DYNAMICS OF ENTREPRENEURIAL DEVELOPMENT AND MANAGEMENT

VASANT DESAI



Himalaya Publishing House

DYNAMICS OF ENTREPRENEURIAL DEVELOPMENT AND MANAGEMENT

- Entrepreneurship
- Projects Management
- Finances
- Programmes, and
- Problems

VASANT DESAI

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New Delhi - 110 002
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Email : hphdel@ndb.vsnl.net.in

Nagpur : Kundanlal Chandak Industrial Estate,
Ghat Road, Nagpur-440 018
Phones : 2721216, Telefax : 0712-2721215

Bangalore : No. 16/I (old 12/1), Ist floor,
Next to Hotel Highland, Madhava Nagar,
Race Course Road, Bangalore-560 001
Phone : 2281541, 2385461 Fax : 080-2286611

Hyderabad : No. 2-2-1 167/2H, 1st Floor,
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ENTREPRENEURIAL MISSION STATEMENT

- The entrepreneur lives and works in an environment that is fiercely competitive. It is therefore crucial that the entrepreneur sharpens his/her cutting edge to stay ahead.
- The entrepreneur as the engine of economic growth, job creation and prosperity, always served the society. Customer priority and quality are his mission and passion.
- The entrepreneur shall adopt organisation structures to speed up communication, decision-making, job creation, income generation and wealth creation.
- The entrepreneur displays courage to take risk of putting his own money into an idea; courage to take on the competition and courage to take a leap into an unknown future and create new enterprises/businesses. This creative process is the lifeblood of the strong enterprise that derive growth and propel nations forward.
- The entrepreneurial activities blossom and thrive under conditions where citizens participate and compete in the market place under conditions of equality and are not unduly burdened by regulation.
- The entrepreneur will always strive for a neutral and sustainable enhancement of entrepreneurial society.
- Entrepreneurism is the lifeblood of any economy; but in India, where first-generation innovators are still battling the odds to make a mark on the global economy, enterprise is an idea whose true potential is yet to be realised. Ironically, Indian entrepreneurism is more about overcoming barriers — be it finance, bureaucracy, and infrastructure — than about achieving the fruits of liberalisation. That is not an inspiring image for a country that dreams of being a critical component of tomorrow's knowledge economy; of creating vibrant digital valleys; and of having its own Bill Gates and Michael Dells. Yet the changing Indian economic arena is always a buzz with the news of mavericks that have discovered bold new ways of competing. And they have done so in areas that have been extremely tough to compete in, dominated as they are by mighty multinationals.
- Entrepreneurism triggered by liberalisation and the advent of the brainpower industry, demands the systematic development of business clusters in India, or geographical concentrations of competitiveness where technology diffusion is rapid and supply chains are short and efficient. Clusters, where the levels of competitiveness are always high, are the breeding grounds of entrepreneurism. They need adequate supportive infrastructure, like educational institutes and research centres, and a good quality of life, to thrive. A hassle-free environment can leverage the diverse capabilities of Indian entrepreneurism.

DYNAMICS OF ENTREPRENEURIAL DEVELOPMENT & MANAGEMENT

Designed to encourage entrepreneurs to seize an unique opportunity and make a profitable career through self-employment.

This study provides a wealth of information on entrepreneurs, entrepreneurship, projects and related issues.

- Divided into Nine comprehensive units, each unit comprising of theory, illustrations, objectives and inputs.
- Enriched with schematic diagrams to understand the issues.
- Discuss in a lucid style the process of entrepreneurial development and management.
- Projects, financial appraisal and marketing are discussed extensively.
- Case studies provide an insight into the process of entrepreneurship.
- Wealth of up-to-date statistics goes a long-way in critical analysis.
- An ideal for entrepreneurial students, the teachers and instructors.

The ultimate measure of a man
Is not where he stands
In moments of comfort and convenience,
But where he stands
At times of challenge and controversy.

— Martin Luther King

PREFACE

The concept of 'Entrepreneurial Studies' has appreciably changed in nature and content over the years. It is no longer considered an assortment of all sorts of arbitrary facts and figures to choose from. Instead, it is now increasingly becoming more of a systematic, purposeful and objective study of a wide range of disciplines, cultural variances, value systems and environment around us.

Entrepreneurial development and management has come to be recognised globally as the key to rapid and sustainable economic development as well as the welfare and progress of mankind.

More so, it is the entrepreneurs who have been largely instrumental in forming a strong link between agriculture and industry. Indeed, the entrepreneurs with their vision and innovative qualities lay down a strong foundation for sustainable growth, be it the industry, agriculture, trade or the service sectors. Moreover, sustainable growth is most conducive for a healthy society, i.e., an entrepreneurial society.

I have immense pleasure in presenting to my esteemed readers the Fourth revised edition of this very popular book. The book consists of new innovative presentations to cope up with the next millennium challenges and opportunities.

Successful new business ventures and economic development do not just happen. They are the result of the combination of right environment, planning, effort, and innovation. And this right mix can only be achieved by the entrepreneurs. They provide a clear blueprint for stimulating research, technology, finance to help promote matured enterprises. At the same time, they enrich the eco-system and give a boost to economic growth. Economic growth refers to an increase in a country's production or income per capita, with economy's total output of goods and services being measured by Gross National Product (GNP). At the present juncture, the country needs much more than growth. Economic development, on the other hand, goes beyond economic growth to include changes in output, distribution and economic structure, which may affect such things as improvement in material well-being of the poor, technical breakthrough, increase in economic activities, increase in the educational level and improvement in health.

Contributing Factors

The factors contributing to economic development are labour, technology, natural resources, capital and entrepreneurship. New business formation is the result of harassing human skills with the developed technology, added by available capital as well as other infrastructure to set in a development process. The key factor in this development process is the entrepreneur. This is the forte of the entrepreneur whose policies and strategies cover such broad areas as production, marketing, financing, pricing and personnel relations. The growth of entrepreneurship largely depends upon effective policies and their efficient implementation.

Whose contributions as an innovator and coordinator will go towards the economic development of the country. Thus entrepreneurship is the coordination of the production elements.

Entrepreneurship management is basically concerned with the development, and coordination of entrepreneurial functions. An effective organisation, sound planning, proper coordination of business activities and rational decision-making are the important aspects of entrepreneurship management. The foundation of effective management needs both policy and strategy to be determined and made known.

Literature on entrepreneur development and management has been growing in recent years. Though there have been numerous articles in various journals on entrepreneurial development, especially in India and quite a few edited books containing articles on different aspects of the subject by different authors, there remains an imbalance in the coverage of topics. It is, therefore, no exaggeration to say that there has not been a single comprehensive book on the subject, explaining, analysing and assessing the various aspects of the subject. This book is intended to help evolve a perspective of development of the vital sectors of the national economy and furnish the much needed information on this subject.

The purpose of the book is to describe the essential features of an entrepreneur and entrepreneurship to provide a sense of direction for planners and policy-makers, on the one end, and the emerging crop of young entrepreneurs, both men and women, educated, uneducated, professional and non-professional, to reap immense benefits and decide the future course of action, on the other. In fact, this book is not a fresh beginning. Nor is it the last word. Subsequent studies will elaborate on many of the issues raised here.

The study can be read by any one interested in economic revitalisation, rapid industrialisation, growth and development of an area, economic planners, big and small entrepreneurs, bankers, industrialists, members of chamber of commerce and industry and every concerned citizen, who is an entrepreneur at heart. It is hoped that the book will stimulate entrepreneurs to actively participate in the economic growth of the country. It serves as a tool kit to all entrepreneurs with a new vision and a new insight.

It makes an in-depth analysis of various facts of entrepreneurial development, particulars in establishing innovative enterprises, and creating employment opportunities for millions in urban and rural areas.

It underscores the fact that the process of management development, research and consultancy should be entrepreneurially oriented, which would churn out professional entrepreneurs who will contribute to the country's economic growth.

A Creative Study

The present study is not only creative, but also cohesive and integrated. And, it will assist in right policy formulations with an eye on an ideal environment for entrepreneurial development in India and other developing countries. It will offer entrepreneurs a rich fare of stimulating ideas, a new vision and challenging insights. People engaged in entrepreneurial development, entrepreneurial management and the training of professionals in industry, agriculture and trade, administrators, planners, economists, consultants, bankers, project officers, financial institutions — all these will find these three volumes to be quite stimulating and interesting. The study will assist in accelerating and steering the process of economic growth in the right direction.

Outline of the Book

The study consists of chapters grouped into Eight units:

Unit 1: introduces the concept, culture, types, traits, motivation, importance and growth of entrepreneurship.

Unit 2: examines the nature and scope of entrepreneurial development, policies, and problems associated with the development process.

Unit 3: covers the varied facets of project management.

Unit 4: examines the varied facets of financial analysis of the projects.

Unit 5: assesses the sources of finance available to entrepreneurs.

Unit 6: describes the marketing channels and other allied issues.

Unit 7: examines the process of setting up a small industry and explores the possibilities of growth, and

Unit 8: critically examines the problems of entrepreneurship.

I do not make any claim to originality or comprehensiveness. Rather I have sincerely attempted to bring together the scattered literature on the subject. However, the presentation of the subject is my own creation.

In the preparation of this book, I have drawn heavily from the published works in the sphere of entrepreneurial development and management.

I hope that the students, teachers, the policy makers, entrepreneurs, and others interested in the subject will find the study useful.

I look forward to receiving suggestions from them for improving the contents and presentation of this book.

Acknowledgement

I am grateful to those who have helped me in compiling the matter for this book. While I take this opportunity to thank all of them — they are too numerous to be mentioned in this brief preface — I would like to acknowledge my deep sense of gratitude to Dr. Narendra Kumar for his ungrudging help at all stages, and to the many veteran professional entrepreneurs and consultant economists for their precise guidance. Thanks are also due to Shri B.N. Nilaver, Shri K.N. Pandey, Phalguni Ravi and M.V. Desai for their suggestions for affecting a number of stylistic improvements.

I take this opportunity to express my sincere appreciation and gratitude to Ms. Pratibha Choudhary for reading the book carefully and suggesting changes to make it more crisp, lucid and informative. If the book spontaneously arouses the attention of the students, entrepreneurs, faculty members of entrepreneurial studies, policy makers and researchers, the credit naturally goes to Pratibha for her studied help in presenting the Third Revised Edition in a new look and newer format.

Lastly, no words can adequately express my debt of gratitude to my father, Shri Ranganath Balwant Mutalik Desai, and my mother, Smt. Laxmidevi, for generating in me a perennial interest in higher studies. I will be failing in may duty if I do not mention here the tremendous co-operation I received from my wife in the completion of this voluminous work, in particular, whose patience, support, encouragement, understanding and love helped to bring this effort to fruition.

Mumbai **VASANT DESAI**

A BEEHIVE OF ENTREPRENEURIAL GROWTH

A rewarding feature of economic development in India has been the impressive growth of entrepreneurs, particularly in modern small-scale industries. In fact, modern small sector has emerged as a potential sector enhancing the growth of highly skilled entrepreneurs who not only make profits, but also contribute to a better quality of life for the millions who make the profit possible. The small enterprises have by now established their competence to manufacture a wide variety of sophisticated goods in different product-lines requiring a high degree of skill and precision. They have made a notable contribution in realising the principal objectives of expanded employment opportunities, adoption of modern techniques and dispersal of industries in small towns and rural areas. This has been possible as a result of the successful implementation of the programme for assistance to small-scale industries. The diversified, rapid growth of small-scale industries is a significant feature of India's economic development in recent years.

The small-scale industry has emerged as the most dynamic sector of Indian industrial economy, accounting for over 55-60 per cent of the total value of industrial production, for over 40 per cent of the country's aggregate export and over 65-70 per cent of exports of manufactured goods in 1998-99. More importantly, it provides direct employment opportunities to over 168 lakh people, accounting for 75 per cent of employment in the manufacturing sector. Indirectly, this sector provides employment to over 300 lakh persons. All along, it has shown a growing spirit of entrepreneurship. Twenty-nine lakh entrepreneurs is just a fraction who give fillip to entrepreneurship in business and service sector in a big way, especially in the small sector.

It is estimated that the small-scale sector has opened up new avenues to over 150 lakh entrepreneurs creating employment opportunities to over 550 lakh people. These entrepreneurs have harnessed the natural resources with little capital and Indian technology, for the betterment of the society. Small businesses have, potentially, a crucial role to play in a country's growth and development. They generally employ workers with limited formal training, who then learn skills on the job. More importantly small enterprises act as an incubator to breed new entrepreneurs on an ongoing basis. Cultivating entrepreneurship often involves changing and sustaining a new set of social values. A big part of cultivating entrepreneurship involves establishing an environment where business can flourish.

Truly, small-scale sector is a beehive of entrepreneurial growth. A brief panoramic macro-view of the contribution of entrepreneurs to industrial growth *inter alia* economic growth, exports and employment is covered in the contents.

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ENTREPRENEURS—PAST AND PRESENT




50
YEARS
SHARING 50 YEARS OF
INDEPENDENCE WITH INDIA
▲ J R D Tata
▲ Prakash Tandon
▲ S M Datta
▲ Dhirubhai Ambani
▲ Rahul Bajaj
▲ Aditya Vikram Birla
▲ Keshub Mahindra
▲ Russi Mody
▲ Darbari Seth

ENTREPRENEURISM

Entrepreneurism, entrepreneurship are the lifeblood of any economy, more so in the developing economy. In India, entrepreneurism is in its cultural ethos. Entrepreneurship and enterprises are a continuous process and it is growing from centuries to centuries.

Information and communications technology make it easier for companies to serve the world from any place they choose. Overnight package delivery-service allow companies to get parts from nearly anywhere within a day or two; so, they don't necessarily need supplies to be nearby. Highspeed, low-cost communication systems link companies to offices anywhere in the world, giving even small or remote communities opportunities to compete. Therefore, just as the acquisition and application of knowledge will differentiate winners from losers in busines, the adoption of a global outlook will mark those communities and individuals who thrive in the next century. In addition to bringing jobs, any business moving into a community is also likely to bring new services, technologies, and equipment that can help it grow. And cosmopolitans who come to a community can help raise the standards of schools, government, public services, and its businesses.

In 1990, six people threw up their jobs and set out to form a venture which would provide anything and everything required in the infotech arena. Under the banner IT&T, the company's activity termed 'facilities management' has grown over the years to clock a turnover of Rs. 30 crore. The initial phase was quite testing for the team and three of them ran out of steam when the future looked bleak.

Perseverance paid rich dividend. Once the three promoters were able to service reputed companies and deliver results, things automatically started looking up. The troika of Karan Puri, managing director, Hemant Kohli (CEO) and K. Ganesh (director), have not only proved the other three friends wrong by achieving results but also have recently roped in another partner — Rohit Chand — as executive chairman. The incumbent, who has 30 years of experience, has imparted a cutting edge to improvisations in facilities management and creating a niche of networking systems and systems integration. IT&T's latest venture, the IT&T Global Services Ltd., is his first contribution to the company. The first client of the company is Siemens, which is setting up a power plant in Brazil.

The focus of the company from now on is going to be high margin business particularly smart sourcing and global services. This may reduce our turnover a bit but will increase our profits in addition to reducing a lot of unwanted workload. Despite competitors like IBM Global Services, Wipro, compaq OMS and Microland, IT&T has constantly thrived by offering innovative services.

The smart sourcing business model deals with contractural acquisition services for customers' hardware, software and networking requirements to ensure highest possible quality at the optimal costing of IT infrastructure. The idea is to provide single window supporting system for companies which can utilise the strength of procuring the best out of many vendors with each catering to their strength rather than going

for the easy route of getting everything from a single point. In the first phase, the company is tapping mature buyers for whom infotech systems are crucial for day-to-day operation. Ranbaxy, Castrol, Dabur, Reckitt & Coleman, British Council are some of the big clients.

Offering IT services and support, launch of three new service streams (facilities management, mail and messaging services and network management services), smart sourcing services, implementing solutions on these services and the launch of IT&T Global services are some of the highlights for IT&T this financial year. IT&T has targeted 1999-2000 as the year for its highest growth in both the domestic and foreign markets. Last fiscal, the largest portion of the company's sales came from the sales of Compaq and IBM workstations. IT&T has, since inception, positioned itself as a key distribution and systems integration company.

The whole idea of smart sourcing came from the clients themselves. Each company needs to remain focused on its strengths. But the strengths in this business alter so rapidly that by the time you become near perfect in that particular service, it becomes obsolete. Technology upgradation and regular R&D in service quality enhancement remains the buzzword in this segment.

Though IT&T has been performing well over the years despite the entry of formidable rivals, it is lasting the course that matters. Only then would IT&T be an Indian company that not only stood up to the foreign majors but set itself as an example to the next generation of software companies. With innovations as the core competency, IT&T has emerged as a leader in sourcing information technology. The end-target may be clearly visible, but much of the route may be invisible from the starting-point. The only way you are going to see the path ahead is to start moving. Thus, strategy must be as much about experimentation as it is about foresight.

The enterprise must pay more attention to the pre-conditions for innovative strategy-creation. The goal is not to develop perfect strategies, but to develop strategies that are directionally correct, and then, to progressively refine them through rapid experimentation and adjustment. This is the real work of the leader.

THE IDEAL ENTREPRENEUR

Not a workaholic. Sure, you should be prepared to work long — and irregular— hours, but the freedom to choose and priorities free time is always at hand, if you cannot sleep at night, as long as there is a single file left unperused, a memo unread, a number uncrunched, back off right now. Entrepreneurship isn't one-dayer. You must have the self-control time play for a long innings instead of burning yourself out.

Be warned, therefore: even when you are your own boss, long-term sustainability demands that you balance your professional and personal life. Only then can you truly make your own business sustainable in the long-term.

To Morph into an Entrepreneur

- Managers must be able to translate their career ambitions into specific business goals.
- Managers must use their people management skills to motivate and inspire their employees.
- Managers must capitalise on their skills to manage the financial aspects personally.
- Managers must turn their aggression in the workplace into a risk-taking approach.
- Managers must leverage their functional expertise when choosing their line of business.
- Managers must develop leadership qualities on the job before venturing out on their own.

Prepare, therefore, a mental checklist of the other side to the entrepreneur's job. Sure, your once-in-a-life-time innovative idea will convert customers immediately, but are you as prudent as a penny-pinching CFO? The diplomacy of the personnel manager? The doggedness of the door-to-door salesman? You'll need them all, in addition to that gem of an idea.

The entrepreneurship audit will judge individual's capabilities to be an entrepreneur or not. Just try it.

THE ENTREPRENEURSHIP AUDIT

Do you measure upto the tough task of being your own boss? Assess yourself impartially and objectively your positive and negative points in becoming your own boss. If need be, negative points might be corrected by training and education. Take this test to find out:

	Yes	No
1. Do you enjoy taking big, even unwarranted, risks?	☐	☐
2. Do you plan a head on most things you do?	☐	☐
3. Do you have a head for numbers and finances?	☐	☐
4. Do you make it a point to complete what you start?	☐	☐
5. Can you survive a drop in your standard of living?	☐	☐
6. Are you able to take decisions without dithering?	☐	☐
7. Are you free of major financial commitments?	☐	☐
8. Can you get along with different kinds of people?	☐	☐
9. Is your career path in your company flattening out?	☐	☐
10. Do you enjoy travelling on work?	☐	☐
11. Are you capable of leading people?	☐	☐
12. Do you have a clear vision about your dreams?	☐	☐
13. Do you have innovative ideas about projects and services?	☐	☐
14. Have you acquired specific skills to run the new venture?	☐	☐
15. Do you plan your work methodically?	☐	☐
16. Are you adaptable and flexible?	☐	☐
17. Do you prefer working alone to teams?	☐	☐
18. Do you find yourself envying entrepreneurs?	☐	☐
19. Can you cope with punishing work schedules?	☐	☐
20. Does your spouse support your plans?	☐	☐

The Scoring

Give yourself 5 points for every YES and 0 for every NO

TOTAL ☐

The Rating

☐ 0-35	You won't get far with I Inc. be satisfied with that you already have in hand.
☐ 40-60	The passion as a self-starter is weak. You seek the status quo rather than a crisis.
☐ 65-100	All systems go. Greener pastures and challenges await you.

THREE KEY ASSETS

Most leaders accept the premise that organisations (enterprises) must become more knowledge-intensive and value-enhancing. That is how it should be in the 21st century.

Of course, a community that cannot offer the brain-power or skills that employers demand, and is forced to compete with low-wage labour overseas is in trouble. But communities can develop 3 key assets that will raise their competitive standing concepts, competence, and connections. Concept-driven communities search for new ideas, and have a knowledge-intensive workforce. Competence-driven communities develop centres of quality for manufacturing or other disciplines, using a combination of good infrastructure, customised job-training, and commitment to world-class standards. Connection-driven communities combine their cultural knowledge of the world with a healthy commercial infrastructure to become places where trade is centred or deals are made. Each of these assets creates the basis for a globally-linked local economy that attracts jobs, capital, and the flow of customers or visitors.

Apart from purely local services, any company that competes on the basis of low labour-costs is, eventually, going to look for lower-cost places to operate. It is clear, for instance, that we will need fewer people in manufacturing plants. That is why the competition to attract those jobs is so intense: there are simply fewer of them. The problem is, people who have had those jobs aren't given the skills to move up the ladder but have to accept lower wages in their next jobs. The only forward-looking strategy is to try to move as many people as possible up the skills ladder.

