measures are suggested for developing entrepreneurship in the rural areas in the country.

1. Raw material is a must for any industry. However, the non-availability of raw materials accompanied by their prohibitive cost have weakened the viability of these industries. Past experience bears evidence that rural industries with employment potential can not be sustained for long unless a strong raw material-base is created in rural areas itself. There-fore, an urgent policy is called for to strengthen the raw material base in rural areas.

2. Finance is considered as lubricant for setting up and running an industry. Funds, therefore, need to be made available on time at soft terms and conditions to those .who really need it.

3. In order to solve the problem of marketing for rural industries, common production-cum-marketing centres need to be set up and developed with modern infrastructural facilities, particularly, in the areas having good production and growth potential. This would help in promoting export business, on the one hand, and bringing the buyers and sellers is close interaction avoiding middleman in between them, on the other. Legislative measures have to be taken to make the government purchases compulsory from rural industries.

4. One peculiarity of rural entrepreneurs is that most of them join their entrepreneurial career not by choice but by chance. Lack of aptitude and competency on the part of such entrepreneurs makes the units sick. Hence, there is a need to develop entrepreneurial attitude and competencies among the prospective entrepreneurs through the training interventions like Entrepreneurship Development Programmes (EDP), Women Entrepreneurship Development Programmes and TRYSEM.

5. One effective way to inculcate the entrepreneurial acumen and attitude may be imparting entrepreneurial education in the schools, colleges, and universities. That younger minds are more susceptive to be moulded is well evidenced by the popularly known 'Kakinada Experiments' in Andhra Pradesh.

6. Sometimes the real problem in setting up industries is not the non-availability of facilities, but non-awareness of facilities whatever are available. The need is, therefore, to dissiminate information about all what is available to provide to the entrepreneurs to facilitate them in setting up industries.

7. Proper provisions need to be made to impart the institutional training to orient the entrepreneurs in specific products and trades so that the local resources can be harnessed properly.

8. Our accumulated experience bears ample evidences to the fact that the non-govern-mental organisations, popularly known as NGOs, can prove instrumental in developing rural entrepreneurship in the country. The role of NGOs in developing entrepreneurship is, therefore, discussed separately.

Short Question and Answers

1. Define Entrepreneurship.

Ans :

The word ‘entrepreneurship’ typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16th century, the term was used to denote army leaders. In the 18th century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in developing countries demolishes the contention that entrepreneur is a rare animal and an elusive character.

According to McClelland, identifies two characteristics of entrepreneurship. Firstly, doing things in a new and better way (Schumpetrian’s innovator). Secondly, decision making under uncertainty (Cantillon’s entrepreneur). McClelland emphasized that entrepreneurial manager should have a high need for influencing other (need for power), a low need to establish emotional relationships (low need for affiliation) and a high capacity to discipline one’s own self (inhibition). In other words, entrepreneurship means the function of creating something new, organizing and coordinating and undertaking risk and handing economic uncertainty.

2. State the features of Entrepreneurship.

Ans :

The main features of entrepreneurship as are follows:

Features

(i) Economic Activity

Although classical economists like Adam Smith and Richard Cantillon and many others didn’t recognize entrepreneurship as an economic activity but since last few decades entrepreneurship catching up and is primarily becoming an economic function because n involves creation and operation of an enterprise.

Cantillon also pointed out that entrepreneurship involves conscious decision making about resource allocations. It also implies seeking the best opportunities for using resources for their highest commercial yields. Adam Smith viewed that there was no difference between an entrepreneur and an industrialist. He agreed that economic change could be brought through entrepreneurs.

Entrepreneurship is a continuous economic process which recognizes the need to change and entrepreneur is a key person to initiate any change.

(ii) Innovative Activity

Innovation is the process of doing new things. Drucker elaborates: “Innovation is the means by which the entrepreneur either creates new wealth-producing recourses or endows existing resources with enhanced potential for creating wealth.” Entrepreneurship is innovation where new products, services, ideas and information is produced, new efficient production techniques are introduced by the firms, new market opportunities are identified and better ways of meeting existing demands are looked into. Whenever a new idea occurs, entrepreneurial efforts are essential to convert the idea into practical application.

According to Schumpter, innovation may occur in any of the following ways :

(a) The introduction of a new good with which the customer is not yet familiar.

(b) The introduction of a new method of production which is not tested by experience in the branch of manufacture concerned;

(c) The opening of a new market the customers are not yet familiar with the product and the market for that innovative product has not previously been entered;

(d) The conquest of new source of supply of raw-material irrespective of the fact whether that source already exists or it has been created.

(e) The creation of a new organization of an industry a new innovation may create the monopoly for that product or break the monopoly of similar existing product.

(iii) A function of High Achievement

People differ not only in their ability to do but also in their will to do, or motivation. The motivation, in turn depends on the strength of their motives sometimes defined as needs, wants, drives or impulses within the individuals.

McClelland identified two features of entrepreneurship

(a) doing things in a different and better way

(b) decision making under uncertainty. He found that looking at the history of industrial development, money of the pioneers who built up industrial empires are strongly motivated by need for power and achievement. Thus, people having high need for achievement and power are more likely to succeed as entrepreneurs and this is a very critical factor that leads one towards entrepreneurship. Researches also show that stable personality characteristic like motive are laid down in childhood.

3. Define the term Entrepreneur.

Ans :

Meaning

The word 'entrepreneur' is derived from French word 'Entrependre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments.

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

Definitions

Some more important definitions of entrepreneur:

(i) According to F.A. Walker, "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

(ii) According to Marx, regarded entrepreneur as social parasite.

(iii) According to Gilbraith, "An entrepreneur must accept the challenge and should be willing hard to achieve something".

4. Various functions of an Entrepreneurs.

Ans :

The following are the main functions of an entrepreneur.

(i) Idea Generation

The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

(ii) Determination of Business Objectives

Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

(iii) Raising of Funds

All the activities of the business depend upon the finance and hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

5. Distinguish between entrepreneur and entrepreneurship.

Ans :

The term "entrepreneur" is often used interchangeably with "entrepreneurship". But, conceptually, they are different, yet they are just like the two sides of a coin. Their differences are as follows:

S.No.	Entrepreneur	S.No.	Entrepreneurship
1.	An entrepreneur one who undertakes and operates a new enterprise and assumes some accountability for the inherent risks.	1.	Entrepreneurship is the practice of starting new organizations, particularly new businesses generally in responses to identified opportunities.
2.	Entrepreneur is often synonymous with founder.	2.	Entrepreneurship ranges in scale from solo projects to major undertakings creating many job opportunities.
3.	The person who starts and operates a business enterprise is an entrepreneur.	3.	The process in which an entrepreneur starts and operates his business enterprise is entrepreneurship.
4.	The entrepreneur is a coordinator as he coordinates all the three elements of production i.e. land, labor and capital.	4.	Entrepreneurship is the coordination maintained by an entrepreneur.
5.	The person who innovates something new is an entrepreneur.	5.	The innovation of something new or the process of innovation is entrepreneurship.
6.	He who leads an enterprise towards its vision thorough leadership, motivation is an entrepreneur.	6.	The way in which an entrepreneur leads his manpower, motivates them for the achievement of the firms goal is entrepreneurship.

6. What are differences between Entrepreneur and Intrapreneur?

Ans :

S.No.	Nature	Entrepreneur	Intrapreneur
1.	**Ownership**	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	**Status**	An entrepreneur is independent in his operations.	The intrapreneur is dependent upon entrepreneur.
3.	**Capital formation**	Entrepreneur himself forms capital	Intrapreneur does not form capital
4.	**Risk**	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.
5.	**Operation**	An entrepreneur operates from outside	Intrapreneur operates from within the organization.
6.	**Guarantee of investment**	Entrepreneur gives guarantee to the investors for their investment	Intrapreneur himself is a manager, so he manages from within. Question of guarantee does not arise.
7.	**Management**	Entrepreneur manages the enterprise from outside.	Intrapreneur is a professional manager.

7. Compare and Contrast Entrepreneurs and Manager.

Ans :

S.No.	Nature	Entrepreneur	Manager
1.	**Motive**	The main motive of an entrepreneur is to start a venture by setting up an enterprise. He understands the venture for his personal gratification.	The main motive of a manager is to render his services in an enterprise already set up by some one else.
2.	**Status**	An entrepreneur is the owner of the enterprise.	A manager is the servant in the enterprise owned by the entrepreneur
3.	**Risk-bearing**	An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in running the enterprise.	A manager as a servant does not bear any risk involved in the enterprise.
4.	**Rewards**	The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain.	A manager gets salary as reward for the services rendered by him in the enterprise. Salary of a manager is certain and fixed.
5.	**Innovation**	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers. Hence, he acts as an innovator also called a 'change-agent'.	A manager does is simply to execute the plans prepared by the entrepreneur. Thus, a manager simply translates the entrepreneur's ideas into practice.
6.	**Qualifications**	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability and so on.	On the contrary, a manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

8. Rural Entrepreneurship.

Ans :

Rural industries are generally associated with agriculture. According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees."

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All the village industries have been grouped into seven major categories as follows:

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ii) Forest - based industry,

iii) Agro - based industry,

iv) Polymer and chemical - based industry,

v) Engineering and non-conventional industry,

vi) Textile industry (including khadi), and

vii) Service industry.

9. Explain the need for Rural Entrepreneurship.

Ans :

(i) Rural industries being labour intensive, have high potential in employment generation. Thus, they serve as an antedote to the widespread problems of disguised unemployment or underemployment stalking the rural territory.

(ii) By providing employment, these industries have also high potential for income generation in the rural areas. These, thus, help in reducing disparities in income between rural and urban areas.

(iii) These industries encourage dispersal of economic activities in the rural areas and, thus, promote balanced regional development.

(iv) Development of industries in the rural areas also helps build up village republics.

(v) Rural industries also help protect and promote the art and creativity, *i.e.* the age-old rich heritage of the country.

(vi) Rural industrialization fosters economic development in rural areas. This curbs rural-urban migration, on the one hand, and also lessens the disproportionate growth in the cities, reduces growth of slums, social tensions, and atmospheric pollution, on the other.

10. Advantages of entrepreneurship.

Ans :

(i) Under entrepreneurship business, entrepreneurs are the owners of enterprises who can take their own decisions for success of the business.

(ii) Under this, entrepreneurs can implement their own ideas in the business. For examples, starting new venture, adopting latest technologies etc.

(iii) Under this, entrepreneur has the complete authority to select that type business in which he is interested.

(iv) Entrepreneurship business provide high level of profits.

(v) Entrepreneurs are creative, they express their creativity by executing their new and creative ideas and creating a successful enterprise.

(vi) Entrepreneurship is exciting, because entrepreneurs enjoy their work as each day comes up with new opportunities which challenge their determination, skills and abilities.

(vii) Entrepreneurs can set their own income and invest targets in the business as they own the enterprise.

11. Explain the Characteristics of Rural Entrepreneurship.

Ans :

The essential characteristics of rural entrepreneurship are following:

(i) Labour Intensive

Rural industries are labour intensive because they give more employment of labour than machines. Rural entrepreneurs are generally labour intensive because they give much stress on human capital.

(ii) Use of Traditional Skill

Rural entrepreneurs give much emphasis on use of traditional skill during the course of production. They have no capacity to apply modem skill and technology in their industry.

(iii) Less Capital

Rural entrepreneurs generally invest less capital to produce goods and commodities in their industry. As they have no capacity to afford for much capital investment, they emphasis on less capital investment.

(iv) Decentralised Production

As rural industries are scattered and operated in a small scale, it encourages decentralised production.

Choose the Correct Answer

1. An individual who initiates, creates and manages a new business can be called ________. [d]
   (a) A leader (b) A manager
   (c) A professional (d) An entrepreneur
2. ________ applied the word entrepreneur to business for the first time. [c]
   (a) robert owen (b) joseph schumpeter
   (c) richard cantillon (d) max weber
3. An entrepreneur who owns more than one business at a time is called ________. [c]
   (a) An intrapreneur (b) A corporate entrepreneur.
   (c) A portfolio entrepreneur. (d) None of the above.
4. Entrepreneurship is a creative activity-Said by ________. [d]
   (a) Frederick Harbison (b) B. F. Hoselitz
   (c) B. Higgins (d) Joseph
5. What is the hallmark of a successful entrepreneur? [c]
   (a) Risk bearing capacity (b) Persistence
   (c) Flexibility (d) Self-confidence
6. A corporate manager who starts a new initiative for their company which entails setting up a new distinct business unit and board of directors can be regarded as: [c]
   (a) Ecopreneur (b) Technopreneur
   (c) Intrapreneur (d) Social Entrepreneur
7. Entrepreneurs are extremely task oriented. [a]
   (a) technical (b) fabian
   (c) induced (d) business
8. ________ Entrepreneurs neither introduce new changes nor adopt new methods innovated by others. [b]
   (a) technical (b) fabian
   (c) induced (d) business
9. According to Schumpeter, Is the most important function of a modern entrepreneur________ [a]
   (a) innovation (b) invention
   (c) skill (d) creativity
10. Which of the following risks is born by the entrepreneur: [d]
    (a) financial risks (b) personal risks
    (c) psychological risks (d) all of these
11. Which type of entrepreneurs utilizes a chance to introduce a new technique or new product? [a]
    (a) Innovative entrepreneur (b) Instigated entrepreneur
    (c) Initiative entrepreneur (d) Fabian entrepreneur

Fill in the blanks

1. Entrepreneur means _______.
2. Robert D. Hisrich contributed _______ characteristic features of an entrepreneur.
3. KVIC stands for _______.
4. _______ is that form of social decision making which is performed by economic innovators".
5. Intrapreneurship is also called as _______.
6. Innovation and _______ are the two basic elements of entrepreneurship.
7. _______ contributed greatly in the entrepreneurship growth in the pre-independence period.
8. _______ theory of entrepreneurship has a fairly high status among social scientists who study entrepreneurship
9. NAYE stands for _______.
10. _______ is a promotional programme of rural industries.

ANSWERS

1. To undertake
2. Eight
3. Khadi and Village Industries Commission
4. Entrepreneurship
5. Corporate entrepreneurship
6. Risk bearing
7. Parsis
8. Psychological
9. National Alliance of Young Entrepreneurs
10. RISC - Rural Industry Service Center

One Mark Answers

1. Entrepreneurship

Ans :

"Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true".

2. Economic Theory

Ans :

Economics is the social science that deals most directly with contemporary economic reality. Economists have done little work on entrepreneurship and therefore, have tended to be in minority.

3. Entrepreneur

Ans :

The word 'entrepreneur' is derived from French word 'Entrependre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments.

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

4. Risk-taker

Ans :

Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved.

5. Organiser

Ans :

An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organizer. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance. He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

6. Innovative entrepreneurs

Ans :

These entrepreneurs have the ability to think newer, better and more economical ideas of business organization and management. They are the business leaders and contributors to the economic development of a country.

Inventions like the introduction of a small car Nano' by Ratan Tata, organized retailing by Kishore Biyani, making mobile phones available to the common may by Anil Ambani are the works of innovative entrepreneurs.

7. Imitating entrepreneurs

Ans :

These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. Such entrepreneurs are found in countries and situations marked with weak industrial and institutional base which creates difficulties in initiating innovative ideas.

8. Fabian entrepreneurs

Ans :

The dictionary meaning of the term fabian' is a person seeking victory by delay rather than bya decisive battle. Fabian entrepreneurs are those individuals who do not show initiative in visualizing and implementing new ideas and innovations wait for some development which would motivate them to initiate unless there is an imminent threat to their very existence.

UNIT II	**FACTORS AFFECTING ENTREPRENEURIAL GROWTH:** Economic Environment – Economic, Non-Economic and Psychological factors – Entrepreneurial Motivation – Entrepreneurial Competencies – Role of Higher learning Institutes in Entrepreneurial capacity building – Importance of workshops – Entrepreneurship Development Programmes(EDP's) – Need, Objectives, course content and instruction – Evaluation of EDPs – Phase wise development of EDP Curriculum.

2.1 Entrepreneurial Environment

2.1.1 Economic Environment

Q1. Define Entrepreneurial Environment. Explain the classification of Entre-preneurial Environment.

Ans : **(Imp.)**

Entrepreneurship environment refers to the various facets within which enterprises big, medium, small and others have to operate. The enterprise is, therefore, influenced by the environment. By and large, entrepreneurship is influenced by an environment created by political, social, economic, national, legal forces, etc.

Entrepreneurial environment is broadly classified into six important segments, namely,

1) Political environment
2) Economic environment
3) Social environment
4) Technological environment
5) Legal environment
6) Cultural environment

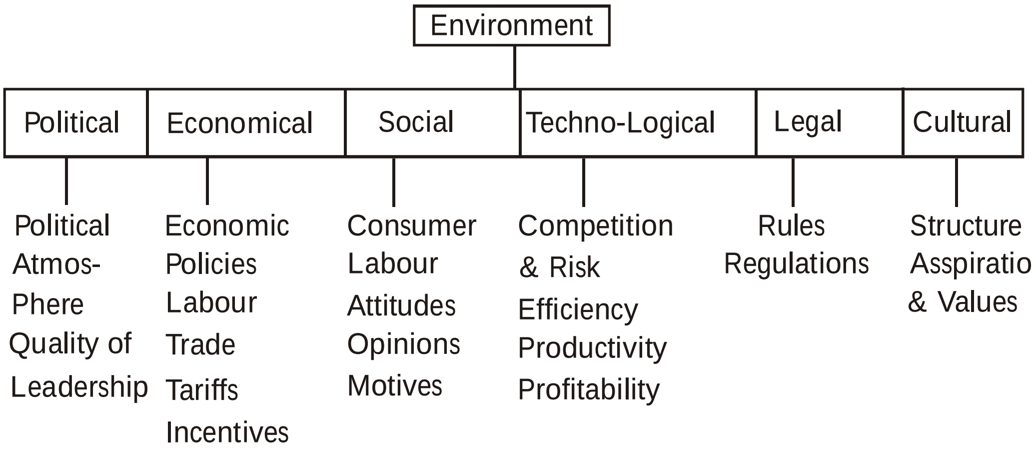
1. Political environment

Political environment affects the entrepre-neurial growth and accelerate the process of economic activity. Law and order is of high priority, followed by Government policies in regard to the promotion of entrepreneurship, followed by incentives, encouragement and right institutional structure will go a longway in fostering entrepreneurship.

2. Economical Environment

The entrepreneurial growth and development is also governed by the economic environment. It encompass a wide spectrum of items, namely, land, availability of raw material, skilled labour, infrastructure, machinery, capital and so on.

Shortage of raw materials can much adversely affect the entrepreneurial environment and it has beer, affecting many industries. Shortage of raw materials, inferior quality, high price resulting in high cost of production are bringing bad name to the small industry. Without raw-materials, no industry can run and no entrepreneurship would come up The more favourable the conditions of raw materials are, better would be its influence on entrepreneurial emergence.



The role and importance of market and marketing should never be under-estimated for the uprise of entrepreneurship. If the proof of pudding lies in eating, the proof of production lies in marketing. If the entrepreneur does not possess knowledge and various marketing techniques, he is unlikely to survive. The size and composition of market bot' influence entrepreneurship in their own ways.

3. Social environment

Social environment strongly affect the entrepreneurial behaviour which contribute to entrepreneurial growth. The social factors can be

i) family background,

ii) kith and kins (relatives, friends and teachers).

iii) religion

iv) status

v) social mobility and

vi) social marginality

Family background greatly affects the entrepreneurial environment and maintenance of social system. Joint family or nuclear families have their own benefits and disadvantages. There is more sentimental attachment of family members of joint family as compared to nuclear family. But even in nuclear families, sentimental association or emotional bonds are stronger in India as compared to those in the western countries where "out of sight out of mind" is the type of attitude of people.

4. Technological environment

Technology represents the application of scientific knowledge for practical purposes. While the 20th century and certainly the 1st half upto 1950 gave us a massive industrial base, shift from agriculture and rural life to urban life, utilisation of energy and power for our benefit, the ongoing progress of technology through R&D efforts have led to more comfortable lifestyles. The last three decades of the 20th century brought in what we call an Information Revolution.

Technological advancement has become a catalytic agent in the promotion of entrepreneurship growth of industrial and allied services. Thomas DeGregori sets forth thirty operational principles demonstrating that technology creates resources and that with intelligent policies in science our society can be sustainable and will continue to invent new source creating technologies. Conversely, he argues, "living within limits: is a course that, if followed, would lead to certain decline and destruction. The technological impact on agriculture, industry are immense. Further, technology bring in cultural changes as well as the quality of life. Technological development continues to give fillip to entrepreneurship in multi-facet manner, affecting the life of the entrepreneurs as well as the common man. The entrepreneur's endeavour to stay ahead technologically in products and services with a penchant for quality. This will not only enhance profits, but also maintain balance in the ecosystem.

5. **Legal environment**

There are various rules and regulations applicable to different groups of industries, for various purposes. Some of them relate to:

Registration, licensing, pollution, location, Acquisition, payment of wages and labour related laws, pollution and environmental rules, laws relating to organization, product, patent, resource and taxes. According to a recent study, there are over 150 legal requirements an entrepreneur has to take care of.

6. **Cultural environment**

Every organization has an invisible quality a certain style, a character, a way of doing things that may be powerful than the dictates of any one person or a formal system. This invisible quality 'the corporate culture' decides how effective the organization is in the marketplace. Achieving cultural change to maintain a prime market position is the key preoccupation of every chief executive these days.

Max Weber emphasises that cultural factors have a crippling effect on entrepreneurial growth. Culture consists of

(i) tangible man-made objects like furniture, buildings etc.

(ii) intangible concepts like laws, morals, knowledge etc.

(iii) values and behaviour acceptable within the society.

America is a capitalist country, Russia followed a socialist pattern, democracy has no touch in China, but Indian culture encourages democracy and accepts mixed economy. At the time of independence, India was in such a state that the economy could not be left in the hands of people. The government had to intervene and chalk out plans to take the country towards development. Culture of Hindus is to worship 'Ganesha' before undertaking any financial affair. Whether it is a superstition or not is a debatable point. While going on some long journey or on some special days or while tying up a nuptial knot, it is in our culture to seek the recommendations of priests, pandits or sufis.

2.2 Factors Affecting Entrepreneurial Growth

2.2.1 Economic, Non-Economic and Psychological factors

Q2. What factors do influence the emergence and development of entrepreneurship?

(OR)

Discuss the economic and noneconomic factors affecting Entrepreneurial growth in India.

(OR)

Write the economic and non economic factors which affect the growth of entrepreneurial development.

Ans : **(Imp.)**

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

1. Economic Factors

From a strictly economic viewpoint, it can be said that the same factors which promote economic development account for the emergence of entrepreneurship also. Some of these factors are discussed in below.

(i) Capital

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

(ii) Labour

The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. It is noticed that cheap labour is often less mobile or even immobile. And, the potential advantages of low-cost labour are negated by the deleterious effects of labour immobility. Adam Smith also considered division of labour as an important element in economic development. According to him, division of labour which itself depends upon the size of the market leads to improvement in the productive capacities of labour due to an increase in the dexterity of labour.

(iii) Raw Materials

The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and, therefore, its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor an entrepreneur can be emerged.

(iii) Market

The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product jn a market becomes more influential for entrepreneurship than a competitive market.

2. Non-economic Factors

Sociologists and psychologists advocate that economic factors may be necessary conditions, but they are not sufficient conditions for the appearance of entrepreneurship. They view that the influence of economic factors on entrepreneurial emergence largely depends upon the existence of non-economic factors i.e., social and psychological factors in the society. Some major non-economic factors alleged to influence the emergence of entrepreneurship can be listed as follows:

Social Conditions

(i) Legitimacy of Entrepreneurship

The proponents of non-economic factors give emphasis to the relevance of a system of norms and values within a socio-cultural setting for the emergence of entrepreneurship. In professional vocabulary, such system is referred to as the 'legitimacy of entrepreneurship' in which the degree of approval or disapproval granted entrepreneurial behaviour influences its emergence and characteristics if it does emerge. While Schumpeter recognizes the importance of such legitimacy in terms of appropriate social climate for entrepreneurship, Cochran calls it cultural themes and sanctions. The social status of those playing entrepreneurial role has been considered one of the most important contents of entrepreneurial legitimacy. To increase the legitimacy of entrepreneurship, some scholars have proposed the need for a change in the traditional values, which are assumed to be opposed to entrepreneurship. Scholars like McClelland have also pointed out that a complete change may not be necessary for entrepreneurial appearance. Instead, they submit a re-interpretation of the traditional values or its synthesis with the newer values to increase the entrepreneurial legitimacy.

(ii) Social Mobility

Social mobility involves the degree of mobility, both social and geographical, and the nature of mobility channels within a system. The opinion that the social mobility is crucial for entrepreneurial emergence is not unanimous. Some hold the view that a high degree of mobility is conducive to entrepreneurship. Both Hoselitz's need for "openness" of a system and McClelland's need for "flexibility" in role relations imply the need for the possibility of mobility within a system for entrepreneurship development. In contrast, there is another group of scholars who express the view that a lack of mobility possibilities promotes entrepreneurship. Some even speak of entrepreneurship as coming through crevices in a rigid social system.

The third opinion is a combination of the first two. Rostow notes the need for both flexibility and the denial of social mobility. Brozer. similarly emphasises that a system should neither be too rigid nor too flexible. According to him, if it is too flexible, then individual will gravitate towards other roles, if it is too rigid, entrepreneurship will be restricted alone with other activities.

(iii) Marginality

A group of scholars hold a strong view that social marginality also promotes entrepreneurship. They believe that individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles. They may be drawn from religious, cultural, ethnic, or migrant minority groups, and their marginal social position is generally believed to have psycho-logical effects which make entrepreneurship particularly attractive for them.

3. Psychological Factors

Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate specifically upon psychological factors. We consider these theories separately for that reason.

(i) Need Achievement

To the best of our knowledge, the best known of primarily psychological theories is David McClelland's 'theory of need achievement'. According to McClelland, a constellation of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development. Therefore, if the average level of need achievement in a society is relatively high, one would expect a relatively high amount of entrepreneurship development in that society. In his endeavour to answer a simple question as to why it is that groups respond differently to similar conditions, McClelland gives the psychological concept of achievement motivation, or 'n' achievement to account for the differences in response to similar conditions. Referring to the encouraging impact of achievement motivation training programmes organized by the Small Industries Extension Training Institute (SIET), Hyderabad, McClelland argues that the need achievement can be developed through the intensive training programmes.

(ii) Withdrawal of Status Respect

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

(a) The group may be displaced by force;

(b) It may have its valued symbols denigrated;

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

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

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

(a) Retreatist

He who continues to work in a society but remains different to his work and position;

(b) Ritualist

He who adopts a kind of defensive behaviour and acts in the way accepted and approved in his society but no hopes of improving his position;

(c) Reformist

He is a person who foments a rebellion and attempts to establish a new society; and

(d) Innovator

He is a creative individual and is likely to be an entrepreneur.

Q3. Discuss the role of Government in Promoting entrepreneurship in India.

Ans :

The Government by its actions or failure to act also does influence both the economic and non-economic factors for entrepreneurship. Any interested Government in economic development can help, through its clearly expressed industrial policy, promote entrepreneurship in one way or other. By creating basic facilities, utilities and services and by providing incentives and concessions, the Govt, can provide the prospective entrepreneurs a facilitative socio-economic setting. Such conducive setting minimizes the risks which the entrepreneurs are to encounter. Thus, the supportive actions of the Government appear as the most conducive to the entrepreneurial growth. This is true of the Indian entrepreneurship also. Scholars like Medhora conclude that the late inception of entrepreneurial growth in India was not due to lack of entrepreneurial motivation but due to non-commitment of the political-structure. So much so, the early ledger of the Indian entrepreneurship, also tends to support that the Government's negative actions such as 'colonial disruption' acted as an inhibiting factor in the way of entrepreneurship development. To conclude, in the societies where the Government was committed to their economic development, entrepreneurship flourished and could not flourish in the societies where the Government was either the least or not interested in their economic development. One way of examining the role of Government in influencing entrepreneurship may be the extent to which the Government is a competitor with entrepreneurs from private sector, whether for factors of production or for markets. The greater the extent of this competitive role, the less favourable the opportunity conditions for private entrepreneurship will be.

The fact remains that the various factors as observed in the preceding pages will cause emergence of entrepreneurship are integral and not additive at all. They are interlocking, mutually dependent and mutually reinforcing.

2.3 Entrepreneurial Motivation

Q4. Define motivation. Explain the nature of motivation.

Ans : **(Imp.)**

Meaning

Motivation is the inner urge of a person that ignites and sustains behaviour to satisfy need of himself as well as of the society. Motivation has been derived from the Latin word "Motive" which implies the inner state of mind that activates, provokes and directs our behaviour towards the goal.

Definitions

(i) **According to Mcfarland,** "Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings". Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

(ii) **According to Bernard and Steiner** "A motive is an inner state that energies, activates or moves and that directs behaviour towards goals".

(iii) **According to D.D. Eisenhower** "Moti- vation is getting people to do. What you want them to do, because they want to do it".

(iv) **According to C.B. Memoria** "A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization"

(v) **According to Vittles** "Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make a goal directed pattern towards restoring a state of equilibrium by satisfying the need".

Nature

Based on above definitions the following points of nature of motivation emerge:

1. Motivation refers to the internal feelings of an individual or individual's motives.
2. These emotions, feelings or desires of a person prompt him to work more.
3. Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.
4. Motivation activates and channelizes dormant energies of an individual towards productive action.
5. Motivation is linked to satisfaction. Satisfaction is the felling of contentment a person experiences out of need fulfillment.
6. An individual is motivated in totality and not in parts.

Q5. Explain the importance of motivation.

Ans :

Motivation has become all the more important due to the following reasons.

1. **Improved Morale**

   Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realization of organizational goals. High Morale will result in more interest in work and higher productivity. It will enable the organization to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

2. **Lower labour turnover**

   Motivated employees will never feel like leaving the organization and as such the firm will be able to utilize the services of trained, committed and loyal workers for longer period of time. Organization will be saved from the botheration of making fresh recruitment, selection, training and placement of workers. Lower labour turnover will result in saving of time, effort and money of the organization. Rate of absenteeism will be reduced and workers will try to promote organizational interest.

3. **Improved goodwill**

   Motivated employees can help the organization in improving its good will or image. A reputed organization is in a position to attract best possible talent from the market. Existing employees won't leave the organization and outsiders will be taken to join.

4. **Cordial Industrial Relations**

   A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organization due to positive motivation. The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strike or lockout in the organization and motivation will ensure cordial industrial relations.

5. **Quality Orientation**

   A motivated employee is generally more quality oriented. Everyone from bottom to top or top to bottom takes extra care while performing the assigned work. It leads to overall improvement in the working and people start recognizing the organization as a quality conscious organization.

6. **Acceptability of Change**

   An organization is required to remain in touch with the changing scenario and at the same time take effective steps for making adjustments according to changes. Its survival and future depends upon its ability to cope up with the changes. Motivated employees rather than opposing changes welcome these. They help the owners in converting these changes into opportunities to be exploited in the best possible manner for the promotion of business interests.

Q6. Explain Maslow's Need Hierachy Theory.

Ans : **(Imp.)**

Maslow's theory is based on the human needs. These needs are classified into a sequential priority from the lower to the higher. According to him, all human needs are classified into the five need-clusters as shown in the following Figure.

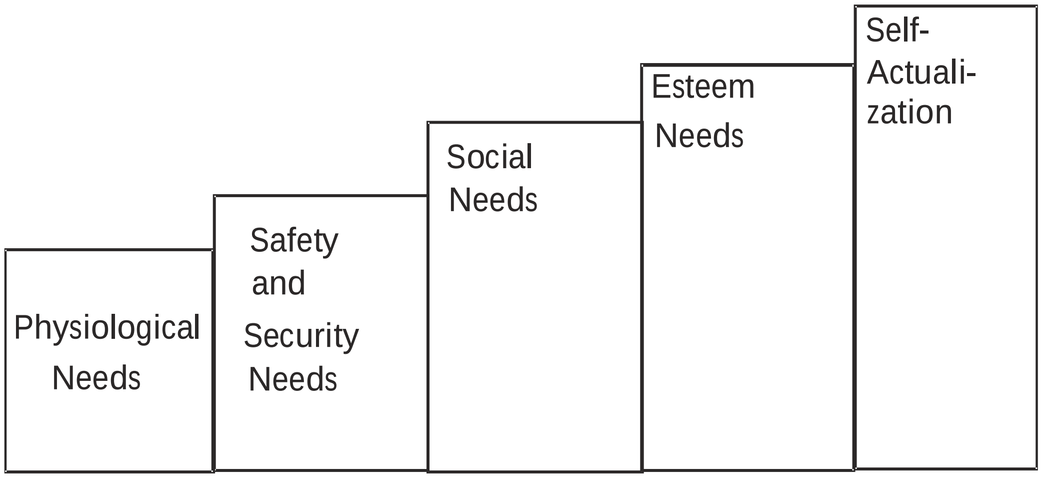


Fig.: Maslow's Need Hierarchy

These five need-clusters are now discussed one by one.

1. **Physiological Needs**

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

2. **Safety and Security Needs**

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

3. **Social Needs**

Man is a social animal. These needs, therefore, refer to belongingness. All individuals want to be recognized and accepted by others. Likewise, an entrepreneur is motivated to interact with fellow entrepreneurs, his employees and others.

4. **Esteem Needs**

These needs refer to self-esteem and self-respect. They include such needs which indicate self-confidence, achievement, competence, knowledge and independence. In case of entrepreneurs, the ownership and self-control over enterprise satisfies their esteem needs by providing them status, respect, reputation and independence.

5. **Self-Actualization**

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

2.4 Entrepreneurial Competencies

Q7. What do you understand by entrepreneurial competency.

Ans : **(Imp.)**

Meaning

In simple terms, a competence is an underlying characteristic of a person which leads to his/her effective or superior performance in an job. A job competence is a good combination of one's underlying characteristics such as one's knowledge, skill, motive, etc, which one uses to perform a given job well. It is important to mention that the existence of these underlying characteristics may or may not be known to the person concern. This implies that the underlying characteristics may be unconscious aspects of the person. The underlying characteristics possessed by an entrepreneur which result in superior performance are called the 'entrepreneurial competencies' or 'traits'.

In order to understand more and better about entrepreneurial competencies, let us first understand its components, i.e., knowledge, skill and motive. These are explained one by one.

1. Knowledge

In simple terms, knowledge means collection and retention of information in ones mind. Knowledge is necessary for performing a task but not sufficient. Let us explain this with an example. A person having the knowledge of cricket playing could be in a position to describe how to play. But, mere description will not enable the listener to play cricket unless something more than knowledge is there. We see in real life that people possessing mere knowledge have miserably failed while actually performing the task.

What this implies is that one also needs to have skills to translate the knowledge into action/practice.

2. Skill

Skill is the ability to demonstrate a system and sequence of behaviour which results in something observable, something that one can see. A person with planning ability, i.e., skill can properly identify the sequence of action to be performed to win the cricket match. Remember, while knowledge of playing cricket could be acquired by reading, talking or so on, skill to actually play cricket can be acquired by practice i.e., playing on a number of occasions. This means both knowledge and skill are required to perform a task.

3. Motive

In simple terms, motive is an urge to achieve one's goal what McClelland terms 'Achievement Motivation'. This continuous concern of goal achievement directs a person to perform better and better. Coming back to the same example of cricket playing, one's urge to become the best player helps him constantly practice playing to look out for ways and means to improving his play.