THE CORPORATE GOVERNANCE AUDIT

Is your company's board really equipped and empowered to govern? Use this diagnostic to determine the efficacy of your company's directors:

1. Does your board include ...

A. One external director for each internal director? 2

B. Two external directors for each internal director? 5

C. Three or more external directors for each internal director? 10

2. Does your board comprise ...

A. Directors who have experience only in your industry? 2

B. Directors with experience in other related industries too? 5

C. Directors with experience in related as well as unrelated industries? 10

3. Is the agenda for your board ...

A. Set by the CEO with inputs from internal directors? 2

B. Set by CEO with inputs from all directors? 5

C. Flexible and set in keeping with emerging requirements? 10

4. Are the agenda and reading materials for your board circulated...

A. Two weeks prior to the meeting? 2

B. Three weeks prior to the meeting? 5

C. At least a month in advance? 10

5. Is the typical board meeting...

A. Structured so as to offer only token discussions of each issue? 2

B. Structured so as to ensure enough time for discussions? 5

C. Structured so as to always ensure time for free-wheeling exchanges? 10

6. Is the nomination of a new board member handled...

A. By the CEO after getting inputs from all directors? 2

B. By a nominations committee with strong inputs from the CEO? 5

C. By a nominations committee with inputs from all directors? 10

7. Board members are replaced...

A. When a director wishes to step down. 2

B. When one, or more, directors do not attend meetings. 5

C. On the basis of a formal evaluation of directors. 10

8. Is the audit committee of the board...

A. Involved in selecting the audit firm from a short-list? 2

B. Asked to recommend to the board which audit firm to use? 5

C. Asked to make its recommendations and to approve the choice? 10

9. Does the audit committee establish its agenda ...

A. On the basis of the internal auditors' suggestions? 2

B. With complete freedom to choose its areas of investigation? 5

C. After setting priorities for systematic study of high-exposure areas? 10

10. Does the compensation committee base its recommendations ...

A. Using inputs from the human resource department? 2

B. On the basis of historical trends and industry practices? 5

C. On pre-established standards and a formula-based reward system? 10

The Rating

20-33 Out of control. Your board is probably a liability.

35-70 Barely in control. And things could get worse.

72-100 In control. Your board is an asset for your company.

Adapted from The Case For An Off-Balance-Sheet Controller, by R.F. Lusch & M.G. Harvey, Sloan Management Review, Winter, 1994.

THE VALUE CHAIN PATTERNS

Value moves in mysterious ways. Some strategies work. Sometimes. Others don't. All the time. The ability to cut through cross-sections of industry — and company — profitability, and see the patterns that function as the invisible forces that add and destroy value is invaluable. For, the capacity to decipher profit-patterns is the ultimate strategy machine.

Value

Value is everything. Enterprises that can create value, win. Those that cannot, lose. Yet, the quest for attaining value is but one-half of what makes corporation successful. For, once captured, value has to be sustained. And that is a dynamic process, which requires a entreprenur's business strategy to be geared for the continuous creation of value. Thus, every entrepreneur most constantly strive to keep the market valuation of his company — one of the best measures of the value is creating — higher than the competition's. Or else it may not face a future.

The key lies in spotting, and benefitting from the factors that drive profitability. If the trend in an industry shows that customer preferences are changing, the successful company will be one that anticipates them — and immediately alters its strategy. For corporate India, which is in the throes of an upheaval — with smokestacks fast yielding way to silicon chips — recognising trends even before they emerge is vital. For entrepreneurs in quest of value, orthodox business sense will not help in these difficult times; what used to be sure-shot remedies yesterday will spell sure-fire disasters tomorrow. Clearly, in a constantly changing business environment, the rules for creating and sustaining value are also continually changing.

Over time, changing strategic market conditions create a migration from one set of customer priorities to another. Existing business designs become obsolete, and new business designs must be invented to deliver new value to customers. Some executives understand this. Experienced players can detect similarities between movements of value at different times and in different industries; they can detect patterns.

Industry value chains used to be incredibly stable. Today, those value chains have been compressed, broken up, and put together again. At the same time, profits and power have started to move along the chains more frequently and more rapidly. Nor is the dynamism limited to the industry value chain itself. Previously distinct value chains are now overlapping, competing, and merging. Some value chains are disappearing entirely.

Customers are the ultimate arbiters of value. The patterns of customer-driven profit shifts are just beginning to be understood clearly. Across a valiety of industries, the behaviour of the customer-base is changing in similar, repeatable ways. These changes have triggered numerous patterns, and will continue to transform the strategic landscape in nearly every business. Customers hold more power in the supplier-customer equation, and they possess the information as to what will be valuable tomorrow.

As power and influence shifted downstream, closer to customers, distribution channel players became more important. They had direct contact with buyers, and they could access current information on how customer's preferences were changing. But it wasn't all upside for the intermediaries. In many industries, traditional channels underwent compression (fewer steps in the distribution process), and ultimately, disintermediation.

Prior to the mid-1980s, the product was the manufacturer's source of competitive power and profit. In recent times, however, profit and value have begun to migrate away from the product along sevral dimensions via many different patterns. The common denominator across these patterns is that the value that had existed in the product itself has moved next door, economically speaking, to new scarce assets such as brands, blockbusters, and solutions. The laws that govern these new scarce assets have little in common. Each pattern has a different success logic — and needs to be understood on its own terms.

Knowledge is a form of energy. It is quiet, clean, and effective. It can be disorganised, dissipated, and squandered. Or it can be organised and profited from, by both supplier and customer. A great deal depends on how we think about it. Knowledge patterns will proliferate in the next few years as the focus of the economy shifts from the manufacture of goods to the application of useful ideas.

The organisational system can have a huge impact on the company's profit. It can add value to, or subtract value from the company's product franchise and business design. The outcome depends on how well the organisation system creates an alignment behind the company's strategy, and an energy level that is sufficient to enable the brilliant execution of that strategy.

Value patterns are not rigid. Each has variants. Thus, the concept of value pattern is an invaluable tool for the entrepreneurs. All along, you knew that profits — and, hence, value — ebbed and flowed within an industry and across industries. The ability to recognise the patterns that drive profitability and value remove much of the mystry that surrounds the process of creating and implementing the right business strategy. For, at the end of the day, the best strategy is one that leads to an increase in value. Clearly, there is methods to the madness of the New Millennium markets. And it has everything to do with decoding their patterns.

The Notional Top Twenty-five Enterprises in India (1998-99)

Rank	*Company (BT-500/PSU Rank)*	*Market Value*	*Sales (Revenues)*
1	Hindustan Lever (1)	34,210.15	10,448
2	ONGC (1)	27,157.80	15,005
3	ITC (2)	17,998.15	7,739
4	Indian Oil Corp. (2)	17,077.37	61,086
5	Reliance Industries (3)	13,002.87	15,174
6	MTNL (3)	12,353.24	4,768

7	Wipro (4)	9,724.13	1,853
8	State Bank of India (4)	9,328.88	18,698
9	Gas Authority of India (5)	7,268.27	6,398
10	Bajaj Auto (5)	6,898.75	3,845
11	Hindustran Petroleum Corp. (6)	6,658.20	20,851
12	Bharat Heavy Electricals (7)	6,606.98	6,841
13	Videsh Sanchar Nigam (8)	6,176.31	6,452
14	Infosys Technologies (6)	4,862.79	513
15	TELCO (7)	4,303.05	6,635
16	Nestle India (8)	4,294.11	1,613
17	NIIT (9)	4,268.98	469
18	Larsen & Toubro (10)	4,239.54	7,483
19	TISCO (11)	4,222.91	6,982
20	Bharat Petroleum Corp. (9)	4,184.42	20,998
21	Hindalco Industries (12)	4,140.79	2,145
22	Castrol India (13)	4,095.12	1,101
23	IDBI (10)	3,623.69	7,537
24	Ranbaxy Laboratories (14)	3,511.77	1,588
25	Reliance Petroleum (15)	3,180.85	—
	Total	2,18,626	2,34,727
	Public sector 10	1,18,191	1,68,634
	Private sector 15	1,00,435	66,093

The Global Top Ten Corporations

Rank	*Rank*			*Revenues in US $ Billion*	*Rs. crore*
1	1	GENERAL MOTORS	US	161.31	7,02,505
2	17	DAIMLERCHRYSLER	Germanhy	154.61	6,73,326
3	2	FORD MOTOR	US	144.42	6,28,949
4	8	WAL-MART STORES	US	139.21	6,06,260
5	3	MITSUI	Japan	109.37	4,76,306
6	6	ITOCHU	Japan	108.75	4,73,606
7	4	MITSUBISHI	Japan	107.18	4,66,769
8	7	EXXON	US	100.70	4,38,549
9	12	GENERAL ELECTRIC	US	100.47	4,37,547
10	11	TOYOTA MOTOR	Japan	99.74	4,34,368

Exchange Rate
$1 = Rs. 43.55

Compared to the global ten corporations, the top ten India Corporations are tiny in terms of revenue (sales) with an exception of IOC.

Is is therefore evident that India must target a much higher rate of growth. Such an ambitious growth agenda in a fast globalising environment can only be realised through an accelerated reform process that makes the Indian economy globally competitive and thereby attract commensurate investment.

As the order changes, there is a pithy point that the entrepreneurs must perform — or perish. If, per chance, their business happens to be one where profits are under serious long-term threat, they simply cannot expect to create market value. For, value cannot accrue without performance, or profits. Those who discern this message from the stockmarkets correctly will, therefore, take a hard-nosed look at their businesses, and restructure, re-organise, or re-focus the way they run them. They may even have to re-invent themselves completely since the stockmarket is, without doubt, the greatest leveller. For India Inc. it is time now, like never before, to introspect.

"Industrialisation is an ongoing process which accelerates economic growth and induces social change."

CHAPTER 1

INTRODUCTION

In Perspective

The success of India's economic progress is closely linked to its capabilities to manufacture and export quality products in a highly competitive global market. In fact, the changing business scenario in India is influenced by three driving forces — customer, competition and change. The objective of the economic reforms that were initiated in India was to move the economy into a higher growth plane by relying more on market-oriented process.

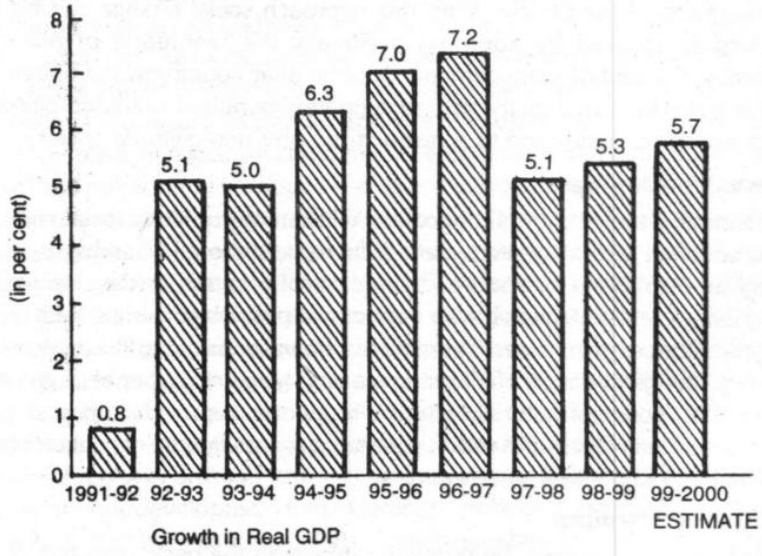


Fig. 1.1

The process of socio-economic change is an intrinsic part of human civilization. Man has been striving ceaselessly to discover the secrets of nature and thereby benefit immensely in creating a peaceful, rich life for himself and his fellow-beings. Man has

benefited by agricultural, industrial and information activities. According to J. K. Galbraith, there are three types of economic development that are currently in vogue. These are symbolic modernisation, maximised economic growth and selective growth. Economic growth is the *sine qua non* of change and better living standards. Over the years, a middle-of-the road social democratic thinking is becoming consolidated.

Economic Reforms

The economic reforms initiated in 1991 have had an invigorating effect on various sectors of the economy which is now poised for accelerated growth in the years to come. Industrial production has picked to an impressive rate and in fact is a major contributor to the high growth rates of GDP. Progress have to be made slowly and steadily, but we must continue to move towards transparency, quality awareness and Total Quality Managment. If Indian industry is to be globally competitive, then the liberalisation process has to be sustained over the next decade.

Sustained Economic Growth

The primary objective of developing countries like India is to achieve rapid, balanced and sustained rate of economic growth. Hence, efforts are directed towards the creation of conditions in which a fast development of productive resources can take place. This inevitable necessitates the transformation of social and economic structures which will not restrain the potential productive forces and inhibit the development of resources. The state has, therefore, to devise efficient and effective political, economic, social, technological and cultural strategies so as to ensure a desirable co-ordination of all sectors of the economy and assure deliberate and requisite interest and involvement of the people. With this approach social change can be achieved. This is largely secured by adopting politically the technique of planning and, economically, the tool of management. Country after country in the underdeveloped world is progressively and intensively resorting to liberalised privitised globalised and market-oriented economy and to a restructured and neo-cultured society.

Economic Development

Economic development, if conceived without appropriate social changes, soon becomes stultified and stagnated. Comprehensive national planning is increasingly becoming an instrument of socio-economic transformation in developing countries. Planning delineates strategies. It also determines policies consistent with the political philosophy of the party in power. There seems, however, nothing like universal precepts of planning, though concepts of planning are emerging with experience gained all over the world. One does not naturally observe a uniform approach to planning. There is bound to be as much diversity in national planning, as multiplicity of political philosophies and dissimilarity in the sate of economies.

Objectives of Planning

There would, however, be no two opinions on the basic objective of planning. Planning must impart dynamism to the process of development. In different developing countries, diverse economic systems exist. Despite the apparent similarities between the different economies, they are at various stages of development. Furthermore, different regions and sub-regions in the same country are also not at the same levels, economically,

socially, technologically and culturally. Dissimilarities are wide. The process of planning in one and the same country, therefore, tends to be very complex and, at times, beset with formidable problems obstructing the process of rapid, balanced and sustained economic development. It is, thus, becoming patently evident that planning to become a potent tool and an effective technique of economic development must descend from the olympian altitudes of the national level to the low lands of the regions. Formulation of development plans can be all-inclusive and well-integrated only at the regional and the sub-regional level. Every region and sub-region, due to its distinctive character, demands a special treatment. It is relatively easy and simple to accelerate production, stimulate consumption and motivate transformation of economic and social structure at the regional and sub-regional level, particularly in a vast and diverse country like India. Some of our states and regions are as big as nations. If the creation of conditions facilitating rapid growth of physical and human productive resources is the aim of planning, the peculiarities of the region and sub-regions have to be taken into account — perhaps more than the points of similarity. Rapid and balanced economic development presupposes co-originated and deliberate activity in all sectors of the country.

Public Response

In a country like India, economic development must be consistent with the principles of democracy, ensuring that the economic tasks will be in full accord with the interests of humanity, ground for ages in chronic and abysmal poverty. Poverty has killed interest, initiative and enterprise. The greatest social tragedy in a poor country is the loss of will. There is an urgent need to overcome economic backwardness and cultural weakness and to promote their social and intellectual advance. The challenge to developmental planning in countries like India lies in laying down firm material foundations for a more equitable, equal and egalitarian society. This is possible when backwardness of regions and sub-regions is clinically examined and correctly diagnosed. Prescriptions need be written on the basis of social psychology and economic pathology of the regions and sub-regions and medication, nursing as well as nourishment be provided to gain economic strength and infuse 'development will.' The success of planning is closely linked with the readiness with which the people respond to the demand of economic progress. Rapid economic development is largely dependent on the degree of popular response, and the intensity of this response indicates the extent of development which will be generated in the community or the region concerned. The first task, therefore, is to stimulate and arouse the people to action aimed at improving their lot by undertaking productive, economic activity. Such an awakening will facilitate numerous changes in the social and economic fabric of the region concerned and will also catalyse structural transformation. The process of regional and sub-regional development is triggered off by combining all aspects of economic development into meaningful policies, quantified targets and viable programmes. It must be appreciated that planning goes beyond purely economic factors.

Laws of Dynamics of Economic Development

(i) 'Economic development is organically related to the impulse of change, reflecting the developmental urge of the society for self-reliance and willingness to observe rigorous discipline'.

This is a social law. This explains why there is no economic development in a particular society — regional, national or continental. The impulse to change must lead to action aimed at becoming self-reliant as quickly as possible. Self-reliance demands observance of a rigorous discipline. An urge for development, efforts towards self-reliance and a sense of discipline are the three important elements in the social law of dynamics of economic development.

(ii) Economic Development is quickened with the degree of appropriate and intimate relationship established between and/or among competing claims, of various apparently conflicting objectives.

This is a political law. With the growing consciousness, undeveloped and under-developed sectors clamour for and claim priority in development plans. Fixing of sectoral priorities and deciding the rate of progress at a given time are political decisions. The conflicting claims are to be resolved by the political leadership of the country by weaving them into supplementary and complementary relationships so as to minimise, if not entirely neutralise, heir dissipating influence. The economic statesmanship of a national political leadership is displayed in harmonising the conflicting claims for economic development sectorwise, section-wise and region-wise.

(iii) Economic development depends upon the ability to restructure the economy with the identification of and the insistence on the economies of scale and the operational choices of technologies, resolving to the highest degree possible, the seeming or real conflict of capital versus labour.

This is a technological law. Economy must be restructured, if it is to be balanced and self-sustained. There are economies of scale. It is the economies of scale which should determine the scale of economy. The relationship between large and small-scale industry sectors should progressively settle down on this teleological basis. Technologies change constantly in modern scientific age and consequently, even the economies of scale undergo corresponding changes. This re-adjustment in the large and small-scale industries should be painlessly brought about. So also, the capital-intensive and labour-intensive operations ought to be carefully sorted out, categorised and communicated to the entrepreneurs and managers for compliance. For instance, capital-intensive techniques should give way to labour-intensive techniques in economies where labour is abundant; but this may not apply rigidly to all spheres of the economy.

(iv) Economic development takes place in proportion to the administrative calibre and motivation and in the direction of the comprehensive infrastructural facilities — social, educational, fiscal, financial, technical, distributional, medical, logistical and others.

This is an administrative law. Developmental plans founder due to administrative inadequacies and procedures. Demands of development planning outstrip the administrative capabilities — not so much in terms of talent but of skills. For economic development, the administration needs to know and be in tune with developmental processes, techniques and will. The administration must be fully involved and committed to development. It must be motivated so as to feel that it has the highest stake in the participation and execution of the programmes of development. Furthermore, the

administration should not forget that economic development is something like a living being. It tends to move in the direction of and relishes to thrive in the location, where comprehensive infrastructure exists or is shortly expected to exist. Again, economic infrastructure and fiscal/financial benefits are not enough. Man brings about development. Economic developmental facilities, without doubt, need be provided. But, many more amenities expected by the modern man are also required to be created. This naturally leads to identification of the growth centres, which when furnished with a comprehensive infrastructure, would initiate industrial and productive activities in ever-widening circles round the potential epicentre.

(v) Economic development originates and fosters in relation to the strength and health of the local entrepreneurship and depends on the rate of its generation and equally to the intensity of its sense of social responsibility, its innovation quotient and its index of managemental capabilities.

This is an entrepreneurial law. It is the entrepreneur who powers the process of economic development. The strength of an economy is in one way the strength of the entrepreneur class in the society. Mere mercantile entrepreneurship has different attributes and thrives in an entirely different atmosphere. It has to be cultured systematically in the under-developed regions and sub-regions. The higher the rate of genuine industrial and innovative entrepreneurship, faster will be the rate of economic growth. Entrepreneurship must also acquire new managemental skills. Entrepreneurial density, innovative propensity and managemental capability in the society in a particular period determine the character and future of economic development.

(vi) Economic development is decisively dependent on the state of the balance of trade.

This is a commercial law. Adverse balance of trade position restricts the development process, particularly in underdeveloped countries importing machinery, raw materials, know-how and even experts. Favourable balance of trade provides considerable latitude in the choice of imports and in the source of imports. International trade brings economic strength and techno-economic self-reliance. Again, mere exports outgrowing imports is not necessarily a sign of commercial strength. Composition of imports and exports is of great importance in this context. Commodities and unprocessed minerals may earn a fairly good amount of foreign exchange for the country; but the share of manufactured goods in the total exports of the country will indicate the degree of industrial progress and strength achieved by that country. While attempting to balance exports with imports, effort should be made to constantly expand the contribution of the manufacturing sector to national exports.

(vii) Economic development is directly related to the rate of national savings and of national investment in conformity with national priorities and real needs, based on social justice, economic stability and national security.

This is a financial law. The countries and communities in which the rate of savings is high and where savings are institutionalised and thus made available for investment in productive activities according to the national priorities, are without doubt advancing faster.

Economic stability leads to increased savings. Stability cannot be ensured without growth. In fact, growth and stability can be said to be synonymous terms. National investment must also ensure national security. This is possible if ample investable funds would be available at reasonable rates of interest for desirable productive purposes. It is, therefore, necessary to ensure an adequate rate of savings and institutional investment for productive activities. Mobilisation of public savings is possible when adequate incentives are provided.

The techniques of planning may have to be based on these laws of dynamics of economic development. Their ignorance or non-compliance is likely to retard and restrict the process and pace of economic development, which all the developing communities and countries cherish. Development is essentially a matter of social and economic management. In India the emphasis was and still is largely on the economic aspect rather than on the social. If the social motivation is taken care of, economic development will begin to take care of itself. Perhaps our planners need this advice. But will they heed?