Thus, in order to perform any task effectively and successfully including establishing and running an industrial unit, a person (entrepreneur) needs to possess a set of knowledge, skill and motive which could be together labelled as 'competencies' or 'traits'.

Q8. Describe the process of developing entrepreneurial competencies.

Ans :

The procedure involves four steps. These are:

1. Competency Recognition
2. Self-Assessment
3. Competency Application
4. Feed back

These are discussed one by one.

1. Competency Recognition

Acquisition of a new behaviour begins with understanding and recognition of what a particular behaviour means. In other words, the first step involved in developing a particular competence is first to understand and recognize a particular competence.

2. Self Assessment

Once the particular competence is understood and recognized, the next step towards acquiring a particular behaviour/competence is to see whether one possesses the particular competence or not. If yes, then to see how frequently one exhibits the same in his practical life.

Where one stands with respect to a particular competence or what is the level of one's competence can be ascertained by posing and answering relevant questions to a competence.

3. Competency Application

Having known where one stands with respect to a particular competency, one needs to practice the same on continuous basis in various activities. In order to make a new behaviour a part of one's personality, the particular behaviour/competency needs to be applied frequently even in the simplest activities that one performs in one's day-to-day life. This is because "practice makes a man perfect".

4. Feedback

After understanding, internalizing and practising a particular behaviour or competence, one needs to make an introspection of the same in order to sharpen and strengthen one's competency. This is called 'feedback'. In simple terms, feedback means to know the strengths and weaknesses of one's new behaviour. This helps one know how the new behaviour has been rewarding. This enables one to sustain or give up the exhibition of a particular behaviour or competence in his future life.

2.5 Role of Higher Learning Institutes in Entrepreneurial Capacity Building

Q9. Explain the role of capacity building in Higher Education.

Ans :

The Capacity Building in Higher Education (CBHE) action supports international cooperation projects based on multilateral partnerships between organizations active in the field of higher education.

- Improve the quality of higher education in third countries not associated to the programme and enhance its relevance for the labour market and society;
- Promote inclusive education, equality, equity, non-discrimination and the promotion of civic-competences in higher education in the third countries not associated to the programme;;
- Improve the training of teachers and continuous professional development in order to impact the longer term quality of the education system in the third countries not associated to the programme;
- Stimulate cooperation of institutions, capacity building and exchange of good practice;
- Foster cooperation across different regions of the world through joint initiatives.

2.5.1 Importance of Workshops

Q10. Discuss the Importance of Workshops.

Ans : **(Imp.)**

Meaning

A workshop may introduce a new idea, inspire participants to further explore it on their own, or may illustrate and promote actual process practice. It is a great way to teach hands-on skills as it gives learners an opportunity to try out new methods and fail in a safe environment. Read on to know the advantages offered to professionals and business owners on attending a workshop.

Some of the most valuable experiences a professional can have are when he or she attends a workshop. Apart from learning new things, by attending a workshop, professionals can also build new relationships, establish connections with like-minded people, and even get to know clients and vendors on a more personal level. Here we summarize the many benefits of attending a workshop for working professionals in more depth.

1. Assessment or Evaluation

Feedback can be difficult to make, but it is a big step in the process for professionals in building a career. Sincere, constructive criticism arising from attending a workshop will improve your work as a professional, especially when it comes to prominent instructors. Chances are you may want to incorporate the feedback received for better personal growth.

2. **Novel Ways of Thinking**

Everyone does not have the same view of the world, and their understanding of something may differ dramatically from yours. Attending a workshop serves just this. You can get a remarkably unique or new perspective altogether from other attendees. Sometimes you can even create something awesome in your career by asking their thoughts or inputs on something you might not even know or have heard of. To grow, we must be open to new ideas, new ways of doing things, or new ways of thinking. It is rightly said that you must learn a new way to think before you can master a new way to be.

3. **Opportunities for Networking**

Building new relationships and meeting new connections are important to personal growth. A workshop gives you as the professional the best opportunity to meet other people who share your interests. It is always a pleasure to meet someone with the same enthusiasm that you do. Attending a workshop is a great way to meet other people in your area with shared interests. It is not, of course, a guarantee that a friendship will flourish but it never hurts trying. You will at least be able to find a friend and somebody who knows your "talk shop," as it were i.e. to discuss matters concerning your work etc.

4. **Developing New Process**

Attending a workshop is like gifting yourself a new possibility to learn something new from peers who have better experience and knowledge to share with you a new bee into the world of professionals. Since the environment is very competitive and to survive one must attend as many as workshops as possible to stay tuned to it or to stay ahead of the competition. New skills also can give you better pay or hike. So, it is all the more a reason to celebrate.

2.6 Entrepreneurship Development Programmes (EDP's)

2.6.1 Objectives

Q11. What are EDP? State the objectives of EDP.

(OR)

Discuss the Objectives of EDPS.

Ans : **(Imp.)**

Meaning

Entrepreneurial Development Programme (EDP) means programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.Towards this end, it is necessary to promote his understanding of motives, motivation pattern, their impact on behaviour and entrepreneurial value. A programme which seeks to do this can qualify to be called an EDP. This has to be stressed here, because there are a number of programmes which aim at providing informational or managerial inputs or focus on preparation of a project.

The important objectives of the entrepreneurship programmes are developing and strengthening the following qualities among the entrepreneurs.

Objectives

(i) Analyzing environmental set up as to small business and industry.

(ii) Selecting project.

(iii) Formulating the project.

(iv) Understanding the process and procedures of setting up of a small enterprise.

(v) Knowing the sources of assistance available for managing an enterprise.

(vi) Acquiring the necessary managerial skills for managing an enterprise.

(vii) Knowing the pros and cons of being an entrepreneur.

(viii) Acquainting the required entrepreneurial disciplines.

(ix) Identifying and training potential entrepreneurs.

(x) Providing post-trading assistance.

(xi) Accelerating business development.

(xii) Solving unemployment problem.

2.6.2 Need

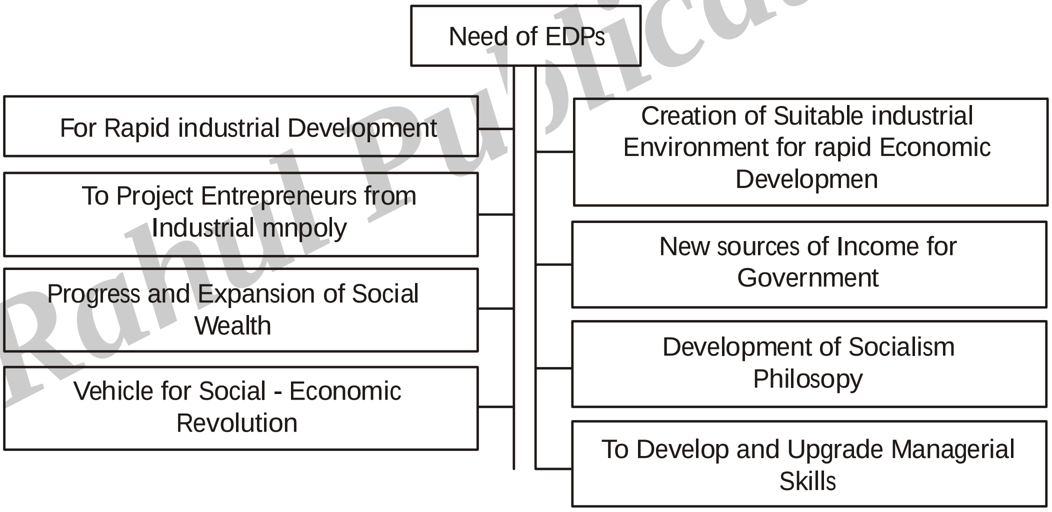
Q12. Explain the need for EDPs.

(OR)

Discuss the need of EDPs.

Ans :

Entrepreneurship development has therefore become a matter of great concern in all countries. But the real problem is how to develop entrepreneurship. Entrepreneurship development programmes, or EDPs in short, are deemed to offer the solution to this problem. EDPs are needed to induce achievement motivation and develop entrepreneurial characteristics or competencies among young persons through training with a view to making them successful entrepreneurs. EDP has become extremely important in achieving goals of all round development in the country. With reference to India, the need of EDP can be discussed as below:



1. For Rapid Industrial Development

Entrepreneurs and entrepreneurship is base for industrial and economic development. EDP makes entrepreneurs for creation of entrepreneurship environment. In India, in every five plan year more and more amount is allotted for entrepreneurship development. After freedom, India has shown rapid industrial and economic development. This is only due to EDP. Because of EDP, nowadays entrepreneurs are on increasing in engineering, chemical, electrical, agricultural, etc., industries, i.e., to say that EDP plays a crucial role for industrial and economic development.

2. Creation of Suitable Industrial Environment for Rapid Economic Development

Before arranging EDP, opportunities available in different zones are identified and accordingly by designing EDP, entrepreneur- ship environment is created. For creation of industrial and entrepreneurship environment, various institutions - CED, EDI, IDBI, Exim bank, IFCI, State Finance

Corporation. DIC, etc., have given their active contribution. EDI's various courses, innovation centres, entrepreneurship environment, and support system, strategic international programme, various publications, etc., have played an important role in creating homogeneous entrepreneurship in the state and country. EDPs are arranged in rural, semi-urban, and urban areas. Hence in every area, entrepreneurship awareness is spread. Thus, EDP plays dominant role in creating the most suitable industrial environment for rapid economic development.

3. **To Protect Entrepreneurs from Industrial Monopoly**

Some large industrial units have created monopoly conditions in their zones. Hence, government has been forced to reserve some goods and services for cottage and small-scale industries. By EDP, entrepreneurs can be trained and prepared for such reserve sectors and large-scale sectors cannot enter in such reserve sectors. Thus, due to such decentralization, small-scale entrepreneurs can be protected form industrial monopoly of large-scale industries.

4. **New Sources of Income for Government**

For management of EDP, State and Central Government have to allot a large amount. But government also gets income of various taxes by medium of venture of new entrepreneurs. Some export oriented industrial units help government in earning foreign exchange. Thus, EDP indirectly creates a new source of income for govern- ment in the form of tax.

5. **Progress and Expansion of Social Wealth**

Because of growth of industrialization in rural areas, living standards of rural areas have remarkable changed. Government's special scheme for rural wealth has been reached to actual rural areas by EDP. EDP helps to divert unorganized and hidden youth of various areas towards planned industrialization. Thus, EDP makes unrecognized and rural area's community aware about various government incentives as well as motivates them to be entrepreneurs for taking benefits of government incentives. This improves social standards and as a result helps in progress and expansion of social wealth upto rural area.

6. **Development of Socialism Philosophy**

Our economy has influence of both capitalism as well as socialism. In five year plans, role of socialism is very important. Because of establishment of EDP institutions, philosophy of socialism has been spread at various levels through utilisation of unused local resources, establishment of tiny, cottage, small-and large-scale industries, planned economic development, etc. Entrepreneurs have accepted concept of social responsibility. In this way, EDP helps in extending the philosophy of socialism.

7. **Vehicle for Social**

Economic Revolution: EDP is designed by considering various classes of the society. In rural, semi-urban, and urban areas, with a view to direct women towards self-employment and freedom, special EDPs are designed. Special EDPs are designed for also schedule caste and schedule tribe as well as ex-service man and physically handicaps, i.e., to say that EDPs have played very determining role for bringing poor, exploited, and weaker class of our society into economic development. Therefore EDP is considered a vehicle for bringing social-economic revolution.

8. **To Develop and Upgrade Managerial Skills**

EDP is designed and implemented to develop entrepreneurial opportunities for potential entrepreneurs as well as to upgrade managerial skills for the existing entrepreneurs.

2.6.3 Course Content and Instruction

Q13. Discuss the course, contents and curriculum of EDPs.

Ans : **(Imp.)**

The course, content and curriculum of an EDP is chosen according to the objectives of EDPs. The training programme duration usually ranges from one week to six weeks. It includes the following six inputs.

1. Entrepreneurship introduction
2. Enabling the each factor
3. Teaches managerial skills
4. Support system and procedure
5. Basics of project feasibility study
6. Industrial tour.

1. Entrepreneurship Introduction

Firstly, the candidates are made to pass through a session where a brief knowledge about entrepreneurship, factors affecting small enterprise, role of entrepreneurs in fostering economic development, the behaviours of entrepreneurs and various facilities and benefits available for setting up an enterprise is provided, which serves as a source of motivation and inspiration.

2. Enabling the Nach Factor

EDPs aims at increasing the need for achievement or nach factor of all the participants through training. This, is in fact a crucial input of entrepreneurship training. Endeavours are made to inject optimism and self-confidence among the participants towards business. Once this session is completed the candidate would be in a position to establish her/his own business or enterprise. In order to boost the confidence level and motivation of the candidates, successful entrepreneurs are being invited to share their successful entrepreneurship stories which acts as the source of inspiration to the candidates.

3. Teaches Managerial Skills

Irrespective of the size of the business whether it is large or small every business requires the essential managerial skills. Small entrepreneurs in their initial stages will not be in a position to hire their own managers to take care of the business. Hence, it becomes essential to acquire the most important and required managerial skills in order to carry out her/his business smoothly and successfully.

4. Support System and Procedure

The candidates must also be made aware of the various financial institutions and agencies lending funds for setting up of small enterprises. This is possible by providing the entrepreneurs the required information of procedures of approaching them, applying and getting support from them.

5. Basics of Project Feasibility Study

Under this input, the candidates are provided with the effective guidelines on analysis of feasibility or viability of various projects in different fields such as marketing, technical, financial, human resources and other social areas. Project preparation or feasibility report preparation is also accomplished in this session.

6. Industrial Tour

Several industrial tours are organized in this last input wherein the candidates are made familiar with the real life situations in small scale enterprises. These industrial tours help the candidates to gain knowledge about the behavior of an entrepreneur, her/his personality, thinking and most important her/his aspirations.

Thus it can be concluded that the prime object of entrepreneurship training programme is to transform an individual into an entrepreneur by moulding her/him at a very tender age where there exists generation of new ideas and thoughts.

2.6.4 Evaluation of EDPs

Q14. Critically examine the EDP's in India.

(OR)

Critically examine the evaluation criteria of EDPs.

Ans :

Entrepreneurship has become very popular in India in recent years. EDPs are considered to be an effective instrument in developing entrepreneurship. In India, since 1971 hundreds of EDPs have been conducted by 686 organizations and have provided training to thousands of candidates. The main goal of EDP is enterprise creation. There should also be a mechanism to check whether the goals of EDPs are met or not. Therefore, evaluation of EDP is essential.

Till date 16 evaluation studies have been conducted by various organizations and also by individual researchers. All of these studies vary in their aims, coverage and also the content. But, still they move towards one common aim that is the assessment of effectiveness or impact of EDP. Initially evaluation of EDPs was taken up by Gujarat corporations comprising of researchers and experts team. The latest national level evaluation study has been carried out by the Entrepreneurship Development Institute of India, Ahmedabad. The following table depicts the findings of the study conducted by Entrepreneurship Development Institute of India, Ahmedabad.

S.No.	Description	Number of Total	Percentage
A.	**Sample of the Study**		
	1. EDPs covered (sample size)	145	25.00
	2. EDP trainees covered in sample EDPs	1,295	30.00
	3. Sample trainees interviewed	865	66.80
	4. Sample trainees not available and non-traceable	430	33.20
B.	**Macro Performance of EDPs**		
	1. Number of units setup by the EDP trainees	277	21.39
	2. Trainees actively under process	78	6.02
	3. Potential start-ups (1+2)	355	27.41
	4. Trainees blocked under process	129	9.96
	5. Trainees who gave up	381	29.42
	6. Non-traceable trainees	146	11.27
	7. Trainees not available for interview at the time of field survey	284	21.93
	(i) Start-ups among non available	59	4.56
	(ii) Non-start-ups among non available	225	17.37
	8. Actual start-up rate	336	25.95
	9. Expected final start-up rate	414	31.97

Table: Performance of the Sample EDPs at a Glance

From the table it is inferred that one out of four trainees i.e., 26 percent started up their own enterprise after the training programme. The expected start up rate was around 32% which was 6% less when compared to the actual. Nearly 10% trainees were found blocked up due to various criteria at different stages. If their problems are not identified and rectified then they will surely be included in the 29% category who already gave up their enterprises. Out of 430 trainees around 73 entrepreneurs gave up the idea of starting an enterprise and got engaged in other activities according to the secondary data collected from friends, family and neighbours due to non-availability of the concerned individual at the time of field survey.

It was also found out that the performance of EDPs within the states and within the organizations varied and was not uniform in nature. The initial start-up was ranging from 9% to 56% which has an impact on the national level around 26% which is not considered as a good one. In order to increase this 26% further, the problems and constraints of EDPs have to be identified and at the same time even rectified.

2.6.5 Phase Wise Development of EDP Curriculum

Q15. Describe the various phases of EDP.

(OR)

Explain the different phases involved in EDPs.

(OR)

State the various phases in EDPs.

Ans : **(Imp.)**

The entrepreneurship development progra-mme (EDP) normally runs through three important phases followed by EDP evaluation:

1. Pre-Training Phases
2. Training Phases
3. Post-Training Phases

1. Pre-Training Phase

This is a preparatory phase for launching the programme. It is a planning phase where all requisite arrangements are made to deliver a content based and useful EDP. This stage lays the foundation for a strong EDP that can deliver desired results.

It encompasses:

i) Identification of promising area having good commercial prospects.

ii) Selection of project faculty/course coordinator who is a visionary and has relevant experience.

iii) Arrangement of infrastructural facilities for the programme like location, availability of internet, computers, food and lodging arrangements (if participants are expected to be from different cities).

iv) Conducting industrial survey/environ-mental scanning for identification of good business opportunities.

v) Designing the course contents.

vi) Getting support from various agencies such as DICs, SFCs, SISI etc.

vii) Advertising and publicity of EDP to reach prospective minds. Promotional campaigns through either with the help of print or electric media, leaflets, posters, etc.

viii) Selection of participants for the training program.

2. Training Phase

The primary thrust of training programme is to instill motivation, skill or competency amongst the budding entrepreneurs. EDP should aim to provide both theoretical and hands-on practical knowledge to various trainees.

Training phase of EDP includes:

i) Management

They should be taught basic principles of management and their applications in real life scenarios to realize the benefits and significance of the management functions like planning, organizing, staffing, directing, controlling and coordinating. The various techniques involved in the management process must be explained. The trainer can use case studies, management games, role-plays and simulations to polish the skills acquired by the trainees.

ii) Technical Competence

Focus should be laid upon acquiring technical competence suitable to the area selected. Industry experts may be called upon to share their experiences. It's important for the trainees to understand the basics of technology, rate of technological change in that industry and challenges ahead. A comparative analysis of present state of technology in developed and developing nations may be relevant at this stage.

Entrepreneurs can get ideas best suited to their regional environments. The program may cover as details of technology, plant and machinery, major suppliers, life span, special features of the machinery etc., raw materials and their availability, manufacturing process and human resource requirements. It's important for the entrepreneurs to understand that they should not park substantial funds in fast changing technology as obsolescence is a big risk. Field trips may also be organized.

iii) Motivation and Stress Management

The entrepreneurial training programs are designed to elevate and sustain the motivation levels of the trainees. Stress management is an important component of EDPs as entrepreneurs have to struggle through different phases before finally getting results. They should be taught stress management techniques and should also be counseled to hold-on to their beliefs and ideas. The importance of family members need to highlighted here.

Entrepreneurs are strong-willed individuals who may need family support during tough times. Family members are the ones closest to entrepreneurs. Each session in the training programme should aim at strengthening their confidence and expanding their vision. Motivation level must be raised to a greater extent because only motivated participants will survive through starting and sustaining a new venture.

3. Post Training Phase

Post training support services are rendered to the participants who have successfully completed the entrepreneurship.

This phase may comprise of the following steps:

(i) Assistance in registration of the enterprise.

(ii) Loan procedures and documentation.

(iii) Facilitating infrastructure like land, plant layout, purchase of plant and machinery, power connection etc.

(iv) Securing subsidies and grants and utilizing incentives given by Centre and State government.

(v) Management consultancy and trouble shooting.

(vi) Providing up-to-date information on the industry.

(vii) Meeting with EDP organizers and participants.

Q16. Describe the achievements of EDP.

Ans :

EDP is essential for first generation entrepreneurs because they may not become successful unless a proper training is received. It is a continuous process of motivating the entrepreneur.

The potential entrepreneurs can solve many of their problems provided proper training is given to them.

On the basis of above discussion, it can be concluded that EDP is becoming increasing popular and it can help the country in the following ways:

1. Eliminates poverty and unemployment

The basis problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career.

Several programmes like National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. are in operation in India to help the potential entrepreneurs. All these special schemes intend to eliminate the poverty and solve the problem of unemployment.

2. Balanced regional development

Successful Entrepreneurial development programmes help in foster the industrialization and reduces the concentration of economic power. It is because the small-scale entrepreneurs can setup their units in remote areas with little financial resources which can help in achieving balanced regional development.

The medium and large enterprises do not help in reducing the disparities in income and wealth of the people. Thus, Entrepreneurial development programmes help in balanced regional development by spreading industrial units in each, and every part of the country.

3. Prevents industrial slums

The urban cities are highly congested and leading to industrial slums. Decentralization of industries is very much required by relocating the industries.

Entrepreneurial development programmes help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infra-structural facilities to set up their own enterprises in all the non-industrialized areas.

This will control the industrial slums and also reduce the pollution, traffic congestion, overcrowding in cities etc.

4. Harnessing locally available resources

Since abundant resources are available locally, proper use of these resources will help to carve out a health base for sound economic and rapid industrialization.

The entrepreneurial development programmes can help in harnessing these resources by training and educating the entrepreneurs.

5. Defuses social tension

Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted to self-employment careers to help the country in defusing social tension and unrest among youth which is possible by entrepreneurial development programmes.

6. Capital formation

The various development banks like ICICI, IDBI, IFCI, SFC, SIDC and SIDBI take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial help to ne entrepreneurs. It is impossible to start a new enterprise without sufficient funds.

Entrepreneurs are the organizers of factors of production who employ their own and borrowered money for setting up of new ventures. This all results in the process of capital formation.

7. Economic independence

Entrepreneurs develop and produce substituted products of imported goods and prevent the overdependence on other countries.

They also enable the country to produce different variety of better quality goods and services at competitive prices of imported goods which help in promoting the economic independence of the country.

8. Improvement in per capita income

Entrepreneurs always explore and exploit the new opportunities which lead to productive use of factors of production for more output, employment and generation of wealth.

The overall increase in productivity and income help in improvement in per capita income. EDPs play a significant role in setting up of more industrial units to generate more employment opportunity and to secure improved per capital income.

9. Facilitating overall development

Entrepreneurs act as agents of proper use of various limited resources such as men, money, material, machines etc. which leads to overall development of an area, an industry.

The successful entrepreneurs set a motivating example for others to adopt entrepreneurship as a career. Thus entrepreneurs create a motivating environment for economic development of a country.

Q17. Explain the role of Government in organizing EDPs.

Ans :

The following specialized EDP organizations have been set up by the Government of India to promote entrepreneurship in the country.

(i) National Institute for Entrepreneurship and small Business Development (NIESBUD): It is an Apex organization for organizing and conducting EDP under the Ministry of Industry, Government of India. It is located at Noida (UP).

(ii) Small Industries Service Institutes (SISIs): It is set up by Government of India. It is having its network of branches in many states in India.

(iii) National Institute for Small Industry Extension and Training (NISIET): NISIET is established in 1960, under Ministry of Small Scale Industries, Government of India. It is located at Yousufguda, Hyderabad. The Institute strives to achieve its objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

(iv) Entrepreneurship Development Institute of India (EDI): 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 Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI) and State Bank of India (SBI).

Q18. Explain the problems of EDP's.

Ans :

1. No Policy at the National Level

Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.

2. Problems at the Pre training Phase

Various problems faced in this phase are identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.

3. Over Estimation of Trainees

Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies thus overestimate the aptitude and capabilities of the educated youth. Thus on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

4. Duration of EDPs

An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises. Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

5. Non Availability of Infrastructural Facilities

No prior planning is done for the conduct of EDPs. EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room suitable guest speakers, boarding and lodging etc.

6. Improper Methodology

The course contents are not standardized and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals. This puts a question mark on the utility of these programmes.

7. Mode of Selection

There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organizations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.

8. Non Availability of Competent Faculty

Firstly there is problem of non availability of competent teachers and even when they are available, they are not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.

9. Poor Response of Financial Institutions

Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered.Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

Short Question & Answers

1. Define Entrepreneurial Environment.

Ans :

Entrepreneurship environment refers to the various facets within which enterprises big, medium, small and others have to operate. The enterprise is, therefore, influenced by the environment. By and large, entrepreneurship is influenced by an environment created by political, social, economic, national, legal forces, etc.

Entrepreneurial environment is broadly classified into six important segments, namely,

1) Political environment
2) Economic environment
3) Social environment
4) Technological environment
5) Legal environment
6) Cultural environment

2. Economic Factors.

Ans :

From a strictly economic viewpoint, it can be said that the same factors which promote economic development account for the emergence of entrepreneurship also. Some of these factors are discussed in below.

(i) Capital

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

(ii) Labour

The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. It is noticed that cheap labour is often less mobile or even immobile. And, the potential advantages of low-cost labour are negated by the deleterious effects of labour immobility. Adam Smith also considered division of labour as an important element in economic develop- ment. According to him, division of labour which itself depends upon the size of the market leads to improvement in the productive capacities of labour due to an increase in the dexterity of labour.

(iii) Raw Materials

The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and, therefore, its influence in the emergence of entrepre- neurship. In the absence of raw materials, neither any enterprise can be established nor an entrepreneur can be emerged.

(iii) Market

The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product jn a market becomes more influential for entrepreneurship than a competitive market.

3. Non-economic Factors.

Ans :

Sociologists and psychologists advocate that economic factors may be necessary conditions, but they are not sufficient conditions for the appearance of entrepre- neurship. They view that the influence of economic factors on entrepreneurial emergence largely depends upon the existence of non-economic factors i.e., social and psychological factors in the society. Some major non-economic factors alleged to influence the emergence of entrepreneurship can be listed as follows:

Social Conditions

(i) Legitimacy of Entrepreneurship

The proponents of non-economic factors give emphasis to the relevance of a system of norms and values within a socio-cultural setting for the emergence of entrepre-neurship. In professional vocabulary, such system is referred to as the 'legitimacy of entrepreneurship' in which the degree of approval or disapproval granted entrepre-neurial behaviour influences its emergence and characteristics if it does emerge. While Schumpeter recognizes the importance of such legitimacy in terms of appropriate social climate for entrepreneurship, Cochran calls it cultural themes and sanctions. The social status of those playing entrepreneurial role has been considered one of the most important contents of entrepreneurial legitimacy. To increase the legitimacy of entrepreneurship, some scholars have proposed the need for a change in the traditional values, which are assumed to be opposed to entrepreneurship. Scholars like McClelland have also pointed out that a complete change may not be necessary for entrepreneurial appearance. Instead, they submit a re-interpretation of the traditional values or its synthesis with the newer values to increase the entrepreneurial legitimacy.

(ii) Social Mobility

Social mobility involves the degree of mobility, both social and geographical, and the nature of mobility channels within a system. The opinion that the social mobility is crucial for entrepreneurial emergence is not unanimous. Some hold the view that a high degree of mobility is conducive to entrepre- neurship. Both Hoselitz's need for "openness" of a system and McClelland's need for "flexibility" in role relations imply the need for the possibility of mobility within a system for entrepre- neurship development. In contrast, there is another group of scholars who express the view that a lack of mobility possibilities promotes entrepreneurship. Some even speak of entrepreneurship as coming through crevices in a rigid social system.

The third opinion is a combination of the first two. Rostow notes the need for both flexibility and the denial of social mobility. Brozer. similarly emphasises that a system should neither be too rigid nor too flexible. According to him, if it is too flexible, then individual will gravitate towards other roles, if it is too rigid, entrepreneurship will be restricted alone with other activities.

(iii) Marginality

A group of scholars hold a strong view that social marginality also promotes entrepre-neurship. They believe that individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles. They may be drawn from religious, cultural, ethnic, or migrant minority groups, and their marginal social position is generally believed to have psychological effects which make entrepreneurship particularly attractive for them.

4. Psychological Factors.

Ans :

Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate specifically upon psycholo- gical factors. We consider these theories separately for that reason.

(i) Need Achievement

To the best of our knowledge, the best known of primarily psychological theories is David McClelland's 'theory of need achievement'. According to McClelland, a constellation of perso- nality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development. Therefore, if the average level of need achievement in a society is relatively high, one would expect a relatively high amount of entrepreneur-ship development in that society. In his endeavour to answer a simple question as to why it is that groups respond differently to similar conditions, McClelland gives the psychological concept of achievement motivation, or 'n' achievement to account for the differences in response to similar conditions. Referring to the encouraging impact of achievement motivation training programmes organized by the Small Industries Extension Training Institute (SIET), Hyderabad, McClelland argues that the need achievement can be developed through the intensive training programmes.

(ii) Withdrawal of Status Respect

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

(a) The group may be displaced by force;

(b) It may have its valued symbols denigrated;

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

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

5. Define motivation.

Ans :

Meaning

Motivation is the inner urge of a person that ignites and sustains behaviour to satisfy need of himself as well as of the society. Motivation has been derived from the Latin word "Motive" which implies the inner state of mind that activates, provokes and directs our behaviour towards the goal.

Definitions

(i) **According to Mcfarland,** "Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings". Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

(ii) **According to Bernard and Steiner** "A motive is an inner state that energies, activates or moves and that directs behaviour towards goals".

(iii) **According to D.D. Eisenhower** "Motivation is getting people to do. What you want them to do, because they want to do it".

(iv) **According to C.B. Memoria** "A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization"

(v) **According to Vittles** "Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make a goal directed pattern towards restoring a state of equilibrium by satisfying the need".

6. Explain the importance of motivation.

Ans :

Motivation has become all the more important due to the following reasons.

(i) Improved Morale

Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realization of organizational goals. High Morale will result in more interest in work and higher productivity. It will enable the organization to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

(ii) Lower labour turnover

Motivated employees will never feel like leaving the organization and as such the firm will be able to utilize the services of trained, committed and loyal workers for longer period of time. Organization will be saved from the botheration of making fresh recruitment, selection, training and placement of workers. Lower labour turnover will result in saving of time, effort and money of the organization. Rate of absenteeism will be reduced and workers will try to promote organizational interest.

(iii) Improved goodwill

Motivated employees can help the organization in improving its good will or image. A reputed organization is in a position to attract best possible talent from the market. Existing employees won't leave the organization and outsiders will be taken to join.

(iv) Cordial Industrial Relations

A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organization due to positive motivation. The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strike or lockout in the organization and motivation will ensure cordial industrial relations.

7. Importance of motivation.

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8. Entrepreneurial competency.

Ans :

Meaning

In simple terms, a competence is an underlying characteristic of a person which leads to his/her effective or superior performance in an job. A job competence is a good combination of one's underlying characteristics such as one's knowledge, skill, motive, etc, which one uses to perform a given job well. It is important to mention that the existence of these underlying characteristics may or may not be known to the person concern. This implies that the underlying characteristics may be unconscious aspects of the person. The underlying characteristics possessed by an entrepreneur which result in superior performance are called the 'entrepreneurial competencies' or 'traits'.

In order to understand more and better about entrepreneurial competencies, let us first understand its components, i.e., knowledge, skill and motive. These are explained one by one.

(i) Knowledge

In simple terms, knowledge means collection and retention of information in ones mind. Knowledge is necessary for performing a task but not sufficient. Let us explain this with an example. A person having the knowledge of cricket playing could be in a position to describe how to play. But, mere description will not enable the listener to play cricket unless something more than knowledge is there. We see in real life that people possessing mere knowledge have miserably failed while actually performing the task.

What this implies is that one also needs to have skills to translate the knowledge into action/practice.

(ii) Skill

Skill is the ability to demonstrate a system and sequence of behaviour which results in something observable, something that one can see. A person with planning ability, i.e., skill can properly identify the sequence of action to be performed to win the cricket match. Remember, while knowledge of playing cricket could be acquired by reading, talking or so on, skill to actually play cricket can be acquired by practice i.e., playing on a number of occasions. This means both knowledge and skill are required to perform a task.

(iii) Motive

In simple terms, motive is an urge to achieve one's goal what McClelland terms 'Achievement Motivation'. This continuous concern of goal achievement directs a person to perform better and better. Coming back to the same example of cricket playing, one's urge to become the best player helps him constantly practice playing to look out for ways and means to improving his play.

9. Entrepreneurship Development Programmes.

Ans :

Meaning

Entrepreneurial Development Programme (EDP) means programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.Towards this end, it is necessary to promote his understanding of motives, motivation pattern, their impact on behaviour and entrepreneurial value. A programme which seeks to do this can qualify to be called an EDP. This has to be stressed here, because there are a number of programmes which aim at providing informational or managerial inputs or focus on preparation of a project.

The important objectives of the entrepreneurship programmes are developing and strengthening the following qualities among the entrepreneurs.

10. Achievements of EDP.

Ans :

(i) Eliminates poverty and unemployment

The basis problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career.

Several programmes like National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. are in operation in India to help the potential entrepreneurs. All these special schemes intend to eliminate the poverty and solve the problem of unemployment.

(ii) Balanced regional development

Successful Entrepreneurial development programmes help in foster the industrialization and reduces the concentration of economic power. It is because the small-scale entrepreneurs can setup their units in remote areas with little financial resources which can help in achieving balanced regional development.

The medium and large enterprises do not help in reducing the disparities in income and wealth of the people. Thus, Entrepreneurial development programmes help in balanced regional development by spreading industrial units in each, and every part of the country.

(iii) Prevents industrial slums

The urban cities are highly congested and leading to industrial slums. Decentralization of industries is very much required by relocating the industries.

Entrepreneurial development programmes help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infrastructural facilities to set up their own enterprises in all the non-industrialized areas.

This will control the industrial slums and also reduce the pollution, traffic congestion, overcrowding in cities etc.

(iv) Harnessing locally available resources

Since abundant resources are available locally, proper use of these resources will help to carve out a health base for sound economic and rapid industrialization.

The entrepreneurial development programmes can help in harnessing these resources by training and educating the entrepreneurs.

(v) Defuses social tension

Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted to self-employment careers to help the country in defusing social tension and unrest among youth which is possible by entrepreneurial development programmes.

11. Problems of EDP's.

Ans :

(i) No Policy at the National Level

Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.

(ii) Problems at the Pre training Phase

Various problems faced in this phase are identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.

(iii) Over Estimation of Trainees

Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies thus overestimate the aptitude and capabilities of the educated youth. Thus on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

(iv) Duration of EDPs

An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises. Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

Choose the Correct Answers

1. Need achievement is a ________ factor. [c]
   (a) Economic factor (b) Non-economic factor
   (c) Psychological factor (d) All.
2. The motivational process has ________ elements. [b]
   (a) Six (b) Three
   (c) Two (d) None.
3. Need for affiliation is a kind of need, according to ________. [b]
   (a) Maslow (b) David Mc Clelland
   (c) BEWNMurthy (d) Robert Mc Clelland.
4. R.A Sharma classified motivating factors as ________ and ________ . [a]
   (a) Internal and external (b) Ambitious and compelling
   (c) Facilitating and ambitious (d) Compelling and facilitating.
5. Kakinada experiment was conducted on ________ people. [b]
   (a) 52 (b) 62
   (c) 72 (d) 82
6. EDPs are known as 'Young Enterprise' in ________. [b]
   (a) USA (b) UK
   (c) India (d) KSA
7. Knowledge, skill and ________ are essential entrepreneurial traits. [b]
   (a) Power (b) Motive
   (c) Ambition (d) All
8. Entrepreneurial mobility is affected by ________. [a]
   (a) Pull and push factors (b) Economic factors
   (c) Non-economic factors (d) All.
9. EDP has ________ phases. [c]
   (a) Many (b) Limited
   (c) Three (d) Depends may be (a) (b) or (c).
10. The latest national evaluation study has been carried out by ________. [a]
    (a) EDI, Ahmedabad (b) EDI, Mumbai
    (c) EDI, Chennai (d) EDI, Bangalore.

Fill in the Blanks

1. Factors affecting entrepreneurial growth are ______ and ______.
2. Legitimacy of entrepreneurship is a ______ factor.
3. ______ feedback means to know the strength and weaknesses of one's new behaviour.
4. There are ______needs in Maslow's need hierarchy theory.
5. Kakinada experiment was conducted in collaboration with ______ in the year 1964.
6. ______ is the first step in developing competency.
7. Occupational mobility is of ______ types.
8. EDP stands for ______.
9. ______ means collection and retention of information in ones mind.
10. ______ is a social factor.

ANSWERS

1. Economic and non-economic factors
2. Social
3. Feedback
4. Five
5. SIET (Small Industry Extension Training Institute)
6. Competency recognition
7. Two
8. Entrepreneurship Development Programme
9. Knowledge
10. Security.

One Mark Answers

1. Economic Environment.

Ans :

Entrepreneurship environment refers to the various facets within which enterprises big, medium, small and others have to operate.

2. Social Mobility.

Ans :

Social mobility involves the degree of mobility, both social and geographical, and the nature of mobility channels within a system. The opinion that the social mobility is crucial for entrepreneurial emergence is not unanimous. Some hold the view that a high degree of mobility is conducive to entrepreneurship.

3. Motivation.

Ans :

Motivation is the inner urge of a person that ignites and sustains behaviour to satisfy need of himself as well as of the society.

4. EDP.

Ans :

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

5. Achievements of EDP.

Ans :

(i) Eliminates poverty and unemployment

(ii) Balanced regional development

(iii) Prevents industrial slums

(iv) Harnessing locally available resources

(v) Defuses social tension

UNIT III	**SMALL, MICRO, MEDIUM SCALE ENTERPRISES:** Definition of Small Industry – Characteristics of Small Scale Industry – Latest amendments in Small scale Industry Act – Objectives – Scope of Small & Micro Industries – Opportunities for entrepreneurial growth in MSMEs – Role of MSMEs in Economic development – MSMEs problems – Opportunities – Future growth – Project Identification – Project Formulation – Project Appraisal– Financing and Ownership Structures.

3.1 Small Scale Industry

3.1.1 Definition, Characteristics

Q1. Define small scale industry. State the characteristics of small scale industry.

(OR)

Explain the characteristics of small scale industry.

Ans : **(Imp.)**

Meaning

The definition of small-scale industry (SSI) varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government policy and administrative set up of the particular country. As a result, there are at least 50 different definitions of SSIs found and used in 75 countries. All these definitions either relate to capital or employment or both or any other criteria. We trace here the evolution of the legal concept of small-scale industry in India.

The Fiscal Commission, 1950, for the first time, defined a small-scale industry as one which is operated mainly with hired labour usually 10 to 50 hands.

Characteristics

Small scale industry is beautiful because of its following important characteristics:

(i) A small scale unit is generally a one-man show. Even the small units which rim by a partnership firm or company, the activities are mainly carried out by one of the partners or directors. In practice, the others are simply as sleeping partners or directors who mainly assist in providing funds.

(ii) In case of small-scale industries, the owner himself/herself is a manager also. Thus, these units are managed in a personalized fashion. The owner has first hand knowledge of what is actually going on in the business. He takes effective participation in all matters of business decision taking.

(iii) Compared to large units, a small-scale industrial unit has a lesser gestation period, i.e. the period after which the return on investment starts.

(iv) The scope of operation of small industrial undertakings is generally localised catering to the local and regional demands.

(v) Small units use indigenous resources and, therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.

(vi) Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Let the facts speak. According to P.C. Mahalnobis, small scale units require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory system.

(vii) Using local resources, small units are decentralised and dispersed to rural areas. Thus, the development of small-scale industries in rural areas promotes more balanced regional development, on the one hand, and prevents the influx of job seekers from rural areas to cities and urbanizing centres, on the other.

(viii) Last but not the least, compared to large scale units, small-scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adapt changes like introduction of new products, new method of production, new materials and new markets, new forms of organisation etc.

Q2. Explain the importance of Small Scale Industry.

Ans :

1. Small Scale Industries Provides Employment

- SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
- SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
- SSI accounts for employment of people in rural sector and unorganized sector.
- It provides employment to skilled and unskilled people in India.
- The employment capital ratio is high for the SSI.

2. SSI Facilitates Women Growth

- It provides employment opportunities to women in India.
- It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

3. SSI Brings Balanced Regional Development

- SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.
- It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.
- It promotes urban and rural growth in India.
- It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas. It plays an important role by initiating the government to build the infrastructural facilities in rural areas.
- It helps in improving the standard of living of people residing in suburban and rural areas in India.
- The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.

4. SSI Helps in Mobilization of Local Resources

- It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.
- It paves way for promoting traditional family skills and handicrafts. There is a great demand for handicraft goods in foreign countries.
- It helps to improve the growth of local entrepreneurs and self-employed professionals in small towns and villages in India.

5. SSI Paves for Optimisation of Capital

- SSI requires less capital per unit of output. It provides quick return on investment due to shorter gestation period. The pay-back period is quite short in small scale industries.
- SSI functions as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.

- It encourages the people living in rural areas and small towns to mobilize savings and channelize them into industrial activities.

6. SSI Promotes Exports

- SSI does not require sophisticated machinery. Hence, it is not necessary to import the machines from abroad. On the other hand, there is a great demand for goods produced by small scale sector. Thus it reduces the pressure on the country's balance of payments.
- SSI earns valuable foreign exchange through exports from India.

7. SSI Complements Large Scale Industries

- SSI plays a complementary role to large scale sector and supports the large scale industries.
- SSI provides parts, components, accessories to large scale industries and meets the requirements of large scale industries through setting up units near the large scale units.
- It serves as ancillaries to large Scale units.

8. SSI Meets Consumer Demands

- SSI produces wide range of products required by consumers in India.
- SSI meets the demand of the consumers without creating a shortage for goods. Hence, it serves as an anti-inflationary force by providing goods of daily use.

9. SSI Ensures Social Advantage

- SSI helps in the development of the society by reducing concentration of income and wealth in few hands.
- SSI provides employment to people and pave for independent living.
- SSI helps the people living in rural and backward sector to participate in the process of development.
- It encourages democracy and self-governance.

10. Develops Entrepreneurship

- It helps to develop a class of entrepreneurs in the society. It helps the job seekers to turn out as job givers.
- It promotes self-employment and spirit of self-reliance in the society.
- Development of small scale industries helps to increase the per capita income of India in various ways.
- It facilitates development of backward areas and weaker sections of the society.
- Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

3.2 Latest Amendments in Small scale Industry Act

Q3. Describe the Latest Amendments in Small Scale Industry Act.

Ans : **(Imp.)**

The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018

Introduced	Referred	Report
Lok Sabha →	**Standing Committee** →	**Standing Committee Report**
July 23, 2018	Oct. 04, 2018	Dec. 28, 2018

- The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018 was introduced in Lok Sabha by the Minister of State for Micro, Small and Medium Enterprises, Mr. Giriraj Singh on July 23, 2018. The Bill amends the Micro, Small and Medium Enterprises Development Act, 2006. The Act classifies and regulates enterprises as micro, small and medium enterprises.
- The Act classifies micro, small and medium enterprises (MSMEs) on the basis of investment in: (i) plant and machinery, for enterprises engaged in the manufacturing or production of goods, and (ii) equipment, for enterprises providing services.
- The Bill introduces a uniform classification for all MSMEs. Under the Bill, all MSMEs, whether they are manufacturing or service-providing enterprises, will be classified on the basis of their annual turnover.
- The changes in the classification of MSMEs are given in Table.

Type of Enterprise	2006 Act		2018 Bill
	Manufacturing	Services	All enterprises
	Investment in Plant and Machinery	Investment in Equipment	Annual Turnover
Micro	25 lakh	10 lakh	5 crore
Small	25 lakh to 5 crore	10 lakh to 2 crore	5 to 75 crore
Medium	5 to 10 crore	2 to 5 crore	75 to 250 crore

Table : Classification of enterprises as micro, small and medium enterprises (in Rs)

- The central government may change these annual turnover limits through a notification. The maximum turnover may be up to three times the limits specified in the Bill.
- Under the Act, the central government may classify micro, tiny or village enterprises as small enterprises. The Bill seeks to extend this to allow the classification of micro, tiny or village enterprises as small as well as medium enterprises.

3.3 Objectives of Small Enterprise

Q4. State the objectives of small enterprise.

Ans :

The various objectives of developing small scale industries are, in fact, implied in one way or other, in its rationale itself, just discussed in the preceding section. These are:

(i) To generate immediate and large scale employment opportunities with relatively low investment.

(ii) To eradicate unemployment problem from the country.

(iii) To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.

(iv) To bring backward areas too in the mainstream of national development.

(v) To promote balanced regional development in the whole country.

(vi) To ensure more equitable distribution of national income.

(vii) To encourage effective mobilisation of country's untapped resources.

(viii) To improve the level of living of people in the country.

3.4 Scope of Small & Micro Industries

Q5. Explain the scope of small and micro industries.

Ans :

The scope for small-scale industries is quite vast covering a wide range of activities requiring less sophisticated technology. In consonance with its distinct characteristics, the activities which are found particularly amenable to and can be successfully operated in small-scale are too many to mention. Among them, the important ones are: Manufacturing activities Servicing/repairing activities Retailing activities Financial activities Whole-sale business Construction activities

Infrastructural activities like transportation, communication and other public utilities. In order to strengthen the scope for small industry development in the country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country. The reservation policy was initiated in 1967 when only 47 items were reserved for exclusive manufacture in the small-scale sector. By 1983, the reserve list included 836 items for exclusive production in the small-scale sector. Recently, the Abid Hussain Committee dereserved 12 items and thus, there are still 824 items reserved for exclusive production in small sector. The main objective of the reservation policy has been to insulate the small sector from unequal competition of large industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms. The important industries reserved for exclusive development in the small sector are:

Food and Allied Industrie, Textile Product, Leather and Leather Products, including Footwear, Rubber Product, Plastic Product, Chemical and Chemical Product, Natural Essential Oil, Organic Chemicals and Chemical Products, Glass and Ceramic, Mechanical Engineering Transport Equipment, Metal Cabinets of all Type, Pressure Stove, Electrical Appliances, Electronic Equipments and Components, Boats and Truck Body Buildings, Auto Parts Components, Ancillary and Garrage Equipment, Bicycle Parts, Trycycles and Perambulators, Miscellaneous Transport Equipments, Mathematical and Survey Instruments, Sports Goods, Stationery items, Clocks and watches, etc.

Here, it seems pertinent to mention that the performance of reserved small industries does not outshine that of non-reserved small industries. Sandesara attributes the poor performance of financially assisted units as well as those in the "reserved" industries to 'easy' entry into the SSI sector, which has intensified competition within the sector, and resulted in excess supply and, thus, a fall in profitability.

However, one may not find himself/herself in agreement with other. In fact, the noble intention of the reservation policy has been to insulate that small sector from unequal competition of powerful large scale industrial units, so that the small sector can go through expansion of existing units, on the one hand, and by the entry of new firms, on the other.

3.5 Opportunities for Entrepreneurial Growth in MSMEs

Q6. Define micro, small and medium enterprises.

(OR)

Discuss about MSME.

Ans :

It is important to know how size is defined in our country, with reference to MSME establish-ments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, turnover of business, etc.

The definition used by the Government of India to describe MSME is based on the investment in plant and machinery and turnover. This measure seeks to keep in view the socio-economic environment in India where capital is scarce and labour is abundant.

<table>
<tr><th>Type of Units</th><th colspan="2">Investment in Plant and Machinery</th><th>Turnover</th></tr>
<tr><td>Micro Enterprises</td><td colspan="2">1 Crore</td><td>Does not exceed 5 crore</td></tr>
<tr><td>Small Enterprises</td><td colspan="2">10 Crore</td><td>Does not exceed 50 crore</td></tr>
<tr><td>Medium Enterprises</td><td colspan="2">50 Crore</td><td>Does not exceed 250 core</td></tr>
<tr><th colspan="4">% share of MSMES in</th></tr>
<tr><td colspan="2">Micro Enterprises</td><td colspan="2">99.4%</td></tr>
<tr><td colspan="2">Small Enterprises</td><td colspan="2">0.52%</td></tr>
<tr><td colspan="2">Medium Enterprises</td><td colspan="2">0.1%</td></tr>
</table>

The emergence of a large service sector has necessitated the government to include other enterprises covering both Small Scale Industries (SSI) sector and related service entities under the same umbrella. Expansion of the small enterprises was taking place growing into medium enterprises and they were required to adopt higher levels of technologies in order to remain competitive in a fast globalising world. Thus, it was necessary to address the concerns of such enterprises as micro, small and medium and provide them with a single legal framework. The MSMED Act, 2006 came into force w.e.f., October, 2006. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addressed these issues relating to its definition, credit, marketing and technology up gradation. Medium scale enterprises and service related enterprises also come under the purview of this Act.

Q7. Describe the Role of Micro Small and Medium Enterprises.

Ans

MSME in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The emphasis on MSME has always been an integral part of India's industrial strategy. Development of MSME prevents migration of rural population to urban areas in search of employment and contributes to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.

In fact promotion of MSME and rural industrialisation has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.'

The following points highlight their contribution.

(i) The contribution of these industries to the balanced regional development of our country is noteworthy. Small industries in India account for 95 per cent of the industrial units in the country.

(ii) MSME are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.

(iii) MSME in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc. Among the phisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. A special mention should be made of handlooms, handicrafts and other products from traditional village industries in view of their export value.

(iv) MSME which produce simple product using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialisation can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.

(v) MSME provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.

(vi) MSME also enjoy the advantage of low cost of production. Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side because of low overhead expenses. Infact, the low cost of production which small industries enjoy is their competitive strength.

3.6 Role of MSMEs in Economic Development

Q8. Discuss the role of MSME in economic development.

(OR)

Write the role of MSMEs in economic development in India.

Ans : **(Imp.)**

MSME in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The emphasis on MSME has always been an integral part of India's industrial strategy. Development of MSME prevents migration of rural population to urban areas in search of employment and contributes to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.

In fact promotion of MSME and rural industrialisation has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.'

The following points highlight their contribution.

(i) The contribution of these industries to the balanced regional development of our country is noteworthy. Small industries in India account for 95 per cent of the industrial units in the country.

(ii) MSME are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.

(iii) MSME in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc.

Among the sophisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. A special mention should be made of handlooms, handicrafts and other products from traditional village industries in view of their export value.

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(vi) MSME also enjoy the advantage of low cost of production. Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side because of low overhead expenses. Infact, the low cost of production which small industries enjoy is their competitive strength.

(vii) Due to the small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations. New business opportunities can be captured at the right time.

3.6.1 MSMEs Problems – Opportunities

Q9. What are the problems associated with MSME.

Ans : **(Imp.)**

The potential of MSME is often not realised fully, because of several problems related to size and operations.

MSMEs are at a distinct disadvantage as compared to largescale industries. The scale of operations, availability of finance, ability to use modern technology, procurement of raw materials are some of these areas. This gives rise to several problems.

The problems majorly include remote location with less developed infrastructural facilities, lack of managerial talent, poor quality, traditional technology and inadequate availability of finance. The problems of exporting small scale units include lack of adequate data on foreign markets, lack of market intelligence, exchange rate fluctuations, quality standards, and pre-shipment finance.

In general the small businesses are faced with the following problems:

(i) Finance

One of the severe problems faced by MSME is that of non-availability of adequate finance to carry out its operations. Generally these businesses begin with a small capital base. Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets. As a result, they heavily depend on local financial resources and are frequently the victims of exploitation by the money lenders.

These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

(ii) Raw materials

Another major problem of MSME is the procurement of raw materials. If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials. Their bargaining power is relatively low due to the small quantity of purchases made by them. Also, they cannot afford to take the risk of buying in bulk as they have no facilities to store the materials. Because of general scarcity of metals, chemicals and extractive raw materials in the economy, the small scale sector suffers the most. This also means a waste of production capacity for the economy and loss of further units.

(iii) Managerial skills

These businesses are generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output. Moreover, they may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers.

(iv) Marketing

Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements. In most cases, marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

(v) Quality

Many MSMEs do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low. They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology. In fact maintaining quality is their weakest point, when competing in global markets.

(vi) Capacity utilisation

Due to lack of marketing skills or lack of demand, many firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.

(vii) Global competition: Apart from the problems stated above MSME are not without fears, especially in the present context of globalisation. These enterprises face competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes.

3.6.2 Future Growth

Q10. Explain the future prospects of MSMEs.

Ans :

1. Employment generation

There are large opportunities in the field of manufacturing and service rendering of MSME's. In the fie ld of retail and manufacturing sector, MSMEs are generating different and ample amount of employment.

2. Focus on customer satisfaction

Primarily, MSMEs manufacturing goods focus on test and preferences, liking and disliking of the consumer. But now a day they produce goods according to the needs or expectations of the customers. So the MSMEs can be more customer satisfaction oriented.

3. Minimization of regional imbalance

The MSMEs will utilize the manpower of rural areas so such areas of the nation can equally developed through the running of MSME units in rural areas. So this is helpful to minimize or remove the regional imbalance.

4. Development of Export

In the international market, there will be a large demand of Indian product like wooden items, other handmade articles etc. So MSMEs have the potential to improve the export of India.

5. Attraction of Foreign Investment

The Indian MSMEs are the growing sectors and their growth rate and return on investment is satisfactory. This sector can attract foreign investment in India, so their growth rate increasing drastically.

3.7 Project Identification

Q11. Define project. Explain the classification of a projects.

Ans : **(Imp.)**

Meaning

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

Let us also consider a few definitions on 'project'.

(i) According to Newman et.al. define that "a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission".

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

(iii) According to Encyclopaedia of Management, "a project is an organised unit dedicated to the attainment of a goal—the successful completion of a development project on time, within budget, in conformance with pre-determined programme specifications".

Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time.

Here, it is also important to mention that while projects can differ in their size, nature, objectives, time duration and complexity, yet they partake of the following three basic attributes:

(i) A Course of Action

(ii) Specific Objectives, and

(iii) Definite Time Perspective

Project Classification

Project classification is a natural corollary to the study of project idea.

Different authorities have classified projects differently. Following are the major classifications of projects:

1. Quantifiable and Non-Quantifiable Projects

Projects for which a plausible quantitative assessment of benefits can be made are called 'quantifiable projects.' Projects concerned with industrial development, power generation, mineral development fall in this category. On the contrary, non-quantifiable projects are those in which a plausible quantitative assessment cannot be made. Projects involving health education and defence are the examples of non-quantifiable projects.

2. Sectoral Projects

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

(i) Agriculture and Allied Sector

(ii) Irrigation and Power Sector

(iii) Industry and Mining Sector

(iv) Transport and Communication Sector

(v) Social Services Sector

(vi) Miscellaneous Sector

The project classification based on economic sectors is found useful in resource allocation more especially at macro levels.

3. Techno-Economic Projects

Projects classification based on techno-economic characteristics fall in this category. This type of classification includes factors intensity-oriented classification, causation-oriented classification and magnitude-oriented classification. These are discussed as follows:

(a) Factor Intensity-Oriented Classification: Based on factor intensity classification, projects may be classified as capital intensive or labour intensive. If large investment is made in plant and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large number of human resources will be termed as 'labour intensive'.

(b) Causation-Oriented Classification: Where causation is used as a basis of classification, projects may be classified as demand based or raw material based projects. The very existence of demand for certain goods or services makes the project demand-based and the availability of certain raw materials, skills or other inputs makes the project raw material-based.

(c) Magnitude-Oriented Classification: In case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium-scale or small-scale projects.

3.7.1 Project Formulation

Q12. Define project report. Explain the significance of project report.

Ans : **(Imp.)**

Meaning

In simple words, project report or business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. In other words, project report serves like a kind of big road map to reach the destination determined by the entrepreneur. Thus, a project report can best be defined as a well evolved course of action devised to achieve the specified objective within a specified period of time. So to say, it is an operating document.

Significance

An objective without a plan is a dream. The preparation of a project report is of great significance for an entrepreneur.

The project report serves the two essential functions:

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

  Some hold the view that without well spelled out goals and operational methods/tactics, most businesses flounder on the rocks of hard times.

- The second function of the project report is to attract lenders and investors. Although, it is not mandatory for the small enterprises to prepare project reports, yet it is useful and beneficial for them to prepare the project reports for various reasons.

  The preparation of project report is beneficial for those small enterprises which apply for financial assistance from the financial institutions and the commercial banks. It is on the basis of project report that the financial institutions make appraisal if the enterprise requires financial assistance or not. If yes, how much.

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

Q13. Explain the contents of a project report.

Ans :

A good project report should contain the following contents:

1. **General Information:** Information on product profile and product details.
2. **Promoter:** His/her educational qualification, work experience, project related experience.
3. **Location:** Exact location of the project, lease or freehold, locational advantages.
4. **Land and Building:** Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. **Plant and Machinery:** Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.
6. **Production Process:** Description of production process, process chart, technical know how, technology alternatives available, production programme.
7. **Utilities:** Water, power, steam, compressed air requirements, cost estimates, sources of utilities.
8. **Transport and Communication:** Mode, possibility of getting, costs.
9. **Raw Material:** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternative raw material, if any.
10. **Manpower:** Manpower requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. **Products:** Product mix, estimated sales, distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
12. **Market:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
13. **Requirement of Working Capital:** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
14. **Requirement of Funds:** Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
15. Cost of Production and Profitability of first ten years.

Q14. How is a project formulated? Give an overview.

Ans :

Project formulation devides the process of project development into eight distinct and sequential stages. These stages are:

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Sources of Finance.
5. Assessment of Working Capital Requirements.
6. Other Financial Aspects.
7. Economic and Social Variables.
8. Project Implementation.

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

1. General Information

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

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

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

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

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

2. Project Description

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

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

(ii) Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report:

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

(b) Skilled Labour: Availability of skilled labour in the area, arrangements for training labourers in various skills.

(iii) Utilities: These include:

(a) Power: Requirement for power, load sanctioned, availability of power.

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

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

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

(v) Communication System: Availability of communication facilities, e.g., telephone, telex etc. should be stated in the project report.

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

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

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

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

(xi) **Capacity of the Plant:** The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

(xii) **Technology Selected:** The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

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

3. Market Potential

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

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

(b) **Expected Price:** An expected price of the product to be realised should be mentioned in the project report.

(ii) **Marketing Strategy:** Arrangements made for selling the product should be clearly stated in the project report.

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

(iii) **Transportation:** Requirement for transportation means indicating whether public transport or entrepreneur's own transport should be mentioned in the project report.

4. Capital Costs and Sources of Finance

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

5. Assessment of Working Capital Requirements

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

6. Other Financial Aspects

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

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

$$BEP = \frac{F}{S - V} \times 100$$

where,

F = Fixed Cost

S = Sales Projected

V = Variable Costs

Thus, the break-even point so calculated will indicate at what percentage of sales, the enterprise will break even.

7. Economic and Social Variables

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

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

(i) Employment Generation.

(ii) Import Substitution.

(iii) Ancillarisation.

(iv) Exports.

(v) Local Resource Utilization.

(vi) Development of the Area.

8. Project Implementation

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

Q15. Discuss the guidelines for formulation of a project report.

Ans : **(Imp.)**

The following are the guidelines for formulation of a project report.

1. General Information

- The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, i.e., the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should also contain information about the enterprise submitting the feasibility report.

2. Preliminary Analysis of Alternatives

This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from the projects that are in production or under-implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and level of production actually attained, a list of all projects for which letters of intents/licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage.

The location of the project as well as its implications should also be looked into. An account of the foreign exchange requirement should also be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-a-vis return should be presented.

3. Project Description

The feasibility should provide a brief description of the technology /process chosen for the project. Information relevant to determining optimality of the locations chosen should also be included. To assist in the assessment of the environmental effects of a project, every feasibility report must present the information on specific points, i.e., population, water, air, land, flora and fauna, effects arising out of project's pollution, other environmental discretions etc. The report should contain a list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organisational structure envisaged, transport costs, activity-wise phasing of construction and factors -affecting it.

4. Marketing Plan

It should contain the following items:

- Data on the marketing plan.
- Demand and prospective supply in each of the areas to be served.
- The method and data used for main estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree' of price sensitivity should be presented.
- It should contain an analysis of past trends in prices.

5. Capital Requirements and Costs

The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.

6. Operating Requirements and Costs

Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected; operating costs relate to the cost of raw materials and intermediates, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

7. Financial Analysis

The purpose of this analysis is to present some measures to assess the financial viability of the project. A proforma Balance Sheet for the project data should be presented. Depreciation should be allowed for on the basis of specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income-tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyse the sensitivity of the rate of return of change in the level and pattern of product prices.

8. Economic Analysis

Social profitability analysis needs some adjustment in the data relating to the costs and returns to the enterprise. One important type of investment involves a correction in input and costs, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified, they should be analysed and their importance emphasised.

9. Miscellaneous Aspects

The preceding three areas are deemed appropriate to almost every new small enterprise. Notwithstanding, depending upon the size of the operation and peculiarities of a particular project, other items may be considered important to be applied out in the project report. To mention, probable use of minicomputers or other electronic data processing services, cash flow statements, method of accounting etc., may be of great use in some small enterprises.

3.7.2 Project Appraisal

Q16. What do you mean by Project Appraisal.

Ans :

Meaning

Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its viability. A project involves employment of scarce resources. An entrepreneur needs to appraise various alternative projects before allocating the scarce resources for the best project.

Thus, project appraisal helps select the best project among available alternative projects. For appraising a project, its economic, financial, technical, market, managerial and social aspects are analysed. Financial institutions do project appraisal to assess its credit-worthiness before extending finance to a project.

For a financial institution, project appraisal is a process whereby a leading financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision and is aimed at determining the viability of a project and sometimes, also in modifying its scope and content so as to improve its viability.

Q17. Explain the various methods of Project Appraisal.

Ans : **(Imp.)**

Appraisal of a proposed project includes the following analyses:

1. Economic Analysis
2. Financial Analysis
3. Market Analysis
4. Technical Feasibility
5. Managerial Competence

1. Economic Analysis

Under economic analysis, the aspects highlighted include requirements for raw material, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits. It is said that a business should have always a volume of profit clearly in view which will govern other economic variables like sales, purchases, expenses and alike. It will have to be calculated how much sales would be necessary to earn the targeted profit. Undoubtedly, demand for the product will be estimated for anticipating sales volume.

2. Financial Analysis

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods. In order to adjudge the financial viability of the project, the following aspects need to be carefully analysed:

(i) Assessment of the financial requirements both—fixed capital and working capital— need to be properly made. You night be knowing that fixed capital normally called 'fixed assets' are those tangible and material facilities which purchased once are used again and again. Land and buildings, plants and machinery are the familiar examples of fixed assets/ capital.

The requirement for fixed assets/ capital will vary from enterprise to enterprise depending upon the type of operation, scale of operation and time when the investment is made. But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer's fees, electrification and installation charges (which normally come to 10 per cent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration.

Similarly, if any expense is to be incurred in remodelling, repair and additions of buildings should also be highlighted in the project report.

(ii) In accounting, working capital means excess of current assets over current liabilities. Current assets refer to those assets which can be converted into cash within a period of one week. Current liabilities refer to those obligations which can be payable within a period of one week. In short, working capital is that amount of funds which is needed in day today's business operations.

In other words, it is like a circulating money changing from cash to inventories and from inventories to receivables and again converted into cash. This circle goes on and on. Thus, working capital serves as a lubricant for any enterprise, be it large or small. Therefore, the requirements of working capital should be clearly provided for. Inadequacy of working capital may not only adversely affect the operation of the enterprise but also bring the enterprise to a grinding halt.

3. Market Analysis

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for his product and where and when his product will be sold. This is because production has no value for the producer unless it is sold. It is said that if the proof of pudding lies in eating, the proof of all production lies in marketing/consumption. In fact, the potential of the market constitutes the determinant of probable rewards from entrepreneurial career.

Thus, knowing the anticipated market for the product to be produced becomes an important element in every business plan. The various methods used to anticipate the potential market, what is named in 'Management Economics' as 'demand forecasting', range from the naive to sophisticated ones.

4. Technical Feasibility

While making project appraisal, the technical feasibility of the project also needs to be taken into consideration. In the simplest sense, technical feasibility implies to mean the adequacy of the proposed plant and equipment to produce the product within the prescribed norms. As regards know-how, it denotes the availability or otherwise of a fund of knowledge to man the proposed plants and machinery.

It should be ensured whether that know-how is available with the entrepreneur or is to be procured from elsewhere. In the latter case, arrangement made to procure it should be clearly checked up. If project requires any collaboration, then, the terms and conditions of the collaboration should also be spelt out comprehensively and carefully.

In case of foreign technical collaboration, one needs to be aware of the legal provisions in force from time to time specifying the list of products for which only such collaboration is allowed under specific terms and conditions. The entrepreneur, therefore, contemplating for foreign collaboration should check these legal provisions with reference to their projects.

5. Management Competence

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail. On the contrary, even a poor project may become a successful one with good managerial ability.

Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into consideration. Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more so in case of small-scale enterprises where the proprietor is all in all, i.e., owner and manager. Due to his one-man show, he may be jack of all but master of none.

3.8 Financing of Enterprise

Q18. What are the various sources availability to a small scale enterprise to raise funds.

Ans :

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

1. Internal Sources
2. External Sources

1. Internal Sources

Under this source, funds are raised from within the enterprise itself. The internal sources of financing could be owner's capital known as equity, deposits and loans given by the owner, the partners, the directors, as the case may be, to the enterprise. One source for raising funds internally may be personal loans taken by the entrepreneurs on his/her personal assets like Provident Fund, Life Insurance Policy, buildings, investments, etc. In addition to these, in case of a running enterprise, funds could also be raised through the retention of profits or conversion of some assets into funds.

The cardinal principal of financial management also suggests that an entrepreneur should religiously plough back a good portion of his/her profits into the enterprise itself. However, the scope for raising funds from internal sources particularly in the case of small-scale enterprises remains highly limited.

2. External Sources

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

(i) Deposits or borrowings from relatives and friends and others.

(ii) Borrowings from the banks for working capital purposes.

(iii) Credit facilities from the commercial banks.

(iv) Term-loans from financial institutions.

(v) Hire-purchase or leasing facility from the National Small Industries Corporation (NSIC) and State Small Industries Corporations (SSICs).

(vi) Seed/Margin money, subsidies from the Government and the financial institutions. If we now lump both the sources together, these can broadly be classified as follows:

(a) Personal funds or Equity Capital.

(b) Loans from relatives and friends.

(c) Mortgage Loans.

(d) Term-Loans.

(e) Subsidiaries.

Q19. What is capital structure? Explain the factors determining capital structure?

Ans :

Meaning

The composition of equity and debt in overall capital of an enterprise is called 'capital structure. In simple words, capital structure is the ratio between debt and equity capital. Hence, it is also expressed as the debt-equity ratio.

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

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

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

Factors

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

1. Nature of Business

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

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

2. Size of the Enterprise

Small enterprises have to rely less on borrowed capital and depend more on owner's capital. This is because investors consider lending to small firms more risky. On the other hand, large enterprises are considered less risky. Therefore, investors believe that their money is safe and, hence, prefer to lend money to large enterprises. This enables the large enterprises to raise funds from different sources.

3. Trading on Equity

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

4. Cash Flows

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

5. Purpose of Financing

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

6. Provision for Future

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

Q20. Discuss the various sources used for raising term loans for an enterprise.

Ans :

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

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

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

1. Long-Term Loans

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

(i) Land and site development

(ii) Building and civil works

(iii) Plant and machinery

(iv) Installation expenses

(v) Miscellaneous fixed assets comprising vehicles, furniture and fixtures, office equip-ment and so on.

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

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

Sources of Term Loans

The following are the sources of raising term loans:

(i) Issue of shares

(ii) Issue of Debentures

(iii) Loans from Financial Institutions

(iv) Loans from Commercial Banks

(v) Public Deposits

(vi) Retention of Profits

2. Short-term Finance

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

The sources of short-term finance could be

(i) Loans from Commercial Banks

(ii) Public Deposits

(iii) Trade Credit

(iv) Factoring

(v) Discounting Bills of Exchange

(vi) Bank Overdraft and Cash Credit

(vii) Advances from Customers

(viii) Accrual Accounts

3.9 Ownership Structures

Q21. Explain the concept of Ownership Organisation Decision.

Ans :

- The entrepreneur's choice of the type of organisation will depend upon the nature of business, scale of operation, capital requirements, ownership rights such as' control and decision making opportunities and impact of taxation. He should understand the impact of these factors on his business and decide whether to operate his business as a one-man show or a joint venture company.

In general, an entrepreneur wishing to start an industry- on his own will prefer to organize it on a small-scale unit if he has a limited capital and skill, and cater for the local market. If he is unable to do so, he will call-for responses from partners, join his in this business. In this way, new ability and more capital will be brought into the businesses.

Partnerships are common in commercial businesses. Partnership is not a legal entity; the partners are personally responsible for all the activities performed by them in the name of the firm. The risks associated with the unlimited liability can be avoided and large amount of capital can be brought by forming a limited company. If the capital requirements are not very large, a private limited company may be formed to meet the needs of a large capital to run a large business, a public company will have to be formed

3.9.1 Sole Proprietorship

Q22. What do you understand by "Sole Trading Concern or Sole Proprietorship" and state its merits and demerits.

(OR)

"One man control is the best in the world, if that one man is big enough to manage everything." Comment.

Ans : **(Imp.)**

Meaning

The form of organization in which a single individual promotes and controls the business undertakings and bears the whole risk himself is called Sole Proprietorship. He takes all the profits and bears all risks alone. This form of organization is also called sole trading concern, sole ownership, and single entrepreneur business. It is the oldest form of business ownership. It is also the simplest and most natural. It is the most convenient and effective form of business organization.

Merits

1. Easy to form

It is very easy to form a sole trading concern. Registration is not required. There is no need to observe legal formalities. There is no need to observe legal formalities. Any one with necessary capital and skill can start any lawful business he likes.

2. Direct Motivation

The sole proprietor takes keen interest in the working of the business. He manages the business to the best of his ability. He managers the business more efficiently and economically. He tries to put his heart and should in the business so as to earn as much profits as he can.

3. Absolute Control

The proprietor is the sole master of his business. He controls all functions of the business. H himself takes decisions at appropriate time. He is free to direct and control the operations of his business.

4. Promptness in Decision-Making

He is free to take any kind of decisions related to his business at any time. He is the supreme and sole master of his business. He need not consult anyone on any issue. So he can take quick and clear decisions.

5. Flexibility in Operations

Change is the rule of present day business. A sole trader can easily and quickly change the nature and methods of business according to changes in tastes, fashions and circumstances.