Trends in Economic Development

There are twelve major trends affecting the direction of economic development:

1. Technology as a resource
2. Competition in domestic and international markets
3. The role of invention
4. Government as stimulator
5. Entrepreneurial and Intrapreneurial development
6. Innovative capital formation
7. Active financial sector
8. Innovative entrepreneurship
9. Progressive management
10. Quality as a goal
11. Supremacy of the customer.
12. Collaborative relationships

Technology is more than a thing, stratagem or even a process. It is a self-generating resources that is not consumed in the process of use. Consequently, it is an important form of economic wealth.

Competition is forcing a reassessment of our individual and collective responses to the marketplace. Fierce domestic and international competition for scientific, technological, and economic pre-eminence, forcing communities and regions to leverage all their resources — human, technological and financial — to compete effectively for vibrant and diversified economies.

The countries are experiencing an unprecedented burst of invention. Myriad technological advances are occurring with incredible speed and frequency. The ability to commercialize these inventions will have direct and immediate economic consequences.

The governments are trying to find positive non-interventionist approaches to encouraging entrepreneurship and technological diversification. They seek to create jobs, provide benefits to the small business sector, and forward technology. The creation of an environment that promotes entrepreneurial activity has become a more important focal point in the government's policy on development.

People with raw energy and a proclivity for risk-taking built and sustained the countries. They are continuing to build it today — in new ways and with new approaches. These entrepreneurs and intrapreneurs are breaking tradition and providing a dynamic source of creative and innovative enterprises.

Innovative capital formation is providing the catalyst for the entrepreneurial process. Mechanisms for providing seed capital and venture capital as well as an expanding venture capital industry are helping to build new ventures. If the entrepreneurial process is to succeed, it is essential to continue to support and expand the formation of capital and its innovative utilisation in new business development.

Finally, creative collaborative relationships being formed between business, government, and academic are forging opening new opportunities for commercialisation and thus accelerating the technology transfer process.

Man — A Crucial Factor in Development

The absence of universal precepts of planning should not worry any planner unduly, because it is still possible to enunciate the basic laws that motivate economic development, drawing on the experiences of planning under different political systems. These should hold good in all economies and for all countries at any time. There is something which can be described as the laws of dynamics of economic development. If they are respected while planning and complied with while implementing, the process of economic development may not prove to be unfruitful and wasteful. Like the laws of nature, these laws of dynamics of economic development are inexorable and the degree of alienation with them will render planning unsuccessful. These laws embrace various aspects of the process of planning. As has been emphasised above, economic development is a multi-lateral and multi-directional movement. In fact, economic developmental potential remains a dormant asset due to the undeveloped or under-developed economic man. Man is much more crucial to development than other economic factors. As such, when man plans to initiate change, economic development rolls on. Other factors are ancillary, though quite necessary. Sufficiency of other resources, without the necessary human "development will" does not lead us anywhere. Resources to be developed may exist in plenty but if development-linked human minds are absent, hardly any economic development will take place. So, the creation of the development will is the key factor which engines the economic progress. Once such a will emerges, it is necessary to see that the laws are corrected and co-ordinated action is planned, and whatever is planned is well executed. A humble attempt has been made below to present the seven laws of dynamics of economic development, as they are quite relevant to the regional and sub-regional planning contemplated in India at present.

Human Resources

While the availability of industrial resources is an important advantage for development through industrialisation, responsive human resources are the major conduit for the development and upgrading of technology. After all, the human factor is the greatest factor in the process of its own development.

Among the inputs that go into industrial development, such as capital, industrial resources, scientific research and human resources, social scientists emphasize the last-named factor as the most significant for achieving rapid industrialisation. The human factor consists broadly of individuals with a reasonable level of general education and skills in specific areas. While human skills include manufacturing, technical, supervisory, managerial, administrative and entrepreneurial competence, it is the entrepreneurial quality which is a key ingredient. It often sets the limit to the degree of industrial development and the speed with which it can be achieved in a particular country or region.

Lack of Entrepreneurship

Lack of entrepreneurship inhibits the process of industrialisation in the newly-developed countries. Although there is not such thing as a zero level of entrepreneurship, it is well recognised that entrepreneurs can be developed through appropriately-designed Entrepreneurship Development Programmes (EDP). These programmes broadly consist of three distinct stages: firstly, that of developing achievement motivation, and sharpening entrepreneurial trait and behaviour; second, that of project planning and development; and at the third stage, guidance is provided on industrial opportunities, incentives and facilities, rules and regulations and the development of managerial and operational capabilities. With the growth of technical manpower, it is necessary to organise entrepreneurship development programmes on a wider canvas to attract potential entrepreneurs to small business. While doing so, the characteristics of an entrepreneur have to be kept in the view.

Broadly, they are as follows:

- Development in any walk of life has always depended on individual qualities of entrepreneurship. A study of human history shows ample evidence of the role of individuals in the process of development.
- Industrial development in almost all countries has always started with individual enterprises.
- Even huge multinational and national corporations have mostly received their inspiration from one or a few individuals.
- In the case of small industries, the project is usually centred around a single individual.
- Small enterprises are mostly initiated, managed and developed by one or a few individuals.
- Qualities of entrepreneurship constitute one of the major resources in the promotion of an enterprise.

— An entrepreneur is someone who ventures out; prefers change as a means of growth; and is prepared to take calculated risks.

— While taking a risk, the entrepreneur is aware of the possibilities of success as well as the consequences of failure.

— He analyses the pros and cons carefully before making decisions.

— He is involved in the planning activities, both before and after the decision to start the enterprise.

— He is motivated by an urge to make a success of the project.

— He proceeds to accept the situation as a challenge.

— He equips himself with all the necessary tools.

— He is persistent and is full of perseverance for making a success of himself.

— Entrepreneurship is a product of interaction among a number of factors. Some of the these factors are in the individual (psychological) and the rest are in the social, cultural and economic milieu.

In brief the ingredients for a successful entrepreneur are:

— He is confident in facing challenges and is eager to achieve.

— He identifies the product.

— He plans for a venture.

— He selects the technology commensurate with the means available and tuned to the social and economic environment.

— He is eager to improve quality.

— He is able to manage men and material.

— He finds markets.

— He is innovative.

— He is progressive.

— He always srives to climb up.

— He always imbibes new technology for improvement.

— He always strives for modernisation, diversification.

— He is well-informed.

— He strives to meet the changing needs of the customer or hold customer as king.

In India, a large number of institutions and organisations are engaged in the development of entrepreneurship, resulting in the speedy growth of industrial ventures.

The example of India is fascinating. During its First Five Year Plan, technical education was given importance. Industrial training institutes for low-level semi-skilled workers, polytechnics and prototype development and training centres for skilled workers and supervisors, engineering colleges for managers and institutes of technology for the higher managerial group were established all over the country. This resulted in India becoming the third largest technical power.

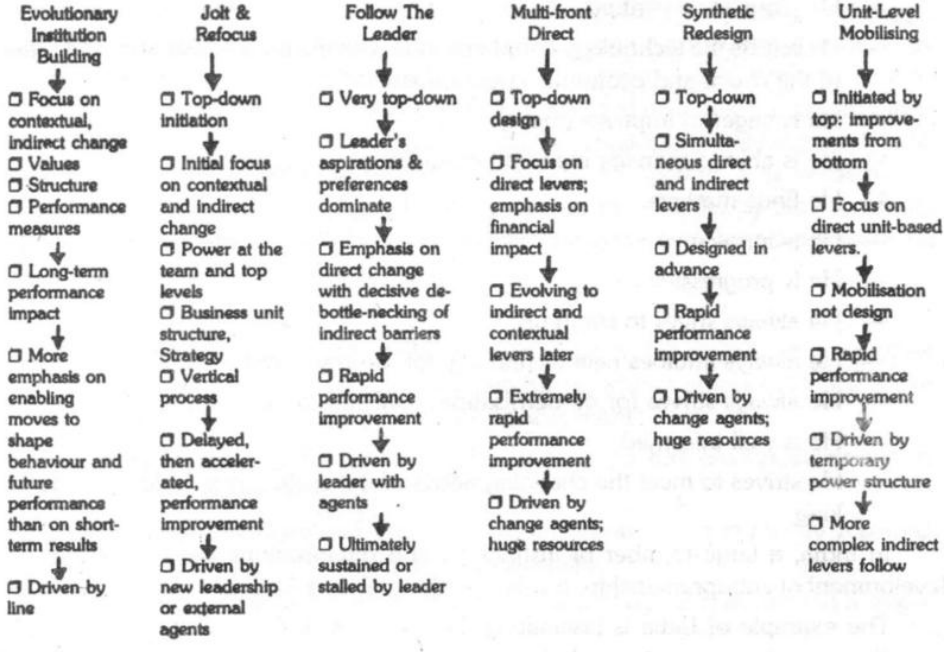
Sustaining Momentum of Change

The dynamics of change have wider implications. It is a continuous process. And, changes inside and outside the enterprise/organisation can move the goal posts.

Transforming an enterprise is not a science: there are no formulae for success. The enterprises studied were not following some masterplan; indeed, much of what the entrepreneur did was intuitive, almost an art form. Examining their experience yields valuable insights into creating a strategy that will realise the promise of transformation. By viewing an enterprise from three perspectives — how performance needs to change and how fast; a leader's aspirations and preference; and the sources of energy available to drive the change — we can gain insight into what strategy will work. .

A successful strategy demands effective execution. Choose initiatives that link the sources of energy to the right performance levers. Grouping initiatives into four basic types — executive de-bottlenecking decisions, direction-setting or redesign task teams, mobilising and communicating and coaching — helps simplify the choice. Then, be sure to exploit the interdependent dynamics of the initiatives to keep the change moving ahead.

CHANGE STRATEGY: CHARACTERISTICS



Conclusion

Industrialisation is one of the important means to usher in economic and social transformation in the developing countries. More so when agriculture cannot sustain the burden of the population growth, it is the industry and service sectors which have shoulder the responsibility to sustain as well as, accelerate the pace of growth. So industrialisation is indispensable for survival and growth.

Industrialisation results from the interaction of technological change, innovation, entrepreneurial growth, specialisation and trade. Good transportation and efficient communication system and an educated labour force help promote the rapid development of industries. Well-defined rules reduce the costs of transactions as specialisation increases and economies become more complex.

INDEX OF INDUSTRIAL PRODUCTION

(Percentage growth rates)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1997-98
Total Industry	8.20	0.60	2.30	6.00	9.30	12.40	6.40
Basic Goods	3.80	6.30	2.60	9.40	5.30	9.00	7.80
Capital Goods	17.40	–12.80	–0.10	–4.10	24.90	20.40	2.00
Intermediates	6.10	–0.70	5.30	11.70	3.70	10.30	7.70
Consumer Goods	10.40	–1.80	1.90	4.00	8.70	12.90	5.71
Durables	14.80	–12.50	–0.70	16.10	10.20	38.00	7.80
Non-Durables	9.40	1.20	2.50	1.30	8.40	6.60	3.60

Source: India Development Report, 1998.

INDEX OF INDUSTRIAL PRODUCTION

(Base: 1993-94)

	Weight (%)	*Apr. 1998*	*Mar. 1998*	*June 1998*	*July 1998*	*Aug. 1998*	*Se 1998*	*Oct. 1998*	*Nov. 1998*	*Dec. 1998*
Mining	10.47	113.3	119.0	117.0	119.0	115.0	108.0	117.0	120.0	127.0
Manufacturing	79.36	141.3	140.1	139.9	140.4	140.6	142.2	138.2	146.5	154.0
Electricity	10.17	137.5	141.5	135.0	137.2	13.5	128.2	129.3	133.2	142.4
Basic goods	35.51	128.3	135.3	130.7	133.1	132.3	125.4	128.8	130.9	137.9
Capital goods	9.69	131.1	124.8	134.1	128.3	134.1	149.4	135.4	135.8	139.3
Intermediated goods	26.44	1486	149.2	152.2	155.3	154.6	152.7	149.1	156.8	1586
Consumer goods	28.36	142.7	135.6	131.7	130.8	129.6	133.2	129.7	145.5	160.7
Consumer durables	5.12	153.4	158.2	156.2	155.2	160.7	173.2	171.0	165.7	173.5
Consumer non-durables	23.25	140.3	130.6	126.3	125.4	122.7	124.4	120.6	141.0	157.9
General	100.00	138.0	138.0	137.0	137.8	137.6	137.2	135.1	142.4	150.0

Source: CMIE, February, 1999

Large industrial units and business houses also play an important role in developing and sustaining new entrepreneurship. For, it should be noted that while the growth of entrepreneurship in India in the last 25-30 years have been remarkable, entrepreneurship is still a comparatively scarce factor in India, as indeed in all developing countries. In spite of our fairly good economic progress, India is one of the poorest countries in the world. On the other hand, our natural and human resources are such that we can be a fairly prosperous country. So, what we require is more entrepreneurship on the part of the government and the private sector.

Entrepreneurship is a core sector which can be developed in a big way. What with so many technological and management institutes in India, it should not be difficult

to develop thousands of entrepreneurs every year. In this connection, economic polici of the government an leave an important impact on the growth of entrepreneurshi Sometimes, the government gives the impression that the private sector will only b tolerated. This impression should be removed and there must be a formal recognitic of the fact that in a country like India, we require entrepreneurship at various leve and of various sizes — Central Government, State Government, large, medium ar small private sector units and also foreign entrepreneurship.

The entrepreneurship development movement in India had received significa attention; this is borne out by the fact that the small manufacturing enterprises ha made phenomenal progress during the last three decades and today occupy an importa position in the industrial economy of India.

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UNIT 1

ENTREPRENEURSHIP

Entrepreneurship

The words *entrepreneur, intrapreneur and entrepreneurship* have acquired special significance in the context of economic growth in a rapidly changing socio-economic and socio-cultural climates, particularly in industry, both in developed and developing countries. The experience in the industrialised countries like the United States of America, Germany, Japan and the United Kingdom are authoritatively cited in support of this claim. An in-depth study of the subject thus becomes not only relevant but also necessary.

Entrepreneurial development is a complex phenomenon. Productive activity undertaken by him and constant endeavour to sustain and improve it are the outward expression of this process of development of his personality. Such process is crystallisation of social milieu from which he comes, family imbibes, make-up of his mind, personal attitudes, caste system, educational level, parental occupation, and so on.

An entrepreneur is one of the important segments of economic growth. Basically he is a person responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people. He puts up new green-field projects that create wealth, open up many employment opportunities and leads to the growth of other sectors.

Who is an Entrepreneur?

The entrepreneur as a person brings in overall change through innovation for the maximum social good. Human values remain sacred and inspire him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In this process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, he gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities encompass all fields / sectors and fosters a spirit of enterprise for the welfare of mankind.

Urges of an Entrepreneur

An urge to exercise power over things and objects persists among all human beings. The urge may vary in degree from person to person. This urge is an intrinsic quality of an entrepreneur. Sociologists consider him as a sensitive *energiser* — in the modernisation

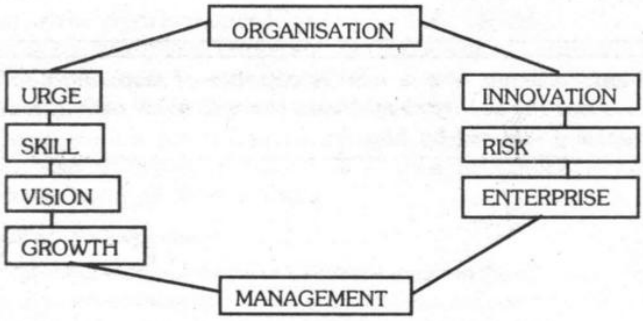


Fig. 2.1 Basics of an Entrepreneur

The term "entrepreneur" was applied to business initially by the French economist, Cantillon, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products. Another Frechman, J.B. Say, expanded Cantillon's ideas and conceptualised the entrepreneur as an organiser of a business firm, central to its distributive and production functions. Beyond stressing the entrepreneur's importance to the business, Say did little with his entrepreneurial analysis.

According to J.B. Say, an entrepreneur is the economic agent who unties all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products his results from their employment, the reconstitution of the entire capital that he utilises and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself. He emphasised the functions of co-ordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield.

The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions." Leading economists of all schools, including Karl Marx have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

As Professor Jan Tinbergen points out: "The best entrepreneur in any developing country is not necessarily the man who uses much capital, but rather the man who knows how to organise the employment and training of his employees. Whoever concentrates on this is rendering a much more important service to his country than the man who uses huge capital."

Schumpter's Definition of Entrepreneur

Joseph A. Schumpeter thus writes: "The entrepreneur in an advanced economy is an individual who introduces something new in the economy — a method of production not yet tested by experience in the branch of manufacture concerned, a

product with which consumers are not yet familiar, a new source of raw material or of new markets and the like." He further states the entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity...."

Briefly, an entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them. Innovation occurs through (1) the introduction of a new quality in a product, (2) a new product, (3) a discovery of a fresh demand and a fresh source of supply and (4) by changes in the organisation and management.

In the case of a developing economy like India, the concept is being understood differently. An entrepreneur in a developing economy is one who starts an industry (old or new), undertakes risk, bears uncertainties and also performs the managerial functions of decision-making and co-ordination. He also puts the new process based on technological research into operation. Even if he imitates any technique of production from a developed economy, he is called an entrepreneur. In point of fact, entrepreneurship in developing economies is one form of labour that tells the rest of labour what to do and sees to it that it gets things done. Unlike in the developed industrial world, emphasis is not put (nor is there any need for it) only on "Schumpeterian innovations" in the case of developing countries.

Schumpter's entrepreneur only exists if the factors of production are combined for the first time. To him, maintenance of a combination is not entrepreneurial activity. As such, he differs from the theory of Rent enunciated by Ricardo. Ricardo included the term "entrepreneurial ability" as an independent factor of production. To Ricardo, profit is the reward for entrepreneurial ability.

Drucker's Views on Entrepreneur

Peter Drucker has aptly observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation."

Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic and social innovation.

According to Drucker, three conditions have to be fulfilled.

1. Innovation at work. It requires knowledge and ingenuity. It makes great demands on diligence, persistence and commitment.
2. To succeed, innovation must build on their strengths.
3. Innovation always has to be close to the market focused on the market, indeed market-driven.

Specially, systematic innovation means monitoring six sources for innovative opportunity.

The first three sources lie within the enterprise, whether it be a business or a public service institution or within an industry or service sector. They are therefore, visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already occurred or can be made to occur with little effort. These four source areas are:

1. The unexpected — the unexpected success, the unexpected failure, the unexpected outside event.
2. The incongruity — between reality as it actually is and reality as it is assumed to be or as it "ought to be."
3. Innovation in industry structure or market structure that catches everyone unawares.
4. The second set of sources for innovative opportunity, a set of three, involves changes outside the enterprise or industry:
   * Demographics (population changes).
   * Changes in perception, mood and meaning.
   * New knowledge, both scientific and non-scientific.

Walker's Views on Entrepreneur

According to Francis A. Walker, the true entrepreneur is one who is endowed with mote than average capacities in the task of organising and coordinating the various other factors of production. He should be a pioneer, a captain of industry. The supply of such entrepreneurship is however quite limited and enterprise in general consists of several grades of organisational skill and capability. The more efficient entrepreneurs receive a surplus reward over and above the managerial wages and this sum constitutes true profit ascribable to superior talent.

New Concept of Entrepreneur

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project to fruition, and in this process, performs one or more of the following:

(i) perceives opportunities for profitable investments;
(ii) explores the prospects of starting such a manufacturing enterprise;
(iii) obtains necessary industrial licences;
(iv) arranges initial capital;
(v) provides personal guarantees to the financial institutions;
(vi) promises to meet the shortfalls in the capital; and
(vii) supplies technical know-how.

Some Observations

The term "entrepreneur" has now been attributed to all small industrialists, small business, traders and industrialists. All people who are gainfully engaged in work —

manufacturing, distribution or service and other sectors are called entrepreneurs. Again, even the founder creator and risk-taker are called entrepreneurs. Each of these terms focus on some aspect of entrepreneurs. They have some attributes, but they are not entrepreneurs in the strict sense. Many successful people have been good at copying and/or imitating others. For example, the first commercial manufacture of two-wheelers is to be called an entrepreneur, who has visualised the importance of two wheelers in modern times for the benefit of the maximum users and all subsequent scores of people engaged in are just imitators. Likewise, a brothel-keeper or a call-girl business organiser cannot be an entrepreneur, though he takes risks, creates a market and gets a reward more than visualised. So also a bootlegger, drug peddler, black-marketer etc. These occupations are not for the social good. They violate business ethics. The term "entrepreneur" is to be understood in its totality and not in a fabricated manner. The term "entrepreneur" can only be understood with a bearing on economic, psychological, sociological, and cultural bearings. The social responsibility is essentially a part of entrepreneurial outlook on life.

Entrepreneurship may be defined in various ways, but the four key elements involved in it are: *(i)* Innovation *(ii)* Risk-taking, *(iii)* Vision and *(iv)* Organising skill. All the four elements are inter-related and form a continuous process in business. Entrepreneurial vision encompasses the relentless pursuit for operational excellence, innovative technology and being responsive to the needs of the market place.