6. Maintenance of Secrecy

A sole trader can maintain strict secrecy of his business conditions and methods. He is not expected to share his trade secrets with anybody else. He is not required to disclose accounts or the profits or any other materials fact to the public.

7. Personal Contact with Customers

A sole trader himself manages the business. So he can establish and maintain personal contact with his customers. He can easily study the tastes and requirements of the customers and produce or purchase goods according to their tastes. As a result his customers will b fully satisfied.

8. Training to Children

A sole trader is usually helped by his children. This makes his children learn business methods and working. As a result if the owner dies there is every possibility of business carried on by his children.

9. Minimum Government Regulations

The business activities of a sole trader are least regulated by law and the Government. The proprietor is not required to submit the results of his business to any authority. There is no restriction in changing the nature of the business.

10. Credit – Standing

The liability of the sole proprietor is unlimited. It extends to his private property. So the creditors' can have a claim over the private property of the owner. The creditors feel secured in extending credit to individual proprietors.

Demerits

1. Limited Credit and Capital

The capital required by the business is provided or supplied by the sole proprietor himself. He may provide capital out of his own savings or borrowings. But he personal savings of the proprietor may be limited. So he may not be in a position to provide the entire capital necessary for a growing business. A sole trader finds it difficult to provide necessary capital for the development of his business.

2. Limited Managerial Ability

The managerial ability of the sole trader is also limited. He may not be expert in each and every function of the business. He may not be able to devote sufficient time for all types of activities. He will have to depend upon his paid employees. Limited managerial ability acts as a brake to the development and expansion of business.

3. Unlimited Liability

The liability of a sole trader is unlimited. It extends to his private property also. His private property is also liable for the debts of the business. The creditors can recover their loan amount not only from the assets of the business but also from the private assets of the proprietor.

4. No Continuous Existence

The life of the business is limited to the life of the proprietor. The business comes to an end if anything happens to the proprietor. The business sinks and swims with its owner. The business may suddenly come to an end with the death or physical incapacity of the proprietor. The successors of the sole proprietor may not have an aptitude or ability to continue the business.

5. Absence of Specialization

The sole trader is the manager and controller of the business. He has to look after purchases, sales, correspondence, accounts etc. hence he is overburdened with a number of duties. He may not be efficient in all these activities. As a result, the management may not be efficient due to limited finance it is not possible to employee trained professional managers. So this type of business organization cannot enjoy the benefits of specialization. It cannot also enjoy the benefits of large scale operation.

6. Restricted Growth

Growth is the normal rule of life. A business unit, like a living organ, is to survive and grow. A sole trading concern may not grow in size and maturity due to limited financial resources and managerial ability.

7. More Risks Involved

A sole trader is the supreme and sole master of his business. So he need not consult anyone while taking decisions. So there is a possibility of taking wrong decisions. Wrong decisions may at times result in heavy losses. The losses are all to be borne by a sole proprietor. Nobody shares his losses or risks.

Q23. What are the main characteristics of sole trading concern ?

Ans :

1. Single Ownership

The sole trader is the sole owner of the firm. He fully owns the business.

2. Management and Control

The proprietor manages the whole business himself. He prepares various plans and executes them under his supervisions. He is free to direct and control the

3. Undivided Risk

The proprietor takes all profits and bears losses, if any. Nobody shares his profits or losses.

4. Unlimited Liability

The liability of the proprietor is indefinite or unlimited. He is personally responsible for the payment of business debts if he makes a heavy loss, he may loose his capital and even his entire private property.

5. **Proprietor and the Firm Identical**

   In law there is no difference between the firm and the proprietor the firm. They both are same. The business and owner exist together. The proprietor owns everything the firm owns, and owns everything a firm owes.

6. **Limited Area of Operation**

   The sole trade business has generally a limited area of operations.

7. **Free From Government Regulations**

   There is no special Act governing the work of a sole proprietor. He will be subject to the general laws of the country. The business is free from government regulations.

3.9.2 Partnership

Q24. What do you understand by partnership? Discuss the advantages and limitations of partnership business.

(OR)

Explain the superiority of partnership over a sole trading concern.

Ans : **(Imp.)**

Meaning

Partnership form of organization has developed due to the limitations of sole trading concern. It is governed by the partnership Act, 1932. Section 4 of the Act defines partnership as “The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”. Persons who enter into partnership are individually called “partners” and collectively a “firm”. The name under which the business is carried on is called the “firm name”.

Advantages

Partnership firm enjoys many advantages. It is superior to a sole trading concern. The reason is a partnership firm enjoys more advantages compared to a sole trading concern. The following are the advantages of partnership :

1. **Facility of Formation**

   Like the sole proprietorship, a partnership can be formed without much expense and legal formalities. There is no need to prepare and file documents as in the case of a Joint-Stock Company. A simple agreement among partners is sufficient to start a partnership firm. The agreement need not essentially be in writing. Even registration of the firm is not compulsory.

2. **Larger Financial Resources**

   The resources or saving of more than one person are available for the business. The combined resources of many persons would be certainly larger than the limited resources or capital of a sole trader. So a partnership commands more resources. As a firm requires more resources, more partners can be admitted. New persons can also be admitted as partners to secure more capital that may be needed for the expansion of business.

3. **Benefits of Division of Labour**

   Division of labour can be introduced in the management of the partnership. Work may be distributed among the partners according to their abilities. One partner may be in charge of accounts, the other may supervise correspondence, and another may look after sales and so on. Division of labour or work among partners increases the efficiency of the business resulting in more profits. This is an importance advantage over the sole proprietorship.

4. **Flexibility of Operations**

   This form of organization is highly flexible. This business is free from legal restrictions on its activities. The nature and place of business can be changed when ever the partners desire. The agreement can be altered and new partners can be admitted when ever necessary. The change does not require either the approval of the government or the sanction of the court. The changes can be made easily depending upon the business opportunities.

5. **Promptness in Decision-making**

   The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision. The decisions taken by partners are usually quite balanced.

6. Relationship between Reward and Work

The partners try to put more labour to earn more and more profits. There is direct relationship between reward and work. So the more they work, the more they will be benefited.

7. Reduced Risk

The risk or loss of business will be shared by all partners. Hence the burden of every partner will be less as compared to the burden of sole trader. Further the business expansion will not be affected by fear of risk.

8. Personal Supervision

Partners look after the business personally. They take personal and active interest in supervision and management. As a result, waste and inefficiency are minimized or eliminated. Management by partners may also be economical as compared to management in joint-stock companies. As the partners themselves look after the business, there is also great scope to develop cordial relations with the employees, customers and others and this would help the business in many ways.

9. Protection of Minority Interest

The minority interest in a partnership is well protected by law. Each partner is an important as the other. All important decisions can be taken only by the consent of all partners. No decision can be made without the consent of minority group. In fact the law gives each partner the right to be heard and consulted. If a majority decision is enforced on minority, then effected partners can get the business dissolved.

10. Maintenance of Secrecy

The secrets of business are very important for small concerns. A partnership concern is not expected to publish its profit and loss account and balance sheet as is necessary for a company. The partners can keep the business secrets to themselves. They can maintain secrecy from their competitors.

11. More Credit-standing

The partners may have sufficient contacts in the market. They can offer more securities to the financial institutions. The liability of partners being unlimited, they will be able to raise more finance easily and at lower rates of interest. As compared to a sole trade business, partnership concern has more credit-worthiness.

12. Easy Dissolution

Dissolution of firm is not difficult. The partnership can be dissolved on insolvency, lunacy or death of a partner. If the partnership is "at will", then any partner can get the firm dissolved by giving notice to other partners. No legal formalities are to be observed at the time of dissolution. So it is easy to start as well as to dissolve a partnership concern.

Disadvantages

Partnership suffers from the following disadvantages or limitations :

1. Unlimited Liability

Partners are liable to the debts of the firm to an unlimited extent. Every partner is jointly and severally liable for the entire debts of the firm. If the business assets are not sufficient for the payment of the debts, partners must sell their private properties and pay off the debts. If the firm makes heavy losses, partners will lose not only their capital but also their private properties. So unlimited, joint and several liability of partners discourages them to undertake risky business like mining and ship-building. The great disadvantage of this form of firm is that the partners become fully liable for its losses upto the limit of their resources.

2. Continuity is Uncertain

The continuity of the business of the firm is uncertain. Death, insolvency, insanity, or incapacity of one of the partners may lead to dissolution of the firm. The lack of trust among partners can also lead to dissolution. Thus instability is the worst disadvantage of partnership.

3. Lack of Harmony

Partnership implies collective as well as individual liability and responsibility. This necessities close operation among the partners. But many a time the firm may become the hotbed of quarrels and clashes of interests and of views between partners. Due to divided responsibility, each of them may try to shift the blame on others. Mutual conflicts and lack of team - spirit among partners may lead to loss of reputation and finally to closure of business. A large number of firms have failed because of mistrust and suspicion among partners.

4. Restriction on Transfer of Interest

No partner can transfer his interest or share in the firm to outsiders without the unanimous consent of all other partners. A partner feeling necessity of hard cash cannot sell his interest in the firm as a matter of course. Lack of liquidity discourages many from investing in partnership business.

5. Burden of Implied Authority

A partner can bind the business by his acts. He can act as an agent of business. A dishonest partner may land the business in difficulties. The other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.

6. Lack of Public Confidence

The accounts of partnership concerns are not published. So public is unaware of the exact position of business. There is a suspicion in public mind that these concerns earn huge profits at the cost of consumers. Besides, the affairs of the firm are not legally controlled as in case of companies. So partnership concerns lack public confidence.

7. Inadequate Capital

A partnership firm can raise more capital than a sole trader. But it may not be able to raise or secure adequate capital for expansion beyond a certain limit. The business resources are limited to the personal funds of the partners. Borrowing capacity of the partners is also limited. The number of partners to be added is also limited.

The number of partners cannot exceed 10 in banking business and 20 in other types of business. The limit on the number of partners limits the amount of capital that can be raised. So a partnership cannot secure adequate capital for large scale business.

Inspite of the above disadvantages, partnership organization is admirably suitable for medium - size concerns where personal efforts of the owners are essential. In recent years, however, this form of organization is on its decline.

Q25. What are the chief characteristics of partnership firm ?

Ans :

1. Association of Two or More Persons

In partnership, there must be at least two persons. It is the outcome of a contract, so there must be two or more persons. The persons becoming partners must be competent to enter into a contract. According to Companies Act, the maximum number of partners engaged in a banking business cannot exceed ten and twenty in any other business.

2. Contractual Relation

The persons joining the partnership enter into a contract for running the business. According to Partnership Act, the relation of partnership arises from contract and not from status. The contract may be oral or written.

3. Earning of Profits

Purpose of a business is to make profits and distribute them among its partners. If a work is done for charity purposes or to serve the society it will not be called partnership.

4. Existence of Business

Partnership can only be for some kind of business. Business includes all activities concerning production, distribution and rendering of services for the purpose of earning profits. If the work is related to social service, it is not called business and so no partnership.

5. **Implied Authority**

There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.

6. **Unlimited Liability**

Liability of the partners of a firm is unlimited. But in some cases obligations may arise then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm to the third parties. The creditors can claim their dues from anyone of the partners or from all the partners. The partners are liable individually and collectively.

7. **Principal and Agent Relationship**

A relationship between Principal and Agent exists. It is not necessary that all partners should work in the business. Any one or more partners can act on behalf of other partners. Each partner is an agent of the firm and his activities bind the firm. He also acts as a principal because he is bound by the activities of other partners.

8. **Utmost Good Faith**

The very basis of the partnership business is good faith and mutual trust. Every partner should act honestly and give proper accounts to other partners. The partnership cannot run if there is suspicion among partners. It is very important that partners should act as trustees and for the common good of all. Distrust and suspicion among partners lead to the failure of many firms.

9. **Protection of Minority Interest**

All important decisions are taken by consensus. It ensures protection of those who may not agree to the majority. A partner may even ask for the dissolution of partnership if he feels aggrieved.

10. **Common Management**

Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the everyday activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.

Q26. Explain the various types of partners.

Ans :

There are different kinds of partners and they may be classified as under :

1. **Active Partner**

An active partner is one who takes active part in the day-to-day working of the business. He may act indifferent capacities such as manager, organizer, adviser and controller of all the affairs of the firm. He may also be called as working partner.

2. **Sleeping or Dormant Partner**

A sleeping partner is one who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern. A person may have money to invest but he may not to able to devote time for the business : such a person may become a sleeping partner. Sleeping partner is liable for the liabilities of the business like other partners. He cannot bind the business, *i.e.,* firm, to third parties, by his acts. He is not known to the public as a partner; so he may be called as 'secret partner.'

3. **Nominal Partner**

A nominal partner is one who lends his name to the firm. He does not contribute any capital nor does he shares profits of the business. He is known as a partner to the third parties. On the strength of his name, the business may get more credit in the market or may promote it sales. A nominal partner is liable to those third parties who give credit to the firm on the assumption of the person being a partner in the firm.

4. **Partner in Profits**

A person may become a partner of sharing the profits only. He contributed capital and is also liable to third parties like other partners. He is not allowed to take part in the management of the business. Such partners are associated for their money and goodwill.

5. Partner by Estoppels or Holding Out

When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts, he is called a partner by estoppels or by holding out. A partner by estoppels or by holding out shall be liable to outsiders who deal with the firm on the presumption of that person being a partner in the business even through he is not a partner and does not contribute anything to the business.

6. Secret Partner

The position of a secret partner lies between active and sleeping partner. His membership of the firm is kept secret from outsiders. His liability is unlimited and he is liable for the losses of the business. He can take part in the working of the business.

7. Sub-Partner

A partner may associate anybody else in his share in the firm. He gives a part of his share to the stranger. The relationship is not between the sub-partner and the firm but between him and the partner. The sub-partner is a nonentity for the partnership. He is not liable for the debts of the firm.

8. Minor as a Partner

A minor is a person who has not yet attained the age of majority. A minor cannot enter into a contract according to the Indian Contract Act because a contract by a minor is void *ab initio*. However, a minor may be admitted to the benefits of an existing partnership with the consent of all partners. The minor is not personally liable for liabilities of the firm, but his share is the partnership property and profits of the firm will be liable for debts of the firm. A minor has the following rights and liabilities under the Partnership Act :

(i) A minor has a right to such share of property and of profits of the firm as may be agreed upon by all the partners.

(ii) A minor may inspect the accounts of the firm or take note of the accounts.

(iii) The personal property of the minor is not liable for the debts of the firm. But his share is property of the firm and profits is liable for the debts and obligations of the firm.

(iv) So long as a minor remains a partner he cannot file a suit against other partners for accounts or for the payment of his share in the property or profits of the firm. He can do this only when he wants to swear his relations with the partnership firm.

(v) At any time within 6 months of his attaining majority (*i.e.,* completing 18 years of age) the minor may give public notice of the fact that he has decided to become or not to become a partner in the firm. In case he does not give any such notice within six months, it shall be presumed that he has opted to become a partner.

(vi) In case a minor decides to become a partner, he will be personally liable to third parties for all acts of firm, since he was admitted to the benefits of the firm.

(vii) If a minor decides not to become a partner, his rights and liabilities continue to be those of a minor upto the date on which he gives public notice. His share will not be liable for any acts of the firm done after the date of the notice.

Q27. Is registration of partnership compulsory under Partnership Act, 1932? Give the procedure required for a registration of a firm.

Ans :

Registration of Partnership Firm

Registration of a partnership firm is compulsory in England. But in India it is not compulsory. The Indian Partnership Act provides that if the partners so desire, they may register their firm with the Registrar of Firms of the State. Thus registration is optional. But the Act imposes certain disabilities on the partners of an unregistered firm so as to make registration very desirable.

Ex : No partner of an unregistered firm can file a suit to enforce his rights under the partnership deed.

Thus the Partnership Act has introduced certain disabilities which make registration necessary and desirable.

Registration of the firm does not provide separate legal entity to the concern as in the case of a joint-stock company. Partnership does not need registration for coming into existence because it is created by an agreement among two or more persons. The registration of a firm merely certifies its existence and non-registration does not validate the transactions of the firm.

Procedure for Registration

The procedure consists of two parts :

(a) Filling an application

(b) Certificate

(a) Filling an Application

The first thing to be done is to file an application with the Registrar of Firms on a prescribed firm. A small amount of registration fees is also deposited along with the application. The application should contain the following information :

(i) Name of the firm

(ii) Place or places of business of the firm

(iii) Names and full addresses of the partners of the firm

(iv) Date on which the partners have joined

(v) Duration of partnership

The application form should be signed and verified by each partner. Along with the application, a copy of the partnership deed signed by all the partners should be submitted to the Registrar.

(b) Certificate

The particulars submitted to the Registrar are examined. All the legal formalities required are also observed. If everything is done, then the Registrar will register the particulars in the Register of Firms. The firm is considered registered thereon. The entries made by the Registrar are treated as conclusive.

Q28. What are the effects of non-registration Partnership?

Ans :

The Partnership Act has introduced certain disabilities which make registration necessary. The disabilities are as follows :

(i) A partner of an unregistered firm cannot enforce his claims against outsiders or against his colleagues or the firm.

(ii) An unregistered firm cannot enforce its claims against the third party in the court of law. But it can sue a third party for a sum not exceeding Rs. 100.

(iii) The third party is at full liberty to file a suit against any unregistered firm or against any partner in such a firm to recover it claims.

(iv) Unregistered firms cannot sue its partners.

The non-registration of a firm does not affect the following rights :

(i) The rights of third party to sue the firm or any partner,

(ii) The right of a partner to sue for the dissolution of the firm or for the settlement of its accounts.

(iii) The right or power of an Official Receiver or Official Assignee to realize the share of the insolvent partner.

(iv) The unregistered firm or its partners may sue or claim a set off where the subject matter of the suit does not exceed Rs. 100 in value.

Q29. State the advantages of registration of partnership.

Ans :

Advantages

(i) Advantages to the Firm

The firm gets a right to sue the third parties for getting its rights enforced.

(ii) Advantages to the Creditors

A creditor can sue any partner for recovering his money due from the firm. All partners whose names are given in the registration are personally responsible to the outsiders. So the creditors can recover their money from any partner of the firm.

(iii) Advantages to the Partners

The partners can approach a court of law against each other in case of dispute among them. The partners can sue outside parties also for recovering their amounts.

(iv) Advantages to the Outgoing Partners

The registration of firm benefits the outgoing partners in a number of ways. On the death of a partner, his successors are not responsible for the liabilities incurred by the firm after the date of his death. In case of a retiring partner, he continues to be responsible upto the time he does not give a public notice.

(v) Advantages to the Incoming Partners

A new partner can fight for his rights in the firm if the firm is registered. If the firm is not registered, then he will have to depend on the honesty of other partners.

Q30. What are the points usually dealt within partnership deal?

(OR)

What is a partnership deed? Discuss its main contents and utilities.

Ans : **(Imp.)**

Meaning

Partnership is the result of an agreement. The agreement may be express or implied. It may be verbal or written. It is always desirable to have the agreement in writing for the following reasons :

(i) Partnership in an agreement based on utmost good faith. The success of partnership depends upon mutual understanding. The affairs of the business must be conducted in such a way that, there is no scope for misunderstanding between partners. Each partner should know clearly what he can do and what his duties and responsibilities are.

It is desirable that these details are discussed at the time of formation of partnership and incorporated into the agreement. If the duties and responsibilities are not clearly defined, partners may act beyond their authority and this may cause misunderstanding among partners leading to disputes and litigations.

(ii) The rights and duties of partners are determined by agreement. The partnership Act also defined the rights and duties of partners, but these will come in to operation only when there is no agreement. Differences may develop, if the rights of partners are to be determined according to law. For example, no salary can be claimed by a partner as a matter of right, even if he devotes all his time for the business. Similarly, in the absence of agreement; a nominal interest of 6% per annum is allowed by law on loans advanced by partners. Hence it is desirable that the agreement is reduced to writing.

(iii) Banks and other financial institutions insist on the production of written agreements for granting loans and advances to firms.

The agreement in writing containing the terms and conditions of the partnership is called "Partnership Deed". The deed has to be stamped as per the Indian Stamps Act. Each partner should have a copy of the deed with him. It is desirable to entrust the preparation of the deed to an experienced lawyer.

Precautions

The following precautions are suggested to ensure smooth working of Partnership :

(i) The success of partnership depends upon mutual trust and confidence among partners. It is therefore necessary to be careful and cautions are selecting partners of partners. Only persons with established reputation, character and integrity should be admitted into partnership. It is said that choosing a partners is like choosing a wife. In either case there is need for second thought and sure knowledge. Thorough enquiry should be made about the antecedents and character of the person, before taking a decision on his admission into partnership.

(ii) The duties, rights and responsibilities of the partnership, and other terms and conditions of partnership should be thoroughly discussed in advance. A Partnership Deed should them be prepared incorporating the details of the agreement.

(iii) The number of partners should be small as far as possible. It is desirable not to have more than five partners. If the number is too larger, it will be difficult to reconcile differences. Further there may be too much interference in the day-to-day administration of the business.

(iv) The partners should meet frequently and evolve common views and procedures regarding the conduct of business.

(v) The partners should work sincerely and in good faith. No one should try to gain at the expense of others.

(vi) There should be proper balance in the firm. The partners should possess diverse skills and talents so that all types of problems that come before the firm will not be able to enforce its right against third parties.

Contents

A properly drawn up partnership deed should cover the following points:

1. The name of the firm.
2. The name and addresses of the partners composing the firm.
3. The nature of business.
4. The town and places where the business will be carried on.
5. The amount of capital to be contributed by each partner and the rate of interest, if any, payable thereon.
6. Rate of interest, if any, payable on loans advanced by partners over and above their capitals.
7. The duties, rights and obligations of partners.
8. Salary, if any, payable to any partner or partners.
9. The amount of private drawing allowed for each partner and the rate of interest, if any, chargeable thereon.
10. Profit sharing ration.
11. The method of preparing accounts and arrangements of audit.
12. The method of valuation of goods will on admission or death or retirement of a partner.
13. The method of revaluation of assets and liabilities on admission or death or retirement of a partner.
14. The procedure to be adopted for the expulsion of any partner.
15. The circumstances under which the partnership will stand dissolved and the custody of books in case of dissolution.
16. Method of arbitration to settle difference and disputes among partners.
17. Arrangement in case of insolvency of a partner.

Q31. What are the rights and duties of partners?

(OR)

Examine the rights and duties of partnership business in the absence of a partnership agreement.

Ans : **(Imp.)**

Rights of Partners

The following are the rights of partners in the absence of an agreement:

1. Every partner has a right to take part in the management of the firm, He has a right to be consulted on ordinary matters, which will be decided by majority vote. Fundamental matters like admission of a partner, change in the nature of business etc., will require unanimous consent of the partners.

2. Every partner has a right to inspect books of account and records and take a copy of them.
3. Every partner has a right to recover any amount spent by him in the ordinary and proper conduct of the business. He has also a right to be indemnified for any loss suffered by him in the conduct of such business.
4. Every partner has a right to receive interest on loans advance to the firm over and above the capital, at the rate of six percent per annum.
5. Every partner has a right to share the profits of the firm equally along with other partners.
6. A partner has a right to have the property of the firm applied exclusively for the purpose of the firm.
7. A partner is not entitled for any remuneration or salary for taking part in the conduct of the business.
8. A partner is not entitled to claim interest on the capital contributed by him.

Duties and Obligations

The following are the obligations of partners:

1. All the partners must be faithful to one another and to the firm.
2. Partners should give full and correct information and render true accounts of the firm to one another.
3. Every partner must diligently carry on the business of the firm to the maximum advantage of all the partners and the firm.
4. Every partner has to indemnify the firm against any loss caused by his willful misconduct.
5. No partner should make any profit for himself by way of secret commission on sales or purchases made be behalf of the firm.
6. Every partner has to share losses equally along with other partners, unless there is an agreement to the contrary.
7. No partner shall engage himself in any business which competes with that of the firm.
8. No partner can assign or transfer his interest in the firm to any other person without the consent of all other partners.
9. A partner must act within the scope of his authority. He must indemnify the firm if he exceeds the powers.

Liabilities and Obligations to Third Parties

The liabilities and obligation of the partners to third parties arise on account of the agency relationship between partners and also between each partner and the firm.

1. Partners are jointly and severally liable to third parties for the act of the firm. If the assets of the firm are not sufficient to meet the liabilities i full, creditors can process against any or all the partners for the recovery of the amount due.
2. The firm will be liable for any loss caused to third parties by wrongful act of any partner.
3. A retiring partner will be liable for all the debts of the firm contracted before is retirement.
4. The firm will be liable for any misapplication of money or price of property received from third parties by a partner of the firm.

Q32. Distinguish between Partnership and Sole Trade.

Ans :

S.No.	Nature	Partnership	Sole-Trade
1.	**Membership**	Partnership is owned by two or more persons known as partners.	Sole-trade business in owned and controlled only one persons. If a second person joins then it becomes a partnership.
2.	**Agreement**	To constitute partnership, an agreement is required in the form of a partner ship deed. The agreement among partners may be express or implied.	A sole-trade does not require any formality to start the concern. There is no need of agree-ment in this business.
3.	**Registration**	A partnership concern needs registration to get certain advantages of registration. Though registration is not compulsory but not registration bars it from taking legal remedies.	No registration of a sole-trade business is required except under Shops and Establish-ment Act.
4.	**Management**	All partners have equal rights and all of them can participate in the management. They can being the business by their acts.	This business is controlled by one person only. His order is a law & he is the final authority in the concern.
5.	**Risk**	The business risk is shared by all the partners in proportion of their shares.	The whole risk is shared by the sole-trader.

Q33. Explain the Concept of Limited liability partnership.

Ans :

Meaning

The Parliament of India passed the Limited Liability Partnership Act in 2008 to govern LLP businesses in India. According to Section 2 of this law, an LLP is a partnership registered under the Act. Further, an LLP agreement means a written agreement either between an LLP's partners or between the LLP itself and its partners. This agreement defines the rights, liabilities, duties, and powers of the partners.

Since the Limited Liability Partnership Act, 2008 specifically governs limited liability partnerships in India, the provisions of the Indian Partnership Act, 1932 are not applicable to LLPs. They only apply to traditional partnership firms.

Features of LLP

1. The LLP has Separate Legal Entity i.e. the LLP and the partners are distinct from each other.
2. Minimum of 2 partners are required to form a LLP. However, there is no limit on the maximum number of partners.
3. No requirement of Minimum Capital Contribution.
4. The LLP Act does not restrict the benefit of LLP structure to certain classes of Professionals only and would be available for use by any enterprise.

Q34. What do you understand by "Joint Hindu Family Firm". State the advantages and disadvantages of Joint Hindu family firm.

Ans :

Meaning

Joint Hindu family business is a peculiar form of business found in India. In this form of business ownership, all members of a Hindu undivided family do business Jointly under the control of the head of the family. The head of the family is known as "Karta". The firm is owned by the members of an undivided Hindu family who have inherited an ancestral property.

The property inherited by a Hindu form from his father, grandfather and great grandfather is regarded as ancestral property. The members of the family are known as co-parceners. The Joint Hindu family firm comes into existence by the operation of Hindu Law and not out of contract. Thus, the Joint Hindu family firm is a business owned by co-parceners of a Hindu undivided estate.

Advantages

Following are the advantages of a Joint Hindu family firm :

1. Centralised Management

The management of a Hindu Joint family firm is centralised in the hands of one man known as "Karta". He being the eldest and most experienced person gives a very disciplined management. Karta takes all decisions and gets them implemented with the help of other members. No other member interferes in his management.

2. Quick Decisions

As Karta is the only decisions maker, he can take a very quick decision. A quick decision is of great advantage. Some times a profitable activity is lost due to lack of quick decision. The Karta takes not only quick decision but his decisions are final and unchallengeable.

3. Credit Facilities

For every business money is required. In joint Hindu family firm the credit facilities are more. One reason for this is that the liability of the Karta is unlimited. There is also a pious obligation on the part of sons of Karta to satisfy even the unsatisfied debts raised by him during his life time.

4. Work According to Capacity

The work is assigned to the members according to their capacity. A physically handicapped or a partly disabled member may be assigned a little work or no work at all. This will not disentitle him of his various needs and the benefits which are given to other members. A person who is more strong than others may be assigned work of physical nature. Infants are not required to do any work at all. This is a great advantage of Joint Hindu Family firm.

5. Economy

In a business, for it success, economy is a must. It is well balanced and maintained in Joint Hindu Family firm. Karta spends money with great caution and economy.

Disadvantages

Following are the advantages of Joint Hindu family firm :

1. Limited Capital

The investments are limited only upto the resources of one family. They may be sufficient to meet business requirements for expansion.

2. Limited Managerial Skill

Only the Karta is to manage the family business. He performs the functions of the management. He may not be will conversant with the knowledge of business skill and other problems of the business management. Limited managerial skill with hinder the growth of concern.

3. No Reward for Efficiency

All the members of the family are provided with basic needs and other facilities. The persons who work more efficiently and dedicatedly are no rewarded for their work. So efficient workers are also tempted to work less. It encourages laziness on the part of family members. The members try to avoid work.

Q35. Distinguish between Partnership firm and Joint Hindu Family.

Ans : **(Imp.)**

S.No.	Nature	Partnership Firm	Joint Hindu Family Firm
1.	**Governance**	It is governed by the Indian Partnership Act.	It is governed by two schools : Mitakshara and Dayabhaga of Hindu Law.
2.	**Mode of Creation**	It is created by the mutual agreement between the partners. The Agreement may be written of oral,. It is a result of a contract or agreement between two or more persons.	It arises from status and not by an agreement. It always arises by operation of law.
3.	**Legal Position**	In the eyes of law, a partnership firm has no separate identity. Partners and the firm are one and the same.	It has separate identity of its own. Members of the family are merely co-owners.
4.	**Number of Members**	The maximum number of members is fixed. In the case of a banking business and twenty in other cases.	No maximum number is fixed in this type o firms.
5.	**Admission of a Member**	No new partner can be admitted into the business without the consent of all other existing partners.	A person becomes a member in this firm by his birth.
6.	**Position of a Minor**	A minor cannot become a partner. He can be admitted to the benefits of the firm with the consent of other partners.	A male minor becomes a member by birth in the family.
7.	**Management**	Every partner can take active par in the management of a partnership firm.	The power to manage is centralized in the hands of Karta. All the affairs of the business are controlled and managed by Karta.

8.	**Liability of Members**	The liability of the partners is unlimited. The private properties of partners are also liable to the debts of the firm in addition tot heir shares in the business.	The liability of Karta is unlimited. All the other members are liable only to the extent of their share in the joint family business.
9.	**Accounts**	Accounts are to be properly maintained an any partner can inspect the accounts at any time in case of partnership firm.	Karta is not under any obligation to maintain accounts. No member can even ask for the accounts from karta.
10.	**Dissolution**	Partnership firm can be dissolved on the death or insanity of a partner.	The continuity of a Joint Hindu Family is not affected by death or insanity of a member. Only partition can bring it to an end.
11.	**Registration**	Registration of the partnership firm is not compulsory but the law indirectly made registration necessary.	Registration is not all necessary.

Q36. What are the characteristics of Joint Hindu Family ?

Ans :

Characteristics

The following are the characteristics of a Joint Hindu family firm :

1. Governed by Hindu Law

The control and management of the Joint Hindu family firm is done according to the uncodified or codified Hindu Law. The uncodified Hindu Law consists of two schools-mitakshara and Dayabhaga. In the same way, rights and duties of members and governed by uncodified Hindu Law. The firm is also governed by the codified law namely, the Hindu Succession Act, 1956.

2. Membership by Birth

The membership of the family can be acquired only by birth. Whosever is born in the family becomes a members. Unlike in other business organisations, outsiders cannot be admitted to this by contract.

3. Management

The family affairs are managed by the senior most male member of the family known as “Karta” or “Manager”.

4. Liability

All the members in Joint Hindu family have limited liability to the extent of property which is Jointly held by the family. The self-acquired property of any member cannot be taken on order to satisfy the loans taken by the family. It is only the Joint family property which is liable for satisfying debts. However, Karta is also liable personally for loan taken on promissory note. Thus the liabilities of Karta is unlimited but the liability of other members is limited to their shares in the business.

5. Continuity

The continuity of a Joint Hindu family firm is not affected by death or insanity of a member. It continues for ever.

6. Minor Also a Member

A person becomes a member of a Joint family business by birth. So a minor can be a member of this form of organization. But in partnership firm, a minor cannot become a partner.

7. Accounts

Karta's powers are unlimited. He acts on behalf of the members of the family but is not like a partner. The accounts of the firm are maintained by the Karta. But he is not accountable to any member. No member can ask what was the income and what was the expenditure. The Karta is the great master of the grand show.

8. Implied Authority of Karta

The Karta has implied authority to act on behalf of the other members of the family. These acts are binding on the entire family. No other member has such an authority.

3.9.3 Co-operative Organization

Q37. Define co-operative organisation. Explain the features of co-operative organization.

Ans : **(Imp.)**

Meaning

In the major forms of business organisation discussed so far in this book, tribasic objective of the owner or owners is to make profit. The co-operative form of organisation is different from these in one basic respect, it is set up not with profit as the guiding motive but with the fundamental object of organising and rendering service for the organisation and its members.

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherance of their common economic interests. It may be described as a protective device used by the relatively less strong sections of society to safeguard their economy interests in the face of exploitation by producers and sellers working solely or maximising profits.

Features

As a form of organisation, the co-operative association is marked by the following distinctive characteristics :

(i) Voluntary association

"A co-operative society is a voluntary association of persons and not of capital." Any person, irrespective of his caste and creed, can join a co-operative society of his free will and can leave it at any time after giving due notice to the society. While leaving, he can 'withdraw his capital from the society. He cannot, however, transfer his share to another person. The voluntary character of the co-operative association has two major implications : (a) none will be denied the right and opportunity to become its member, and (b) the co-operative society will not compel anybody to become a member.

(ii) Finance

The capital of a co-operative society is raised from members by way of share capital. Since co-operatives are organised by relatively weaker sections of society, the share [capital is generally limited. However, it is a part of Government policy to assist and encourage co-operatives and, therefore, a co-operative society can usually augment its resources by loans from the State and Central Co-operative Banks.

(iii) Control and management

Democracy is the key-note of the manage-ment off co-operative society. Since most of these societies operate on a local scale, the meetings of the members are generally well attended. At these meetings, the members elect the managing committee lay down the policy which it must follow to promote their common interests. Each member, whatever be his stake in the society, has one vote and hence an equal right to participate in the management of the society. Members cannot vote by proxy. Besides, the organisation and control of a co-operative society tend to be perfectly democratic in so far as its bye-laws are approved by the members after it has been registered. Not merely this, even the day-to-day work of a co-operative society may be carried on by the members working in different capacities, and outside may be employed only when the society grows too large.

(iv) Service motto

A co-operative society is organised prime with the object of rendering maximum service to its members in a certain field. It does not aim at profit at the cost of its members, for it is formed basically for providing certain essential facilities to members..

(v) Disposal of surplus

It is usual for commercial concerns to distribute profit among the owners in the ratio of their capital contribution, or in an agreed ratio. A co-operative society differs from the trading companies in this respect. Under the co-operative form of ownership and organisation, the surplus arising out of a year's working is given to the members not directly as dividend on [shares held by each of them, but in the form of a bonus which need not be proportionate to their respective capital contributions.