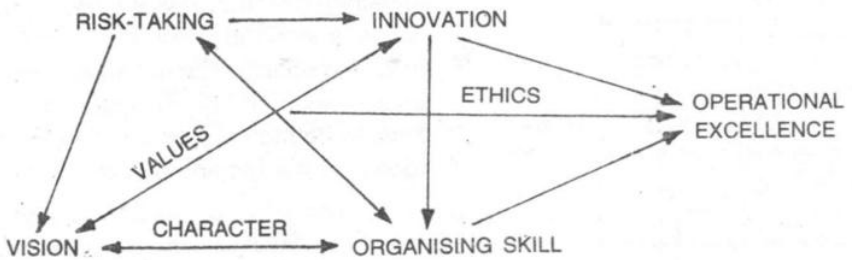


Fig. 2.2 Key Elements of Entrepreneur

A Classic Example

Since the dawn of civilisation, there have appeared at periodic intervals men who have led mankind shaping the future out of the lessons of the past and the experiences of the present. Visionaries, builders, thinkers, scientists were those who saw ahead of their times and whose presence benefited not only the country, but all mankind. In this illustrious company of uncommon people a special place is occupied by an Indian who was born 155 years ago — Jamesetji Nusserwanji Tata. His inspired vision of modern industrialised India was to sustain economic growth to support freedom.

To breathe life into his dream, he set about to create steel, electric power and scientific-cum-technical education as the vital ingredients of economic growth. Today, the Tata organisation covers a bright landscape in Indian economy. To this day, Jamsetji Tata's industrial philosophy, including his firm belief in the principle of trusteeship, his insistence on absolute standards of integrity and the realisation that to survive and prosper, free enterprise must serve the needs of society, were all remarkably

in tune with modern thinking and the ethical and social standards of the most advanced societies of today.

Jamsetji Tata, Jamnalal Bajaj, Laxmanrao Kirloskar, Ghanshyamdas Birla are some of the entrepreneurs in their truest sense.

A Way of Vast Business

Family Businesses

In India, family businesses account for about 70 per cent of the total sales and net profits of the biggest 250 private sector companies. Big families have carved up the big industries. In vehicles, for example, the Tatas make lorries, the Birlas make Ambassador cars, the Bajaj family makes two wheelers and the Mahindras make jeeps. They diversified into any business where they could get a permit to operate. Borrowing, mainly from public sector institutions, was easy, and company law make it simple to control subsidiaries through very small shareholdings. The Tata empire, for example, embraces some 70 companies, making everything from tea to watches, in which the parent company's average stake is rarely above 15 per cent.

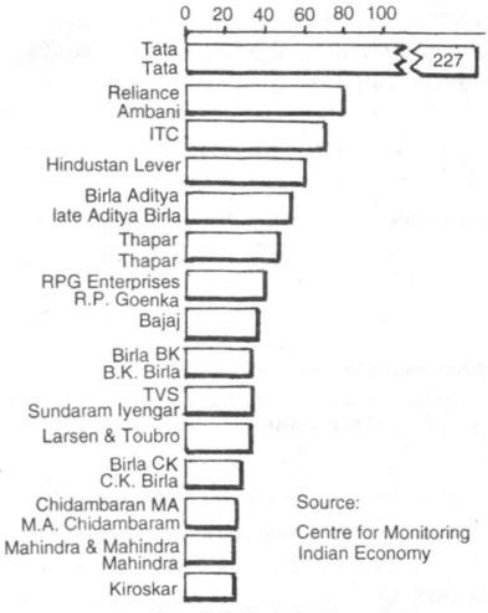


Fig. 2.3 Family ties
Leading Indian companies, by sales.
Family links shown in italics

Entrepreneurship is not just a way to increase the level of innovation and productivity of organisations, although it will do that. More importantly, it is a way of initiating vast business so that work becomes a joyful expression of one's contribution to society. The Indian entrepreneur, intrapreneur and/or manager of the 90s have to be moulded in psycho-philosophy rooted in the Indian context and values.

"The crisis in business is spiritual," says Prof. Sitangshu Kumar Chakraborty, "All management ideas till now have been external-directed paradigms, developing behaviour and skills, not character and values. But meaning and richness must flow from mind to work, not the other way. We need a fundamental shift from the current reductionist, fragmentist, materialistic paradigm to one which recognises relationships, consciousness and spirit as the right approach."

The concept of entrepreneur and entrepreneurship incorporates basic qualities of leadership, innovation, enterprise, hard work, vision and maximisation of profits. All his socio-economic, organisational and managerial qualities are always directed towards the well-being of the society and the community. He is committed to progress. He is a catalytic agent of development and change. Personal satisfaction and monetary rewards are blended with social betterment and welfare of mankind.

Box 2.1

THE ENTREPRENEUR: OTHER DEFINITIONS

Quesnay recognised a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence and wealth.

Adam Smith described entrepreneur as a person who only provides capital without taking active part in the leading role in enterprise.

Marx regarded entrepreneur as a social parasite.

Joseph A. Schumpeter recognised person who introduces innovation changes an entrepreneur. He treated entrepreneur as an integral part of economic growth. The fundamental source of equilibrium was the entrepreneur.

Frank Young describes entrepreneur as a change agent.

Noah Webster thinks entrepreneur is one who assumes the responsibility of the risk and management of business.

Francis A. Walter observes that the true entrepreneur is one who is endowed with more than average capacities in the risk of organising and coordinating the various other factors of production.

Peter F. Drucker defines an entrepreneur as one who always searches for change, respond to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

Arthur Dewing conceptualised the function of the entrepreneur as one that promotes ideas into business.

Clarence H. Dantrof considers entrepreneur as a person who makes decision under alternative courses of action.

Entrepreneur has become the focal point in economic activities. He is viewed as an initiator of action, a stimulant of socio-economic change and development.

Robert D. Hisrich says, "The person who is going to establish a successful new business venture must also be a visionary leader — a person who dreams great dreams. Although there are many definitions of leadership, the one that best describes the needed intrapreneurial leadership is: A leader is like a gardener. When you want a tomato, you take a seed, put it in fertile soil, and carefully water under tender care. Your don't manufacture tomatoes, you grow them."

Martin Luther King said, "I have a dream, and thousands followed in spite of overwhelming obstacles. In order to establish a successful new business venture the intrapreneurial leader must have a dream and work against all obstacles to achieve it."

Entrepreneur is one who distinguishes as a person who undertakes to organise, manage and assume the risk of running a factory and/or a business or an enterprise.

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

According to E.E. Haggen, an entrepreneur is an economic man who tries to maximise his profits by innovations. Innovations involve problem-solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.

FACT FILE OF ENTREPRENEURS
NO KIDSTUFF

Names: Anupam Joshi

Age: 32 years

Education: B.A. Kumano Univ., U.P., 1985

Work Experience: Marketing Executive, Blowplast, 1985-86; assistant manager (production), Stallion Industries, 1986-88; manager (marketing), Indus Craft Export House, 1988-89; manager (export marketing), Inertia Industries, 1989-92; set up Premier Clothing in August 1992

No. of Employees: 350 direct, 400 on contract

Initial Investment: Rs. 25,000 + Rs 5-lakh loan

Track Record: Turnover has grown from Rs 26 lakh in 1992-93 to Rs 10 crore in 1994-95

Management Philosophy: Always strive for total quality

Work Style: Hands-off, but always in the know

Hobbies: Photography; playing golf, billiards

In August 1992, with their combined savings of Rs. 25,000, Alka and Anupam Joshi Launched Premier clothing as an export-oriented unit.

The premier clothing has been licensed to market, for the first time, the Disney Babies range of products in India.

Having several international mail-order companies, not to mention store chains, in the bag isn't enough for Joshi. Now, he's planning a move into the booming readymade shirts business. As always, Joshi plans to hedge his bets: he's talking to some foreign companies about starting off by producing shirts for them. That's clearly part of his philosophy of manufacturing for a ready-made market. And, as in the case of the Disney Babies line, to a ready-made mindset, either ways, it's a premier strategy.

KENT CARS

Name: Chandan Sumaya

Age: 34 years

Education: B. Com., H.R. College, Bombay, 1981

Work Experience: Helped his uncle operate a carrental service

Initial Investment: Rs 30,000

Track Record: Turnover has grown from zero in 1985 to Rs 4.50 crore in 1994-95

No. of Employees: 252

Work Style: Hands-on

Management Philosophy: Never say no to a client

Hobbies: Working out, swimming, watching Amitabh Bachchan movies

Chandan Sumaya look plunge in 1985 armed with only "a passion for cars," borrowing Rs 30,000 from his mother to float Kent — a name he chose because it rhymed with rent and had an international ring-Cars. Apparently, he fell in love with the business while helping his uncle run one. Working out of his home on Bombay's Napean Sea Road, Sumaya installed a desk and a telephone in the front half of his garage; the car took up the rest. Only by the end of the second year could he afford to invest in two more Ambassadors.

He has invested in a fleet of 136 cars and concentrates on the corporate sector, where they are market leaders.

Kent Cars is now poised to drive into the national market-place through the franchising route. Whether or not he does as well in these cities as he has in Mumbai, Chandan Sumaya has driven a long way from the home garage he started from. And that's the spirit of Kent.

Entrepreneurial Process

Entrepreneurial Process is a leadership function which centres round the dynamics of entrepreneurial growth and change. It is a process comprising several distinct stages.

The *first* stage in the entrepreneurial process is some change in the socio-economic environment leading to changes in the every aspect of life in the country. Interalia, the change creates needs for new goods and services.

The *second* stage is by starting a new venture.

The *third* process is inrapreneurship. It is the process of extending the enterprises domain of copetence by exploiting new opportunities through new combinations of its available resources.

The *fourth* process is to coordinating the varied activities to achieve the entrepreneurial goal.

Entrepreneurial Structure

Structure represents the formal, official task relationships of people in entrepreneurial activities. In other words, structure is the logical culmination of authority and responsibility at different levels. It implies a system.

In entrepreneurial activity, policies, programmes, practices and measurement make possible for innovation and growth. They create the proper attitudes and provide the proper tools.

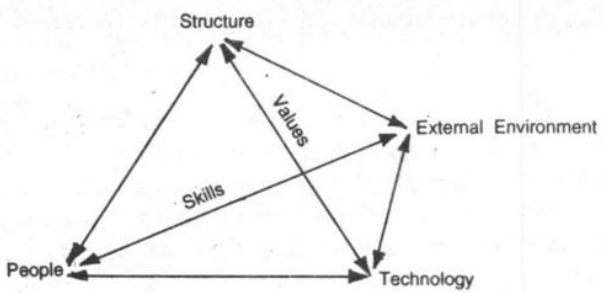


Fig. 2.4 Entrepreneurial Structural Relationship

Basic Source: Davis & Newstrom, Human Behaviour at Work: Organisation Behaviour, 7th Eds. p. 5.

Entrepreneurial activity confines to the tasks of planning, directing, conrolling, marketing, leading, motivating and channelising the activities of individuals and the groups towards entrepreneurial goal. The structure and relationships should be such that they allow people to be entrepreneurial.

The main requirements of such a structure are as follows:

1. The new enterprise should be organised separately from the existing.
2. There should be a special law for the new venture.
3. The new enterprise should be the specific responsibility of entrepreneur/ intrapreneur in top management.
4. The new innovative project requires different policies, rules and evaluation criteria.
5. The entrapreneur is accountable for the success or failure of the enterprise.
6. The returns on innovation are distinctively different from existing business.
7. An entrepreneurial project requires right relationship, right rewards and right working culture.

A business that wants to be able to innovate wants to have a chance to succeed and prosper in a time frame of rapid change, has to build entrepreneurial management into its own system. It has to adopt policies, principles and practices that create through the entire organisation the desire to innovate and the habits of entrepreneurship and innovation. To be a successful entrepreneur, the existing business, large or small has to be managed as an entrepreneurial business. Entrepreneurial structure is thus the corner stone of success in business, whether it is in production or marketing or service. The empirical studies have shown that the solid structure determines the growth potential of entrepreneurial activities.

Conclusion

A number of entrepreneurial managers have attempted to identify the true nature of entrepreneur, intrapreneur entrepreneurship in the post industrial revolution. The definition as well as entrepreneurial process and structure have, therefore, undergone changes with the changes in the socio-economic environment and will continue to undergo changes with the changing times. However, some basic concepts of innovation, risk-taking, vision and organising skill continue to be the four pillars on which the edifice of entrepreneurial concept has to be perceived from time to time.

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"Entrepreneurs are individuals motivated by a will for power; their special characteristic being an inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts, and a capacity to withstand social opposition...."

CHAPTER 3

THE ENTREPRENEURIAL CULTURE

Introduction

The key to growth is to foster entrepreneurial culture and play a pivotal role in deepening in the enterprise/organisation, so that, it will contribute to the success of the enterprise.

Indian entrepreneurs will have, therefore, to draw up their futuristic vision by way of redefining their purpose and mission and resetting their attainable objectives, and developing long-term strategy against the background of emerging opportunities and impending threats inherent in domestic and global environments on the one hand and competencies and weaknesses, on the other.

While charting out its future course of action the Indian entrepreneur will have to remember that to get a competitive edge over its rivals on a sustainable basis five things are essential — increased productivity, improved quality, innovation in the market, a deep understanding of customer needs and delivery of world class service and only one factor that could provide all these capabilities is 'knowledge' and human beings are the drivers of the knowledge juggernaut. As such, primary focus of the strategic management approach of any organisation has to be on effective and efficacious utilisation of human resources. It will, therefore, be imperative to set new paradigms for managing an enterprise and its people so that the human resource function forms an integral part of enterprise policy and strategy and the entrepreneur plays a pivotal role in management of men and in progressive integration of conceptual values with operational values.

Aspects of Entrepreneurship

As a catalytic agent the entrepreneur has to change the mindset of the workers so that the latter accepts radical changes in system structure and processes which the organisation is contemplating to introduce in order to compete with the rivals. What is most important is to change the key value, beliefs and norms established and accepted by workers.

There is a strong need for basic cultural change in the organisation that stresses productivity, quality, speed, innovation, customer orientation and empowerment. This calls for impressing certain fundamental changes at the top level. These include helping the latter in envisioning and defining its philosophy, values and beliefs.

As a developer, entrepreneur has to play a pivotal role in developing among the employees requisite knowledge, skills and suitable attitudes and improve their performance.

By imparting need based training and assigning jobs to the individuals best suited for them, using motivational techniques, creating manpower, configurations to boost the operational ability of individuals and by designing individual careers, the entrepreneur can ensure fuller utilisation of human resource potentials of the organisation.

As a facilitator, role of entrepreneur will be to foster an invigorating climate of mutual trust and confidence between the organisation/enterprise and the workers through a high degree of empowerment and recognition, openness, authenticity, internal and external equity and collaboration and team work. This will obviously lead to behavioural changes in the right direction.

Entrepreneurship, it is commonly believed, is enormously risky. And, indeed, in such highly visible areas of innovation as high-tech microcomputers for instance, or biogenetics — the casualty rate is high and the chances of success or even of survival seem to be quite low.

But why should this be so? Entrepreneurs, by definition, shift resources from areas of low productivity and yield to areas of higher productivity and yield. Of course, there is a risk they may not succeed. But if they are even moderately successful, the returns should be more than adequate to offset whatever risk there might be. One should thus expect entrepreneurship to be considerably less risky than optimisation. Indeed, nothing could be as risky as optimising resources in areas where the proper and profitable course is innovation, that is, where the opportunities for innovation already exist. Theoretically, entrepreneurship should be the least risky rather than the most risky course.

There are also enough individual entrepreneurs around whose batting average in starting new ventures is so high as to disprove the popular belief of the high risk of entrepreneurship.

Entrepreneurship is "risky" mainly because so few of the so-called entrepreneurs know what they are doing. They lack the methodology. They violate elementary and well-known rules. This is particularly true of high-tech entrepreneurs. To be sure (as will be discussed in Chapter 9), high-tech entrepreneurship and innovation are intrinsically more difficult and more risky than innovation based on economics and market structure, on demographies, or even on something as seemingly nebulous and intangible as *Weltanschanuung* — perceptions and moods.

Thus, apart from economic, social, psychological, cultural factors affect and influence entrepreneurship. Entrepreneurial culture is both moulded by all cultures in the society in a distinct manner. As a leader, it gives direction and leads to the right path to success.

Environment for Entrepreneurship

The entrepreneurs do not emerge spontaneously of their own. While the other factors of production are at least, in principle, hirable but enterprise is not. They have to come from different vocations. Even the educational system in most of the developing countries is designed in such a way so as to develop more of job-creators. In many countries, to sum up, entrepreneurs appear to have been motivated by a combination and interaction of the following factors of environment:

1. Socio-economic environment;
2. Family background;
3. Standard of education and technical knowledge;
4. Financial stability;
5. Political stability and government's policy;
6. Caste and religious affiliation;
7. Availability of supporting facilities;
8. Achievement motivation; and
9. Personality and personal skill.

The environmental factors may be summarised as follows:

1. Entrepreneurship is not influenced by a single factor but is the outcome of the interaction and combination of various environmental factors.
2. By changing the environment, society and be recreated.
3. It is the "desire to make money" that drives one to start an industry rather than the amount of money one owns.
4. Encouraging government policy and social recognition influence a person to become an entrepreneur. As an educationist, we can think of modifying the educational system so as to produce more job-creators rather than job-seekers.

Entrepreneurship has developed with civilisation. Man discovered the skills and tools of entrepreneurship. In advanced countries (civilisations) entrepreneurship became a fine art. In recent years, entrepreneurship has also evolved as a science of management and a catalytic tool of economic growth and development. The entrepreneurial culture is built upon the pursuit of self interest and towards this end everything must be engineered to perfection.

Definition of Culture

There are very varying definitions of *culture*. "Culture, in its broadest definition, refers to that part of the total repertoire of human action (and its product) which is socially, as opposed to genetically, transmitted." A very popular definition is that of Edward Burnett Tylor: "Culture of civilization is that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities and habits acquired by man as a member of society." Clyde Kluckhohn has defined culture very simply as "the total life-way of a people."

The concept of culture is used to distinguish human societies from animal groups. The customs, ideas, and attitudes shared by a group, which make up its culture, are transmitted from generation to generation by learning processes rather than biological inheritance. Adherence to these customs and attitudes is regulated by systems of rewards and punishments peculiar to each culture. Language and other symbolic media are the chief agents of culture transmission, but many behaviour patterns are acquired through experience alone. A pattern of cultural universals is found in all societies. It includes such human institutions as social organisation, and material culture (tools, weapons, clothing). Societies are differentiated according to the degree of complexity of cultural organisation. Basically, each human group has its own distinctive culture, but a complex society may contain subcultures determined by national origin, religion, or social status. The spread of culture traits through direct or indirect contact among groups is called diffusion. A culture area is the territory within which a certain configuration of culture traits is to be found. The two theories of culture that have dominated anthropoligical thought in the 20th century are the structural-functional theory derived from Bronislaw Malinowski and the pattern-process theory derived from Franz Boas. Structural-functional theory focuses on social structure, while pattern-process theory emphasizes cultural patterns. Each theory attempts to explain all aspects of culture, and each is applied to all cultures. All anthropologists, however, recognise certain broad evolutionary sequences in the cultural history of mankind, particularly in the technological and economic spheres.

On the basis of the various definitions of culture, Francis Merill formulates the concept of culture as follows. Culture, he says,

(a) is the characteristically human product of social interaction;

(b) provides socially acceptable patterns for meeting biological and social needs;

(c) is cumulative, for it is handed down from generation to generation in a given society;

(d) is meaningful to human beings because of its symbolic quality;

(e) is learned by each person in the course of his development in a particular society;

(f) is, therefore, a basic determinant of personality; and

(g) depends for its existence upon the continued functioning of society but is independent of any individual or group.

Culture consists of both *material* culture and *non-material* culture. Material culture involves man-made things (e.g., automobile, television, telephone, etc.) and man-made alterations in the environment. Non-material culture includes such factors as language, ideals, beliefs, values, music, etc.

Elements of Culture

Culture, the sum total of social behaviour, includes at least three elements, namely, knowledge and beliefs, ideals and preferences.

Organisation of Culture

The term *organisation of culture* refers to the social structure and the integration of traits, complexes and patterns that make up the cultural system.

That cultures are organised or integrated "does not mean that every single item of each culture is neatly and precisely integrated with everything else. It means rather that it is normal for the parts to be somewhat organised, and that culture traits receive their significance and meaning out of their relation to the rest of the culture.'

The social structure — "the web of organised relationships among individuals and groups that defines their mutual rights and liabilities" — together with traits, complexes and patterns, reflects the organisation of a culture.

The organisation of a culture is determined to a large extent by major social institutions. According to MacIver and Page, institutions are established forms or conditions of procedure characteristic of group activity. The group which performs these standardised actions has been termed by them an *association.* According to Biesanz and Biesanz, "institutions are clusters of norms organised and established for the pursuit of some need or activity of a social group, supported by the group's knowledge, beliefs, and values, as well as by the meaningful aspects of material culture." The important common institutions of modern cultures are:

The economic system; the political administrative system; the educational system; religion, family, expressionistic; aesthetic and recreational institutions, etc. Such institutions have been established to meet society's common needs of a biological, sociological, psychological, economic, and political nature — the type and nature of institutions reflect the common goals, aspirations and the ways of achieving them, definition and regulation of roles, positions, inter-relationships, etc. of the individuals and sub-groups and groups and the overall organisation of the culture.

Culture traits, complexes and patterns also help us to understand the organisation of a culture. A trait is a unit of observation.

Cultural Conformity

Individuals in a culture tend either to conform to the cultural norms or to deviate from them. If the culture endures as it is, most people would conform to the norms. As Inkeles observes, "the social order depends on the regular and adequate fulfilment of the role obligations incurred by the incumbents of the major status-positions in a social system. It follows that the most important process in society is that which insures that people do indeed meet their role obligations."

Business Culture and Culture of a Society

It is interesting to note that business culture has similar characteristics as the culture of a society:

(i) Firstly, a culture that is alive and vibrant is one that is constantly evolving and changing whether it is in business or in society. It is not rigid or stagnant. A progressive culture readily evaluates and responds to stimuli which emanate either internally or externally. It does not fear or resist stimuli without evaluation.

(ii) Secondly, it is when cultures adapt and change that great progress occurs in a civilisation or in a company.

(iii) As in the case of religious or political groups, among business firms also there are fundamentalist cultures — that is cultures that assiduously try to preserve what is considered to be the true original set of beliefs. The fundamentalists try to perpetrate their hold on the organisation by upholding ancient traditions and invoking the name of God or Gandhiji or the founder of the Company as may suit the occasion. They feel secure with what is familiar and feel threatened by any change. These fundamentalist beliefs often include — irrational pride in the traditions of the firm although changed circumstances have made such traditions irrelevant if not counter-productive; promotional policies based on old boy network rather than merit; tolerance of mediocre levels of competence; belief in the relative infallibility of people at the top, etc.

(iv) Large social migrations like that of the Aryans into the Indo-Gangetic plains have created hybrid cultures. In a similar way during the last few decades we have seen the emergence of hybrid cultures created by multinational companies. They combine the strong cultural characteristics of a parent company with those of the local market. Like all hybrids, most of them have grown up to be stronger than their original mono-cultural organisations or their narrowly national competitors. Over the next few decades we can hopefully see the emergence of Indian multinationals which could combine the innate shrewdness and hardworking ethics of the Indian culture with the sophistication and strategic vision that characterise the Western business culture. In some ways Indian businesses, because of our inherent multiethnicity and greater facility with the use of English language, are in a better position than the Japanese or Brazilians or Koreans to create strong hybrid multinational business cultures. Now that the shackles have been removed from Indian industry this possibility is real.

(v) Changes in culture of a firm as of societies occur when a leader provides stimulation with ideas that challenge tradition.

In almost all successful business firms there have been leaders who revived and changed the culture and course of those firms. In most cases such changes are based on retaining and developing what is good in an existing culture and adding to it new elements that will stimulate progress. A total rejection of all that is existing can be devastating. Therefore the skill in reforming the culture of a Company is to identify and retain the pride and honour in what is good while recognising what is to be rejected or modified. At the same time the management of the firm should seek, generate and embrace new ideas and practices that can energise the firm and propel it forward with a new vigour.

Meaning of Entrepreneurial Culture

Culture consists of tangible man-made objects, such as automobiles, clothing, furniture, buildings, and tools and intangible concepts such as laws, morals, and knowledge. In addition, culture includes the values, character, qualities, skills acceptable within the particular society.

Culture in a society is learned and is passed on from one generation to the next. Culture is nurtured, fostered and promoted.

A culture is usually divided into sub-cultures based upon geography or such human characteristics as age or ethnic background.

What accounts for the rise in civilization is not the external resources such as markets, minerals or factories but the entrepreneurial spirit which exploits the resources — a spirit found most often among businessmen entrepreneurs.

Entrepreneurial culture thus implies vision, values, norms and traits that are conducive for the development of the economy.

An entrepreneur has been described as a person who organises, manages and assumes resistibility for a business or an enterprise. The entrepreneur could therefore mean to be an individual who perceives the profitability in production of goods or service, and organises accordingly. In effect he is a vital contributor to the bottomline of the venture. Can there be entrepreneurs without owner-worker status or amongst the organisational workforce who are compensated by fixed emoluments unrelated to the productivity and profitability? Certainly yes, in the light of the fact that the growth and prosperity of individuals is inextricably interwoven with the success and sustenance of the organisation.

The emerging market environment and globalisation is challenging every organisation and every person in the organisation to consider, evaluate and bring about changes in thinking, vision and action. And the changes that need to be brought about should facilitate organisations in becoming competitive, profitable and sustainable.

The world is on the threshold of economic history and it is no longer adequate if the organisation just makes profit or generates surplus — the output has to be maximum from the grassroots level onwards so that the entire organisation shows a healthy growth. Each individual has to become a unit of production in himself and has to assume full responsibility of the assigned task with the philosophy of producing positive results and contributing, not only in full measure, but substantially to the overall good and growth of the organisation. The new setting commandeers transformation to ensure optimum utilisation of the resources — men, money and materials — provide a distinctive contribution to the organisation's prosperity and keep evolving strategies for a sustained competitive edge. And as an entrepreneur one has to review, evaluate and assess one's performance and take decisions.

Instilling such transformation even amongst the most articulate person with a contemporary outlook is not an easy task. Human beings by nature, habit and practice are used to a way of working and any change that is envisaged ushers in a sense of insecurity simultaneously with the change process. This can possibly be overcome by accepting that in today's dynamic society, changes are inevitable, frequent and the rapidity and profundity of changes can even be overwhelming.

Sub-Cultures of Entrepreneurship

Culture of a Business

Culture represents the manner in which members of a group (whether it is society or a business group) regulate their behaviour in order to be in harmony with each other

and with other groups in that society. It manifests itself in their pattern of behaviour, forms or art and music, language, customs and practices and in the beliefs that are shared. Most great nations of the world have their distinct cultures based on such factors.

Like nations, business firms also have their distinctive cultures. It is a sum total of the norms, beliefs and values that regulate the behaviour of individuals and groups within any given corporation. Many firms are not even aware of their culture or sensitive to its distinct characteristics. They become aware of it when they have to induct managers from other firms with different cultures or even more acutely when mergers and acquisitions take place and a great deal of cultural adjustment is thrust on them. In some cases adversity persuades companies to look at their culture.

Business Ethics

Ethics is that branch of philosophy which is concerned with rightness or wrongness, goodness or badness of human conduct. In the case of a business organisation, the definition of human would extent to all activities carried out by people in the course of business.

Ethics are supposed to provide the basis for deciding whether a particular course of action is morally correct or bad. Unfortunately, any such definition would necessarily imply that there exists a given set of criteria by which to judge the correctness and merits of a given course of action. These criteria are moral and social rules of conduct which society accepts, as correct at any given point of time.

The problem which arises is that society is not homogeneous and is in fact, terribly heterogeneous. Consequently, what may be acceptable in one segment of society may be totally unacceptable in another. In a country like India, where we accept that society is made up of multifarious people and religions, this problem of defining what is socially acceptable gets magnified.

Whilst ethics are something which need to be followed by all members of a business society, the public exposure to marketing activities is higher than any other business activity resulting in a Marketing Manager having to be extremely conscious of the ethical realities in the markets being serviced.

Productivity Culture

Productivity improvement is not just doing things better; more importantly, it is doing the right things better. All productivity improvement stems from people productivity as people constitute the motive power for all resources. Like machines which stand idle, human potential diminishes if not properly utilised. This sub-optimal manpower utilisation is the major reason for brain drain in many developing countries. Thus, there is no point in improving skills unitl the organisation can use them.

A key to productivity is the attitude of employees who work together. Attitudes reflect the interplay of many long-term and short-term factors including motivation, culture, management, systems, nature of work and personal value system. Organisations must periodically conduct attitude/opinion surveys to feel the pulse of employees, get fedback and initiate timely corrective measures. Besides the well known tools for improving people productivity like motivation, communication etc., what is needed is an inegrated, multipronged approach.

Total Quality Culture

TQC is the way of marking an integration of all efforts in the organisation between 'Hard Ss' nd 'Soft Ss' (i.e., organisation and employees, task and employees, employees and employees) in achieving total quality and customer care. The process of TQC helps in improvement of quality of worklife and employees satisfaction and customer satisfaction. It is a sum total of the norms, beliefs and values that regulate the behaviour of individuals and groups within an organisation. Culture of an organisation is influenced by the culture of the country as well as the nature of its business. Indian organisations, at this juncture, will realise it increasingly necessary to combine their peculiarly Indian ways of doing business with the global practices of business they are involved in.

Organisation's Culture

Culture and share values (ideology and shared culture): Webster says that culture is the integral pattern of human behaviour that includes thought, speech and action and depends on man's capacity for learning and transmitting knowledge to succeeding generations. Most elements of a culture take a long time in their evolution and equally as long to change. An organisation has a mission when its culture fits with its strategy. Culture enables organisation to function as a collective unit. The cultural glue consists of strong norms and values that heavily influence the way people behave, how they work together and how they pursue the goals of the organisation. Values are the beliefs and, moral principles that lie behind the company's culture. Values give meaning to the norms and behaviour standards in the company.

To strengthen an organisation's culture, a set of values, behaviour characteristics, procedural rituals, and role models for the professionals working in an organisation, should be identified. Structure reflects the organisation of work into roles. The roles may be in professionals working in an organisation, should be identified. Structure reflects the organisation of work into roles. The roles may be in production, finance, marketing, personnel etc. The structure of the organisation embodies the fundamental division of labour, describes the nature and duties of the jobs to be done, and aggregates them into groups, or business.

Cultural Change — Key to Mastering of Change

The mastering of change in the business world does call for a change in the climate based on the shifts in the perceptions and feelings of the people. However, climate is relatively temporal and given the possibilities of contaminations and pollution by political forces, national organisational climates may undergo changes. Change can be mastered by the leaders and their people only as they develop cultures which are relatively more stable and enduring in terms of their values. The values of openness, trust, autonomy, proactivity and experimentation will have to be made the way of life in organisations if the process of change is to be harnessed for individual and collective good.

The options for the leaders in business are getting more limited as the world moves on to a new plane of thinking and action. Leaders and teams in organisations will have to overcome their established mind-sets, regulated themselves, develop new work and

organisational cultures and build up their tolerance for the ambiguous, the uncertain and the unpredictable. The key to mastering change will lie in innovation in all aspects of organisational working.

The TOP Programme

Top means different things in different countries companies, businesses and even divisions. The Top initiative is cultural change.

The Top movement is based on simple model: Productivity, innovation, and new markets are the pillars; the base is the corporate culture; and the Top of the temple is customer orientation and profitability.

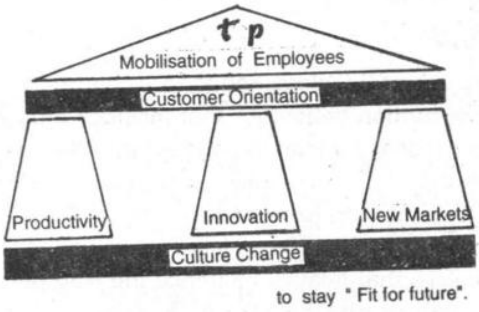


Fig. 3.1

The Top innovation initiative is made up of eight modules: mobilisation and communication, idea initiatives, teaching of operational skills, cooperation with non-industrial research, patent initiatives, white space projects and strategic innovation projects. Top is an integral part of human resources and management motivation exercise as well as the R & D drive.

In India, the evolution of the Top Programme aims to increase its competitiveness, increase its global presence, and ensure that the enterprise stays ahead of opportunities in the local market. The Top Programme ensures reduction in process costs and improvement in productivity. Naturally, the Top initiative will be crucial in this effort. What perhaps makes the Top programme so easy to adopt and implement its flexibility — what could otherwise become disjointed management concepts or practices are united in Top's common temple model.

Individual Leaders

It is leaders that achieve excellence and not the organisations. Otherwise, the varying performance of organisations from time to time cannot be explained. This achievement does not happen by itself. It is achieved by appropriate strategy and effort. It is the individual executive who with their efforts, unlike others, achieve the targets.

Achievement comes out of strategic thinking and corporate culture building. Capital without vision in implementation or mere functioning is not sufficient as has been proved time and again in the case of public enterprises. Great leaders with vision and objectives started these enterprises. They saw the need for the same and the

purpose it could serve. But, during implementation, that vision was lost and they became dull and aimless in many cases.

Converting this vision into an opportunity and thereafter into achievement demands more than theoretical formulae and quick fix. The leaders who achieved this are the ones who do things first, sometimes even before others dream of them. Fortunately leaders are made, not born.

Corporate Values

Balancing the spirit of the entrepreneur with the reality of big business take more than a single simple policy or strategy. What is required is a flexible, dynamic structure that pays heed to the importance of the people within and is based on a value set that is clear and agreeable to all.

Lotus Employee Handbook, therefore, devotes a full page to our corporate values, placing importance on the attributes of honesty, ethics, fairness and integrity, as well as on teamwork, cooperation, creativity and initiative and on having a sense of humour.

Be a leader, not just a manager: Leadership begins with setting examples in terms of personal characteristics, like honesty and fairness.

Be a facilitator: Management should demonstrate a commitment to communication throughout the organisation. This means being accessible, and listening to people in the lower realms of the organisation.

Be deliberate: When calling and conducting meetings (the greatest time-waster in companies), be result-oriented. Use firm agendas and strive for specific objectives.

Be explici: In assigning responsibility, get people to take responsibility for small tasks as well as for a big projects.

Be decisive: If someone isn't working out, and you have exhausted all possibilities, break quickly and cleanly. Indecision can be bad for everyone.

If these attributes are combined with sincerity and integrity, the result should be a business culture that stimulates innovation and *esprit de corp* at every corporate level, whether developing a new product, building a new headquarters, or contributing to the neighbouring community.

For people in communications and creative business it is major breakthrough, because it puts a powerful weapon into the hands of the people who develop concepts: the ability to execute those concepts so they can be evaluated and appreciated by peers and by clients. The dream is to make information accessible and understandable to more people by bringing the benefits of computing closer and closer to the individual.

Entrepreneurial Vs Administrative Culture

Administrative culture is the corporate organisational culture which focuses on existing opportunities, organisational structure, HRS and control procedures. Whereas, entrepreneurial culture is governed by perception of opportunity, vision, social values, burning ambition and will to do something during his time. Entrepreneurs are committed to their ideas, vision and values.

According to Stevenson organisations must often contain both entrepreneurial and administrative cultures. So, an able entrepreneur should imbibe administrative culture for excellence and success.

CORPORATE, ADMINISTRATIVE AND OPERATING RESPONSES

	Corporate response	Administrative response	Operating response
Structure	An added structure independent of the original structure	A revised structure	Expenditure around existing structure
Goals	Clear ultimate goal will be expressed	Unclear goals will exist until ambiguities are resolved, then general principles will be established	Goals apparent; perhaps day-to-day survival
Sub-responses	Sub-responses will follow from goals but cannot be pre-determined in detail	Sub-responses will be translated from goals in an uncertain and evolving manner	Sub-responses often will be mostly less than obvious, and extreme actions sometimes will be required
Expertise	Management expertise will have to be obtained by specific means (a project team, for example)	Management expertise will be found by revising behaviour of present incubents	Management expertise may be challenged but will almost always be adequate
Personnel	Special or outside personnel probably will be required	Mainly the same managers with different relationships; outsiders possibly added	As set from the same personnel, perhaps supplemented with others
Atmosphere	Clear mission, but needing learning and experiment	Introspection and reduction	Clear tasks, ingenious solutions, and expedient, high-pressure working conditions

(Managing Strategy in the Real World: Conclusions and Frameworks from Field Studies of Business Practice by R. Jeffery Ellis, Lexington Books, USA, 1988, p. 29)

The best qualities of mankind are imagination, integrity, dedication, magnanimity, humility, openness and creativity. These qualities are the basic ingredients of leadership and un willingness to tap them in full measure possibly explains the leadership inadequacies. The entrepreneur is also governed by these qualities.

Integrity is to conform to the moral and ethical standards in our thinking and action. Today, the lack of integrity is being felt most acutely in every fabric of our national life. The nation's integrity can be restored only if each one of us asserts his or her integrity, both financial and intellectual.

Dedication has been defined as a passionate belief in something. Intense and abiding commitment has been the basis of great works of art, invention, discovery and exploration and provides stimuli for individuals, corporations, governments and even society to succeed. Absolute fidelity to someone or something makes us more humane. Dedicated workers, whether they sell insurance or manage corporations, not only do better work, but do it joyfully.

Magnanimity denotes nobility of mind and heart, graciousness and forgiveness above revenge or rancour. To quote Solomon, "It is the glory of the man to pass by

Table 3.1
COMPARISON BETWEEN THE ENTREPRENEURIAL CULTURE AND ADMINISTRATIVE CULTURE

	Entrepreneurial Culture		*Administrative Culture*	
Dimensions	*Characteristics*	*Pressures*	*Characteristics*	*Pressures*
1. Strategic orientation	Driven by perception of opportunity	Diminishing opportunities Rapidly changing technology, consumer economics, social values and political rules	Driven by controlled resources	Social contracts Performance measurement criteria Planning systems and cycles
2. Commitment to seize opportunities	Revolutionary, with short duration	Action orientation Narrow decision windows Acceptance of resources risks Few decision constituencies	Evolutionary, with long duration	Acknowledgment of multiple constituencies Negotiation about strategic course Risk reduction Coordination with existing resource base
3. Commitment of resources	Many stages with minimal exposure at each stage	Lack of predictable resource needs Lack of control over the environment Social demands for appropriate use of resources Foreign competition Demands for more efficient resource use	A single stage, with complete commitment out of decision	Need to reduce risk incentive compensation turnover in managers Capital budgeting systems Formal planning systems.
4. Control of resources	Episodic use or rent of required resources	Increased resource specialization Long resource life compared with need Risk of obsolescence Risk Inherent in the identified opportunity Inflexibility of permanent commitment to resources	Ownership or employment of required resources	Power, status and financial rewards Coordination of activity Efficiency measures. Inertia and cost of change Industry structures.
5. Management Structure	Flat, with multiple Informal networks	Coordination of key noncontrolled resources. Challenge to hierachy Employee's desire for independence	Hierarchy	Need for clearly defined authority and responsibility Organizational culture. Reward system. Management theory

Source: Howard H. Stevenson and David. E. Gumpert, "The Heart of Entrepreneurship," Harvard Business Review (March-April 1985).

an offence." The magnanimous are distinguished by their self-possession, they know who they are hence, they take more pride in what they do than in who they are. They receive compliments with a pinch of salt and accept criticism without rancour and learn from their own mistakes and take victory and defeat alike.

Openness means willingness to share and receptivity to ideas without fear or favour, howsoever bizarre those may be. It also means tolerance for ambiguity and change and a rejection of all pre-conceived notions, prejudices, biases and stereotypes. An open-minded person harbours no prejudices on the basis of caste, colour, race, religion, occupation or sex. However, this idea does not make a person uncritical but inspires him to be adventurous and creative.

Creativity is something that we are all born with but most of us manage to lose it by sheet complacency. Psychologists believe that every child under ten is not only creative but original while most adults tend to grow into copy masters. To restore our creativity we must inculcate a sense of wonder, shun preconceptions and visualise as a child does.

More work in a field makes up specialist, notwithstanding this we must strive more to become generalists in other matters too. This helps us to perceive between science and aesthetics and ethics. Basically, all human pursuits are inter-related. The executive, the surgeon, the insurance agent and even the priest need to know as much as they can about everything else if they desire to understand anything better. The great scientist

CREDO OF ENTREPRENEURS

THE WORLD NEEDS

The World Today is looking for
Entrepreneurs who are honest
Entrepreneurs who are innovative
Entrepreneurs who are optimistic
Entrepreneurs who will stand for the right
Entrepreneurs who care for the society
Entrepreneurs who stand for values
Entrepreneurs with conscience
Entrepreneurs who neither brag nor run
Entrepreneurs who neither flag nor flinch
Entrepreneurs who know their place and fill in
Entrepreneurs who know their business and attend to it
Entrepreneurs who are not too crazy
Entrepreneurs who are not too lazy to work
Entrepreneurs who will prosper with society
Entrepreneurs who will lead and motivate
Entrepreneurs who always dream for change
Entrepreneurs who live for their principles

Einstein said, "The most incomprehensible thing about the universe is that it is comprehensible."

Integrity, dedication, magnanimity, humility, openness and creativity or to be more precise — Vision and Virtue — are all inherent in us. Let these virtues fill our armoury to meet challenges of life and environment. Let virtues be our best defence against our adversities.

Socio-Economic Origins of Entrepreneurship

The entrepreneurial activity at any time and place is governed by varying combination of socio-economic, psychological, cultural and other factors. The empirical studies have identified the following socio-economic factors:

1. Cast/religion
2. Family background
3. Level of education
4. Level of perception
5. Occupational background
6. Migratory character
7. Entry into entrepreneurship
8. Nature of enterprise
9. Investment capacity
10. Ambition/motivation

The entrepreneurs who launched their enterprises during 60s predominantly came from mercantile and allied backgrounds. However, a slight tilt in favour of occupations which traditionally have been unconcerned with entrepreneurial activity, viz., general serviceman, technicians, business executives, doctors, lawyers and the like was noticeable among entrepreneurs emerging for the first time after Independence. The main springs of entrepreneurship have been the traditionally trading castes of Hindu and Jain Banias from Gujarat, Rajasthan and Chettiars of Tamil Naidu. Besides, the new springs of entrepreneurship developed among other communities like Brahmins all over the country, especially the South, Naidus of the South, Patels of Gujarat, Kayasthas of West Bengal, Sikhs, Khatris and Aroras of Punjab making entrepreneurship a widespread phenomenon.