The bonus may be paid to the members in proportion to purchases made during the year in the case of a consumers' co-operative store, or in proportion to the goods delivered for sale to the society in the case of a producers' co-operative store. In fact, the profit arising out of a difference between the cost price and market price may not be distributed among members but may be utilised in extending amenities and facilities to the members or for undertaking certain social activities for the benefit of the members.

(vi) Fixed return on capital

One of the basic principles of co-operative organisation, laid down by the pioneers of the co-operative movement like Rochdale and Owen, was that a fixed or limited return on capital subscribed to the society must be paid out of the surplus to that members) "Making the payment of fixed interest on paid-up capital definitely a first charge on the trading surplus, gave those who joined the society a solid reason for leaving their saving in deposit with it."

(vii) State control and corporate status

Although voluntary in their basic character; the co-operative societies are subject to considerable State control and supervision In India, the co-operative societies are registered under the Co-operative Societies Act, 1912 or the relevant State Co-operative Societies Act, as the case may be. the co-operatives desiring to be registered must fulfil the following broad and basic requirements :

(a) A co-operative society must have at least 10 members who have attained majority in age *(i.e.,* are above 18 years of age).

(b) The members should be bound together by a common bond, *e.g.,* they may belong to the same village or locality, tribe, or occupation, etc.

(c) The members should present a joint application to the Registrar of Co-operative Societies furnishing important particulars like membership, share capital, objects, etc.

(d) A copy of the bye-laws and the scheme of organisation should be submitted to the Registrar. On registration, the co operative society will attain the corporate status (the status of a company) and will become entitled to certain privileges.

Q38. Explain the advantages and dis-advantages of co-operative organization.

Ans :

Advantages

1. Voluntary organization

The membership of a cooperative society is open to all. Any person with common interest can become a member. The membership fee is kept low so that everyone would be able to join and benefit from cooperative societies. At the same time, any member who wants to leave the society is free to do so. There are no entry or exit barriers.

2. Ease of formation

Cooperatives can be formed much easily when compared to a company. Any 10 members who have attained majority can join together for forming a cooperative society by observing simple legal formalities.

3. Democracy

A co-operative society is run on the principle of '*one man one vote*'. It implies that all members have equal rights in managing the affairs of the enterprise. Members with money power cannot dominate the management by buying majority shares.

4. Equitable distribution of surplus

The surplus generated by the cooperative societies is distributed in an equitable manner among members. Therefore all the members of the cooperative society are benefited. Further the society is also benefited because a sum not exceeding 10 per cent of the surplus can be utilized for promoting the welfare of the locality in which the cooperative is located.

5. Limited liability

The liability of the members in a cooperative society is limited to the extent of their capital contribution. They cannot be personally held liable for the debts of the society.

6. Stable existence

A cooperative society enjoys separate legal entity which is distinct from its members. Therefore its continuance is in no way affected by the death, insanity or insolvency of its members. It enjoys perpetual existence.

7. Each for all and all for each

Co-operative societies are formed on the basis of self help and mutual help. Therefore members contribute their efforts to promote their common welfare.

8. Greater identity of interests

It operates in a limited geographical area and there is greater identity of interest among members. Members would be interacting with each other. They can cooperate and manage the activities of the society in a more effective manner.

9. Government support

The government with a view to promote the growth of cooperative societies extends all support to them. It provides loans at cheap interest rates, provides subsidies etc.

10. Elimination of middlemen

Cooperatives societies can deal directly with the producers and with the ultimate consumers. Therefore they are not dependent on middlemen and can save the profits enjoyed by the middlemen.

11. Low taxes

To promote the co-operative movement and also because of the fact that it is a non-profit enterprise, government provides various exemptions and tax concessions.

12. Rural credit

Co-operative societies have contributed significantly in freeing villagers from money lenders. Earlier, money lenders used to charge high rates of interest and the earnings of the villagers were spent on payment on interest alone.

Co-operatives provide loans at cheaper interest rates and have benefited the rural community. After the establishment of co-operatives, the rural people were able to come out of the grip of money lenders.

13. Role in agricultural progress

Co-operative societies have aided the government's efforts to increase agricultural production. They have improved the life of the people in rural areas. They serve as a link between the government and agriculturists. High yielding seeds, fertilizers, etc. are distributed by the government through the cooperatives.

14. Own sources of finance

A cooperative society has to transfer at-least one-fourth of its profits to general reserve. Therefore it need not depend on outsider's funds to meet its future financial requirements. It can utilize the funds available in the general reserve.

15. Encourages thrift

Cooperative societies encourage the habit of savings and thrift among their members. They provide loans only for productive purposes and not for wasteful expenditure.

16. Fair price and good quality

Co-operative societies buy and sell in bulk quantities directly from the producers or to the consumers. Products are processed and graded before they are sold. Bulk purchases and sales ensure fair prices and good quality.

17. Social benefit

Co-operative societies have played an important role in changing social customs and curbing unnecessary expenditure. The profits earned by the co-operatives have been used for providing basic amenities to the society.

Disadvantages

1. Limited funds

Co-operative societies have limited membership and are promoted by the weaker sections. The membership fees collected is low. Therefore the funds available with the co-operatives are limited. The principle of one-man one-vote and limited dividends also reduce the enthusiasm of members. They cannot expand their activities beyond a particular level because of the limited financial resources.

2. Over reliance on government funds

Co-operative societies are not able to raise their own resources. Their sources of financing are limited and they depend on government funds. The funding and the amount of funds that would be released by the government are uncertain. Therefore co-operatives are not able to plan their activities in the right manner.

3. Imposed by government

In the Western countries, co-operative societies were voluntarily started by the weaker sections. The objective is to improve their economic status and protect themselves from exploitation by businessmen. But in India, the co-operative movement was initiated and established by the government. Wide participation of people is lacking. Therefore the benefit of the co-operatives has still not reached many poorer sections.

4. Benefit to rural rich

Co-operatives have benefited the rural rich and not the rural poor. The rich people elect themselves to the managing committee and manage the affairs of the co-operatives for their own benefit.

The agricultural produce of the small farmers is just sufficient to fulfill the needs of their family. They do not have any surplus to market. The rich farmers with vast tracts of land, produce in surplus quantities and the services of co-operatives such as processing, grading, correct weighment and fair prices actually benefit them.

5. Inadequate rural credit

Co-operative societies give loans only for productive purposes and not for personal or family expenses. Therefore the rural poor continue to depend on the money lenders for meeting expenses of marriage, medical care, social commitments etc. Co-operatives have not been successful in freeing the rural poor from the clutches of the money lenders.

6. Lack of managerial skills

Co-operative societies are managed by the managing committee elected by its members. The members of the managing committee may not have the required qualification, skill or experience. Since it has limited financial resources, its ability to compensate its employees is also limited. Therefore it cannot employ the best talent.

Lack of managerial skills results in inefficient management, poor functioning and difficulty in achieving objectives.

7. Government regulation

Co-operative societies are subject to excessive government regulation which affects their autonomy and flexibility. Adhering to various regulations takes up much of the management's time and effort.

8. Misuse of funds

If the members of the managing committee are corrupt they can swindle the funds of the co-operative society. Many cooperative societies have faced financial troubles and closed down because of corruption and misuse of funds.

9. Inefficiencies leading to losses

Co-operative societies operate with limited financial resources. Therefore they cannot recruit the best talent, acquire latest technology or adopt modern management practices. They operate in the traditional mold which may not be suitable in the modern business environment and therefore suffer losses.

10. Lack of secrecy

Maintenance of business secrets is the key for the competitiveness of any business organization. But business secrets cannot be maintained in cooperatives because all members are aware of the activities of the enterprise. Further, reports and accounts have to be submitted to the Registrar of Co-operative Societies. Therefore information relating to activities, revenues, members etc becomes public knowledge.

11. Conflicts Among Members

Cooperative societies are based on the principles of co-operation and therefore harmony among members is important. But in practice, there might be internal politics, differences of opinions, quarrels etc. among members which may lead to disputes. Such disputes affect the functioning of the co-operative societies.

12. Limited Scope

Co-operative societies cannot be introduced in all industries. Their scope is limited to only certain areas of enterprise. Since the funds available are limited they cannot undertake large scale operations and is not suitable in industries requiring large investments.

13. Lack of Accountability

Since the management is taken care of by the managing committee, no individual can be made accountable for in efficient performance. There is a tendency to shift responsibility among the members of the managing committee.

14. Lack of Motivation

Members lack motivation to put in their whole hearted efforts for the success of the enterprise. It is because there is very little link between effort and reward. Co-operative societies distribute their surplus equitably to all members and not based on the efforts of members. Further there are legal restrictions regarding dividend and bonus that can be distributed to members.

15. Low Public Confidence

Public confidence in the co-operative societies is low. The reason is, in many of the co-operatives there is political interference and domination. The members of the ruling party dictate terms and therefore the purpose for which cooperatives are formed is lost.

3.9.4 Company

Q39. Define company. Explain the features of company.

Ans :

The Indian Companies Act, 1956 defines a joint stock company as a company limited by shares having a permanent paid up or nominal share capital of fixed amount divided into shares also of fixed amount, held and transferrable as stock and formed on the principles of having in its members only the holders of those shares or stocks and no other persons."

One most widely quoted definition of a company (called corporation in USA) is given *by Chief Justice Marshal* in these words: *"A* corporation is an artificial being invisible, intangible and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or an incidental to its very existence".

Lord Justice Lindley has defined a company as "an association of many persons, who contribute money or money's worth to a common stock and employ it for a common purpose. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute it or to whom it belongs are members. The proportion of capital to which each member is entitled is his share".

Features

Based on the above definitions, given below are the main features of company form of ownership:

1. Artificial Legal Person

A company is an artificial person created by law. Though ir-has no body, no conscience, still it exists as a person. Like a person, it can enter into contracts in its own name and likewise may sue and be sued in its own name.

2. Separate Legal Entity

A company has a distinct entity separate from its members or sharesholders. Therefore, a shareholder of the company can enter into contract with the company. He/she can sue the company and be sued by company.

3. Common Seal

Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers relating to company's transactions makes them binding on the company.

4. Perpetual Existence

Unlike partnership, the existence of a company is not affected by the death, lunacy, insolvency or retirement of its members or directors. This is because the company enjoys a separate legal existence from that of its members. It is said, "Members may come, members may go but the company goes for ever". It is created by law and is dissolved by law itself.

5. Limited Liability

The liability of the members of a company is normally limited to the amount of shares held or guarantee given by them.

6. Transferability of Shares

The member of a public limited company can sell his shares to others without the consent of other shareholders. Yes, he has to follow the procedure laid down in the Companies Act for transferring his shares. However, there are restrictions for transferring shares to others in case of a.private limited company.

7. Separation of Ownership from Management

The shareholders, i.e., owner being scattered all over country give right the directors to manage the affairs of the company. The directors are the representatives of the shareholders. Thus, ownership is separated from management.

8. Number of Members

In case of a public limited company, the minimum number is seven and there is no maximum limit. But, for a private limited company, the minimum number of members is two and the maximum number is fifty.

Q40. Explain the advantages and disadvantages of company.

Ans :

Advantages

The important among the advantages of company form of ownership are as follows:

1. Limited Liability

The liability of shareholders, unless and otherwise stated, is limited to the face value of shares held by them or guarantee given by them.

2. Perpetual Existence

Death, insanity, insolvency of shareholders or directors do not affect the company's existence. A company has a separate legal entity with perpetual succession.

3. Professional Management

In company business, the management is in the hands of the directors who are elected by the shareholders and are well experienced persons. In order to manage the day-to-day activities, salaried professional managers are ap-pointed. Thus, the company business offers professional management.

4. Expansion Potential

As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally use their reserves for expansion purposes.

5. Transferability of Shares

If the shareholders of a company are displeased with the progress of the business, they can sell their shares anytime. During all this change of ownership, the business continues to operate.

6. Diffusion of Risk

As the membership is very large, the whole business risk is divided among the several members of the company. This is an advantage particularly for small investors.

Disadvantages

In spite of its several advantages, the company form of ownership has also some disadvantages. The important among disadvantages are:

1. Lack of Secrecy

As per the legal provisions, a company has to make various statements available to the Registrar of the Companies, Financial Institutions, the secrecy of business comes down. It is further reduced when the company provides its annual report to the shareholders as the competitors do also find out the details of all financial data.

2. Legal Restrictions

Compared to proprietorship and partnership, a company has to comply with more legal requirements. It claims considerable time and effort.

3. Management Mischiefs

Sometimes the managers and directors misuse the company resources for their personal benefits. This brings losses to the company and company is closed.

4. Lack of Personal Interest

Unlike proprietorship and partnership, the day-to-day affairs of a company are looked after by salaried managers. Since they are the employees not the owners, they do have hardly any personal interest and commitment in the company. This may result in inefficiency and, in turn, losses.

Q41. Define :

(i) Private Company

(ii) Public Company

Ans :

(i) Private Company

Under Section 3(i)(iii) of the Companies Act, a private company has been defined as a company which by its Articles of Association,

(a) Restricts the right to transfer the shares, if any,

(b) Limits of number of its members to fifty, and

(c) Prohibits any invitation to the public to subscribe for the shares or the debentures of the company.

(ii) Public Company

Public Company: Under Section 3(i)(ii) of the Companies Act, a public company is a company which is not a private company. By implication, a public company is one which places no restrictions by its Articles of Association on the transfer of shares or on the maximum number of members can invite the public to subscribe for its shares' and debentures and public deposits.

Q42. Compare and contrast private company and public company.

Ans :

S.No.	Basis of Difference	Private Company	Public Company
1.	Members	The minimum number of members is two and maximum is fifty.	The minimum number of members is seven and there is no maximum limit.
2.	Directors	Minimum number of directors needed is two.	Minimum number of directors needed is three.
3.	Prospectus	Filing of prospectus or a statement 'in lieu of prospects' with the Registrar of Companies is not necessary before company can allot shares.	Filing of Prospectus or a statement 'in lieu of prospects' with the Registrar of Companies is necessary,
4.	Documents	Two members need to sign the memorandum and articles of association.	Seven members need to sign the documents.
5.	Allotment of Shares	It may commence allotment of shares before minimum subscription has been applied for.	It cannot commence allotment of shares unless minimum subscription has been applied for.
6.	Commencement of Business	It can commence business soon after incorporation.	It cannot commence business without obtaining a certificate to that effect.
7.	Transfer of Shares	Transfer of shares is restricted by the articles.	Shares are freely transferable.
8.	Filing of Balance Sheet	It need not file its Balance Sheet with the Registrar.	It must file its Balance Sheet with the Registrar..
9.	Statutory Meeting	It need not hold the statutory meeting nor it is necessary for it to forward the statutory report to the Registrar.	It must hold a statutory meeting and forward the same to the Registrar.
10.	Directors	No provisions of the Companies Act regarding appointment of directors, their consent to act or to pay for qualification shares apply to them.	These provisions apply to at least three directors of a public company,

Short Question and Answers

1. Define small scale industry.

Ans :

The definition of small-scale industry (SSI) varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government policy and administrative set up of the particular country. As a result, there are at least 50 different definitions of SSIs found and used in 75 countries. All these definitions either relate to capital or employment or both or any other criteria. We trace here the evolution of the legal concept of small-scale industry in India.

The Fiscal Commission, 1950, for the first time, defined a small-scale industry as one which is operated mainly with hired labour usually 10 to 50 hands.

2. Organisation of Production

Ans :

Production, implying creation of form, place, time personal utility, requires the combined utilisation of diverse factors of production, land, labour, capital and technology. Entrepreneur, in response to a perceived business opportunity mobilises these resources into a productive enterprise or firm. It may be pointed out that the entrepreneur may not be possessing any of these resources; he may just have the 'idea' that he promotes among the resource providers.

In an economy with a well-developed financial system, he has to convince just the funding institutions and with the capital so arranged he may enter into contracts of supply of equipment, materials, utilities (such as water and electricity) and technology. What lies at the core of organisation of production is the knowledge about availability and location of the resources as well as the optimum way to combine them. An entrepreneur needs negotiation skills to raise these in the best interests of the enterprise.

3. Define project.

Ans :

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

Let us also consider a few definitions on 'project'.

(i) **According to Newman et.al.** define that "a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission".

(ii) **According to Gillinger** defines project "as the whole complex of activities involved in using resources to gain benefits".

(iii) **According to Encyclopaedia of Management,** "a project is an organised unit dedicated to the attainment of a goal—the successful completion of a development project on time, within budget, in conformance with pre-determined programme specifications".

4. Techno-Economic Projects

Ans :

Projects classification based on techno-economic characteristics fall in this category. This type of classification includes factors intensity-oriented classification, causation- oriented classification and magnitude-oriented classification. These are discussed as follows:

(a) **Factor Intensity-Oriented Classification:** Based on factor intensity classification, projects may be classified as capital intensive or labour intensive. If large investment is made in plant and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large number of human resources will be termed as 'labour intensive'.

(b) Causation-Oriented Classification: Where causation is used as a basis of classification, projects may be classified as demand based or raw material based projects. The very existence of demand for certain goods or services makes the project demand-based and the availability of certain raw materials, skills or other inputs makes the project raw material-based.

(c) Magnitude-Oriented Classifi-cation: In case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium-scale or small-scale projects.

5. Define project report.

Ans :

In simple words, project report or business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. In other words, project report serves like a kind of big road map to reach the destination determined by the entrepreneur. Thus, a project report can best be defined as a well evolved course of action devised to achieve the specified objective within a specified period of time. So to say, it is an operating document.

6. Marketing Plan

Ans :

It should contain the following items:

- Data on the marketing plan.
- Demand and prospective supply in each of the areas to be served.
- The method and data used for main estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree' of price sensitivity should be presented.
- It should contain an analysis of past trends in prices.

7. Management Competence

Ans :

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail. On the contrary, even a poor project may become a successful one with good managerial ability.

Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into consideration. Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more so in case of small-scale enterprises where the proprietor is all in all, i.e., owner and manager. Due to his one-man show, he may be jack of all but master of none.

8. Capital Structure

Ans :

The composition of equity and debt in overall capital of an enterprise is called 'capital structure. In simple words, capital structure is the ratio between debt and equity capital. Hence, it is also expressed as the debt-equity ratio.

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

(i) The capital structure should involve the minimum cost and the maximum yields.

(ii) The adopted capital structure should be flexible enough to fulfil the future requirements of the capital as and when needed.

(iii) The use of the debts should be within the repaying capacity of the enterprise. In fact, failure to recognize this important aspect/fact is the common cause of financial strain among the small scale enterprises.

(iv) The capital structure should ensure the proper control over the affairs of the enterprise. In any case, it should not be a control diluting one.

9. Co-operative Organisation

Ans :

In the major forms of business organisation discussed so far in this book, tribasic objective of the owner or owners is to make profit. The co-operative form of organisation is different from these in one basic respect, it is set up not with profit as the guiding motive but with the fundamental object of organising and rendering service for the organisation and its members.

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherance of their common economic interests. It may be described as a protective device used by the relatively less strong sections of society to safeguard their economy interests in the face of exploitation by producers and sellers working solely or maximising profits.

10. Sole Proprietorship

Ans :

The form of organization in which a single individual promotes and controls the business undertakings and bears the whole risk himself is called Sole Proprietorship. He takes all the profits and bears all risks alone. This form of organization is also called sole trading concern, sole ownership, and single entrepreneur business. It is the oldest form of business ownership. It is also the simplest and most natural. It is the most convenient and effective form of business organization.

11. Partnership

Ans :

Partnership form of organization has developed due to the limitations of sole trading concern. It is governed by the partnership Act, 1932. Section 4 of the Act defines partnership as "The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all". Persons who enter into partnership are individually called "partners" and collectively a "firm". The name under which the business is carried on is called the "firm name".

12. Joint Hindu Family

Ans :

Joint Hindu family business is a peculiar form of business found in India. In this form of business ownership, all members of a Hindu undivided family do business Jointly under the control of the head of the family. The head of the family is known as "Karta". The firm is owned by the members of an undivided Hindu family who have inherited an ancestral property.

The property inherited by a Hindu form from his father, grandfather and great grandfather is regarded as ancestral property. The members of the family are known as co-parceners. The Joint Hindu family firm comes into existence by the operation of Hindu Law and not out of contract. Thus, the Joint Hindu family firm is a business owned by co-parceners of a Hindu undivided estate.

Choose the Correct Answers

1. Sectoral projects are of ______ types. [a]
   (a) Six (b) Seven
   (c) Five (d) Ranges between six to seven.
2. Ownership structures are of ______ types. [c]
   (a) One (b) Two
   (c) Four (d) Three
3. Abid Hussain Committee dereserved ______ items of small-scale sector. [a]
   (a) 12 (b) 14
   (c) 16 (d) 18
4. Project formulation has ______ steps. [a]
   (a) 8 (b) 10
   (c) 2 (d) 6
5. Technical feasibility is one of the methods of ______. [c]
   (a) Project identification (b) Project selection
   (c) Project appraisal (d) All of the above
6. Owner's capital is also known as ______. [d]
   (a) Internal source (b) External source
   (c) Source of income (d) Equity
7. NSIC stands for ______. [a]
   (a) National Small Industries Corporation
   (b) National Small India Corporation
   (c) National Source Industrial Cooperation
   (d) New Science Institute of Chennai
8. Finance is regarded as ______ of the business. [a]
   (a) Life blood (b) Life source
   (c) Lifeline (d) All of the above
9. In over-capitalization actual earnings are less than the expected ones [a]
   (a) True (b) False
   (c) Always (d) Never
10. ______ form of ownership structure is based on the philosophy of self-help and mutual help. [c]
    (a) Partnership (b) Company
    (c) Cooperative societies (d) Joint venture

Fill in the Blanks

1. MSME Stands for _______.
2. SSIs are primarily divided into _______ types _______.
3. SSIs significantly contributed in employment, production and _______.
4. SSIs suffers from shortage of finance due to its weak _______.
5. Magnitude oriented projects falls under _______.
6. _______ is used to carry out day-to-day operations.
7. Trading an equity is also called as _______.
8. Shares and debentures are the sources of _______ term loans/finance.
9. Sole proprietorship is also called as _______.
10. _______ is an agreement based on utmost good faith.

Answers

1. Micro Small Medium Enterprise
2. Five
3. Exports
4. Creditworhtiness
5. Techno-economic projects
6. Working capital
7. Leverage effect
8. Long
9. One-man show
10. Partnership

One Mark Answers

1. Small Scale industry

Ans :

The definition of small-scale industry (SSI) varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government policy and administrative set up of the particular country.

2. MSME

Ans :

The MSMED Act, 2006 came into force w.e.f., October, 2006. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addressed these issues relating to its definition, credit, marketing and technology up gradation. Medium scale enterprises and service related enterprises also come under the purview of this Act.

3. Project Report

Ans :

In simple words, project report or business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. In other words, project report serves like a kind of big road map to reach the destination determined by the entrepreneur.

4. Project Appraisal.

Ans :

Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its viability. A project involves employment of scarce resources. An entrepreneur needs to appraise various alternative projects before allocating the scarce resources for the best project.

5. Ownership Organisation Decision.

Ans :

The entrepreneur's choice of the type of organisation will depend upon the nature of business, scale of operation, capital requirements, ownership rights such as' control and decision making opportunities and impact of taxation. He should understand the impact of these factors on his business and decide whether to operate his business as a one-man show or a joint venture company.

UNIT IV	**INSTITUTIONAL FINANCE FOR ENTREPRENEURS:** Commercial Banks – Role of Commercial Banks in Building Entrepreneurship – Other Financial Institutions Such As IFCI, ICICI, IDBI, SFCs, SIDBI and EXIM bank – Non Banking Financial Institutions – LIC- Role of Training Institutions in Entrepreneurship growth – NSIC, SIDC, SIBC, SFC, SISI, DICs and TCOs. Government Schemes to Develop and encourage entrepreneurship

4.1 Institutional Finance for Entrepreneurs

Q1. Give an overview of Financial Institutions in India.

Ans :

Introduction

Financial sectors play an indispensible role in the overall development of a country. The most important constituents of this sector is the financial institutions which acts as a conduit for the transfer of the resource from the net saver to net borrowers, i.e, from those who spends less than their earnings to those who spend more than their earnings.

Financial institutions have traditionally have been the major source of long term funds for the economy. These institutions provides a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides they provide the assistance to the 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 the adequate supply of credit to the various sectors of the economy has evolved a well developed structure of financial institutions in the country. These financial institutions can be broadly categorized into all India Institutes, State Level Institutions, depending upon the geographical coverage of their operations.

A Brief Overview of Financial Institutions in India

It is well known that resources are the key inputs of development. Here the input denotes all those that go into running a business enterprise which includes finance, human resource, technical know-how, and infrastructure and so on. Of these, finance plays an important role. Here the finance is termed as "Development Finance" & the institutions that caters to the needs of this vital input is termed as Industrial Development Institutions which besides finance many a time extend professional, promotional & such other assistance of vital need that results in;

(i) Rapid growth in outputs

(ii) Change in the structure of the economy, and

(iii) Accelerated over all socio-economic growth.

Economic development is achieved by increasing the inputs of resources and the productivity of those inputs i.e., resources. Productivity enhances the recycling of resources in an accelerated manner. The Government Of India (GOI) ever since it passed the Industrial Resolution 1956 has made it a point to promote development institutions. While more emphasis was given to agricultural development institutions in the first economic planning, the second five year economic planning laid emphasis on industrial finance institutions. Depending upon the nature of the activity, the entrepreneurs require three types of finance viz., short-term, medium-term and long-term finances. Accordingly financial institutions are developed on those lines. Accordingly they are:

(a) Central Level Institutions - SIDBI, NABARD, IDBI, SIDO, IIE, NISIET, EDII, NIESBUD

(b) State Level Institutions - SFC, SIDC/SIIC, SSIDC, DI, DIC

Central Level Institutes:

- SIDBI - Small Industries Development Bank of India (SIDBI)
- NABARD - National Bank for Agriculture & Rural Development
- IDBI - Industrial Development Bank of India
- SIDO - Small Industries Development Organization.
- IIE - Indian Institute if Entrepreneurship
- NISIET - National Institute of Small Industry Extension & Training.
- EDII - Entrepreneurship Development Institute of India
- NIESBUD - National Institute of Entrepreneurship and Small Business Development
- NPC - National Productivity Council
- KVIC - Kadhi and Village Industries Commission
- NSIC - National Small Industries Corporation Ltd.

State Level Institutes:

- SFC - State Finance Corporation
- SIDC/SIIC - State Industrial Development/Investment Corporation
- SSIDC - State Small Industrial Development Corporation
- DIs - Directorate of Industries
- DIC - District Industries Centre

Others:

- HUDCO - Housing and Urban Development Corporation Ltd.
- TCOs - Technical Consultancy Organizations
- NGO's - Non-Governmental Organizations
- Industry Association like – (CII) Confederation of India Industry, (FICCI) Federation of Indian Chambers of Commerce and Industry, (ACCI) Association Chamber of Commerce and Industry of India (ASSOCHAM), PHD Chamber of Commerce and Industry (PHDCCI), Federation of Indian Exporters Organization (FIEO), World Association for Small & Medium Enterprises (WASME), Federation of Association of Small Industries of India (FASII), Laghu Udyog Bharati (LUB), Indian Council of Small Industries (ICSI), Council of Scientific & Industrial Research (CSIR), Venture Capital etc.

4.2 Commercial Banks

Q2. What is Commercial Bank.

(OR)

Explain the characteristics of Commercial Banks.

Ans : **(Imp.)**

Introduction

Commercial banks are the oldest, biggest and fastest growing financial intermediaries in India. They are also the most important depositories of public saving and the most important disbursers of finance. Commercial banks are the simple business or commercial concerns which provide various types of financial services to customers in return for payments in one form or another such as interest, discounts, fees, commission, and so on.

Their objective is to make profits. Banks have to concentrate on balancing profitability with liquidity. The need for maintenance of liquidity is much greater because of the nature of their liabilities with the banks. Banks deal in other people's money, a substantial part of which is repayable on demand. This is reflected in the management and control of reserves of commercial banks.

Characteristics

Banks are both manufactures of money and purveyors of money. So banks play an important role in the economy.. Their features can be set out under the following heads :

1. **Mobilization of Savings**

   Economic development depends oh the available savings and investment in the economy. By mobilization of deposits, banks collect savings from the public which in turn are lent for investment when they purvey credit to various sectors of the economy.

2. **Facilitate Commerce and Trade**

   Finance is important for trade and commerce and banks provide funds for facilitating these activities in the economy.

3. **Balanced Regional Development**

   In tune with the policy of the government to have more balanced development of the economy, the banks do promote lending and investment in those regions or parts of the country which are less developed and thus banks promote social objectives.

4. **Provision of Finance to Backward Communities and Neglected Segments of Society**

   This is another important contribution of commercial and co-operative banks in India. They provide loans at concessional rates to scheduled castes/scheduled tribes and weaker sections of the society, as per the guidelines of the government.

5. **Development of Agriculture and other Priority Sectors in the Economy**

   The banks give special treatment in their lending operations to some priority sectors in the economy, such as agriculture, small-scale industries (SSIs), retail trade, small borrowers, self-employed persons, etc., so as to facilitate their growth and provide productive employment in the economy. Exports are also a priority sector which banks help in various ways.

Q3. Explain the Functions of Commercial Banks.

(OR)

Discuss various functions of commercial banks.

Ans : **(Imp.)**

The functions of commercial banks are divided into two categories :

(i) Primary functions, and

(ii) Secondary functions

(i) Primary Functions

The primary functions of a commercial bank include :

(a) Accepting deposits; and

(b) Granting loans and advances

(a) Accepting Deposits

The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

(b) Grant of Loans and Advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The difference between the rate of interest allowed on deposits and the rate charged on the Loans is the main source of a bank's income.

(i) Loans

A loan is granted for a specific time period. Generally, commercial banks grant short-term loans. But term loans, that is, loan for more than a year, may also be granted. The borrower may withdraw the entire amount in lump sum or in installments. However, interest is charged on the full amount of loan. Loans are generally granted against the security of certain assets. A loan may be repaid either in lumpsum or in installments.

(ii) Advances

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day to day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Modes of Short-term Financial Assistance

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

(a) Cash Credit

Cash credit is an arrangement whereby the bank allows the borrower to draw amounts upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per agreed terms and conditions with the customers.

(b) Overdraft

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit is allowed either on the security of assets, or on personal security, or both.

(c) Discounting of Bills

Banks provide short-term finance by discounting bills that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

(ii) Secondary Functions

Besides the primary functions of accepting deposits and lending money, banks perform a number of other functions which are called secondary functions.

These are as follows :

(a) Issuing letters of credit, traveller's cheques, circular notes etc.

(b) Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers;

(c) Providing customers with facilities of foreign exchange.

(d) Transferring money from one place to another; and from one branch to another branch of the bank.

(e) Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.

(f) Collecting and supplying business information.

(g) Issuing demand drafts and pay orders; and,

(h) Providing reports on the credit worthiness of customers.

Q4. Explain the Modes of Acceptance Deposits of Commercial Banks.

Ans :

Banks receive money from the public by way of deposits. The following types of deposits are usually received by banks :

1. Current deposit
2. Saving deposit
3. Fixed deposit
4. Recurring deposit
5. Miscellaneous deposits

1. Current Deposit

Also called 'demand deposit', current deposit can be withdrawn by the depositor at any time by cheques. Businessmen generally open current accounts with banks. Current accounts do not carry any interest as the amount deposited in these accounts is repayable on demand without any restriction.

The Reserve bank of India prohibits payment of interest on current accounts or on deposits upto 14 Days or less except where prior sanction has been obtained. Banks usually charge a small amount known as incidental charges on current deposit accounts depending on the number of transaction.

2. Savings Deposit/Savings Bank Accounts

Savings deposit account is meant for individuals who wish to deposit small amounts out of their current income. It helps in safe guarding their future and also earning interest on the savings. A saving account can be opened with or without cheque book facility.

There are restrictions on the withdrawals from this account. Savings account holders are also allowed to deposit cheques, drafts, dividend warrants, etc. drawn in their favour for collection by the bank. To open a savings account, it is necessary for the depositor to be introduced by a person having a current or savings account with the same bank.

3. Fixed Deposit

The term 'Fixed deposit' means deposit repayable after the expiry of a specified period. Since it is repayable only after a fixed period of time, which is to be determined at the time of opening of the account, it is also known as time deposit. Fixed deposits are most useful for a commercial bank. Since they are repayable only after a fixed period, the bank may invest these funds more profitably by lending at higher rates of interest and for relatively longer periods.

The rate of interest on fixed deposits depends upon the period of deposits. The longer the period, the higher is the rate of interest offered. The rate of interest to be allowed on fixed deposits is governed by rules laid down by the Reserve Bank of India.

4. Recurring Deposits

Recurring Deposits are gaining wide popularity these days. Under this type of deposit, the depositor is required to deposit a fixed amount of money every month for a specific period of time.

Each installment may vary from Rs. 5/- to Rs. 500/- or more per month and the period of account may vary from 12 months to 10 years. After the completion of the specified period, the customer gets back all his deposits along with the cumulative interest accrued on the deposits.

5. Miscellaneous Deposits

Banks have introduced several deposit schemes to attract deposits from different types of people, like Home Construction deposit scheme, Sickness Benefit deposit scheme, Children Gift plan, Old age pension scheme, Mini deposit scheme, etc.

Q5. Explain the various services provided by commercial banks.

Ans :

The primary activities of commercial banks include acceptance of deposits from the public and lending money to businessmen and other members of society. Besides these two main activities, commercial banks also render a number of ancillary services. These services supplement the main activities of the banks. They are essentially non-banking in nature and broadly fall under two categories :

(i) Agency services, and

(ii) General utility services.

(i) Agency Services

Agency services are those services which are rendered by commercial banks as agents of their customers. They include :

(a) Collection and payment of cheques and bills on behalf of the customers.

(b) Collection of dividends, interest and rent, etc. on behalf of customers, if so instructed by them.

(c) Purchase and sale of shares and securities on behalf of customers.

(d) Payment of rent, interest, insurance premium, subscriptions etc. on behalf of customers, if so instructed.

(e) Acting as a trustee or executor.

(f) Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

(ii) General Utility Services

General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include :

(a) Issuing letters of credit and travellers' cheques.

(b) Underwriting of shares, debentures, etc.

(c) Safe-keeping of valuables in safe deposit locker;

(d) Underwriting loans floated by government and public bodies.

(e) Supplying trade information and statistical data useful to customers.

(f) Acting as a referee regarding the financial status of customers.

(g) Undertaking foreign exchange business.

4.2.1 Role of Commercial Banks in Building Entrepreneurship

Q6. Explain the role of Commercial Banks in building Entrepreneurship.

Ans : **(Imp.)**

The role of a commercial bank in a developing country is discussed as under.

1. Mobilising Saving for Capital Formation

The commercial banks help in mobilising savings through network of b ranch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilise idle savings of the few rich. By mobilising savings, the banks channelize them into productive investments. Thus they help in the capital formation of a developing country.

2. Financing Industry

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry.

3. Financing Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

4. Financing Agriculture

The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

5. Financing Consumer Activities

People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

6. Financing Employment Generating Activities

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person's studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entre-preneurial activities in developing countries.

7. Help in Monetary Policy

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

Thus the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

4.3 Other Financial Institutions

4.3.1 IFCI

Q7. Write about IFCI?

(OR)

Briefly explain about IFCI

Ans : **(Imp.)**

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long -term credit to industrial concerns in India. IFCI transformed into a corporation from 21st May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

Management

The Board of Directors consists of a whole-time Chairman and twelve directors. The Chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Six Directors are elected by shareholders other than the IDBI.