More and more people with high academic attainments started joining the ranks of industrialists, especially the professionals holding qualifications in engineering, law, medicine, cost and chartered accounting. The newer entrepreneurs have a larger proportion of their floatations in the traditional sector, but these professionals have by and large preferred to make their investments in modern sector. The technicians in particular among both old and new entrepreneurs have entered industries in the modern sector having a bearing of their academic qualifications. The traditionally trading communities of Hindu and Jain Banias have relied on modern sector more than others. Interestingly, among the regional communities the South Indians have preferred their promotions in traditional sector more than the Gujaratis and Marwaris have.

Barriers to Entrepreneurship

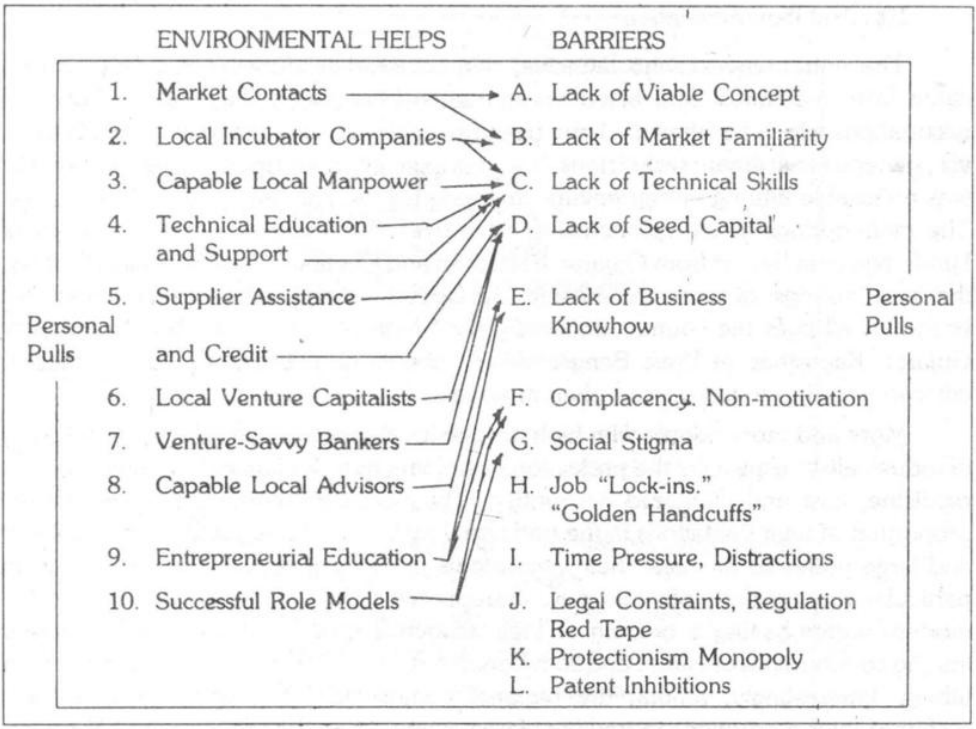
A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. Karl H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept
2. Lack of market knowledge
3. Lack of technical skills
4. Lack of seed capital
5. Lack of business knowhow
6. Complacency — lack of motivation
7. Social stigma
8. Time presences and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

Vasper lists certain entrepreneurial factors that help to reduce the effect of these barriers. The following table depicts how this happens:

Table 3.2

BARRIERS TO ENTREPRENEURSHIP



Source: Karl H. Vesper, *Entrepreneurship and National Policy* (1983). Walter E. Heller International Institute for Small Business.

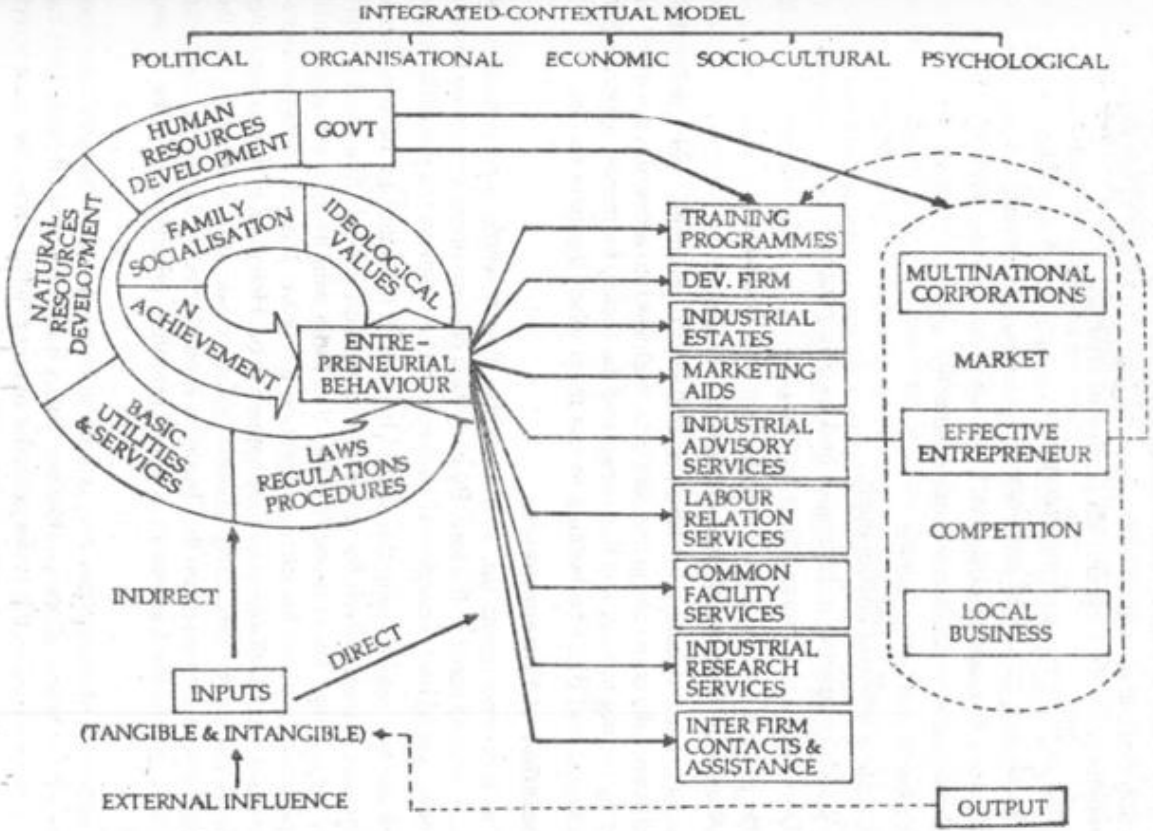


Fig. 3.2 A Model of Factors Influencing the Emergence of Entrepreneurship
Source: **Adapted from Abdul Aziz Mahumud "Developing Effective Indigenous Entrepreneurs", Malaysian Management Review, April 1974, Vol. 9, No. 1.**

Ten Steps to Change Entrepreneurial Culture

Changing entrepreneurial culture doesn't require magic. What it needs is down-to-earth action that will set a good example at the top. The following ten steps will help an entrepreneur to create a culture supportive of change:

1. Start at the top. Lead the enterprise.
2. Attune to a culture of innovation.
3. Remove the hidden obstacles.
4. Create an integrated enterprise culture.
5. Create a marketing culture.
6. Create a listening environment.
7. Absorb competing technologies and involve people.
8. Don't let product innovations fool you.
9. Be flexible and open for diversification and new ideas.
10. Always be ready to change cultures.

No matter what culture your firm has settled into profitably and comfortably, change will eventually come along and jerk your business into a new environment. Be ready for it by constantly scanning the market and the society for trends, opportunities, and innovations, and don't be hesitant to use them when the time comes.

New Generation of Entrepreneurs

As the economy opens up, it is inevitable that a whole new generation of entrepreneurs should come to the fore. By early next century, those whom we haven't heard of today would have emerged as players to reckon with on the industrial scene.

There are two reasons why this should happen. It is implicit in the very nature of a free market system, which by virtue of competition ensures that the big don't necessarily remain big. There is also the fact that India with its long entrepreneurial history is particularly suited for such competition to evolve. Indeed, Indian entrepreneurs overseas do very well wherever they happen to be. However, in this country rules and laws have tended to curb entrepreneurial ability. While we acknowledge that the government's role must be ensure that business is conducted in a manner conducive to social good, within the framework of social priorities, enterprise must be allowed to flourish.

The other side of competitive coin is that failure too are inevitable and businesses can collapse. If the failure is because the promoters have siphoned off funds from the company, it is inexcusable. If it is the outcome of competitive forces, we must accept this as the cost we have to pay for a free market.

History has shown that societies which are more open have advanced technologically more rapidly. Political controls and free markets cannot co-exist. And the example of Eastern Europe bears testimony to this. Since we have committed ourselves already to the democratic system, we must take steps to encourage the entrepreneurial drive and create an environment conducive to its growth.

Conclusion

An ideal entrepreneur is one who combines values in the market economy; that profits do not somehow preclude ethical behaviour; that growth is possible even if political patronage is not used to vend rules and cut corners, and quite simply that pursuit of wealth can be grateful and mannerly one. He takes with him the interest of his people, his country, his natural resources, the ecology and sees that his enterprise becomes a catalytic agent of development. There is thus a need of true entrepreneurs, who do not need incentives, infrastructure, government support; but build their enterprises, harness the resources and develop. They adopt a responsible value-driven corporate philosophy for their enterprises and/or business activities. As such, there is no dispute among economists and social thinkers about the urgent need for the emergence of an entrepreneurial society as a forerunner of accelerated development of the economy in an integrated manner.

The ethos of entrepreneurial culture runs through the business society in the 21st century. Indeed entrepreneurial culture lays a strong foundation for a well regulated, sustainable and environmentally friendly society.

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"The supply of entrepreneurship is limited firstly by the scarcity of the requisite personal qualities, and secondly, by the difficulty of identifying them when they are available...."

CHAPTER 4

THE CONCEPT OF ENTREPRENEURSHIP

Introduction

Entrepreneurship is a process undertaken by an entrepreneur to augment his business interests. It is an exercise involving innovation and creativity that will go towards establishing his/her enterprise.

In this chapter, the concept of entrepreneurship and of its related issues are analysed, discussed and deliberated.

One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organise an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning, and taking decisions so as to increase production in agriculture, business, industry etc.

Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits — these include tangible factors as imagination, readiness to take risks, ability to bring together and put to use other factors of production, capital, labour, land, as also intangible factors such as the ability to mobilise scientific and technological advances.

A practical approach is necessary to implement and manage a project by securing the required licences, approvals and finance from governmental and financial agencies. The personal incentive is to make profits from the successful management of the project. A sense of cost consciousness is even more necessary for the long-term success of the enterprise. However, both are different sides of the same coin. Entrepreneurship lies more in the ability to minimise the use of resources and to put them to maximum advantage. Without an awareness of quality and desire for excellence, consumer acceptance cannot be achieved and sustained. Above all, entrepreneurship today is the product of team work and the ability to create, build and work as a team. The

entrepreneur is the maestro of the business orchestra, wielding his baton to which the band is played.

What is Entrepreneurship?

Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making. When one witnesses a relatively larger number of individuals and that too, generation after generation in a particular community, who engage themselves in the industrial or commercial pursuits and appear to take risks and show enterprise, it is acknowledged to be a commercial class. The commercial class is a myth just like that of the so-called martial race. There are neither, for all time, martial races nor commercial classes. Communities which in the course history once appeared to be martial in spirit have in later period emerged as mercantile societies. Those who were once concerned with and relished in trade, later in history seem to have taken to the profession of these word. Today, it is quite evident to anyone that national communities which have developed world-wide industrial and consequent commercial interests are militarily powerful; nay, great industrial powers have today become super-military powers as well. An enterprise finds manifestation in different ways. The capacity to take risk independently and individually with a view to making profits and seizing and opportunity to make more earnings in the market-oriented economy is the dominant characteristic of modern entrepreneurship. An enterprise, ready for the pursuit of business and responsive to profit by way of producing and/or marketing goods and commodities to meet the expanding and diversifying actual and potential needs and demands of the customers is what constitutes the entrepreneurial stuff. But this category of enterprising citizens throws up a species of entrepreneurs who are mostly mercantile in outlook and performance. In countries like India, a new species of entrepreneurs is desirable because here the economic progress has to be brought about along with social justice. Entrepreneurship in India therefore, has to sub-serve the national objectives. The apparent conflict between social objectives and economic imperatives has to be resolved first by the individual entrepreneur in his own mind and initiate economic growth which includes industrial development as one of the instruments of attaining the social objectives. A high sense of social responsibility is thus an essential attribute of the emerging entrepreneurship in India.

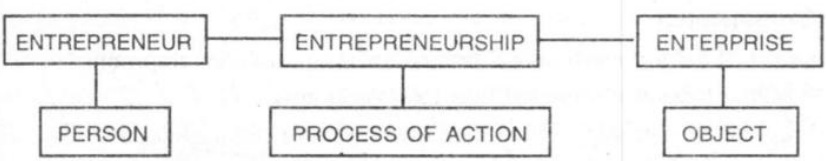


Fig. 4.1 Concept of Entrepreneurship

Stimulation of Entrepreneurship

Entrepreneurship development is probably one of the most elusive, complicated and perplexing issues in the promotion and growth of small enterprises. Recently, a number of development agencies have been involved. However, in spite of all these

efforts there have been only a few partially successful programmes, and there are many *Instances of* colossal failures in this field.

The stimulation of entrepreneurship is a function of both internal and external variables. The presence of certain personal qualities in an individual is a requisite. Some of the findings about entrepreneurs in Nepal are as follows:

(a) Mainly there are two types of entrepreneurs: the Government and private individuals.

(b) In a family-run business the entrepreneur is owner as well as manager. Entrepreneurs are frequently found to have parents who were engaged in business-related occupations. Membership in certain types of communities (Newars, Marwadis, Gurung etc.) is highly correlated with entrepreneurship.

(c) Many people who migrated from the hills to the southern part of the country (Terai), and returned have become entrepreneurs.

(d) In the family, a change is taking place. Now the educated young members are becoming entrepreneurs rather than head of the family who generally is old.

OPERATING DEFINITION OF POLICY ENTREPRENEURSHIP

Policy Innovativeness

Availability of Equity or Equity-like funds.

Efforts to assemble public or joint public-private equity funds locally.

Willingness of local developers to risk some of their resources on small or new firms.

Creation of Incubator Facilities for new or young firms.

Availability and nature of small business technical assistance.

Small Business Targeting

Presence of an explicit small business component in the local development organisation.

Amount of staff resources devoted to small firm concerns.

Percentage of capital funds channeled through development organisations into young ventures less than 3 years old.

Policy Commitment

Support of local governmental bodies for economic development

— public monies channeled into loan programs

— public monies supporting local development organisations

Characteristics of Public Support

— level of funding

— stability and trends in public monies going to development matters

— year in which programs first used locally

Cooperation of country and municipal officials on economic development.

Working relations between economic developers and elected officials.

Working relations among economic developers.

Early Survey of Entrepreneurship

From the classical economists to the post-Keynesian analysts, the topic of the entrepreneur has been surveyed and observations, theories and pronouncements advanced. Not only were pure economists involved in this endeavour but also prominent social theorists such as Marx, Weber, Sombard and Veblen.

In general, contemporary economists agree that the entrepreneur is a business leader and that his role in fostering economic growth and development is a pivotal one. At present, however there is no consensus at to what constitutes the essential activity which makes the entrepreneur a crucial figure. While some economists have identified the basic entrepreneurial function as risk-taking, others have emphasised the coordination of production resources, the provision of capital or the introduction of production resources, the provision of capital or the introduction of innovations. Professor James R. Omps of the International Institute of Entreprenology, Honolulu, Hawaii, in his paper entitled "Entreprenology, the Critical Factor in National Development", has this to say:

'In all crisis situation, there is one critical factor. There is one factor in each situation that can be cited as being the straw that broke the camel's back! In listing some of today's possible critical factors, such familiar words and phrases limited natural resources... food... energy all would emerge. A question may phrased thus: What is the critical factor?' —

Over-population?

Food shortage?

National resources shortage?

Energy shortage?

Lack of technology?

"Many factors have been proposed... and yet is it possible that the most critical factor has not been recognised? What is this factor that has either been stifled or totally ignored? It is a relatively untapped source... that of qualified individuals with peculiarly unique aptitudes for innovation, for change; aptitudes, in other words, for using present-day technology in ways yet unheard of or perhaps even unthought of. The critical factor is a dire shortage of the appropriate economic innovator and implementor... the Entreprenologists."

In the words of A. H. Cole, entrepreneurship is the purposeful activity of an individual or a group of associated individual undertaken to initiate, maintain or organise a profit-oriented business unit for the production or distribution of economic goods and services.

McClelland describes the innovative characteristics of entrepreneurial role. Entrepreneurial role, by definition involves doing things in a new and better way. A businessman who simply behaves in a traditional way is not an entrepreneur. Moreover, entrepreneurial role calls for decision-making under uncertainty. If there is no significant

uncertainty and the action involves applying known and predictable results, then entrepreneurship is not at all involved.

McClelland, like others, identified two characteristics of entrepreneurship. First, doing things in a "new and better way." This is synonymous with the innovative characteristics given by Schumpeter, and secondly, decision-making under uncertainty, i.e., risk as identified by Cantillon McClelland more explicitly emphasised the need for achievement orientation as the most directly relevant factor for explaining economic behaviour. This motive is defined as a tendency to strive for success in situations involved and of one's performance in relation to the same standard of excellence.

In other words, entrepreneurship means the function of creating something new, organising and coordinating and undertaking risk and handling economic uncertainty. Higgins defines the term, "Entrepreneurship" as the function of seeing investment and production opportunity, organising and enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and selecting top managers for the day-to-day operation of the enterprise.

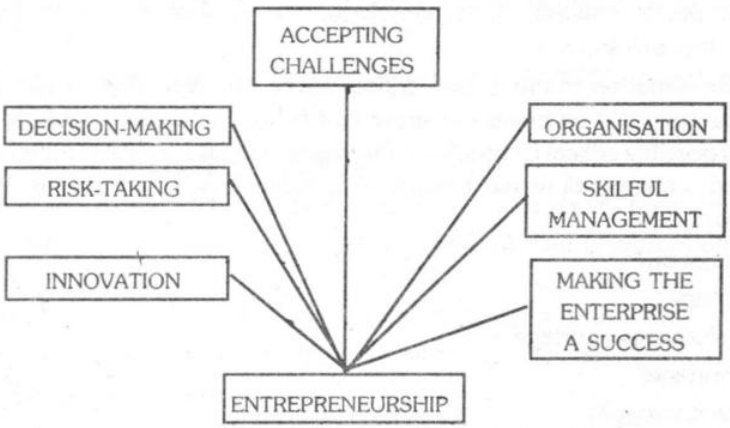


Fig. 4.2 Characteristics of Entrepreneurship

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

Innovation and entrepreneurship are thus needed in society as much as in the economy, in public-service institutions as much as in business. It is precisely because innovation and entrepreneurship are not "root and branch" but "one step at a time", a product here, a policy there, a public service yonder; because they are not planned but focused on this opportunity and that need; because they are tentative and will disappear if they do not produce the expected and needed results. I other words, they are pragmatic rather than dogmatic and modest rather than grandiose — that they promise to keep any society, economy, industry, public service, or business flexible and self-renewing.

Thus, entrepreneurship is a complex phenomenon. "Some think of entrepreneurs primarily as innovators, some chiefly as managers of enterprise, some as bearers of risks, and others place major emphasis on their function as mobilisers and allocators of capital." In the Indian context, however, an entrepreneur may at best be defined as a person (or a group of persons) responsible for the existence of a new business enterprise.

Entrepreneurship is an attitude of mind which calls for calculated risks; a true entrepreneur is one who can see possibilities in a given situation where others see none and has the patience to work out the idea into a scheme to which financial support can be provided. The stimulation of entrepreneurship is a function of both internal and external variables. In developing countries, there is no dearth of ideas but there is a real scarcity of men with the right blend of vision and practical sense to become successful entrepreneurs. The objective of the programme is to identify such people and to provide them with the support needed to make them a success. They then become "demonstration models" to the community; and once a right climate is generated, entrepreneurship becomes a way of life.

Industrial growth in a country is achieved through a "mix" of the large and small industry; the entrepreneurship for the former comes through the large companies often in collaboration with the multinationals. Simultaneously, economic growth also depends upon the level of development and use of information system in the country.

In fact, the small-scale industry sector is considered as an ideal nursery for the rapid growth and development of entrepreneurship. But alas, there are only a handful of entrepreneurs in the true sense of the term in this sector. The men who will set up small industry units have to come from within the country and the community; they are "locals" in a true sense and their success, therefore, has a much greater impact on generating the right climate for successful entrepreneurship.

Programmes for developing entrepreneurship must recognise that, ultimately, the change they seek to induce is attitudinal — it is more than just providing information, land or money. It is to provide new goals so that a motivated young person is no longer content to take up a secure job which will assure him a modest income but seeks bigger challenges in setting up and running his own business. The risks are greater but so are the rewards both in monetary sense and psychologically, in the feeling of confidence and pride it generates in the person. It is through the efforts of such persons that a small industry can become a dynamic sector of the economy and hence, the effort made to develop such persons is well worth the investment in terms of labour and cash. The need of the hour is the growth of entrepreneurship to accelerate the process of economic growth. According to Drucker, the entrepreneurial management. In a way, the society needs innovation and entrepreneurship in a normal, steady and on ongoing basis. Just as management has become the specific organ of all contemporary institutions and the integrating organ of our society of organisations, so innovation and entrepreneurship have to become an integral life sustaining activity in our organisations, our economy, our society.

This requires of executives in all institutions to make innovation and entrepreneurship a normal, ongoing, everyday activity, a practice in their own work and in that

of their organisation. Entrepreneurship is the cornerstone of the emerging economic scene in the world.

The entrepreneur usually lacks managerial and technical know-how, as well as marketing, production and personnel management skills. These are needed so that even if the entrepreneur can operate on only a small-scale basis, the operation will be economically viable.

Technological advances in the environment create new needs for the entrepreneur as far as adaptation and adjustment are concerned. The entrepreneur may need to learn how to adjust to the new technological environment, or to take a set of advance technologies and bring this to his own level in this sector. Either way, constant re-examination is needed for possible utilization and improvement of existing technologies.

Finally, the socio-cultural environment also creates a very important climate for the survival of this sector. Small enterprises need the following conditions to keep them alive.

(1) tolerance for changes in the society and culture; (2) social mobility; (3) tolerance of profit making; and (4) tolerance of private ownership.

Japanese Experience

The Japanese have very successfully integrated their culture with their business and have achieved great success. Some of the values they have brought into their management are life long employment, worker participation, quality circles, loyalty and pride in the organisation. Similarly, whatever is good in Indian culture should be reflected and reinforced in the business culture also. In the absence of this, India cannot design its own unique form of management, suitable for its values, and achieve excellence.

Some of these values could be mutual respect among the management and workers, commitment to nation building similar to the spirt it shown during the Independence movement and pride in whatever one does. A sense of equity and pride in one's own profession will be an antidote for the old caste based professions and their unequal values. Similarly, the ancient philosophical tenets like equality before God could be extended to mutual consideration and respect in the workplace also. This requires a conscious acceptance of these values by the managers and its constant practice. Strong corporate culture suitable for one's own traditional values like strong family cultures have to come from within or be cultivated by individual leaders to maximise the achievements.

Culture building is achieved by selecting the ideals, motivating through retaining and encouraging such ideals in employees. It requires refining of the human resources development tools and consistency in recognising the achievements.

Strategy and culture — each contribute to the success of any organinsation. Brilliant strategies bring great business successes and strong cultures survive great upheavals. In the absence of one, the other is useless. The Indian situation badly needs both.

An Ideal Entrepreneur

An ideal entrepreneur is one who combines values in the market economy; that profits do not somehow preclude ethical behaviour; that growth is possible even if political patronage is not used to bend rules and cut corners, and quite simply that pursuit of wealth can be a mannerly one. He takes with him the interest of his people, his country, his natural resources, the ecology and sees that his enterprise becomes a catalytic agent of development. There is thus a need of true entrepreneurs, who do not need incentives, infrastructure, government support; but build their enterprises, harness the resources and develop. They adopt a responsible value-driven corporate philosophy for their enterprises and/or business activities. As such, there is no dispute among economists and social thinkers about the urgent need for the emergence of an entrepreneurial society as a forerunner of accelerated development of the economy in an integrated manner. The success of an entrepreneur in any enterprise depends on the degree of his vision, leadership, competitiveness, talent, self-reliance, connections, communication and resourcefulness.

Entrepreneurship is not confined to industry and is needed in all activities. Its flowering in agriculture among the cultivators, small and large, is seen by all today. The smiling farm of today in many parts of the country is a proof of such entrepreneurship. The need for entrepreneurship is even greater in management of government, more so as it is the largest entrepreneur.

India has a proud record of entrepreneurship. Its present status in the industrial world is its proof. It has now to prepare itself for entrepreneurship of a different order. Tremendous advances of science and technology will have to be harnessed, requiring on the part of the people and the government a more mature and finer approach to match the level reached in the advanced countries. Philips, Sony, Honda, Ford provide the signposts of entrepreneurship today for all to emulate. Some of these have come up only in recent years and from small beginnings. In India, too, one sees glimpses of such entrepreneurship. ICICI's experience tells a great deal about entrepreneurship — good as well as not so good.

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Conclusion

Entrepreneurship is an attitude of mind which can take risks but calculated ones; a true entrepreneur is one who can see possibilities in a given situation where other see none and has the patience to work out the idea into a scheme to which financial support can be provided. It is one of the catalytic activities fostering initiative, promoting and maintaining economic activities fostering initiative, and distribution of wealth. The stimulation of entrepreneurship is a function of both internal and external variables. In developing countries, there is no dearth of ideas but there is a real scarcity of men with the right blend of vision and practical sense to become successful entrepreneurs. The objective of the programme is to identify such people and to provide them with the support needed to make them a success. They then become "demonstration models" to the community; and once a right climate is generated, entrepreneurship becomes a way of life.

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Programmes for developing entrepreneurship must recognise that ultimately, the change they seek to include is attitudinal; it is more than just providing information, land or money. It is to provide new goals so that a motivated young person is no longer content to take up a secure job which will assure him a modest income but seeks bigger challenges in setting up and running his own business. The risks are greater but so are the rewards, both in monetary sense and psychologically, in the feeling of confidence and pride it generates in the person. It is through the efforts of such persons that a small industry can become such dynamic sector of the economy and, hence, the effort made to develop such persons is well worth the money and labour. The need of the hour is the growth of entrepreneurship in the country to accelerate the process of economic growth. According to Peter Drucker, the entrepreneurial strategy is as important as purposeful innovation and entrepreneurial management. In a way, the society needs innovation and entrepreneurship in a normal, steady and an ongoing basis. Just as management has become the specific organ of all contemporary institutions, and the integrating organ of our society of organisations, so innovation and entrepreneurship have to become an integral life, sustaining activity in our organisations, our economy, our society.

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ANNEXURE-1

POLICY OPTIONS TO PROMOTE ENTREPRENEURSHIP

The OECD recently conducted an indepth study of the policies that foster entrepreneurship in five countries — Australia, The Netherlands, Spain, Sweden, and the United States. The following presents some of its broad policy guidelines that can be applied to developing countries as well. Each country needs to examine how these could best be applied within its own situation.

Broad Policy Guidelines

Examine the overall institutional framework within which economic activity takes place in order to establish whether it provides maximum scope for entrepreneurship to flourish. In particular:

- Identify and dismantle remaining barriers to competition which limit the incentives of enterprises to innovate and perform more dynamically. Promote competition in all sectors of the economy, including the provision of public services. Provide effective protection of intellectual property.

- Allow scope for flexible employment contracts to be negotiated, with remuneration arrangements and working conditions that are well adapted to the needs of dynamic enterprises. Relax employment protection measures that inhibit restructuring or discourage entrepreneurs from taking on new workers.
- Examine the costs of complying with government-imposed administrative or regulatory requirements and identify where reductions could be made, either by removing the requirements to comply or by reducing the administrative burden involved (including through better coordination among various government agencies).
- Examine the overall effects of the tax system on entrepreneurship, and identify features that discourage entrepreneurs or the financing of entrepreneurial activity. Ensure that the tax system is transparent and that compliance is straight forward.
- Review and simplify the registration procedures required to create a business. Ensure that firms are able to close quickly should they wish to do so.
- Ensure that personal bankruptcy legislation provides an appropriate balance between encouraging risk-taking and protecting creditors.
- Re-examine the effects that social insurance provisions may have on encouraging or discouraging would-be entrepreneurs.

Ensure that specific programs designed to foster entrepreneurship operate as part of an integrated and coherent strategy that complements the framework conditions. In particular:

- Avoid policies that stem from a too-narrow definition of entrepreneurship (e.g., that entrepreneurship is only about start-ups or only about high-technology) and which may divert attention from getting the broader economic policy settings right.
- Widen the target population for entrepreneurship programs, where possible, to attract the participation of women, the young and minorities.
- Undertake regular and comprehensive evaluation of programs, and ensure that evaluation findings are acted on.

Improve the effectiveness of entrepreneurship programs by drawing on the knowledge of local level of government. In particular:

- Ensure that resources for programs to foster entrepreneurship are decentralised where appropriate in order to better tailor programs to the specific needs of an area and its business.
- Provide regular opportunities to exchange information at a national level on the experiences of local authorities in designing and implementing entrepreneurship programs.
- Seek to identify and implement low-cost and effective programs with minimal distortionary effects on market incentives. For example:
- Promote public awareness of entrepreneurship and examine the role the education system could play in developing entrepreneurial skills and attitudes.
- Increase opportunities for the unemployed to create their own jobs trough self-employment schemes.
- Facilitate networking among firms in order to foster a culture of mutual cooperation and risk-taking.
- Promote the entrepreneurial non-profit sector by contracting-out where possible the delivery of public service that meet pressing demands in economic and social development.

OECD, *Fostering Entrepreneurship*, 1998. pp. 28-30. Used with permission of OECD.

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"Embarking upon 'new combinations' of the factors of production — which he succinctly terms innovation — the entrepreneur activates the economy to a new level of development. The concept of innovation and its corollary development embraces five functions: (1) introduction of a new good, (2) introduction of a new method of production, (3) opening of a new market, (4) conquest of a new source of supply of raw materials and (5) carrying out of a new organisation of any industry ...."

CHAPTER 5

THEORIES OF ENTREPRENEURSHIP

Introduction

The concept and theories of entrepreneurship evolved over more than two centuries have undergone major changes. Yet the concept of entrepreneurship is not clear. As the concept of entrepreneurship is complex in its content, it is influenced by not only economical aspects, but also by sociological, political, psychological, ethical, religious and cultural values. The concept also bears testimony to courage, creativity, determination, networking, hard working etc. Over the years the social scientists have interpreted the phenomenon of entrepreneurship differently in accordance with their perception and economic environment.

A coordinated and comprehensive theory of entrepreneurship is yet to come. Meanwhile let us understand the important theories of entrepreneurship propounded by social thinkers during the last two centuries.

The distinctive features of entrepreneurship over the years are:

1. Innovation,
2. A function of high achievement,
3. Organisation building,
4. Group level activities,
5. Managerial skills and leadership,
6. Gap filling,
7. Status with drawal,
8. Entrepreneurial supply, and
9. Entrepreneurship — an emerging class

Entrepreneurship as a process has and is undergoing changes in keeping with the continued 6 changes in different fields. In keeping with these changes, different theories of entrepreneurship have been evolved by different thinkers at different times. It is *a* continuously evolving process of *change.*

Entrepreneurship in Developing Countries

Among the many definitions of the entrepreneur, that which distinguishes him as a person who undertakes to organise, manage and assume the risk of running a factory is the one generally adopted in the region. Small enterprises, like entrepreneurship, cannot be defined specifically. The concept is variously understood in different countries depending on the prevailing economic and social conditions. Generally, the definition is based on two criteria: *quantitative*, which includes the size of the company in terms of number of workers, consumption of energy, capitalisation or value of sales; and *qualitative*, which refers to the organisation and management of the enterprise, methods of production or influence on the market.

Entrepreneurship Stimulants

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and cousequently generating economic development. These stimulants are as follows:

1. An increasing focus on capital formation. Availability of capital is a stimulant to an entrepreneur to start a new firm and/or give birth to a new idea.
2. The ability to transform scientific and technical developments through new institutional development.
3. The supportive government programmes.
4. Availability of required training and inputs.
5. A collaborative relationship between business and research and their direct attempts to transfer technology to the market place will be an opportunity for entrepreneurs who commercialise their ideas.
6. Finally, an endeavour to create an environment conducive to innovation will provide a much-needed stimulant to entrepreneurial activities.

Entrepreneurship and Economic Growth

Economic development of any region is an outcome of purposeful human activity. Men assume various roles in the development process, namely, as organiser of human capital, natural material resources, worker and consumer. He stands at the centre of the whole process of economic development. According to Schumpeter, economic development consists of "employing resources in a different way", bringing in a new combination of means of production. The entrepreneur looks for ideas and puts them into effect for economic development.

According to Baumol, entrepreneur is a Schumpeterian innovator and something more than a leader. The entrepreneur, according to him, occupies a crucial place in the process of economic development.

Joseph A. Schumpeter (1934) for the first time put the human agent at the centre of the process of economic development and assigned a critical role to entrepreneurship in his theory of economic development. According to Schumpeter "Entrepreneurship is essentially a creative activity or it is an innovative function. The process of innovation may be in the form of *(a)* Introduction of new product, *(b)* Use of new method of production, *(c)* Opening of new market, *(d)* The conquest of new source of supplying

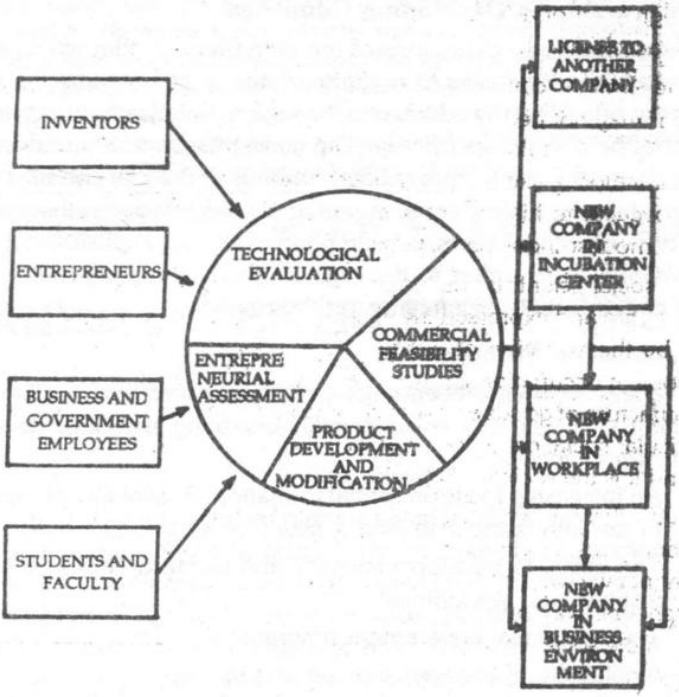


Fig. 5.1 Innovation Centre

raw material or *(e)* A new form of organisation." Hence he depicted an entrepreneur not only a premier agent of production who brings together all factors of production but also provides a sound management and control for the survival as well as the growth of the production unit.

Schumpeter further says that economic growth depends on the rate of applied technical progress (i.e., innovation) and rate of technical progress in the economic field which in turn depends on the supply of entrepreneurs in the society. Thus the entrepreneur is the agent of change in society.

In the Schumpeterian model, entrepreneur is an innovator, and the existence of "innovative entrepreneurs" depends on the necessary social and economic overheads. These economic and social overheads are very poor in backward regions which cause a short supply of entrepreneurs. In this connection, we can refer to David McClelland who explained the development of entrepreneurship in terms of human motivation to achieve or need for achievement (n Ach), His hypothesis is that a society with a generally high level of achievement will produce more energetic entrepreneurs, who in turn will accelerate the process of economic development.

In the Indian context, entrepreneurship has yet another dimension. An entrepreneur may not necessarily be in innovator "but an "imitator" who would copy the organisation, technology, products of innovators from other developed regions. His role as an imitator is likely to be guided and controlled by various constraints and

conditions peculiar to his area of operation and the factors under which he conducts his minimal modest industrial activity.

Other social scientists, notably Max Weber, have talked of the importance of entrepreneurship and expressed the view that creative and entrepreneurial energies are generated by the adoption of exogeneously supplied beliefs which in turn produce intense efforts in occupational pursuits and accumulation of productive assets leading to the manufacture of goods and service. According to him, entrepreneurs are a product of the particular social conditions in which they live and it is social conditions in which they live and it is the society which shapes the personality of individual entrepreneurs.

John Kunkel believes that the behavioural pattern of individuals is important for development and such a pattern can be influenced by external stimulus so as to alter it in the manner we want it. In other words, if we want more people in society to behave as entrepreneurs, we can bring about such behaviour on their part by appropriate alterations in the social environment so as to influence them to take to entrepreneurial pursuits. Like Weber, Cocharan and Young underscore the importance of the role society plays in shaping the entrepreneurial personality and consider the scarce ingredients which are essential in the emergence of potential entrepreneurs cultural values, role expectations, social tensions and inter-group relations in society. Entrepreneurs are an important source of economic development. It becomes imperative that there exists a motivational training programme including measures to modify the environment to stimulate entrepreneurial behaviour among individuals. There are thinkers who believe that the "Schumpeterian entrepreneurs are needed in underdeveloped countries for rapid economic development" is only through entrepreneurs that substantial development can be brought about.

Entrepreneurship and Economic Systems

Entrepreneurship includes the existence of the spirit of venturing into new enterprises through innovations, creation and translation of such spirit into reality in the various fields of industry and commerce by individuals with entrepreneurial qualities and with an intense desire for accomplishment or achievement in this field.

Entrepreneurship plays an important role in the economic system, which determines the nature and scope of this field. Economic systems grow and take shape under the influence of industrial policy, economic policy, and the scio-political and cultural ideas of the people. Entrepreneurship gives a fillip to new organisational forms and the economy has to adjust to these demands. However, changes in the structure of the economy bring about economic reforms which determine other factors affecting the economy. Economic systems is a basic structure of capitalism, socialism and mixed economy in which a certain level of entrepreneurship is found.

Capitalism: Capitalism has 'freedom' as its landmark. Free enterprise, freedom to save or to invest, free and healthy competition, lack of the dominance of central plan and consumer's sovereignty are the main features that distinguish capitalism from other economic systems. In a free enterprise economy, the problem of what to produce is solved by the price mechanism. The goods are bought and sold in the market at a price which is freely determined by the equality between demand for and supply of

goods with reference to the cost of production. It is for this reason that entrepreneurship fully commands a price and market mechanism. On the basis of this, the entrepreneur also has the controls of the production and distribution of goods by mobilising the resources to maximise his profit. Profit motive is the main aim of the entrepreneur in a free market mechanism under capitalism. He also distributes the goods according to the different market conditions both in domestic and overseas markets and therefore, we find he is a competitor or monopolist or a monopolistic competitor in the home market. Besides he is a cut-throat competitor in the overseas market where he allocated the amount of goods and determines the price according to his capacity to unload goods — a special case of discriminating monopoly.

Socialism: Private entrepreneurship does not contribute much to an economic system but it becomes the responsibility of the economic and financial experts in the Central Authority to strategise the exploitation of resources and organise an equitable distribution of goods without any profit motive but for the social good.

Entrepreneurship exists in the form of a body consisting of the representatives nominated by the government to frame the plans for the proper mobilisation of resources, their allocation and re-allocation so that most of the resources channelised towards industries of national importance. It is therefore, for entrepreneur who has a complete control over the resources, the production of the goods according to the needs of the people and their distribution in the internal vis-a-vis external market. As socialism is contrary to capitalism or mixed economy, all such responsibilities are not shared by the private entrepreneur and hence his role under socialism is negligible.

Mixed Economy: The entrepreneurs also play an important role in the production and distribution of goods in a mixed economy. The basic characteristics of this economy is that the government undertakes the production of mostly capital goods while the production of consumer goods is left to the private enterprises and hence they are equally responsible for the uplift of the people because they produce not only luxuries and comforts but also goods of basic requirements of the people. Like a capitalist economy, mixed economy also tries to solve the basic problems with the help of the price mechanism. But where the price mechanism fails to achieve the desired result, the state tries to intervene in order to find a better solution to the various problems. When the problem of production is not solved satisfactorily by the private entrepreneur, the state tries to increase the production of essential goods and discourages that of less essential or non-essential goods. It does so by producing defence goods itself as also some basic goods like iron, steel and cement etc. and also by encouraging the private producers to increase the production of essentials like food, clothing, housing etc. In a mixed economy, the government does a good deal to encourage the production of most essential goods and in case their production still lags behind, it may itself undertake their production and increase it by giving it top priority in its eocnomic programme.

In a mixed economy, the government also tries to remove the evil of monopoly capitalism through restrictions. It may curb the growth of monopolies and initiate workable competition which is essential for the optimum use of the available resources.

Mixed economy tries to solve the problem of distribution of goods and services in a better way than the capitalist economy. The government tries to level up the incomes of the poor people and level down those of the rich people. This is done by fiscal measures, fixation of minimum wages and salaries and improvements in the environment by the people.

The role played by an entrepreneur is significantly important in a mixed economy as it permits the growth of both the public and the private sector. In the private sector, profit motive acts as an incentive to the entrepreneur and market mechanism plays its own role. This establishes the role of entrepreneur in the mixed economy.

Entrepreneurship has great importance in various economic systems. It is all the more important under capitalism and mixed economy where not only the responsibilities of entrepreneur in production and distribution are recognised but the objective of growth of business and profit maximisation is also attained. Therefore, the importance of entrepreneurship stands beyond challenge in every economic system except under socialism where it appears in a different form. Yet, entrepreneurship prevails in all economic systems in one form or the other.

Theories of Entrepreneurship

Theories of Entrepreneurship are broadly classified into economic, psychological, sociological and cultural.

The static approach of the emerging Neo-classical school did not readily accommodate a concept with such dynamic connotations as entrepreneur. Alfred Marshall, for example, laid much more stress on the routine activities of management and superintendence than he did on the innovative activity of the entrepreneur.

The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently by social scientists. Among those who have stressed on the routine activities of management and superintendence than he did on the innovative activity of the entrepreneur.

The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently by social scientists. Among those who have stressed on the psychological aspects as contributing to entrepreneurial success are Joseph Schumpeter, McClelland, Hagen and Kunkal.

Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities: "The forces of custom, the rigidity of status and the district of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment and innovation." The theories of Weber and Cochran in this context are mainly sociological in nature.

Briefly, the concepts of entrepreneur and entrepreneurship have been investigated from economic, social, political, cultural and managerial points. The development of this understanding is summarised in Table 5.1.