Financial assistance provided by the IFCI can be in one or more of the following forms:

- Rupee and foreign currency term loans
- Underwriting of share and debenture issues
- Direct subscription to equity
- Guarantees
- Soft loans
- Equipment financing

Projects costing upon Rs 300 lakh are financed by the State Financial Corporations, State Industrial Development Corporations and Commercial banks under the refinance scheme of the IDBI. Only projects costing in excess of Rs lakh are considered for assistance by the IFCI.

Forms of assistance

Section 23 of the IFCI Act outlines the types of activities which the Corporation is authorized to undertake. These are indicated below with the year in which it was authorized to undertake each type of activity shown within the brackets.

(a) Granting loans on subscribing to debentures repayable within a period not exceeding 25 years. (1948)

(b) Underwriting the issue of stock, shares, bonds or debentures by industrial concerns provided that it does not retain any shares, etc., which it may have had to take up in fulfillment of its underwriting liabilities beyond a period of 7 years except with the permission of the Central Government. (now the IDBI)

(c) Guaranteeing loans

(i) raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the market. (1948)

(ii) raised by industrial concerns from scheduled banks or state cooperative banks.

(d) Guaranteeing deferred payments due, from any industrial concern.

(i) In connection with the import of capital goods from outside India.

(ii) In connection with the purchase of capital goods within India.

(e) Guaranteeing loans (with the prior approval of the Central Government) raised from, or credit managements made with, any bank or financial institution in any country outside Indiaby Industrial concerns in foreign currency.

(f) Acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development (IBRD) in respect of loansgranted or deben tures subscribed by either of them.

(g) Subscribing to the stock or shares of any industrial concern.

Functions and Lending policies

Any limited company or co-operative society incorporated and registered in India which is engaged, or proposes to engage itself, in the manufacture, preservation or processing of goods, or in the shipping, mining or hotel industry, or in the generation or distribution of electricity or any other form of power, is eligible for financial assistance from the Cooperation on the same basis as industrial projects in the private and joint sectors.

Public sector projects are also eligible for financial assistance from the Corporations on the same basis as industrial projects in the private and joint sectors.

The assistance may take the form of long-term loans, both in rupees and foreign currencies, the underwriting of equity, preference and debenture issues; subscribing to equity, preference and debenture capital; guaranteeing of deferred payments in respect of machinery imported from abroad or purchased in India; and guaranteeing of loans raised in foreign currency from foreign financial institutions. Financial assistance from the Corporation is available for the setting-up of new industrial projects and for the expansion, diversification, renovation or modernisation of existing ones.

Financial assistance on concessional terms is available for the setting-up of new industrial projects in industrially, less developed districts in the States/ Union Territories notified by the Central Government.

Sources of Funds

The main sources of funds of the Corporation other than its own capital, retained earnings, repayment of loans and sale of investments are borrowings from the market by the issue of bonds, loans from the Central Govern foreign credits.

In its development role, the Industrial Finance Corporation has undertaken various promotional activities. The resources for financing such activities come from the Benevolent Reserve Fund which was created in terms of an amendment of the IFC Act in 1972, and from the allocation of the Interest Differential Funds by the Government. The Interest Differential Funds are received in the form of loans and grants on a 50:50 basis under an agreement entered into by the Government of India with the Government of the Federal Republic of Germany in respect of lines of credit from the Kreditanstalt fur Wiederaufbau allocated to the Corporation from time to time. The promotional activities undertaken by the Corporation which are, no doubt, still modest in their scope are in consonance with the measure which need to be taken to achieve the objectives of broadening the entrepreneurial base in the country, particularly in less developed areas. The promotional activities undertaken by the Corporation are briefly reviewed here.

The Corporation's Technical Assistance Scheme for training middle level executives of the State financial and development agencies and the senior executives of these organizations continue to elicit a good response because it has been found to be very useful. Since the inception of the scheme in 1971, 78 middle level executives from 33 state level institutions and 43 senior executives from 28 state level institutions have availed themselves of the scheme, which aims at acquainting them with the policies, procedures and practices of the Corporation.

New Promotional Schemes

In 1989, the Corporation framed two new schemes of promotional activities which encourage new entrepreneurs and technologists to set up their own industries, and which assist in the growth of indigenous technology and small industries. The scheme for encouraging the development of ancillary industries was liberalized.

The present position is that IFCI has fourteen Promotional Schemes, of which eight are consultancy fee subsidy schemes, four interest subsidy schemes and two entrepreneurship development schemes, as per details given below:

Consultancy fee Subsidy Schemes

- Scheme of Subsidy to Small Entrepreneurs in the Rural, Cottage, Tiny and Small Sectors for Meeting Cost of Feasibility Studies, etc.
- Scheme of Subsidy for Consultancy to Industries relating to Animal Husbandry, Dairy Farming, Poultry Farming and Fishing.
- Scheme of Subsidy for Consultancy to Industries based on or related to Agriculture, Horticulture, Sericulture and Pisciculture.
- Scheme of Subsidy for Promotion of Ancillary and Small Scale Industries.
- Scheme of Subsidy to New Entrepreneurs for Meeting Cost to Market Research/Surveys.
- Scheme of Subsidy for Providing Marketing Assistance to Small Scale Units.

- Scheme of Subsidy for Consultancy on Use of Non-Conventional Sources of Energy and Energy Conservation Measures.
- Scheme of Subsidy for Control of Pollution in the Village and Small Industries Sector.
- Own generation by way of repayment of past borrowings and plough-back of profits.

Interest Subsidy Schemes

- Scheme of Interest Subsidy for Self-Development and Self-Employment of Unemployed Young Persons.
- Scheme of Interest Subsidy for Women Entrepreneurs.
- Scheme of Interest Subsidy for Encouraging Quality Control Measures in Small Scale Sector.
- Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology.

Entreprenurship Development Schemes

- Scheme for Encouraging Entrepreneurship Development in Tourism and Tourism-related Activities.
- Scheme for Encouraging Self-Employment amongst Persons Rendered Jobless due to Retrenchment or Rationalization in a Sick Industrial Unit in the Organized Sector Under going a Process of Rehabilitation/Revival.

The Consultancy Fee Subsidy Schemes are aimed at providing subsidised consultancy services to industrial units, largely in Village and Small Industries (VSI) sector through Technical Consultancy Organizations (TCOs). The Interest Subsidy Schemes are intended to provide encouragement to self-development and self-employment to unemployed youths, women entrepreneurs, adoption of quality control measures, harnessing the indigenously available technology etc. The Entrepreneurship Development Schemes envisage giving impetus to self-employment in tourism related activities in the small-scale sector, and help in mitigating the sufferings of people, who have to face retrenchment due to implementation of modernisation, rehabilitation and revival plans in the case of potentially viable sick units, by process of retaining or self-employment avenues.

4.3.2 ICICI

Q8. Discuss the role of ICICI to support entrepreneur.

Ans : **(Imp.)**

The Industrial Credit and Investment Corporation of India were registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

Objectives

- To assist in the creation, expansion and modernization of private concerns;
- To encourage the participation of internal and external capital in the private concerns;
- To encourage private ownership of industrial investment.

Functions

- It provides long-term and medium-term loans in rupees and foreign currencies.
- It underwrites new issues of shares and debentures.
- It guarantees loans raised by private concerns from other sources.
- It provides technical, managerial and administrative assistance to industrial concerns.

Financial Assistance:

The performance of the ICICI in the field of financial assistance provided to the industrial concerns has been quite satisfactory. Over the years, the assistance sanctioned by the Corporation has grown from Rs.14.8 crores in 1961-62 to Rs. 43.0 crores in 1970-71 and Rs. 36229 crores in 2001-02. Similarly the amount disbursed has increased from Rs.8.6 crores in 1961-62 to Rs.29.8 crores in 1970-71 and to Rs. 25831 in 2001-02. Cumulatively, at the end of March 1996, the ICICI has sanctioned and disbursed financial assistance aggregating Rs. 66169 crores and Rs. 36591 crores respectively.

Features

The important features of the functioning of the ICICI arc as given below:

- The financial assistance as provided by the ICICI includes rupee loans, foreign currency loans, guarantees, underwriting of shares and debentures, and direct subscription to shares and debentures.
- Originally, the ICICI was established to provide financial assistance to industrial concerns in the private sector. But, recently, its scope has been widened by including industrial concerns in the public, joint and cooperative sectors.
- ICICI has been providing special attention to financing riskier and non-traditional industries, such as chemicals, petrochemicals, heavy engineering and metal products. These four categories of industries have accounted for more than half of the total assistance.
- Of late, the ICICI has also been providing assistance to the small scale industries and the projects in backward areas.
- Along with other financial institutions, the ICICI has actively participated in conducting surveys to examine industrial potential in various states.
- In 1977, the ICICI promoted the Housing Development Finance Corporation Ltd. to grant term loans for the construction and purchase of residential houses.
- Since 1983, the ICICI has been providing leasing assistance for computerization, modernization and replacement schemes; for energy conservate; for export orientation; for pollution controller balancing and expansion: etc.
- The ICICI has not contributed much to reduce regional disparities. About three-fifth of the total assistance given by the ICICI has been received by the advanced states of Maharashtra, Gujarat and Tamil Nadu.
- With effect from April 1, 1996, Shipping Credit and Investment Company of India ltd, (SCICI) was merged with ICICI.
- The ICICI Ltd. was merged with ICICI Bank Ltd. effective from May 3, 2002.

4.3.3 IDBI

Q9. Discuss the role IDBI's to support entrepreneurs.

Ans : **(Imp.)**

Establishment

The Industrial Development Bank of India or IDBI was established on 1st July, 1964 as an apex bank (the counterpart of Reserve Bank) in the field of industrial finance and capital market.

However, it was de-linked from Reserve Bank on 16th February, 1976 and was given a separate independent entity under Central Government. It has completed 35 years on 30th June, 1999.

Objectives

It is the apex institution to co-ordinate, supplement, and integrate the activities of all existing specialized financial institutions. It is a re-financing and re-discounting institution operating in the capital market to re-finance term loans and export credits. It is in charge of conducting techno-economic studies. It offers loans on purpose and not merely on the security of property as mortgage or pledge.

The IDBI undertakes

- Refinancing of loans granted by other special financial institutions, banks and cooperatives.
- Granting of loans to industrial units.
- Rediscounting of bills of exchange.
- Guaranteeing of loans and deferred payments.
- Planning and promoting industries.
- Investment in other financial corporations.
- Underwriting the issue of shares and debentures of industrial units.
- Financial Resources, (i) Share Capital. The Present authorized capital of IDBI is Rs.

  1,000 crores (Increased from Rs. 500 crores to Rs. 1,000 crores). It can be increased up to Rs. 2,000 crores.
- The paid-up capital in 1998-99 stood at Rs. 660 crores as against Rs. 659 crores in 1977-78.

- Bonds: The IDBI is authorized to issue bonds.
- Loan from Central Government: The IDBI is empowered to take loan from the central government.
- Loan from Reserve Bank: The IDBI is authorized to take loan from the Reserve Bank on its securities for a period of 90 days.
- Loan in Foreign Currency: The IDBI is empowered to take loan in foreign currency.
- Reserve Fund: The reserve fund during 1998-99 stood at Rs. 8,033 crores as against Rs. 8003 crores in 1997-98.
- Other Sources: Other financial sources of IDBI includes public deposits, grants etc.

Management

The IDBI is managed by a board of directors. The maximum number of directors in the board is twenty two only. At present there are in all eighteen directors in the board of directors. The headoffice of IDBI is situated in Mumbai. It has five regional offices situated in New Delhi, Kolkata, Chennai and Guwahati. Besides the regional office, the IDBI has 20 branch offices situated in different parts of the country.

Review of Progress (operations):

IDBI has given special attention to better regional development and innovational and promotional activities. It has conducted surveys of backward regions. It has given special help to backward regions on concessional terms. IDBI is playing a more dynamic role in promoting growth of industries as an innovator in the area of industrial finance. The financial resources are being diverted into socially more desirable channels. Emphasis is being placed on assistance to small and new entrepreneurs and units located in underdeveloped regions in the country.

IDBI is the major source of industrial finance. Its sanctioned and disbursed amount is 37% and 40% respectively of the total sectioned and disbursed amount of all the term-lending institutions.

In the field of company promotion, IDBI has set up technical consultancy organization which helps in the preparation of feasibility studies, project reports, guidance in the economic, financial and managerial aspects of the new prospect.

Refinance of export credit is offered at a lower rate of interest. In the field of export financing, it was acting as an export bank. It is due to the fact that IDBI is the apex bank in the world of industrial finance and it must act primarily as a residual lender of last resort and fill up the gaps in industrial finance which are left out by other financial institutions.

4.3.4 SFCs

Q10. How do SFCs contribute to the development of small enterprises in the country.

Ans : **(Imp.)**

IFCI was established to cater to the financial needs of industrial concerns in large scale corporate and co-operative sectors. Small and medium sized enterprises were outside the purview of IFCI. To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions.

Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

Objectives

The objectives of state financial corporations are as under :

1. Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business. Under SFCs Act, "industrial concern" means any concern engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.
2. Provide long and medium-term loan repayable ordinarily within a period not exceeding 20 years.

3. Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.
4. Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed Rs. 3 crore.
5. To lay special emphasis on the development of backward areas and small scale industries.

Functions

The functions of SFCs include :

1. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.
2. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
3. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
4. Underwriting of the issue of stock, shares, bonds or debentures by industrial concerns.
5. Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.
6. Act as agent of the Central government, State government, IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.
7. Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
8. Planning and assisting in the promotion and development of industries.

4.3.5 SIDBI

Q11. Write about SIDBI.

(OR)

Briefly explain about SIDBI.

Ans : **(Imp.)**

The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long standing demand from the small-scale sector as an apex-level national institution for promotion, financing and development of industries in the small -scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small-scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing bills rediscounting and equity support to the small-scale sector.

The Environment

Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy, trade policy and monetary and credit policies have been in various stages of liberalization. Decontrol, deregulation and delicensing have given enormous scope for private initiative and market forces to come to play. New relationships within and between different sectors in the economy are being evolved; the small-scale sector has been an important constituent of such a liberalization in the country. Government of India formulated a set of new policies aimed at harnessing the potential of the small-scale sector in August 1991 a year and half after the establishment of SIDBI. The prescriptions of the policy focused at removal of impediments affecting growth of small-scale sector together with consolidation of the strengths, in the context of the emerging economic order. SIDBI has been refining its strategies and business policies in alignment with the policy changes which have been taking place at the national level.

Q12. Explain about financial assistance of SIDBI.

Ans :

Stepping up of flow of credit to the units in the small-scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. Over the years, the share of direct assistance in the total assistance has steadily gone up.

The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focussing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, delayed realization of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalized based on an ongoing review process. The procedures have been simplified with gradual decentralization and progressive delegation of powers aimed at higher levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payments, two factoring companies viz., SBI Factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd. have been established with SIDBI as a partner with 20% shareholding, SIDBI has enlarged he list of institutions eligible for refinance in order to widen its reach. It enrolled itself as an institutional member of Over The Counter Exchange of India (OTCEI). This facilitates SSIs access capital market through the route of OTCEI in raising resources in a cost-effective manner. SIDBI has also been granted the status of Category I Merchant Banker by Securities Exchange Board of India. SIDBI extends resource support to Non-Banking Finance companies by way of lines of credit against their assistance to units in the small-scale or by way of leasing, hire-purchase and bought-out deals.

Channels of assistance by SIDBI

SIDBI's financial assistance to small scale sector have three major dimensions

(i) Indirect assistance to primary lending institutions (PLIs)

(ii) Direct assistance to small units

(iii) Development and Support Services

Indirect assistance

SIDBI's schemes of indirect envisage credit to SSIs through a large network of 913 PLIs spread across the country with a branch network of over 65000. The assistance is provided by way of refinance, bills rediscounting and resource support in the form of short term loans / line of credit in lieu of refinance, etc.

Refinance

- The main objective of SIDBI's refinance schemes being enhancement of flow of credit to the SSI sector and augmenting the resources of PLIs, the Bank provides refinance to PLIs against the term loans granted by them for.
- Setting up of new SSI projects and for expansion, technology upgradation, modernisation, quality promotion, diversification by existing units and rehabilitation of sick SSI units.
- Small road transport operators, qualified professionals for self employment, small hospitals and nursing homes, cyber cafes, marketing industrial infrastructure and to promote hotels and ourism - related activities.
- SIDBI extends. Financial support Short - Term Loans) to scheduled banks in respect of their outstanding portfolio relating to SSI sector against which no financial support has been availed of from other institutions.

Rediscounting

- In order in help the machinery manufactures in the SSI sector and to maximize their sales by offering deferred payment credit to the prospective purchaser users, the Bank operates a Bills discounting Scheme where bills arising out of sale/purchase of machinery discounted by scheduled commercial banks are re-discounted by SIDBI Facilities and the Schemetre also extended to cover purchases of machinery by Small- Scale Industries.

Direct Assistance

The object behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying gaps in the existing credit delivery mechanism for Small Scale Industries Direct assistance is provided under several tailor made schemes through SIDBI's 41 Regional /Branch Offices spread across the country.

Assistance is provided directly for

- Setting up of new SSI units, small hotels, hospitals / nursing homes
- Technology upgradation and modernisation, expansion, diversification
- Quality upgradation / acquiring of ISO 9000 series certification
- Development of markets for SSI products
- Development of infrastructure for SSI sector
- Pre-Shipment and Post-Shipment Credit & Export Bill Finance
- Discounting of bills of manufacturer-seller in SSI sector, selling either equipments or components
- Factoring services.

SIDBI Offers

- Financial assistance to SSI units under Technology Development and Modernisation Fund (TDMF) Scheme.
- Financial assistance to SSI units in the textile and cotton ginning and pressing sectors for taking up technology upgradation and modernisation under Technology Upgradation Funds Scheme (TUFS)
- Financial assistance to tanneries for taking up modernisation under the Tannery Moderni sation Schme (TMS)
- Twelve per cent capital subsidy on loans advanced to SSI units engaged in select product sub-sectors for technology upgradation by scheduled commercial banks, SFCs and NSIC under Credit Linked Capital Subsidy Scheme.
- Short-term loans to Stated Electricity Boards to facilitate their purchases from SSIs and effect payment in time. Discounting of invoices of SSIs supplying their products to large purchaser companies in the public private sector
- Interest subsidy in respect of certain hotel projects under one, two and three star and heritage category where loans are sanctioned after approval of projects from the Department of Tourism.
- Support to obtain credit rating from accredited rating agencies.

SIDBI's Foreign Currency Assistance Includes

- Foreign currency loans to import equipment by existing export-oriented SSI units and new units having refinite plans for entering export markets
- Foreign currency loans to execute confirmed export orders by way of pre-shipment, credit/ letter of credit and post-shipment credit facilities.
- Pre-shipment and Post-shipment Credit in Rupees terms to exporting SSIs for greater flexibility
- Export bills financing in foreign currency.

SIDBI's Venture Capital Includes

- Assistance to small-scale entrepreneurs using innovative indigenous technology and expertise
- Contribution to corpus of other venture funds
- Promotion of State level venture capital funds and a National Venture Fund for Software and IT Industry dedicated to small-scale units in Software/IT industry
- SIDBI has entered into a Memorandum of Understanding with Small Enterprise Assistance Funds of united States of America.

Lines of Credit are Established by SIDBI in favour of

- State Financial Corporations
- State Industrial Development Corporations
- State Small Industries Development Corporations (for supplying raw material and extending marketing support to SSI units)

- Factoring Companies (to factor receivables of SSIs)
- National Small Industries Corporation Ltd.

Development and Support services

- The bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas :
- Enterprise Promotion with emphasis on Rural Industrialisation
- Human Resouree Development to suit the SSI sector needs
- Technology Upgradation
- Quality and Environment Management
- Marketing Promotion, and
- Information Dissemination.

4.3.6 EXIM Bank

Q13. Explain the concept of EXIM Bank.

Ans : **(Imp.)**

The Export-Import Bank of India, commonly known as the EXIM bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers to promote India's foreign trade It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

The important functions of the EXIM Bank are as follows:

(1) Financing of exports and import of goods and services both of India and of outside India.

(2) Providing finance for joint ventures in foreign countries.

(3) Undertaking merchant banking functions of companies engaged in foreign trade

(4) Providing technical and administrative assistance to the parties engaged in export and import business.

(5) Offering buyers' credit and lines of credit to the foreign governments and banks.

(6) Providing advance information and business advisory services to Indian exporter; in respect of multilaterally funded projects overseas.

During the year 1994-95, the EXIM Bank introduced the 'Clusters of Excellence' programme for upgradation of quality standards and obtaining ISO 9000 certification in various parts of the country. The Bank also entered into framework co-operation agreement with European Bank for Reconstruction and Development (EBRD) for acquiring advance information on EBRD funded projects in order to enter into co-financing proposals with 3 RD in Eastern Europe and CIS.

With a view to promote exports, EXIM Bank has introduced three schemes. These are:

(i) Production Equipment Finance Programme.

(ii) Export Marketing Finance.

iii) Export Vendor Development Finance.

During 1994-95, total assistance sanctioned and disbursed by the Bank amounted to Rs. 2903 crore and Rs. 1556 crore respectively. In terms of region-wise assistance, West Asia formed the major portion (49.2%) of EXIM Bank's sanctions during 1994-95. This was followed by South East Asia/Far East and Pacific (38.3%), Sub-Saharan Africa (5.9%) and south Asia (3.6%).

Expansion/diversification programmes claimed the maximum share (54.3%) of EXIM rank's sanctions in 1994-95, followed by new projects (33.2%) and modernisation/ acquisition of equipment (12.5%).

4.4 Non Banking Financial Institutions

Q14. Discuss the various Non-banking Financial Institutions (NBFI).

Ans : **(Imp.)**

Meaning

A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Examples of these include insurance firms, pawn shops, cashiers check issuers, check cashing locations, currency exchanges, and micro loan organizations. Alan Greenspan has identified the role of NBFIs in strengthening an economy, as they provide "multiple alternatives to transform an economy's savings into capital investment [which] act as backup facilities should the primary form of intermediation fail."

Types

The NBFC's can be classified into the following eight categories,

1. **Hire-purchase Finance Company**

   These companies are engaged in the business of hire-purchase financing or hire-purchase transactions.

2. **Investment Company**

   This company is concerned with mobilising money from the people and channeling them in securities of companies. It also engages in trading such securities of earn profits.

3. **Leasing Company**

   To is type of NBFC is concerned with undertaking leasing or financing of equipment leasing.

4. **Loan Company**

   It renders financial support by way of loans or advances or otherwise for any activity other than its own.

5. **Mutual Benefit Financial Company**

   This is a company notified under Section 620 A of the Companies Act.

6. **Housing Finance Company**

   It is concerned with the financing of the acquisition or construction of houses or development of plots or land. These companies are supervised by the National Housing Bank.

7. **Miscellaneous Non-banking Company**

   This type of company is engaged in the activities of managing, promoting, of new companies.

8. **Residuary Non-banking Company**

   In this category, all finance companies are included which receive deposits, under any scheme or arrangement by whatever name called, in lump sum or in installments by way of contributions or subscriptions.

Q15. Explain the Objectives of NBFI.

Ans :

The following are the objectives of NBFI are :

1. **Promote Savings**

   NBFIs encourage people to save more. They collect household and corporate savings. These offer lucrative saving schemes, provide higher rate of interest. These have developed savings habits in middle income group also, who were earlier inclined to spend rather than save.

2. **Helpful in Investment of Savings**

   Economic development depends on the rate of capital formation and the capital formation depends on the investment of savings. Such savings can be invested in agriculture, industries, infrastructure etc. The NBFIs mobilize the savings and convert these savings in productive investments.

3. **Availability of Credit**

   NBFIs meet the credit requirements for economic development. It provides credit to various sectors of economy. Thus, NBFIs promote economic development by providing credit facilities to various productive sectors of the economy.

4. **Helpful in Promoting Exports**

   Export-import-bank (EXIM Bank) has been playing a very significant role in promoting exports and meeting the credit needs of exporters. It provides export credit and help in export documentation. It also provides bank guarantee to exporters while importing capital goods and raw materials.

5. Helpful in Entrepreneurial Development

Entrepreneurs hesitate to invest in new ventures due to lack of funds. NBFIs provide easy loans to entrepreneurs to set up new business units and expand the existing units. NBFIs also help in public issue of shares and debentures of companies. These also act as underwriter i.e., give guarantee to the issuing company that in case the public does not subscribe the whole issue, then they will purchase these shares or debentures. NBFIs also help the entrepreneurs in preparing feasibility reports and survey reports for setting up new industrial projects.

6. Promote Agriculture Development

National Bank for Agriculture and Rural Development (NABARD) is the apex bank for agricultural and rural credit. It refinances agricultural credit. It has helped to reduce dependence of farmers on mahajans and sahukars and thus promoted agriculture development,

7. Promote Industrial Development

NBFIs provide credit to industrial sector. NBFIs also provide necessary foreign exchange to the industries for importing capital goods and raw material. So NBFIs promote industrial development.

8. Helpful in Pushing-up the Demand

People have low income and low standard of living in underdeveloped countries. Their demand for consumer goods is also low. NBFIs provide loans to these customers to enable them to buy consumer durables. As a result, demand for consumer durables goes up and so also their production. New industries spring up which leads to more income, output and employment. Standard of living of the people improves. In this way, NBFIs by providing consumer credit help to increase aggregate demand and supply and thereby accelerate rate of economic growth.

9. Promote Employment

NBFIs promote industrial development by providing loans to business units. Setting up of more industries promotes employment.

Thus, financial institutions play a crucial role in growth and development of nation by offering a well-organized credit market catering to financial needs of various sectors of the economy.

Q16. Explain about the structure of NBFI

Ans :

The Non-banking institutions are classified into,

1. Non-banking finance companies
2. Development finance companies.

1. Non-Banking Finance Companies

The non-banking finance companies includes. Development Finance Institutions (DFIs), Non-Banking Finance Companies (NBFCs), and Housing Finance Corporations (HFCs).

2. Development Finance Companies

The Development Finance Companies are further classified as,

(i) All-India Financial Institutions

All-India Financial Institutions includes Industrial Finance Corporation of India (IFC1), Industrial Development Bank of India (IDBI), Industrial Investment Bank of India (UBI), Small Industries Development Bank of India (SIDBI), Infrastructure Development Finance Company (IDFC), National Bank for Agriculture and Rural Development, EXIM Bank and National Housing Bank (NHB).

(ii) State Level Institutions

The State Level Institutions includes State Financial Corporation's (SFCs) and State Industrial Development Corporations (SIDCs).

(iii) Other Institutions

Other institutions includes Export Credit Guarantee Corporation of India (ECGC), Deposit Insurance and Credit Guarantee Corporation (DICGC) etc.

4.4.1 LIC

Q17. Explain briefly about LIC of India.

Ans :

The Life Insurance Corporation of India (LIC) was set up under the LIC Act in 1956, as a wholly-owned Corporation of the Government of India, on nationalization of the life insurance business in the country. LIC took over the life insurance business from private companies to carry on the business and deploy the funds in accordance with the Plan priorities. LIC operates a variety of schemess so as to extend social security to various segments of society and for the benefit of individuals and groups from the urban and rural areas. The Committee on Reforms in the Insurance Sector set up by the Government has recommended privatisation and restructuring of LIC with Government retaining 50% stake. The committee has also suggested that foreign companies be allowed to conduct life insurance business in the country through joint ventures with Indian partners.

According to the investment policy of LIC, out of the accretion to its Controlled Fund, not less than 75% has to be invested in Central and State Government securities including Government - guaranted marketable securities in the form of shares, bonds and debentures. LIC extends loans for the development of socially oriented sectors and infrastructure facilities like housing, rural electrification, water supply, sewerage and provides financial assistance to the corporate sector by way of term loans and underwritting/direct subscription to shares and debentures. LIC also extends to source support to other financial institutions by way of subscription to their shares and bonds and also by way of term loans.

4.5 Role of Training Institutions in Entrepreneurship Growth

4.5.1 NSIC

Q18. Write the role of NSIC in the context of entrepreneurship development in India.

Ans : **(Imp.)**

The National Small Industries Corporation Ltd. (NSIC), an ISO 9000 certified company, since its establishment in 1955, has been working to fulfill its mission of promoting, aiding and fostering the growth of small-scale industries and industry related small-scale services/businesses in the country.

At present, the NSIC operates through 6 Zonal Offices, 26 Branch Offices, 15 Sub-offices, 5 Technical Services Centres, 3 Extension Centres and 2 Software Technology Parks supported by a team of over 5000 professionals spread across the country. To mange operations in Gulf and African countries, the NSIC operates from its offices in Dubai and Johannesburg.

Functions of NSIC:

NSIC provides a wide range of services, predominantly promotional in character, to small-scale industries.

Its main functions are to:

(a) Provide machinery on hire-purchase scheme to small-scale industries.

(b) Provide equipment leasing facility.

(c) Help in export marketing of the products of small-scale industries.

(d) Participate in bulk purchase programme of the Government.

(e) Develop prototype of machines and equipments to pass on to small-scale industries for commercial production.

(f) Distribute basic raw material among small-scale industries through raw material depots.

(g) Help in development and up-gradation of technology and implementation of modernization programmes of small-scale industries.

(h) Impart training in various industrial trades.

(i) Set up small-scale industries in other developing countries on turn-key basis.

(j) Undertake the construction of industrial estates.

4.5.2 SIDC

Q19. Explain briefly about SIDC.

(OR)

Write the role of SIDC in the context of entrepreneurship development in India.

Ans : **(Imp.)**

SIDCs is State Industrial Development Corporations. It was first established in 1995 under the Companies Act, 1956. They are state-owned government corporations that engage in the development and promotion of medium and large industries. SIDCs aim to develop industrial infrastructure such as industrial parks and industrial estates along with providing financial assistance. They set up industrial projects either in joint sector collaboration with private entrepreneurs or on their own. They also set up such projects as wholly-owned subsidiaries. They provide loans to several industrial units in medium and large sectors at an interest rate that ranges from 13.5% to 17% according to the size of the loan.

Some of the SIDCs are

- Jammu and Kashmir State Industrial Development Corporation
- Tamil Nadu State Industrial Development Corporation
- Kerala State Industrial Development Corporation

Objectives

The main objectives of SIDC are as follows

- SIDC aims to promote micro, small and medium enterprises.
- It aids in the establishment of entrepreneurship and skill development.
- It helps in facilitating industrial infrastructure development.
- It aims at providing publicity and marketing support to industries.

Functions

The main functions of SIDC are

- SIDCs act as an instrument in expediting industrialization in the states of India in which they are present.
- SIDCs issue loans, subscriptions of shares, guarantees to various companies belonging to different industries.
- SIDCs organize various promotional programs like entrepreneurial training, project identification, etc.
- It provides financial assistance in the form of loans or subscriptions to debentures and shares, guarantees, etc.
- SIDCs procure scarce raw materials from the domestic market and international market and make them available to needy small scale industries as per their requirements.
- SIDCs take up various schemes to provide the various industrial units with efficient marketing assistance. SIDCs participate in tenders floated by the state government departments.
- To obtain orders and distribute them among various small scale units, SIDCs make advance payments.
- It helps in solving the working capital problems of the various industrial units.
- The government departments often delay payments when goods are supplied to them by the industrial units. Therefore, to avoid such delays, SIDCs discounts the bills drawn on government departments. Hence, they ensure that 80% of the bill value is paid to the supplier units.
- SIDCs have developed websites so that the products manufactured by the industrial units are displayed in foreign markets. It provides export marketing assistance and helps in procuring export orders.
- It helps small scale units to take part in the international trade fair so that the products are displayed there.
- SIDCs also promote industrial units run by women entrepreneurs.
- SIDCs help in setting up skill development centres where workers are trained in various skills and industrial activities. This is to ensure the supply of skilled labourers to various small scale industries.

4.5.3 SFC

Q20. Write about SFCs.

(OR)

Describe the objectives and functions of SFCs.

Ans : **(Imp.)**

Introduction

IFCI was established to cater to the financial needs of industrial concerns in large scale corporate and co-operative sectors. Small and medium sized enterprises were outside the purview of IFCI. To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions.

Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

Objectives

The objectives of state financial corporations are as under :

1. Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business. Under SFCs Act, "industrial concern" means any concern engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.
2. Provide long and medium-term loan repayable ordinarily within a period not exceeding 20 years.
3. Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.
4. Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed Rs. 3 crore.
5. To lay special emphasis on the development of backward areas and small scale industries.

Functions

The functions of SFCs include :

1. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.
2. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
3. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
4. Underwriting of the issue of stock, shares, bonds or debentures by industrial concerns.
5. Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.
6. Act as agent of the Central government, State government, IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.
7. Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
8. Planning and assisting in the promotion and development of industries.

4.5.4 SISI

Q21. Write the role of SISI in the contact of entrepreneurship development in India.

Ans : **(Imp.)**

The small industries service institutes (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are co-ordinate by the industrial management training division of the DC, SSI office (New Delhi). In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI has wide spectrum of technological, management and administrative tasks to perform.

Functions of SISI

1. To assist existing and prospective entrepreneurs through technical and managerial counselling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;
2. Conducting EDPs all over the country;
3. To advise the Central and State governments on policy matters relating to small industry development;
4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;
5. To provide market information to the SISI's;
6. To recommend SSI's for financial assistance from financial institutions;
7. To enlist entrepreneurs for partition in Government stores purchase programme;
8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.

4.5.5 DICs

Q22. Explain briefly about DICs?

Ans :

A District Industries Center is an institution established at the district level so as to provide them to set up small and village industries there.

Before the setting up of DIC, a prospective entrepreneur has to go to several agencies, many of them far from his district, in order to get the necessary assistance and facilities. This caused considerable delay, waste of time and money.

Now suitable powers have been delegated by several departments of the State Government to the District Industries Center. Thus an entrepreneur can get all the assistance he needs from a single agency itself i.e. DIC.

District Industries Center - Functions District Industries Center – Functions

Functions

1. Survey And Investigation

The District Industries Center Conducts Survey Of The Existing Traditional And New Industries And Raw Materials And Human Resources. It Makes Market Forecasts Of Various Products. It Also Prepares Techno-economic Feasibility Reports So As To Give Investment Advice To The Entrepreneurs.

2. Training Courses

The District Industries Center Also Conducts Training Courses For The Entrepreneurs Of Small And Tiny Units. It Acts As An Intermediary Between The Entrepreneurs And The Small Industries Service Institutes In Order To Introduce New And Improved Product Lines And Quality Developed By The Latter To The Former.

3. Machinery And Equipment

The District Industries Center Indicates The Locations Where From Machinery And Equipment Can Be Acquired And Also Arrange For Supply Of Machinery On Hire Purchase Basis.

4. Raw Materials

The District Industries Center Obtains The Details Regarding The Materials Required By Various Units And Arrange For Purchase Of The Same In Bulk. Thereby It Enables The Small Units To Get Their Raw Materials At Reasonable Prices.

5. Arrangements For Loans

It Makes The Necessary Arrangements With Lead Banks And Other Financial Institutions In Order To Provide Financial Assistance To The Entrepreneurs. It Also Appraises The Application And Monitors The Flow Of Industrial Credit In The District.

6. Marketing

The District Industries Center Conducts Market Surveys And Market Development Programmes. It Also Organizes Marketing

Outlets, Contact With Government Procurement Agencies And Make The Entrepreneurs Well Informed Of The Market Intelligence.

7. **Khadi And Village Industries**

   District Industries Centers Gives Special Attention To The Development Of Khadi And Village Industries And Other Cottage Industries. It Also Keeps Close Contact With The State Khadi Board And Organize Training Programmes For Rural Artisans.

4.5.6 TCOs

Q23. Write about Technical Consultancy Organizations.

(OR)

Explain about Technical Consultancy Organizations.

Ans :

Technical Consultancy Organizations (TCOs) were set up in the seventies/eighties to meet this need. The IDBI, IFCI and ICICI, in collaboration with state-level financial development institutions and commercial banks, established a network of TCOs. The IDBI took the initiative for setting up the first TCO in Kerala in 1972. At that time, there were 17 COTCOs in the country, some of them covering more than one state.

Of the total 17 TCOs, 9 were under the IDBI lead, 5 under the IFCI and 3 under the ICICI. They catered to the needs of small and medium enterprises all over the country.

The TCOs were set up to provide under a single roof a package of total consultancy services covering all stages in the project cycle. TCOs also provided consultancy to State Goverments, state level development financing institutions and banks. The main thrust of TCOs' operations was in the area of preparation of project reports and feasibility studies. Having gained experience over the years, TCOs diversified into areas of identification of potential entrepreneurs and their training, project implementation, rehabilitation, management consultancy, detailed design engineering and turn-key services, besides energy audit and conservation.

Activities of TCOs

The primary objective of the TCO was to provide, under a single roof, a total package of services to small and medium industries. They also provided consultancy services to various state-level development institutions.

(i) Carrying out industrial potential surveys, identification of project ideas, project formulation

(ii) Evaluation of projects referred to them

(iii) Preparation of project profiles, feasibility studies

(iv) Preparation of project reports and where called upon, to render turn-key services in project implementation

(v) Conduct area development and marketing surveys

(vi) Assist entrepreneurs in their modernisation, technical upgradation programme, etc.

(vii) Revival of sick units right from the stage of carrying out diagnostic studies to the actual implementation of rehabilitation schemes.

(viii) Provide technical and administrative assistance.

(ix) Conduct special studies as assigned by the entrepreneurs and entrepreneurship

(x) Conduct entrepreneurship development programmes, entrepreneurship awareness camps, SEEUY training programmes.

(xi) Identify the potential entrepreneurs and provide them with technical and management assistance.

(x) Offering merchant banking services;

(xi) Undertaking market research and surveys, for specific products

(xii) Undertaking energy audit and energy conservation assignments;

(xiii) Project supervision;

(xiv) Undertaking export consultancy and export oriented projects based on modern technology.

4.6 Government Schemes to Develop and Encourage Entrepreneurship

Q24. Describe the Government Schemes to Develop and Encourage Entrepreneur ship.

Ans : **(Imp.)**

The following are the various Government schemes to develop and encourage entrepreneur- ship

1. **Start-up India**

   Launched by Prime Minister Narendra Modi in 2016, the scheme falls under the purview of the Department of Industrial Policy and Promotion. Aims to support Indian entrepreneurs in creating 10 lakh mobile app startups.

   The flagship programme under Start-up India is the MUDRA loan scheme (PradhanMantri Mudra Yojana). This programme offers microfinance loans at low interest to emerging entrepreneurs from low socioeconomic strata. Funding of Rs. 20,000 crores have been allotted for this scheme.

2. **ATAL Innovation Mission**

   The government scheme, set up by Niti Aayog, was created to promote an innovative culture and the development of the spirit of entrepreneurship across India. The scheme aims to create cooperation between state, central, and local innovation schemes and implement entrepreneurship spirit from schools to corporates by developing world-class Atal Incubators (AICs). This would help to address commercial and social entrepreneurship ventures in India.

3. **e-Biz Portal**

   Founded in 2013, this is the first online platform that allows government-to-business (G2B) communication. e-Biz's portal primary purpose was to create an entrepreneurship friendly atmosphere in the country. The platform has been developed by Infosys and has launched 29 services across 5 states in India. It is a single communication online forum for Indian businesspeople and investors for conducting transactions, clearances, and activities related to both of them.

4. **Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)**

   The SIP-EIT scheme was launched by the Ministry of Electronics and Information Technology to provide financial funding for MSMEs and Technology Startups to encourage innovation, acknowledge international patent rights and optimise the growth of the sector in the county. Businesses that want to go global need to apply for intellectual property rights as innovations are at risk of being stolen or misappropriated. Hence, the government has executed various protection measures through the SIP-EIT scheme.

5. **Multiplier Grants Scheme (MGS)**

   MGS was launched under the Department of Electronics and Information Technology (Deity) for promoting integrated research and development (R&D) between industry and educational institutions for developing products and packages. Under this scheme, the government provides financial assistance at 2x times the amount contributed by the industry, provided the industry supports R&D of products that get marketed at the institutional level.

   MGS encourages and hastens the development of indigenous products/services. Government grants are available up to Rs. 2 crores per project with project tenure limited to around 2 years. For industrial collaborations, the cost is limited to Rs. 4 crores with a maximum tenure of 3 years.

6. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The government established CGTMSE for providing collateral-free business loans to MSME and startups. The scheme allows business units to get collateral-free loans at a low rate of interest up to a maximum of Rs. 100 lakhs under a tie-up with SIDBI (Small Industries Development Bank of India) for promoting new businesses and relaunching existing ones. The loan is provided mainly for manufacturing companies, either as working capital or term loan.

7. Software Technology Park (STP)

STP scheme has been established as a 100% export-oriented programme for promoting and exporting computer software and professional services through communication networks or physical media. The scheme focuses solely on computer software. 100% Export Oriented Units (EOU) and Export Processing Zones (EPZ) concepts for forming Science Parks/Technology Parks are covered under this scheme.

8. Loan For Rooftop Solar Pv Power Projects

The scheme is committed to the development of 40,000 MWp of Grid-Interactive Rooftop Solar PV Plants over the next five years for increasing reliance on non-conventional energy sources. Such rooftop solar PV plants, with capacities between 1 kW - 500 kW are expected to be installed in various sectors like residential, commercial, and the like across India. Under the scheme, a subsidy of 15% is provided to organizations or individual enterprises for such plants.

9. NewGen Innovation and Entrepreneur- ship Development Centre (NewGen IEDC)

The NewGen IEDC scheme has been launched by the National Science and Technology Entrepreneurship Development Board. The scheme aims to instil a spirit of creativity and entrepreneurship among the youth in India through various methods like counselling, coaching, and assistance. There is also provision for supporting and encouraging entrepreneurship.

10. Dairy Processing and Infrastructure Development Fund (DIDF)

DIDF is a fund constituted under NABARD in 2017, wherein milk unions, multi-state milk cooperatives, state dairy federations, milk-producing enterprises, and NDDB subsidiaries project's eligibility criteria can avail a loan. The loan component consists of 80% with the borrower to pay the remaining 20% payment. Interest is charged at 6.5 % p.a. and loan tenure is decided based on the amount of money borrowed. The loan repayment is guaranteed by the respective state government, and in case of borrower default, the state government steps in to contribute the defaulted portion.

Short Question & Answers

1. Commercial Banks.

Ans :

Commercial banks are the oldest, biggest and fastest growing financial intermediaries in India. They are also the most important depositories of public saving and the most important disbursers of finance. Commercial banks are the simple business or commercial concerns which provide various types of financial services to customers in return for payments in one form or another such as interest, discounts, fees, commission, and so on.

Their objective is to make profits. Banks have to concentrate on balancing profitability with liquidity. The need for maintenance of liquidity is much greater because of the nature of their liabilities with the banks. Banks deal in other people's money, a substantial part of which is repayable on demand. This is reflected in the management and control of reserves of commercial banks.

2. IFCI.

Ans :

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long -term credit to industrial concerns in India. IFCI transformed into a corporation from 21st May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

Management

The Board of Directors consists of a whole-time Chairman and twelve directors. The Chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Six Directors are elected by shareholders other than the IDBI.

Financial assistance provided by the IFCI can be in one or more of the following forms:

- Rupee and foreign currency term loans
- Underwriting of share and debenture issues
- Direct subscription to equity
- Guarantees
- Soft loans
- Equipment financing

3. ICICI.

Ans :

The Industrial Credit and Investment Corporation of India were registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

Objectives

- To assist in the creation, expansion and modernization of private concerns;
- To encourage the participation of internal and external capital in the private concerns;
- To encourage private ownership of industrial investment.

Functions

- It provides long-term and medium-term loans in rupees and foreign currencies.
- It underwrites new issues of shares and debentures.
- It guarantees loans raised by private concerns from other sources.
- It provides technical, managerial and administrative assistance to industrial concerns.

4. IDBI's.

Ans :

Establishment

The Industrial Development Bank of India or IDBI was established on 1st July, 1964 as an apex bank (the counterpart of Reserve Bank) in the field of industrial finance and capital market.

However, it was de-linked from Reserve Bank on 16th February, 1976 and was given a separate independent entity under Central Government. It has completed 35 years on 30th June, 1999.

Objectives

It is the apex institution to co-ordinate, supplement, and integrate the activities of all existing specialized financial institutions. It is a re-financing and re-discounting institution operating in the capital market to re-finance term loans and export credits. It is in charge of conducting techno-economic studies. It offers loans on purpose and not merely on the security of property as mortgage or pledge.

5. SIDBI.

Ans :

The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long standing demand from the small-scale sector as an apex-level national institution for promotion, financing and development of industries in the small -scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small-scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing bills rediscounting and equity support to the small-scale sector.

6. Non-banking Financial Institutions.

Ans :

A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Examples of these include insurance firms, pawn shops, cashiers check issuers, check cashing locations, currency exchanges, and micro loan organizations. Alan Greenspan has identified the role of NBFIs in strengthening an economy, as they provide "multiple alternatives to transform an economy's savings into capital investment [which] act as backup facilities should the primary form of intermediation fail."

7. LIC.

Ans :

The Life Insurance Corporation of India (LIC) was set up under the LIC Act in 1956, as a wholly-owned Corporation of the Government of India, on nationalization of the life insurance business in the country. LIC took over the life insurance business from private companies to carry on the business and deploy the funds in accordance with the Plan priorities. LIC operates a variety of schemess so as to extend social security to various segments of society and for the benefit of individuals and groups from the urban and rural areas. The Committee on Reforms in the Insurance Sector set up by the Government has recommended privatisation and restructuring of LIC with Government retaining 50% stake. The committee has also suggested that foreign companies be allowed to conduct life insurance business in the country through joint ventures with Indian partners.

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9. Write about SFCs.

Ans :

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The objectives of state financial corporations are as under :

(i) Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business. Under SFCs Act, "industrial concern" means any concern engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.

(ii) Provide long and medium-term loan repayable ordinarily within a period not exceeding 20 years.

(iii) Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.

10. TCOs.

Ans :

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Choose the Correct Answers

1. TCO stands for ________ . [d]
   (a) Tata consultancy organization (b) Technology consultancy organization
   (c) Transforming consultancy organization (d) Technical consultancy organization.
2. The central government with the help of UNDP and ILO formed ________. [a]
   (a) Central Institute of Tool Design, Hyderabad
   (b) Central Institute of Tool Design, Allahabad
   (c) Central Institute of Tool Design, Mumbai
   (d) Central Institute of Tool Design, Delhi.
3. NISEBUD was established as an apex national level institute at ________. [c]
   (a) New Delhi is 1964 (b) Delhi in 1983
   (c) New Delhi in 1983 (d) New Delhi in 1969.
4. SSIB consists of members. [d]
   (a) 10 (b) 30
   (c) 40 (d) 50
5. SIDO functions as a subordinate office of ________ & ________. [a]
   (a) SSI&ARI (b) SSC&ARI
   (c) SISI&ARI (d) SEBI&ARI.
6. NSIC was established in the year ________. [c]
   (a) 1949 (b) 1950
   (c) 1955 (d) 1965.
7. Clusters of Excellence was started by ________. [b]
   (a) EXAM Bank (b) EXIM Bank
   (c) EXEM Bank (d) All
8. OTCEI's institutional member is ________. [b]
   (a) SIDO (b) SIDBI
   (c) SFC (d) IDBI
9. The promotional scheme of IFCI is ________. [d]
   (a) Interest subsidy scheme for women entrepreneurs
   (b) Encouraging modernization of tiny and small-scale ancillary units
   (c) Only a
   (d) Both a and b.
10. ICICI provides assistance to the following sectors ________ [d]
    (a) Private and public sector (b) Joint sector
    (c) Co-operative sector (d) AIL

Fill in the Blanks

1. Scheduled commercial banks as on 30th June, 1999 stood at _______ number.
2. IDBI was established on _______.
3. IFCI was set-up by _______ under IFCI Act in July 1948.
4. British Eastern Exchange Bank subscribes the issued capital of _______.
5. IRBI was initially known as _______.
6. _______ offers various insurance policies to improve social security of the society.
7. Grihlakshmi Unit Plan and Columbus India Fund were started by _______.
8. _______ provides financial and non-financial assistance to SSIs.
9. EXIM was established on _______.
10. Industrial Estates are basically of _______ types.

Answers

1. 300
2. July 1, 1964
3. Government of India (GOI)
4. ICICI (Industrial Credit and Investment Corporation of India Ltd.)
5. IRCI (Industrial Reconstruction Corporation of India)
6. LIC (Life Insurance Corporation of India)
7. UTI (Unit Trust of India)
8. SIDBI (Small Industries Development Bank of India)
9. 1st January, 1982
10. Three

One Mark Answers

1. Agency Services.

Ans :

(a) Collection and payment of cheques and bills on behalf of the customers.

(b) Collection of dividends, interest and rent, etc. on behalf of customers, if so instructed by them.

(c) Purchase and sale of shares and securities on behalf of customers.

2. General Utility Services.

Ans :

(i) Issuing letters of credit and travellers' cheques.

(ii) Underwriting of shares, debentures, etc.

(iii) Safe-keeping of valuables in safe deposit locker;

(iv) Underwriting loans floated by government and public bodies.

3. IFCI.

Ans :

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long -term credit to industrial concerns in India.

4. ICICI.

Ans :

The Industrial Credit and Investment Corporation of India were registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

5. NBFI.

Ans :

A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.

UNIT V	**VENTURE CAPITAL FINANCING:** Concept of Venture Capital Financing – Features, Need and Relevance of Venture Capital – Establishment of Venture Capital Funds – Structure and Regulatory framework for Venture Capital Funds – Growth of Venture Capital in India – Evaluation of Venture Capital Financing – Conventional Valuation – First Chicago Method – Revenue Multiplier Method – Venture Capital Firms in India – Structure & Methodology of Venture Capital Fund – Performance measurement – Role of TDICI in Building Venture Capital Fund – Exit Strategies of Venture Capitalists – Imperative of VCF development in India.

5.1 Concept of Venture Capital Financing

Q1. Explain the concept of Venture Capital.

Ans :

The term 'Venture Capital' is understood in many ways. In a narrow sense, if refers to, investment in new and tried enterprises that are lacking a stable record of growth.

In a broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specialising in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organise and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Meaning

Venture capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture capitalist pool their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

Definition

A venture capital company is defined as "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise."

5.1.1 Features

Q2. Describe the distinguish features of Venture Capital.

Ans :

Venture Capital can be distinguished from other forms of finance on the basis of its special characteristics which are as follows:

1. The most distinguishing feature of Venture Capital is that it is provided largely in the form of equity, when the investee company is unable to float its equity shares independently in the market, or from other sources in the initial stage. Thus risk capital is provided, which is not available otherwise due to the high degree of risk involved in the venture.

2. The venture capitalist, though participates in the equity, does not intend to act as the owner of the enterprise. The venture capitalist does not participate in the day-to-day management, but aids and guides the management by providing the benefit of his skill, experience and expertise. He nurtures the new enterprise till it enters the profit-earning stage.

3. The Venture Capitalist does not intend to retain his investment in the investee company for ever. He intends to divest his shares, as soon as the company becomes a profitable business and the returns from the business are high as per expectations. At this stage he withdraws himself from the venture and in turn provides finance for another venture.

4. A Venture Capitalist intends to earn largely by way of capital gains arising out of sale of his equity holdings, rather than through regular returns in the form of interest on loans.

5. A Venture Capitalist also provides conditional loans which entitles him to earn royalties on sales depending upon the expected profitability of the business. (Such loan is partly or fully waived if the business enterprise does not prove to be a success).

5.1.2 Need and Relevance of Venture Capital

Q3. Explain the need for Venture Capital.

Ans :

For start-ups or growing companies, as well as those facing a major change, financing is one of the key business issues. In order to ensure sufficient resources for the operations, the management must be able to satisfy the following financing needs:

- financing of product development
- financing of market penetration
- financing of investments
- working capital financing to secure operative continuity
- maintaining liquidity to be able to cover daily payments

During their start-up, growth and expansion stages, companies are often faced with inadequate cash inflow situations. They require time to turn their cumulative cash flow from negative to positive. A long product development stage and slow market penetration prolong the negative cash flow period. The company can have a negative cash flow for years, a situation that is typical in high-tech companies.

Rapid growth also places great demands on a company's financial arrangements. The existing capacity often becomes insufficient, making it imperative for the company to attract additional investments in business premises and production capacity. A greater contribution to marketing is needed and the need for working capital grows considerably.

To bridge the deficit in operative financing, the company has a choice of available measures:

- ensure that liquidity planning has been appropriate
- make the clients pay their invoices on time by offering, for example, discounts
- for rapid payments
- intensify the collection of sales receivables
- delay the payments to suppliers within their terms of payment
- maximize the sales margins
- cut indirect costs

  In case these measures are not sufficient, the company has only two alternatives:

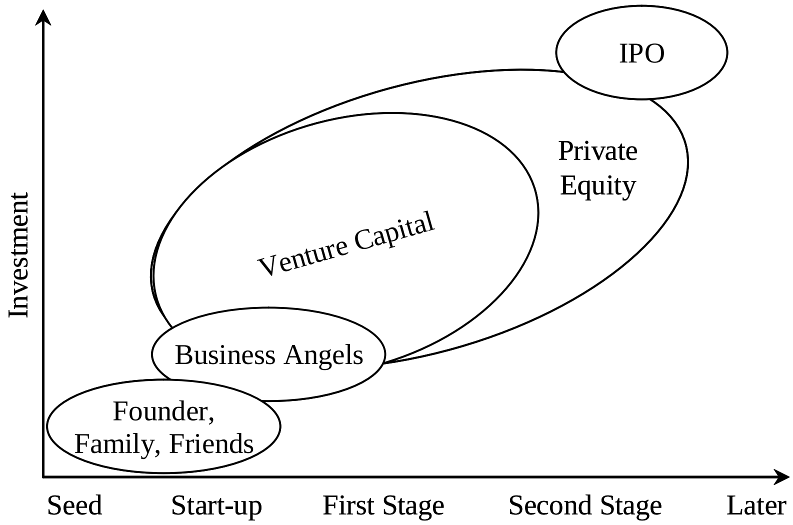
- acquire equity capital (through venture capital investors, for example), or
- borrow capital

The entrepreneur usually provides the initial funds for the business himself, sometimes with the help of friends and relations who believe in the business concept. Some funding is also obtained through personal credit and asset based financing like office equipment, cars, etc. on lease financing.

For a business, which is started on the basis of an intellectual property like a patent, specialized service, software product, etc., obtaining loans from banks is almost impossible. Banks typically look for historical profits and cash as the basis for the projections of the future profitability growth of the company. They also need securities and personal guarantees to give loans.

A new venture does not have a history which the bank can rely on and the entrepreneurs may have more "intellectual capital" than physical assets to offer as security. This is where venture capital steps in to provide the much-needed support to the entrepreneurs. The entrepreneur's ideas combine with the venture capitalist's money to realize the full potential of the business concept.

The graph below shows the funding sources available to the entrepreneur during the lifecycle of the business



Sources of Capital

Q4. Explain the scope of venture capital in India.

Ans :

Venture capital may take various forms at different stages of the projtec. There are four successive stages of development of a project viz. development of a project idea, implementation of the idea, commercial production and marketing and finally large scale investment to exploit the economics of scale and achieve stability. Financial institutions and banks usually start financing the project only at the second or third stage but rarely from the first stage. But venture capitalists provide finance even from the first stage of idea formulation. The various stages in the financing of venture capital are described below:

1. **Development of an Idea—Seed Finance**

   In the initial stage venture capitalists provide seed capital for translating an idea into business proposition. At this stage investigation is made indepth which normally takes a year or more.

2. **Implementation Stage—Start up Finance**

   When the firm is set up to manufacture a product or provide a service, start up finance is provided by the venture capitalists. The first and second stage capital is used for full scale manufacturing and further business growth.

3. **Fledging Stage—Additional Fiance**

   In the third stage, the firm has made some headway and entered the stage of manufacturing a product but faces teething problems. It may not be able to generate adequate funds and so additional round of financing is provided to develop the marketing infrastructure.

4. **Establishment Stage—Establishment Finance**

   At this stage the firm is established in the market and expected to expand at a rapid pace. It needs further financing for expansion and diversification so that it can reap economies of scale and attain stability. At the end of the establishment stage, the firm is listed on the stock exchange and at this point the venture capitalist disinvests their shareholdings through available exit routes.

Before investing in small, new or young hi-tech enterprises, the venture capitalists look for percentage of key success factors of a venture capital project. They prefer projects that address these problems. An idea developed for these success factors has been presented in Table.

After assessing the viability of projects, the investors decide for what stage they should provide venture capital so that it leads to greater capital appreciation.

All the above stages of finance involve varying degrees of risks and venture capital industry, only after analysing such risksi invest in one or more. Hence they specialize in one or more but rarely all.

Q5. Explain the advantages and diadvantages of venture capital financing in India.

Ans :

The follwoing are the advantages of capital financing are :

(I) Advantages to investing Public

1. The investing public will be able to reduce risk significantly against unscrupulous management, if the public invest in venture fund who in turn will invest in equity of new business. With their expertise in the field and continuous involvement in the business they would be able to stop malpractices by management.
2. Investors or have no means to vouch for the reasonableness of the claims made by the promoters about profitability of the business. The venture funds equipped with necessary skills will be able to analyse the prospects of the business.
3. The investors do not have any means to ensure that the affairs of the business are conducted prudently. The venture fund having representatives on the Board of Directors of the company would overcome it.

(II) Advantages to Promoters

1. The entrepreneur for the success of public issue is required to convince tens of underwriters, brokers and thousands of investors but to obtain venture capital assistance, he will be required to sell his idea to justify the officials of the venture fund.
2. Public issue of equity shares has to be preceeded by a lot of efforts viz. necessary statutory sanctions, underwriting and brokers arrangement, publicity of issue etc. The new entrepreneurs find it very difficult to make underwriting arrangements require a great deal of effort. Venture fund assistance would eliminate those efforts by leaving entrepreneur to concentrate upon bread and butter activities of business.
3. Costs of public issues of equity share often range between 10 percent to 15 percent of nominal value of issue of moderate size, which are often even higher for small issues. The company is required, in addition to above, to incur recurring costs, for maintenance of share registry cell, stock exchange listing fee, expenditure on printing and posting of annual reports etc. These items of expenditure can be ill afforded by the business when it is new. Assistance from venture fund does not require such expenditure.

(III) Advantages to General

1. A developed venture capital institutional set-up reduces the time lag between a technological innovation and its commercial exploitation.
2. It helps in developing new processes/ products in conducive atmosphere, free from the dead weight of corporate bureaucracy, which helps in exploiting full potential.
3. Venture capital acts as a cushion to support business borrowings, as bankers and investors will not lend money with inadequate margin of equity capital.
4. Once venture capital funds start earning profits, it will be very easy for them to raise resources from primary capital market in the form of equity and debts.

Therefore, the investors would be able to invest in new business through venture funds and, at the same time, they can directly invest in existing business when venture fund disposes its own holding. This mechanism will help to channelise investment in new high-tech business or the existing sick business. These business will take-off with the help of finance from venture funds and this would help in increasing productivity, better capacity utilisation etc.

5. The economy with well developed venture capital network induces the entry of large number of technocrats in industry, helps in stablising industries and in creating a new set of trained technocrats to build and manage medium and large industries, resulting in faster industrial development.

6. A venture capital firm serves as an intermediary between investors looking for high returns for their money and entrepreneurs in search of needed capital for their start ups.

7. It also paves the way for private sector to share the responsibility with public sector.

Disadvantages

Here are the disadvantages of venture capital financing.

(i) Complex Process

In order to raise funds you need to approach venture capitalists or angel investors by submitting a robust business model, future revenue projection, whether your venture will succeed in the future, profitability, etc. So, raising a fund from venture capitalists is quite a long and complex process.

(ii) Share of Profit of the company

Since equity gives an ownership right and voting right to the shareholders, the dividend paid to the shareholders is more than the interest payable in the case of debt financing.

(iii) Loss of control

Since the shareholders are the owners of the company, you need to consent or consult with the shareholders in the case of differences of opinions among the shareholders.

Q6. Explain the importance of venture capital.

Ans :

Venture Capital institutions lets entrepreneurs convert their knowledge into viable projects with the assistance of such Venture Capital institutions.

- It helps new products with modern technology become commercially feasible.
- It promotes export oriented units to earn more foreign exchange.
- It not only provide the financial institution but also assist in management, technical and others.
- It strengthens the capital market which not only improves the borrowing concern but also creates a situation whereby they can raise their own capital through capital market.
- It promotes modern technology through the process where financial institutions encourage business ventures with new technology.
- Many sick companies get a turn around after getting proper nursing from such Venture Capital institutions.

5.2 Establishment of Venture Capital Funds

Q7. Describe the establishmen of venture capital funds.

Ans :

Investment funds that help investors seeking private equities in startups, small, and mid-sized enterprises possessing strong growth potential, by managing their money are known as Venture Capital Funds (VCF). They are institutions that are dedicated to funding new ventures and are regulated by the guidelines issued by the Securities and Exchange

Board of India (SEBI). Though there is a high-risk involved in funding new projects, the investors are eager to do so because they anticipate high returns on the investment.

Venture Capital Funds ensure that the money of the investors is used to fund projects which have a potential to grow and the money provided in the process is known as Venture Capital. Venture capital funds are given out on the basis of the company's assets, size and stage of product development. Since these firms in question are usually start-up/ small in size, they are said to have high-risk/high-return profiles.

- The main focus of VCFs is on early-stage investment but sometimes, it can also involve expansion-stage financing.
- Often, equity stakes of the enterprises or companies that are funded by the VCFs are purchased by the VCFs.
- Along with the capital, VCFs also bring with them the knowledge and experts of the investors which will help the company make further advancements.
- Sometimes the VCFs also help in developing new products/services and acquire latest technologies that will help the company to improve efficiency.
- The biggest advantage that VCFs offer is the networking opportunities. With influential and wealthy investors promoting the company, it will in no time, achieve stellar growth.
- VCFs hold the authority to influence the decisions of the enterprises they are investing in.
- To mitigate the risks involved in funding new projects, VCFs invest in a variety of young startups with a belief that at least one firm will achieve massive growth and reward them with a large payout.

5.3 Structure and Regulatory Framework for Venture Capital Funds

Q8. Describe the Regulatory Framework of Venture Capital.

Ans :

Meaning

The venture capital funds and venture capital companies in India were regulated by the Guidelines issued by the Controller of Capital Issues, Government of India, in 1988. In 1995, Securities and Exchange Board of India Act was amended which empowered SEBI to register and regulate the Venture Capital Funds in India.Subsequently, in December, 1996 SEBI issued its regulations in this regard. These regulation replaced the Government Guidelines issued earlier.

The SEBI guidelines, as amended in 2000, are as follows:

1. Definitions

A Venture Capital Fund has been defined to mean a fund established in the form of a trust or a company including a body corporate and registered with SEBI which –

i) Has a dedicated pool of capital, raised in the specified manner, and

ii) invests in venture capital undertakings in accordance with these regulations.

A Venture Capital Fund may be set up either as a trust or as a company. The purpose of raising funds should be to invest in Venture Capital Undertakings in the specified manner.

A Venture Capital Undertaking means a domestic company:

i) Whose shares are not listed on a recognised stock exchange in India, and

ii) Which is engaged in the business for providing services, production or manufacture of articles or things and does not include such activities or sectors which have been included in the negative list by the Board.

The negative list of activities includes real estate, non-banking financial services, gold financing, activities not permitted under Government's Industrial Policy and any other activity specified by the Board.

2. Registration of Venture Capital Funds

A venture capital fund may be set up either by a company or by a trust. SEBI is empowered to grant a certification of registration to the fund on an application made to it. The applicant company or trust must fulfil the following conditions:

i) The memorandum of association of the company must specify, as its main objective, the carrying of the activity of a venture capital fund.

ii) It is prohibited by its memorandum of association and Articles of Association from making an invitation to the public to subscribe to its securities.

iii) Its director, or principal officer or employee is not involved in any litigation connected with the securities market.

iv) Its director, principal officer or employee has not been at any time convicted of an offence involving moral turpitude or any economic offence.

v) The applicant is a fit and proper person.

In case an application has been made by a Trust, the instrument of Trust must be in Venture Capital the form of a Deed and the same must have been duly registered under the Indian Registration Act, 1908. It must also comply with the above-mentioned conditions (ii) to (v).

On receipt of the Certificate of Registration, it shall be binding on the venture capital fund to abide by the provisions of SEBI Act and these Regulations. Venture CapitalFund shall not carry on any other activity than that of a Venture Capital Fund.

3. Resources for Venture Capital Fund

A Venture Capital Fund may raise moneys from any investor – India, foreign or non Resident Indian – by way of issue of units, povided the minimum amount accepted from an investor is Rs. 5 lakh. This restriction does not apply to the employees, principal officer or directors of the venture capital fund, or non-Resident Indians or persons or institutions of Indian Origin. It is essential that the venture capital fund shall not issue any document or advertisement inviting offers from the public for subscription to its securities/units.

Moreover, each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors to contribute at least Rs. 5 crore before the start of its operations.

4. Investment Restrictions

While making investments, the venture capital fund shall be subject to the following conditions:

a) A Venture Capital Fund shall disclose the investment strategy at the time of application for registration.

b) A Venture Capital Fund shall not invest more than 25% of its corpus in one venture capital undertaking.

c) It shall not invest in the associated companies.

d) It shall make investment in the venture capital undertakings as follows:

   i) at least 75% of the investible funds shall be invested in unlisted equity shares or equity-linked instruments (i.e., instruments convertible into equity shares or share warrants, preference shares, debentures compulsorily convertible into equity),

   ii) not more than 25% of the investible funds may be invested by way of

      ➢ subscription to initial public offer of a venture capital undertaking whose shares are proposed to be listed, subject to a lock in period of one year.

      ➢ debt or debt instruments of a venture capital undertaking in which the venture capital fund has already made investment by way of equity.

5. Prohibition on Listing

The securities or units issued by a venture capital fund shall not be entitled to be listed on any recognised stock exchange till the expiry of 3 years from the date of issuance of such securities or units.

6. Private Placement of Securities/Units

A venture capital fund may receive moneys for investment in the venture capital undertakings only through private placement of its securities/units. For this purpose the venture capital fund/company shall issue a placement memorandum which shall contain details of the terms subject to which moneys are proposed to be raised. Alternatively, it shall enter into contribution or subscription agreement with the investors, which shall specify the terms and conditions for raising money. The venture capital fund shall also file with SEBI a copy of the above memorandum/agreement together with a report on money actually collected from the investors.

7. Winding up of Venture Capital Fund Scheme

A Scheme of a Venture Capital Fund set up as a Trust shall be wound up, in any of the following circumstances, namely:

i) when the period of the scheme, if any is over or

ii) if the trustees are of the opinion that the winding up shall be in the interest of the investors, or

iii) 75% of the investors in the scheme pass a resolution for the winding up, or

iv) SEBI so directs in the interest of investors.

A Venture Capital Company shall be wound up in accordance with the provisions of the Companies Act.

8. Powers of the Securities and Exchange Board of India

SEBI has the following powers:

a) to appoint inspecting/investigating officers to undertake inspection/investigation of the books of accounts, records and documents of Venture Capital Fund.

b) to suspend the certificate granted to a Venture Capital Fund if it contravenes any provisions of the SEBI Act or these guidelines or fails or defaults in submitting any information as required by SEBI or submits false/misleading information, etc.

c) to cancel the certificate in the following cases:

   i) Venture capital fund is guilty of fraud or has been convicted of an offence involving moral turpitude.

   ii) Venture capital fund has been guilty of repeated defaults mentioned in (b) above.

   iii) Venture capital fund contravenes any of the provisions of the Act or the Regulations.

5.4 Growth of Venture Capital in India

Q9. Discuss the growth of venture capital in India.

Ans :

Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. Venture Capital in India is provided as risk capital in the forms of shares, seed capital and other similar means.

In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital institutes in India. Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale. Introduction of western financial philosophies, tight contracts, focus on profitable projects and active involvement in finance was contributed by foreign investors only.

The financial investment process has evolved a lot with time in India. Earlier there were only commercial banks and some financial institutes but now with venture capital investment institutes, India has grown a lot. Business forms now focus on expansion because they can get financial support with venture capital. The scale and quality of the business enterprises have increased in India now. With international competition, there have been a number of growth oriented business firms that have invested in venture capital. All the business firms that deal in information technology, manufacturing products as well as providing contemporary services can opt for venture capital investment in India

5.5 Evaluation of Venture Capital Financing

5.1.1 Conventional Valuation – First Chicago Method – Revenue Multiplier Method

Q10. Describe various methods of Venture Capital Financing.

(OR)

Explain methods of evaluation of projects by Venture Capital Financing.

Ans : **(Imp.)**

There are basically three methods adopted by venture capital institutions (VCI) while financing projects. These are:

1. Conventional venture capitalist evaluation method.
2. The First Chicago method.
3. The revenue multiplier method.

1. Conventional venture capitalist evaluation method.

In this method, VCIs give importance to two aspects, which are

- the time of starting the investment and
- the time of quitting the investment.

The institution will judge the borrowing concern in the following manner:

(i) Annual revenue of the borrowing concern over a period of 7 years and whether these revenues are on the upward trend.

(ii) The borrowing concerns' expected earnings (after deducting tax liability) at the initial stage and also at the time of quitting the borrowing concern will be taken into consideration.

(iii) Market evaluation of the borrowing concern on the basis of P/E ratio (P = price of the security and E= earnings of the security). The evaluation of this ratio is the lesser the ratio, better will be the condition of the borrowing company.

(iv) Finding out the net present value (NPV) of the borrowing concern, based on suitable discount factor.

(v) The borrowing concern must have net worth equivalent to the borrowing amount.

Example: If the value of enterprise is Rs. 10 crores, and the borrower wants Rs. 4 crores, then he must have a net worth of 40 percent of the total value.

The above method may not be practically feasible as most of the borrowing firms will not be in a position to provide regular stream of income and in the case of firms incurring losses, this method cannot be worked out.

2. The First Chicago Method

This method is different from the previous conventional method of evaluation, as it gives some discount to the starting point and the exit point. There is more consideration given for the earnings during the entire period. This scheme has the following aspects.

(i) Three alternative positions are taken which are

- Success
- Sideways survival
- failure.

A probability rating is given to the three positions.

(ii) Through the discounted cash flow, the discounted present value is assessed by giving a high discount rate to accommodate the risk factor.

(iii) The discounted value is multiplied by probability ratings which will provide expected present value.

(v) If the expected present value is Rs. 10 lakhs, and the fund required is Rs. 5 lakhs, then the borrowing concern must have a minimum net worth of 50%

3. Revenue Multiplier Method

In this method, the value of the borrowing concern is based on an estimated value. The estimated value is calculated on the basis of

(i) Present value of the borrowing concern

(ii) Annual revenue

(iii) Expected rate of growth of revenue per year

(iv) Expected holding period (number of years for the repayment)

(v) Profit margin after tax

(vi) Expected P/E ratio at the time of quitting the borrowing concern.

This method will be useful for such concerns which have started earning and where in the course of years their revenue will be increasing. But this system is based on more data which may not be available, especially in underdeveloped countries.

Q11. Explain in brief about first chicago method with its advantages and disadvantages.

Ans :

The First Chicago method of valuation is another approach that is commonly used by appraisers. Under this methodology, a small number of discrete scenarios are valued using a discount rate that reflects the cost of capital for the venture. The objective is to select and weight the scenarios in a manner that provides unbiased estimates of expected cash flows and is of those cash flows.

The venture capital group of First Chicago Corporation developed the First Chicago method. Scherlis and Sahlman (1987) describe it as a methodology developed to address valuation biases inherent in the Venture Capital method.

Valuation using this methodology is made in the context of an outside individual investing in the venture as part of a well-diversified portfolio. Thus, the investor could be a public corporation investing on behalf of it stockholders, a venture capital fund investing on behalf of its limited partners, or even a business angel who is committing a small fraction of their wealth to the venture.

A typical First Chicago method approach:

1. Select a terminal year for the valuation.

2. Estimate the cash flows during the explicit value period based on a small number of discrete scenarios. Normally, the valuation is based on a “optimistic scenario” for the venture, a “most likely scenario” and a “pessimistic scenario”.

3. Compute the continuing value of the venture by applying a multiplier to the financial projection. The multiplier for the optimistic scenario should reflect the expected capitalization for a company that has achieved the level of success reflected in the scenario. The multiplier for the most likely scenario may be different from the optimistic scenario.

4. Compute the expected cash flows of the venture by discounting the expected cash flows, including the expected continuing value at their opportunity cost of capital.

5. Based on the present value, compute the fraction of ownership the investor should require in exchange for contributed capital.

Advantages

Advantages of the First Chicago method include:

➢ Use of discrete scenarios is a simple and easy to apply method of determining both the risk and expected return of a venture.

➢ The intent is to value expected cash flows.

➢ The technique reduces the uncertainty associated with a single fair market value determination by allowing for several scenarios representing differing levels of success of the company.

➢ Because information about total risk is derived, the method provides a basis for valuing complex financial claims.

Disadvantages

Disadvantages of the First Chicago method include:

➢ Use of discrete scenarios discards information about the risk of the venture that could be useful, especially for valuing complex claims.

➢ No guidance is provided about how to determine the discount rate(s) to be used in the valuation.

5.6 Venture Capital Firms in India

Q12. Explain the various venture capital firms in India.

Ans : **(Imp.)**

1. Accel Partners

Accel Partners is one of the oldest venture capital firms in India with more than three decades in the startup ecosystem. Headquartered in California, this VC firm has backed hundreds of companies and focuses primarily on internet technology companies.

The investment bracket at Accel Partners ranges from $500K to $50 Million depending on the nature of the company.

(i) **Domain of Investment:** Infrastructure, Mobile & Software, Internet and Consumer Services

(ii) **Startups Funded:** Myntra, BookMy Show, BabyOYE, Freshdesk, Flipkart etc.

2. Sequoia Capital

Sequoia Capital India is an affiliation of Sequoia Capital that is based in California. This VC firm specialises in startup funding at the early, seed and also in the growth stage with fixed investment structure for each of these stages.

(i) **Investment Domain:** Healthcare, Consumer Internet, Financial Sector and Technology

(ii) **Startups Funded:** JustDial, Zomato, Practo, Groupon etc.

3. Nexus Venture Partners

Nexus Venture Partners is another name in the list of top venture capital firms in India to look out for. They primarily invest in small businesses and startup in their early stages that standout in innovation and differentiability. Nexus Venture Partners can invest from $500,000 to $10 million.

(i) **Investment Domain:** Data Security, Mobile, Infrastructure, Bio Data Analytics, Agribusiness, Consumer and Business Services

(ii) **Startups Funded:** Craftsvilla, Snapdeal, Shopclues, etc.

4. Kalaari Capital

Kalaari Capital is a trusted venture capital firm in India founded in 2006. They primarily invest in technology-based startups and small businesses in their early and seed stage. Kalaari Capital not only provides an adequate fund to startups, but they also have a reliable advisory board to assist young entrepreneurs with effective business solutions.

(i) **Domain of Investment:** Internet, ECommerce, Curated Web

(ii) **Startups Funded:** Snapdeal, Scoop Whoop, Myntra, Urban Ladder, Instamojo etc.

5. Blume Ventures

Blume Ventures, established in 2011, is one of the top venture capital firms in India that is referred to as the 'Founder's VC'. With over a decade's experience in startup funding, here they also offer complete support and mentoring to such upcoming entrepreneurs.

Blume Ventures has funded over 60 different startups with potential ideas and helped them to establish themselves in the competitive market.

(i) **Investment Domain:** Mobile Applications, Internet & Software Sectors, Telecommunication Equipments, Research and Development

(ii) **Startups Funded:** Cashify, Healthify Me, TaxiForSure, Belong etc.

6. Chiratae Ventures

Chiratae Ventures (previously known as IDG Ventures India) is a name that resonates well with the venture capital space in India. They have an experience of more than 15 years in startup funding with a portfolio of over 200 companies in various sectors like Mobile, Engineering, Media &Technolgy and Health-Tech to name a few. IDG Ventures investment bracket falls between $1 million to $10 million.

(i) Investment Focus: Mobile, Software Products, Engineering-Medical Devices, Technology-based Consumer Services

(ii) Startups Funded: FirstCry, Yatra, Lenskart, Myntra, Zivame etc.

7. Venture East

Venture East is investing from 1997 and is the longest-serving VC firm in India. The fund managers are looking after $325 million plus investments in companies in the IT sector and scientifically based startups. Venture East has invested in more than 70 startups and the number is expected to only increase in the coming future.

(i) Investment Focus: Financial Services, Digital Healthcare, Consumer-driven & Retail, Pharma& Life Sciences

(ii) Startups Funded: eYANTRA, Portea, GoliVadaPao, etc.

8. Saif Partners

SAIF Partners has been investing since 2001 and is one of the most successful VC firms in India. The fund managers manage 400 Crores USD worth of assets. With headquarters in China and India, SAIF invests in startups across their journey, from seed capital to high ticketed growth capital.

(i) Sector Focus: Financial Services, Digital Healthcare, Consumer Internet, Logistics, SaaS etc.

(ii) Startups Funded: Acko, Aye, BookMyShow, Chaayos, ClearTax, Meesho etc.

9. Matrix Partners

Matrix Partners is a US-based venture capital firm that invests in seed and early-stage startups. The firm has the philosophy of being "Founders First" i.e. not only they invest capital in high-growth potential companies but also helps them in important domains like hiring, strategic partnerships etc.

(i) Sector Focus: Entertainment and Media, Consumer Internet, SaaS, E-commerce etc.

(ii) Startups Funded: Limeroad, Housejoy, FIITJEE, Ola, mSwipe etc.

10 3one4 Capital

3one4 Capital is a promising venture capital firm started by the son-duo of the renowned investor Mohandas Pai. With more than 50 investments, 3one4 not only invests capital in new-age technologically driven companies but also helps founders in their key business problems.

(i) Sector Focus: Media & Content, Health, Education, Fintech, Consumer Internet etc.

(ii) Startups Funded: Faircent, Licious, i2e1, Tripoto, YourStory etc.

5.7 Structure & Methodology of Venture Capital Fund

Q13. Explain the structure and Methodology of Venture Capital firms.

Ans : **(Imp.)**

The structure of venture capital financing refers to the different types of financial instruments through which venture capital investment is made. The structure of venture capital financing is flexible in nature due to the presence of large number of financial instruments. The financial instruments of a venture capital investment are primary divided into two. They are,

I) Equity instruments and

II) Debt instruments.

(I) Equity Instruments

Equity instruments are provided by almost all the venture capital financial institutions. Usually, they do not contribute more than 49% of the total equity capital. When the venture capitalist contributes in the form to the equity, he gains the status of an owner and is responsible to bear the profits and losses equal to the amount he invested. Venture capitalists can benefit through capital gains when the venture is successful and may also suffer losses when the venture fails. Venture financing is thus a risky business.

Types

Equity instruments are of different types,

1. **Ordinary Equity Shares:** For answer refer Unit-V, Page No. 5.23, Topic: Equity Shares.
2. **Non-voting Equity Shares:** These are subjected to high rates of dividend but has no voting rights.
3. **Deferred Ordinary Shares:** The ordinary share rights are delayed for a certain period of time till the other events such as listing of shares on the stock exchange or the sale of the company takes place.
4. **Preferred Ordinary Shares:** Along with the voting rights, preferred ordinary shares also holds modest fixed dividend rights.
5. **Equity Warrants:** Equity warrants allows the investors to invest in debentures or bonds to get ordinary shares at a future date.
6. **Preference Shares:** For answer refer Unit-V, Page No. 5.23, Topic: Preference Shares (First Paragraph).
7. **Cumulative Convertible Preference Shares:** These shares are converted into equity shares after a certain period of time.
8. **Participating Preference Shares:** Apart from the preference dividend, participating preference shares are also entitled to an extra dividend which is paid after paying off the dividend to the equity shareholders.
9. **Cumulative Convertible Participatory Preferred Ordinary Shares:** They enjoy the benefits of both the preferred dividend and cumulative as well as participative features.
10. **Convertible Cumulative Redeemable Preference Shares:** These shares have two basic features,

    a) Conversion into equity at certain point of time and

    b) Redeemability on the expiry of certain period of time.

    In the form of preference dividend a fixed coupon rate is applicable on the redeemable shares. Out of the equity instruments, the equity warrants, non-voting equity shares and cumulative convertible participating preferred ordinary shares may be used for venture capital financing.

(II) Debt Instruments

Debt instruments are used by an entrepreneur to hold back his control over management. A debt instrument is one of the kind of documented financial obligation that describes a debt that is assumed by the issuer of the document. Basically, the debt instrument commits the issuer to reimburse the debt according to the agreed terms between the buyer and the seller. Few debt instruments are the conventional loans, income notes, non-convertible debentures, partially convertible debentures, fully convertible debentures, zero interest bonds, secured premium notes and deep discount bonds.

1. Conditional Loan

Conditional loan is a type of loan whose repayment schedule and interest rate are not decided or fixed before. The suppliers of conditional loan recovers a certain percentage of sales towards the repayment of principal as well as revenue usually in 50-50 ratio. The charges on sales is called as royalty. The investor either gains or losses, depending upon the level of actual sales i.e., either high or low than the estimated sales. Thus, the conditional loans are, 'quasi-entity' instrument.

2. Conventional Loans

Conventional loans are as per the needs of venture capital financing. In the starting years, the rate of interest charged is less but gradually increases as soon as the production activity starts. Besides interest, a small amount of royalty is also in order to cover up the interest foregone in the starting years. Even though the principal amount repayment is decided in advance, VCIs mostly does not give more importance to mortgage or other security.

3. Income Notes

Income notes lies between conventional and conditional loans and has a low rate of interest with some royalty on sales. The principal amount's repayment is made according to a stipulated schedule.

4. Non-convertible Debentures(NCDs)

NCDs have either a constant or variable rate of interest which are redeemable either at par, premium or secured and can be cumulative or non-cumulative in nature.

5. Partly Convertible Debentures (PCDs)

PCDs basically have two parts. A convertible portion and a non-convertible portion.

The convertible debentures are converted into equity shares either at par or premium. The non-convertible debentures earns interest till the debentures are redeemed at par. These debentures are best suitable for second round of venture capital financing.

6. Zero Interest/Coupon Bounds/Debentures

Coupon bonds are either convertible or non-convertible with zero or no interest rate. The non- convertible bonds can be sold off at a discounted rate before their maturity date, while the convertible debentures are converted into equity shares at a prescribed date and time. They are highly flexible in nature and are most suitable for the later stage of venture capital financing.

7. Secured Premium Notes

Secured premium notes are secured, redeemable at a premium either in lumpsum or instalments with zero rate of interest and carry a warrant against which equity can be obtained. This debt instrument is also useful at the later stage of venture capital financing.

8. Deep Discount Bonds

Deep discount bonds are usually issued at a higher rate of discount their maturity value. Due to long periods of maturity, this instrument is not suitable for venture capital financing.

5.8 Performance Measurement

5.6.1 Role of TDICI in Building Venture Capital Fund

Q14. Explain the performance measurement of Venture Capital Fund.

(OR)

Describe the Role of TDICI in Building Venture Capital Fund.

Ans : **(Imp.)**

The venture capital fund was jointly created by Industrial Credit and Investment Corporation of India (ICICI) and Unit Trust of India (UTI) to finance projects of professional technocrats in the small and medium size industries who take initiative in designing and developing indigenous technology in the country. TDICI's first venture capital fund of Rs. 20 crores was subscribed equally by ICICI and UTI under the new Venture Capital Unit Scheme I of UTI. Under the scheme TDICI sanctioned financial support of Rs. 20 crores to 40 projects which include computer hardware, computer integrated manufacturing system, tissue culture, chemicals, food and feed technology, environmental engineering etc.

The TDICI's second venture Fund of Rs. 100 crores has been contributed by UTI, ICICI, other financial institutions, banks, corporate sector etc. By March 31, 1993, TDICI has disbursed Rs. 25.81 crores to 42 companies under scheme I and Rs. 79.29 crores to 79 companies under scheme II in a variety of industries such as computer, electronics, bio-technology, medical, non-conventional energy etc. Many of these projects are set-up by first generation entrepreneurs.

(i) TDICI invests in companies with attractive growth and earnings potential with a view to achieving long term capital gain. TDICI involves in seed, start-up, and growth stage companies in a wide spectrum of industrial sub-sectors.

(ii) The scheme seeks to assist technocrats involved in developing commercially viable technologies or products, implementing indigenously developed yet untested technologies on a commercial scale, and adapting innovative technologies for domestic applications.

(iii) The assistance per project may be up to Rs.2 crore in the form of equity and/or conditional loan (with flexible interest rates and repayment period).

(iv) The equity in the project would be held for a period of 5-8 years and thereafter sold to the promoter (at a mutually price) or disposed in the secondary market.

(v) During the development phase, the conditional loan would carry no interest; during the post-development phase the interest rate on it would depend on the commercial viability of the project.

5.9 Exit Strategies of Venture Capitalists

Q15. Explain the Exit mechanism in Venture Capital.

(OR)

Describe the various exit strategies of Venture Capital.

Ans : **(Imp.)**

The venture capital company/fund after financing a venture capital undertaking nurtures it to make it a successful proposition, but it does not intent to retain its investment therein forever. As the venture capital undertaking starts its commercial operations and reaches the profit-earning stage, the venture capitalist endeavours to disinvest its investments in the company at the earliest. The primary aim of the venture capitalist happens to realize appreciation in the value of the shares held by him and thereafter to finance another venture capital undertaking. This is called the exit route. There are several alternatives before venture capitalist to exit from an investee company, as stated below:

(i) Initial Public Offering

When the shares of the investee company are listed on the stock exchange(s) and are quoted at a premium, the venture capitalist offers his holdings for public sale through public issue.

(ii) Buy back of Shares by the Promoters

In terms of the agreement entered into with the investee company, promoters of the company are given the first opportunity to buy back the shares held by the venture capitalist, at the prevailing market price. In case they refuse to do so, other alternatives are resorted to by the venture capitalist.

(iii) Sale of Enterprise to another Company

Venture capitalist can recover his investments in the investee company by selling the holdings to outsider who is interested in buying the entire enterprise from the entrepreneur.

(iv) Sale to New Venture Capitalist

A venture capitalist can sell his equity holdings in the enterprise to a new venture capital company, who might be interested in buying the ownership portion of the venture capital. Such sale may be distress sale by the venture capitalist to realise the investments and exit from the enterprise. Alternatively, such sale may be for inducting a willing venture capitalist who wishes to take the existing liability in the company to provide second round of funding.

(v) Self-liquidating Process

In case of debt financing by the venture capitalist, the process is self-liquidating in nature, as the principal amount, along with interest is realised in instalments over a specified period of time.

(vi) Liquidation of the Investee Company

If the investee company does not become profitable and successful and incurs losses, the venture capitalist resorts to recover his investment by negotiation or settlement with the entrepreneur. Failing which the recovery is resorted to by means of winding up of the enterprise through the court.

5.10 Imperative of VCF Development in India

Q16. Explain the evolution of Venture Capital in India.

(OR)

Write a note on the development of Venture Capital Funds of India.

Ans : **(Imp.)**

Prior to independence, we had one formal venture capital type of financing in our country. The Tata Group's Investment Corporation of India successfully promoted a number of enterprises like Associated Bearings, National Rayons and Ceat Tyres in that area. These enterprises were hi-tech areas at that time. However, in the post independence period, the government term-lending institutions eclipsed such ventures.

Under public sector auspices, venture capital fund was first started by Industrial Finance Corporation of India (IFCI). It started the Risk Capital Foundation (RCF) way back in 1975. This has been converted into a company known as Risk capital and Technology Finance Corporation Ltd., (RCTFC) as a subsidiary of the IFCI with effect from 12th January 1988 for providing technology development finance. It is funded by the Unit Trust of India, the IFCI and the World Bank. In 1976 the seed capital scheme was introduced by IDBI. Till 1984 venture capital took the form of risk capital and seed capital. In 1986 ICICI launched a venture capital scheme to encourage new technocrats in the private sector in emerging fields of high-risk technology.

Consequently, Government of India felt the need of venture capital funds in India in the context of structural development and growth of small-scale business enterprises. In 1986-87 a 5 per cent cess was levied on all know-how payments to create a venture capital fund by IDBI. The ICICI also became a partner of the venture capital industry in the same year.

During 1988-89 the new and young entrepreneurs were facing difficulties to raise equity capital from the conventional market. Under the circumstance, the scheme to launch venture capital funds was formulated. Initially, a fund under the nomenclature of 'venture capital fund' was required to be established with certain corpus for being invested in the new and young firms with high potential of returns. Government decided to allow then concessional treatment of capital gains arising out of liquidation of equity holding in the assisted firms.

At present, several venture capital firms are incorporated in India. The Indian venture capital industry is just about a decade old as compared to that in Europe and US. In this short span it has nurtured close to 1000 ventures, mostly in SME segment and has supported budding technocrat/ professionals all through. The VC industry, through its investments in high growth companies as well as companies adopting newer technologies backed by first generation entrepreneurs, has made a substantial contribution to economy.

The Indian venture capital industry is dominated by public sector financial institutions. A few private sector venture capital firms have been set up recently. At present three are about fifteen venture capital funds in India that have provided venture finance of over Rs. 4.6 billion to several ventures. VCFs in India are not pure venture capitalists. They pursue both commercial as well as developmental objectives.

Venture finance is made available to high-tech as well non-tech businesses. A large number of high-tech ventures financed by VCFs are in thrust areas of national priority such as energy conservation, quality upgradation, advanced materials, biotechnology, reduced material consumption, environment protection, improved international competitiveness, development of indigenous technology, etc.

Short Question and Answers

1. Venture Capital.

Ans :

The term 'Venture Capital' is understood in many ways. In a narrow sense, if refers to, investment in new and tried enterprises that are lacking a stable record of growth.

In a broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specialising in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organise and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Meaning

Venture capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture capitalist pool their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

Definition

A venture capital company is defined as "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise."

2. Features of Venture Capital.

Ans :

Venture Capital can be distinguished from other forms of finance on the basis of its special characteristics which are as follows:

(i) The most distinguishing feature of Venture Capital is that it is provided largely in the form of equity, when the investee company is unable to float its equity shares independently in the market, or from other sources in the initial stage. Thus risk capital is provided, which is not available otherwise due to the high degree of risk involved in the venture.

(ii) The venture capitalist, though participates in the equity, does not intend to act as the owner of the enterprise. The venture capitalist does not participate in the day-to-day management, but aids and guides the management by providing the benefit of his skill, experience and expertise. He nurtures the new enterprise till it enters the profit-earning stage.

(iii) The Venture Capitalist does not intend to retain his investment in the investee company for ever. He intends to divest his shares, as soon as the company becomes a profitable business and the returns from the business are high as per expectations. At this stage he withdraws himself from the venture and in turn provides finance for another venture.

3. Advantages of venture capital.

Ans :

(A) Advantages to investing Public

(i) The investing public will be able to reduce risk significantly against unscrupulous management, if the public invest in venture fund who in turn will invest in equity of new business. With their expertise in the field and continuous involvement in the business they would be able to stop malpractices by management.

(ii) Investors or have no means to vouch for the reasonableness of the claims made by the promoters about profitability of the business. The venture funds equipped with necessary skills will be able to analyse the prospects of the business.

(iii) The investors do not have any means to ensure that the affairs of the business are conducted prudently. The venture fund having representatives on the Board of Directors of the company would overcome it.

(B) Advantages to Promoters

(i) The entrepreneur for the success of public issue is required to convince tens of underwriters, brokers and thousands of investors but to obtain venture capital assistance, he will be required to sell his idea to justify the officials of the venture fund.

(ii) Public issue of equity shares has to be preceeded by a lot of efforts viz. necessary statutory sanctions, underwriting and brokers arrangement, publicity of issue etc. The new entrepreneurs find it very difficult to make underwriting arrangements require a great deal of effort. Venture fund assistance would eliminate those efforts by leaving entrepreneur to concentrate upon bread and butter activities of business.

(iii) Costs of public issues of equity share often range between 10 percent to 15 percent of nominal value of issue of moderate size, which are often even higher for small issues. The company is required, in addition to above, to incur recurring costs, for maintenance of share registry cell, stock exchange listing fee, expenditure on printing and posting of annual reports etc. These items of expenditure can be ill afforded by the business when it is new. Assistance from venture fund does not require such expenditure.

4. Growth of venture capital in India.

Ans :

Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. Venture Capital in India is provided as risk capital in the forms of shares, seed capital and other similar means.

In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital institutes in India. Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale. Introduction of western financial philosophies, tight contracts, focus on profitable projects and active involvement in finance was contributed by foreign investors only.

5. Conventional venture capitalist evaluation method.

Ans :

In this method, VCIs give importance to two aspects, which are

- the time of starting the investment and
- the time of quitting the investment.

The institution will judge the borrowing concern in the following manner:

(i) Annual revenue of the borrowing concern over a period of 7 years and whether these revenues are on the upward trend.

(ii) The borrowing concerns' expected earnings (after deducting tax liability) at the initial stage and also at the time of quitting the borrowing concern will be taken into consideration.

(iii) Market evaluation of the borrowing concern on the basis of P/E ratio (P = price of the security and E= earnings of the security). The evaluation of this ratio is the lesser the ratio, better will be the condition of the borrowing company.

(iv) Finding out the net present value (NPV) of the borrowing concern, based on suitable discount factor.

(v) The borrowing concern must have net worth equivalent to the borrowing amount.

Example: If the value of enterprise is Rs. 10 crores, and the borrower wants Rs. 4 crores, then he must have a net worth of 40 percent of the total value.

The above method may not be practically feasible as most of the borrowing firms will not be in a position to provide regular stream of income and in the case of firms incurring losses, this method cannot be worked out.

6. The First Chicago Method.

Ans ;

This method is different from the previous conventional method of evaluation, as it gives some discount to the starting point and the exit point. There is more consideration given for the earnings during the entire period. This scheme has the following aspects.

(i) Three alternative positions are taken which are

- Success
- Sideways survival
- failure.

A probability rating is given to the three positions.

(ii) Through the discounted cash flow, the discounted present value is assessed by giving a high discount rate to accommodate the risk factor.

(iii) The discounted value is multiplied by probability ratings which will provide expected present value.

(v) If the expected present value is Rs. 10 lakhs, and the fund required is Rs. 5 lakhs, then the borrowing concern must have a minimum net worth of 50%

7. Revenue Multiplier Method.

Ans :

In this method, the value of the borrowing concern is based on an estimated value. The estimated value is calculated on the basis of

(i) Present value of the borrowing concern

(ii) Annual revenue

(iii) Expected rate of growth of revenue per year

(iv) Expected holding period (number of years for the repayment)

(v) Profit margin after tax

(vi) Expected P/E ratio at the time of quitting the borrowing concern.

This method will be useful for such concerns which have started earning and where in the course of years their revenue will be increasing. But this system is based on more data which may not be available, especially in underdeveloped countries.

8. TDICI.

Ans :

TDICI's first venture capital fund of Rs. 20 crores was subscribed equally by ICICI and UTI under the new Venture Capital Unit Scheme I of UTI. Under the scheme TDICI sanctioned financial support of Rs. 20 crores to 40 projects which include computer hardware, computer integrated manufacturing system, tissue culture, chemicals, food and feed technology, environmental engineering etc.

The TDICI's second venture Fund of Rs. 100 crores has been contributed by UTI, ICICI, other financial institutions, banks, corporate sector etc. By March 31, 1993, TDICI has disbursed Rs. 25.81 crores to 42 companies under scheme I and Rs. 79.29 crores to 79 companies under scheme II in a variety of industries such as computer, electronics, bio-technology, medical, non-conventional energy etc. Many of these projects are set-up by first generation entrepreneurs.

9. Exit strategies of Venture Capital.

Ans :

The venture capital company/fund after financing a venture capital undertaking nurtures it to make it a successful proposition, but it does not intent to retain its investment therein forever. As the venture capital undertaking starts its commercial operations and reaches the profit-earning stage, the venture capitalist endeavours to disinvest its investments in the company at the earliest. The primary aim of the venture capitalist happens to realize appreciation in the value of the shares held by him and thereafter to finance another venture capital undertaking. This is called the exit route.

There are several alternatives before venture capitalist to exit from an investee company, as stated below:

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Venture capitalist can recover his investments in the investee company by selling the holdings to outsider who is interested in buying the entire enterprise from the entrepreneur.

(iv) Sale to New Venture Capitalist

A venture capitalist can sell his equity holdings in the enterprise to a new venture capital company, who might be interested in buying the ownership portion of the venture capital. Such sale may be distress sale by the venture capitalist to realise the investments and exit from the enterprise. Alternatively, such sale may be for inducting a willing venture capitalist who wishes to take the existing liability in the company to provide second round of funding.

(v) Self-liquidating Process

In case of debt financing by the venture capitalist, the process is self-liquidating in nature, as the principal amount, along with interest is realised in instalments over a specified period of time.

10. Need for Venture Capital.

Ans :

For start-ups or growing companies, as well as those facing a major change, financing is one of the key business issues. In order to ensure sufficient resources for the operations, the management must be able to satisfy the following financing needs:

- financing of product development
- financing of market penetration
- financing of investments
- working capital financing to secure operative continuity
- maintaining liquidity to be able to cover daily payments

During their start-up, growth and expansion stages, companies are often faced with inadequate cash inflow situations. They require time to turn their cumulative cash flow from negative to positive. A long product development stage and slow market penetration prolong the negative cash flow period. The company can have a negative cash flow for years, a situation that is typical in high-tech companies.

Choose the Correct Answer

1. Venture capital besides providing finance also provides. [d]

    (a) Technical (b) Marketing

    (c) Planning and managing (d) All

2. Buyouts is one of the step of ________. [b]

    (a) Early stage (b) Later stage

    (c) Seed capital (d) Turnarounds

3. There are ________ evaluation processes [d]

    (a) Six (b) Four

    (c) Two (d) Three

4. TDICI was established by ________. [a]

    (a) ICICI and UTI (b) IDBI and ICICI

    (c) ICICI and IFCI (d) CCI and ICICI

5. IDBI-VCF extends financial support to [d]

    (a) Chemicals and software

    (b) Electronics and biotechnology

    (c) Non-convertible energy and food processing

    (d) All

6. RCTC was set-up in the year ________. [d]

    (a) 1980 (b) 1982

    (c) 1986 (d) 1988

7. CVCF is sponsored by the ________. [c]

    (a) SBI (b) UTI

    (c) Canarabank (d) Grindlays bank

8. Equity warrants is one of the types of ________. [b]

    (a) Debt instruments (b) Equity instruments

    (c) Convertible instruments (d) All of the above

9. APIDC-VCL was set-up in June 1990, with a fund of Rs. ______. [d]

(a) Rs. 4.5 crore (b) Rs. 3 crore

(c) Rs. 1.5 crore (d) Rs. 13.50 crore

10. Money and ______ are the inputs of turnarounds. [a]

(a) Management (b) Control

(b) Leadership (d) All

Fill in the blanks

1. The minimum amount of capital required for the establishment of venture capital project is Rs. ________
2. Venture capital was started in ________
3. Venture capital firms provide ________ finance at the implementation stage of a project.
4. ________ of the total funds can be invested in leasing by the VC firms.
5. VC firms mostly makes an investment in ________ and ________ scale industries.
6. SBICAP extends venture capital finance to ________ entrepreneurs.
7. ________ means transfer of management control.
8. RCTC was set up in the year ________
9. Grindlays bank acts as ________ for "India Investment Fund Limited floated in 1987".
10. Stages of financing are divided into ________ and ________ stage.

ANSWERS

1. 10 crores
2. USA
3. Start-up
4. 15%
5. Small and medium
6. Technical
7. Buyouts
8. 1988
9. Advisory body
10. Early and later

One Mark Answers

1. Venture Capital.

Ans ;

A venture capital company is defined as "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise."

2. Need for Venture Capital.

Ans ;

- financing of product development
- financing of market penetration
- financing of investments
- working capital financing to secure operative continuity
- maintaining liquidity to be able to cover daily payments

3. First chicago method

Ans :

The First Chicago method of valuation is another approach that is commonly used by appraisers. Under this methodology, a small number of discrete scenarios are valued using a discount rate that reflects the cost of capital for the venture. The objective is to select and weight the scenarios in a manner that provides unbiased estimates of expected cash flows and is of those cash flows.

4. Venture Capital Firms in India.

Ans ;

(i) Accel Partners

(ii) Sequoia Capital

(iii) Nexus Venture Partners

5. TDICI

Ans ;

TDICI's first venture capital fund of Rs. 20 crores was subscribed equally by ICICI and UTI under the new Venture Capital Unit Scheme I of UTI.

FACULTY OF MANAGEMENT

MBA I Year II-Semester(CBCS) Examination

MODEL PAPER - I

ENTREPRENEURSHIP AND DEVELOPMENT

Time: 3 Hours] **[Max. Marks: 80**

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

Note : Answer All the questions in not more than one page each

ANSWERS

1. Compare and Contrast Entrepreneurs and Manager. **(Unit - I, SQA-7)**
2. Entrepre- neurial competency. **(Unit - II, SQA-8)**
3. Define project report. **(Unit - III, SQA-5)**
4. Non-banking Financial Institutions. **(Unit - IV, SQA-6)**
5. TDICI. **(Unit - V, SQA-8)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer All the questions by using internal choice in not exceeding four pages each

6. (a) Trace the evolution of entrepreneurship in India. **(Unit - I, Q.No.2)**

OR

(b) Describe the role of Government in promotion of Entrepreneurship. **(Unit - I, Q.No. 16)**

7. (a) What factors do influence the emer- gence and development of entrepreneurship? **(Unit - II, Q.No.2)**

OR

(b) What are EDP? State the objectives of EDP. **(Unit - II, Q.No.11)**

8. (a) Define small scale industry. State the characteristics of small scale industry. **(Unit - III, Q.No. 1)**

OR

(b) Discuss the guidelines for formulation of a project report. **(Unit - III, Q.No. 15)**

9. (a) Discuss various functions of commercial banks. **(Unit - IV, Q.No. 3)**

OR

(b) Discuss the various Non-banking Financial Institutions (NBFI). **(Unit - IV, Q.No. 14)**

10. (a) Explain the need for Venture Capital. **(Unit - V, Q.No. 3)**

OR

(b) Describe the Regulatory Framework of Venture Capital. **(Unit - V, Q.No. 8)**

FACULTY OF MANAGEMENT

MBA I Year II-Semester(CBCS) Examination

MODEL PAPER - II

ENTREPRENEURSHIP AND DEVELOPMENT

Time: 3 Hours] **[Max. Marks: 80**

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

Note : Answer All the questions in not more than one page each

ANSWERS

1. Rural Entrepreneurship. **(Unit - I, SQA-8)**
2. Importance of motivation. **(Unit - II, SQA-7)**
3. Define project. **(Unit - III, SQA-3)**
4. IFCI **(Unit - IV, SQA-2)**
5. Venture Capital. **(Unit - V, SQA-1)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer All the questions by using internal choice in not exceeding four pages each

6. (a) Describe the various Characteristics of an Entrepreneur. **(Unit - I, Q.No.9)**

OR

(b) Explain the Growth of Entrepreneurship in India. **(Unit - I, Q.No. 15)**

7. (a) What do you understand by entrepreneurial competency. **(Unit - II, Q.No.7)**

OR

(b) Discuss the course, contents and curriculum of EDPs. **(Unit - II, Q.No.13)**

8. (a) Discuss the role of MSME in economic development. **(Unit - III, Q.No. 8)**

OR

(b) Define project report. Explain the significance of project report. **(Unit - III, Q.No. 12)**

9. (a) Discuss the role of ICICI to support entrepreneur. **(Unit - IV, Q.No. 8)**

OR

(b) Write the role of NSIC in the context of entrepreneurship development in India. **(Unit - IV, Q.No. 18)**

10. (a) Explain methods of evaluation of projects by Venture Capital Financing. **(Unit - V, Q.No. 10)**

OR

(b) Explain the structure and Methodology of Venture Capital firms. **(Unit - V, Q.No. 13)**

FACULTY OF MANAGEMENT

MBA I Year II-Semester(CBCS) Examination

MODEL PAPER - III

ENTREPRENEURSHIP AND DEVELOPMENT

Time: 3 Hours] [Max. Marks: 80

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

Note : Answer All the questions in not more than one page each

ANSWERS

1. Define Entrepreneurship. **(Unit - I, SQA-1)**
2. Define motivation. **(Unit - II, SQA-5)**
3. Define small scale industry. **(Unit - III, SQA-3)**
4. Commercial Banks. **(Unit - IV, SQA-1)**
5. Features of Venture Capital. **(Unit - V, SQA-2)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer All the questions by using internal choice in not exceeding four pages each

6. (a) Explain the classification of an Entrepreneurs. **(Unit - I, Q.No.10)**

OR

(b) Discuss the entrepreneurship in Economic development of India. **(Unit - I, Q.No. 18)**

7. (a) Discuss the Importance of Workshops. **(Unit - II, Q.No.10)**

OR

(b) Explain the different phases involved in EDPs. **(Unit - II, Q.No.15)**

8. (a) What are the problems associated with MSME. **(Unit - III, Q.No. 9)**

OR

(b) What do you understand by “Sole Trading Concern or Sole Proprietorship” and state its merits and demerits. **(Unit - III, Q.No. 22)**

9. (a) How do SFCs contribute to the development of small enterprises in the country. **(Unit - IV, Q.No. 10)**

OR

(b) Describe the Government Schemes to Develop and Encourage Entrepreneur ship. **(Unit - IV, Q.No. 24)**

10. (a) Explain the various venture capital firms in India. **(Unit - V, Q.No. 12)**

OR

(b) Explain the Exit mechanism in Venture Capital. **(Unit - V, Q.No. 15)**