TABLE 5.1

DEVELOPMENT OF ENTREPRENEURSHIP THEORY AND TERM ENTREPRENEUR

17th century:	Person bearing risks of profit/loss in a fixed price/loss contract with government.
1725: Richard Cantillon:	Person bearing risks is different from one supplying capital.
1797: Beaudeau:	Person bearing risks, planning, supervising, organising, and owning.
1803: Jean Baptiste Say:	Separated profits of entrepreneur from profits of capital.
1876: Francis Walker:	Distinguished between those who supplied funds and received interest and those who received profit from managerial capabilities.
1934: Joseph Schumpeter:	Entrepreneur is an innovator and develops untried technology.
1958: Haggen:	An entrepreneur is an economic man who tries to maximise his profits by innovations.
1961: David McClelland:	Entrepreneur is an energetic moderate risk taker.
1964: Peter Drucker:	Entrepreneur maximizes opportunities through systematic innovations.
1975: Albert Shapero:	Entrepreneur takes initiative, organises some social- economic mechanisms, and accepts risk of failure.
1980: Karl Vesper:	Entrepreneur seen differently be economists, psychologists, business persons, and politicians.
1983: Gifford Pinchot:	Intrapreneur is an entrepreneur within an already established organisation.
1985: Robert Hisrich:	Entrepreneur is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks and receiving the results — rewards of monetary and personal satisfaction.
1990: Vasant Desai:	The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain sacred and inspire him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities encompasses all fields/sectors and fosters a spirit of enterprise for the welfare of mankind.

The following theories of entrepreneurship enunciated by the social scientists from time to time are briefly discussed in the following pages.

1. An Economic Theory
2. Leibenstein's X-efficiency Theory
3. Dynamic Entrepreneurship Innovation Theory
4. Harvard School Theory

5. Theory of High Achievement
6. Theory of Change
7. Theory of Profit
8. Theory of Adjustment of Price
9. Theory of Market
10. Theory of Social Change
11. Theory of Entrepreneurial Supply
12. Theory of Personal Resourcefulness
13. Theory of Cultural Values

An Economic Theory

Mark Casson, in his book *The Entrepreneur — An Economic Theory*, presented a functional definition of the entrepreneur and considered why the entrepreneurial function is so valuable. He emphasised that the demand for entrepreneurship stems from the need to adjust to change, and that the supply of entrepreneurship is limited firstly, by the scarcity of the requisite personal qualities, and secondly, by the difficulty of identifying them when they are available. He suggested that there are four main qualities which are crucial for a successful entrepreneur of which one — imagination — is almost entirely innate. The other three qualities may be enhanced. The problems encountered in screening for these qualities, and in enhancing the ones that are deficient, have a number of important implications for the development of a successful entrepreneurial career.

Leibenstein's X-efficiency Theory

This theory, originally developed for another purpose, has recently been applied to analyse the role of the entrepreneur. Basically, X-efficiency is the degree of inefficiency in the use of resources within the firm: it measures the extent to which the firm fails to realise its productive potential.

For a given set of inputs, productive potential is identified with the point on Neo-classical production frontiers. X-efficiency arises either because the firm's resources are used in the wrong way or because they are wasted, that is, not used at all.

Leibenstein identifies two main roles for the entrepreneur. The first role is input completion, which involves making available inputs that improve the efficiency of existing production methods or facilitate the introduction of new ones. The role of the entrepreneur is to improve the flow of information in the market.

The second role, gap filling, is closely asking to the arbitrage function emphasised by Kirzner. Leibenstein provides a very vivid description of gap filling, visualising the economy as a net made up of nodes and pathways.

Dynamic Entrepreneurship Innovation Theory

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production — which he succinctly

terms innovation — the entrepreneur activates the economy to a new level of development. The concept of innovation and its corollary development embraces five functions: (1) introduction of a new good, (2) introduction of a new method of production, (3) opening of a new market, (4) conquest of a new source of supply of raw materials and (5) carrying out of a new organisation of any industry. Schumpeter represents a synthesis of different notions of entrepreneurship. His concept of innovation included the elements of risk taking, superintendence and co-ordination. However, Schumpeter stressed the fact that these attributes unaccompanied by the ability to innovate would not be sufficient to account for entrepreneurship.

Harvard School Theory

According to the Harvard School (Cole, 1949) entrepreneurship comprises any purposeful activity that initiate, maintain or develop a profit-oriented business in interaction with the internal situation of the business or with the economic, political and social circumstances surrounding the business. This approach emphasised two types of activities: the organisation or coordination activity, and the sensitivity to the environmental characteristics that affect decision making. Another exposition of the Harvard tradition is that of Leibenstein (1968) who emphasised activities such as searching and evaluating economic opportunities, mobilising resources necessary for the production process, connecting different markets and creating or expanding the firm.

Despite its stress on the human factor in the production system, the Harvard tradition never explicitly challenged the equilibrium-obsessed orthodox economic theory. This was challenged by the neo-Austrian School who argued that disequilibrium, rather than equilibrium, was the likely scenario and as such, entrepreneurs operate under fairly uncertain circumstances. The essence of entrepreneurship consists in the alertness of market participants to profit opportunities. A typical entrepreneur, according to Kizner (1979) is the arbitrageur, the person who discovers opportunity at low prices and sells the same items at high prices because of inter-temporal and inter-spatial demands.

Theory of High Achievement

McClelland identified two characteristics of entrepreneurship, namely, doing things in a new and better way and 'decision-making under uncertainty.' He stressed the need for achievement or achievement orientation as the most directly relevant factor for explaining economic behaviour. This motive is defined as the tendency to strive for success in situations involving an evaluation of one's performance in relation to some standard of excellence. People having high need for achievement are more likely to succeed as entrepreneurs. McClelland explains the entrepreneur's interest in profits in terms of a need for achievement. People with high achievement (N-Ach) are not influenced by money rewards as compared to people with low achievement. The latter type are prepared to work harder for money or such other external or such other external incentives. On the contrary, profit is merely a measure of success and competency for people with high achievement need.

Theory of Change

Young conducted the Thematic Appreciation Test (TAT) on a group of entrepreneurs. The test revealed the tendency to describe the situation as a problem to be solved, an awareness of pragmatic effort required, confidence in their own ability to solve the problem and a tendency to take the viewpoint of each individual in turn and analyse the situation as he might see it before suggesting an outcome.

Young's theory is a theory of change based on society's incorporation of reactive subgroups. A group becomes reactive when the following three conditions coincide:

(i) When a group experiences low status recognition;

(ii) When denied of access to important social networks; and

(iii) When the group has better institutional resources than other groups in the society at the same level.

Theory of Profit

Knight identifies the entrepreneur as a recipient of pure profit. Pure profit, according to him, with regard to the entrepreneur, is bearing the costs of uncertainty. He identifies uncertainty with a situation where the probabilities of alternative outcomes cannot be determined either by *a priori* reasoning or by statistical inference. *A priori* reasoning is simply irrelevant to economic situation involving a unique event.

Knight argues that business uncertainty can be reduced through 'consolidation.' Consolidation is to uncerainty what insurance is to risk; it is a method of reducing total uncerainty by pooling individual instances. The elasticity of the supply of self confidence is the single most important determinant of the level of profit and the number of entrepreneurs.

Theory of Adjustment of Price

For Kirzner, the adjustment of price is the main role of the entrepreneur. If the wrong price prevails in the market, then an opportunity for profit is created somewhere in the market if a frustrated buyer or seller is willing, respectively, to pay a higher price or accept a lower one. Then, again, if different prices prevail in the same market, there is scope for profitable arbitrage between the two segments of the market.

According to Kirzner, alertness to disequilibrium is the distinguishing characteristic of an entrepreneur. Alertness enables some individuals to intervene in the market by changing the price while other individuals simply respond by changing their buying and selling plans *in lieu* of the new price.

Kirzner further maintains that the primary role of economic theory is to explain behaviour in terms of purposeful human action, and to consider to what extent purposeful human actions can interact to produce unexpected outcomes. To pursue the analysis of entrepreneurship further would be to go beyond the limits of the agenda of this piece. Anyone who believes that the entrepreneurs is predictable has an incentive to himself intervene in the market process, and so become an entrepreneur.

To Kirzner, this provides a satisfactory basis for asserting the inherent upredictability of the entrepreneur. It suggests that no predictor can be anything but an entrepreneur, and so makes a predictive theory of entrepreneurship impossible.

Theory of Market Equilibrium

Hayek's main contribution to entrepreneurial theory is to point out that the absence of entrepreneurs in Neo-classical economics is intimately associated with the assumption of market equilibrium. According to Hayek, the equilibrium postulate is equivalent to a postulate of full information; not full information in the sense of a complete information theory about every conceivable thing, but full information in the sense that no further information is needed in order to modify anyone's decisions.

For him, the empirical content of economics relates to the process of adjustment towards an equilibrium. This process involves the acquisition and communication of knowledge. He visualises a world in which there is a continuous process of discovery. Markets help people to communicate their discoveries to others and learn of discoveries, thereby moving towards a sale of equilibrium.

Hagen's Theory of Social Change

Everett Hagen, in his work "Theory of Social Change: How Economic Growth Begins (1964), meditates on its psychological explanation. His creative personality is an individual characterised by a high need for achievement, order and autonomy. He views the entrepreneur as a creative problem solver interested in things in the practical and technological realm, and driven by a duty to achieve.

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

- Displacement of a traditional elite group from its previous status by another traditional supply physical force.
- Denigration of valued symbols through some change in the attitude of the superior group.
- Inconsistency of status symbols with a changing distribution of economic power.
- Non-acceptance of expected status on migration to a new society.

Theory of Entrepreneurial Supply

Another theory of entreprneurial supply is the Behaviouristic Model propounded and elaborated by John Kunkal in 1965. His behavioural model is concerned with the overtly expressed activities of individuals and their relations to both past and present, and surrounding social structures and physical conditions.

The determinants of an individual's activities are to be found largely in the conditioning procedures, both deliberate and accidental, to which he has been subjected in the past, and in the sets of reinforcing and discriminating stimuli which have become part of his behavioural claims and are part of the present social context.

The selected elements of social environment are amenable to change. Kunkel's theory is based upon experimental psychology, identifying sociological variables as the determinants of entrepreneurial supply.

Theory of Personal Resourcefulness

The root of entrepreneurial process can be traced to the initiative taken by some individuals to go beyond the existing way of life. The emphasis is on initiative rather than reaction, although events in the environment may have provided the trigger for the person to express initiative. This aspect seems to have been subsumed within 'innovation' which has been studied more as the 'change' or 'newness' associated with the term rather 'proactiveness.' This tendency to take initiative has been approached from different directions at various stages in the development of theory in entrepreneurship. For instance, Bygrave and Hofer (1991) talk of the importance of human volition, Carland *et al.* (1984) define an entrepreneur as one who 'establishes' an organisation, or Schumpeter (1949) talks of the agent who consciously disturbs the stationary process to take it in a new direction. They all reflect on the primacy of individual initiative. Studies of entrepreneurial traits related to this aspect of behaviour, such as internal focus of control (Brochaus, 1982), capability to take personal risks (Gasse, 1985) and positive approach to work and problems, without excessive fear of failure, seeming from strong belief in favourable future (Kuratko & Hodgetts, 1989) — all lend to a strong sense of personal resourcefulness (Kanungo & Misra, 1992) through which entrepreneurs take up and deal with non-routine tasks and situations. Hence, 'personal resourcefulness' in the context of this paper is the belief in one's own capability for initiating actions directed towards creation and growth of enterprises. Such initiating process requires cognitively mediated self regulations of internal feelings and emotions, thought and actions as suggested by Kanungo and Misra (1992).

Theory of Cultural Values

The key elements in Thomas Cochran's theory are cultural values, role expectations and social sanctions. In his theory on the process of economic development, entrepreneurs are not seen as being deviant or super normal individuals but rather as representing society's modal personality. This modal personality is moulded by prevailing child-rearing practices and schooling common to a given culture. The performance of a businessman, according to him, will generally the influenced by three factors: (1) his own attitude towards his occupation; (2) the role expectations held by the sanctioning groups; and (3) the operational requirements of the job. The determinants for the first two factors are the society's values. Changes over time in such variables as population, technology, and institutional drift will impinge on the role structure by creating new operational needs.

Development in any walk of life has always depended, to some degree, on individual qualities of entrepreneurship. The success of planned efforts made by some countries in developing local entrepreneurs demolished the contention that an entrepreneur is a rare character; that entrepreneurship is not restricted to those who are gifted with certain qualities at birth. It can also be developed. It is precisely this conviction that has led to careful studies on entrepreneurship from economical, psychological and socio-logical perspectives, as well as steps to identify and develop entrepreneurship. As observed, every theorist has looked at the entrepreneur and entrepreneurship on the basis of his perception, and therefore, can, at best, provide only a limited view of entrepreneurial phenomenon. No view is right or wrong, or more

or less; in fact, the various factors which cause the emergence of entrepreneurship are integral and not additive. They are interlocking, mutually dependent and usually reinforcing.

Factors Influencing Entrepreneurship

Peter Heydemann, the Science Counsellor in the U.S. Embassy here seems much impressed with the role the small business play in the process of innovation in the U.S. economy. He explained how "incubators" are used successfully in the United States to encourage small entrepreneurs.

The problem is how best to help small entrepreneurs translate the results of laboratory research into marketable products, to transform a new scientific concept into a commercial product. Simply put, "incubators" are very basic facilities offering shared secretarial services, space for conducting a retail or manufacturing business, and a few simple machine tools. But, and this is very important, incubators offer advice and consultation on subjects with which the most budding entrepreneurs are unfamiliar: business and finance planning, market development, government regulations. Incubators have indeed greatly helped small manufacturers to develop new products. Recent studies show that such enterprises are the main source of innovation in the U.S. industry.

Heydemann said that the idea of the incubator technology is "five or six years old." This is because until recently it was felt that the U.S. industry would forever remain in the forefront without any competition. But things changed rapidly. So, realising the "the 600-plus national laboratories could not possibly service all the one-and-a-half million or so small entrepreneurs," individual American states took it upon themselves to help local industry through their technology support and development organisations.

Incubators are very often attached to state university systems as universities have much of the technical and non-technical information that needs to be fed to the entrepreneurs. Moreover, state universities have increasingly come to believe that apart from their traditional role, they must also promote industrial activity in their areas of operation.

State authorities in turn help by enabling businessmen cut through red tape, provide low-interest loans to develop prototypes, undertake market research and generally assist in bringing a new product to the consumer. "Some notion of the magnitude of this support can be had from the fact that last year alone, the federal and state governments together spent more than $2,000 million in encouraging small business." Many private sector companies also provide incubator facilities, though at a comparatively higher cost.

Another important aspect of incubators is that experts do not make any business decisions for their clients. They only provide guidelines and advice on product development, engineering, pilot production and in identifying markets.

Among the businesses in which incubators are making a significant contribution, said Heydemann, "are light manufacturing in mature technologies, retail and wholesale trade and, finally, research and development in emerging technologies."

The success rate of incubators has been salutary in the number of new jobs created, the enlarged tax base for state revenues and in the export of manufactures. In short, incubators are bringing new vigour and vitality to America's industrial renaissance and are once more giving the country a competitive edge. It remains to be seen how useful it will be in the context of Indian entrepreneurs.

For Illustration

Mr. Ashok Birla (1939-1990) displayed a restless urge to get going, to get things done. He was ever-sensitive to innovation with a quest for new ideas. His vigorous energy combined with a certain gambler's instinct, led him to pursue every potentially profitable venture. It was this zest to explore the unexplored which created an image of an unabashed entrepreneur willing to invest in risky off-beat ventures.

Always ahead of his time, he sensed the coming of a financial revolution and sought to be in its forefront by seeking to promote an offshore mutual fund — five years before the Unit Trust of India floated its first country fund. Foreseeing the national crunch in power generation, he introduced portable diesel-based gensets on which farmers and small shopkeepers could depend to tide them over critical periods of power shortages.

After a short training stint under the supervision of his uncle, Mr. Basant Kumar Birla, Mr. Ashok Birla built a cluster of companies into a dynamic Rs. 320-crore group.

The sales of Zenith Ltd., his flagship company, which was a mere Rs. 30 crore in 1977-78 when Mr. Birla took over, soared to Rs. 269 crore in 1989-90. Under Mr. Birla's leadership, the company changed from a single product manufacturer to a multi-product, multi-dimensional conglomerate and became India's 74th largest company. Earlier, just out of college, he had nurtured Bharat Commerce from a Rs. 2-crore company into a Rs. 56-crore concern.

Mr. Rajan Pillai (1943-1997), London-based Indian engineer turned an entrepreneur, had brought in one swoop with this a group of four lucrative biscuit and snack food companies in Singapore, Hongkong, Malayasia and New Zealand under Pillai's belt. The group's combined sales are approximately Rs. 640 crore and net fixed assets in excess of Rs. 200 crore, which include Britannica Industries, India and English Biscuit Manufacturers, Pakistan. Rajan Pillai was an international success.

In 1973, Rajan and his father, who was by then one of the biggest exporters of cashew from India, decided that one member of the family should be abroad. Rajan was the one chosen. Relying on some 'contacts', Pillai embarked for Singapore to launch the 20th Century Foods, a salting operation using raw cashew nuts imported mainly from Kerala. But before leaving India, Rajan made a clean break — he redistributed amongst his six sisters and sole brother his inherited wealth, then amounting to about Rs. 5 lakh and relinquished all rights to the family business.

The 20th Century Foods was set in a joint venture with the Inchcape group. A food processing factory in the nuts and nut-related industry was set up in 1973, in the Jurong Industrial Estate, which was marshland in those days. Rajan secured financial assistance and land on easy lease terms from the Singapore Economic Development Board, being one of the first few to set up a factory there. Soon he started shipping

branded consumer products (cashews in cans and pouches) to the neighbouring countries. Later, he extended the product line to peanuts, pistachio and almonds to the markets to the Far East, Japan, the Pacific Rim and the Middle East, all in a span of five years.

The products sold under the 'Ole' brand name found wide acceptance. But this did not save the company from cash flow problems. The profits Rajan Pillai made went into paying off the loans from the Citibank and the Bank of India in Singapore. Clearly, working capital shortage and the bane of entrepreneurship threatened to wipe out the young fortune-seeker.

Cash losses started mounting and the company went into a tailspin. But Pillai's experience with the company laid the foundations for what was destined to be a rewarding career. "20th Century Foods is largely responsible for what I am today", he said. To combat the chronic shortage of capital, the young Pillai had started expanding the factory by taking in some local Singaporians as shareholders.

In spite of the trials and tribulations, the shift to Singapore was Pillai's big break. Certainly he had not started with nothing in Singapore. On the contrary, by this time he was in a successful family cashew and shipping business. But there were other equally successfull and rich businessmen in Kerala in the export trade. But no one had turned that base into an international, organised marketing and production company.

Pillai's success was due to the fact that he had clearly understood how business was organised and conducted in the West. This was the reason why he was able to capitalise on his base. In every instance, he had been able to merge his business into a bigger operation and eventually to gain control of the larger entity. It is this that had set him apart from most other Indian businessmen.

In 1978-79, Pillai convinced Standard Brands, a leading US public company and the largest nut producer, to join him in his venture. Pillai sold 74 per cent of his stake to Standard Brands. The company was renamed 20th Century Standard Brands and he became the working chairman, as is almost a custom in the West when a businessman merges his successful small company into a larger company. In 1980, Nabisco Foods merged with Standard Brands. After the merger, Pillai had sold out his balance holding. Once again, the new management retained Pillai as working chairman. "The senior people quickly saw in him an aggressive entrepreneurial trader", says an insider and in 1985 he was moved to London to head the Nabisco Commodities, a trading company.

Modern Concept

The term "entrepreneur" in the modern sense came into usage in the late 18th century with the advent of the Industrial Revolution in England. It was during this period that people developed inventions and made an appreciable amount of discoveries in a variety of productive occupations. Their innovative behaviour engaged them in doing new and useful things or old things in an improved way. The invention of colour photography and colour television, for example, were the responses of innovative efforts of the individual who conceived the idea, developed it and pursued it to its ultimate success. These innovators came to be known as entrepreneurs.

Critical Analysis

From the above theories we can see that Schumpeter and McClelland have given primary importance to the individual. While Schumpeter has stressed on innovativeness or creativity of the individual as an important determinant of enterpreneurship, McClelland stresses more on the internal factors, specifically, the need for achievement. Though not according any importance to culture per se, however, he has dealt with one product of culture, viz., the need for achievement, extensively. Weber has touched upon the belief system which is part and parcel of culture and which has a great influence in determining the individual's behaviour in every aspect of his life — be it religious, social or economic. In Weber's view, certain belief system sanction economic endeavours, while others do not. Hagen views economic development as a process of technological change which is brought about by technological creativity of individuals in society. Granting the significance of psychic factors,Young lays greater emphasis on the nature of the groups, groups' assistance and coordination. Like Weber and McClelland, Cochran also speaks in different terms but explicitly, of cultural values and social structure (which include role expectations and social sanction) as playing a vital role in economic development. He identifies three important elements: (a) individual attitudes towards economic activity; (b) social sanctions; and (c) skills needed for the job (of a technical and social nature). While Young considers psychological factors and value system as passive, Kunkel argues that they do really matter and comes close to Cochran view of social structure as contributing to entreprneurship development. By and large, the underlying current and emphasis in all theories seems to be the man and his personality, influenced by the culture in a given society.

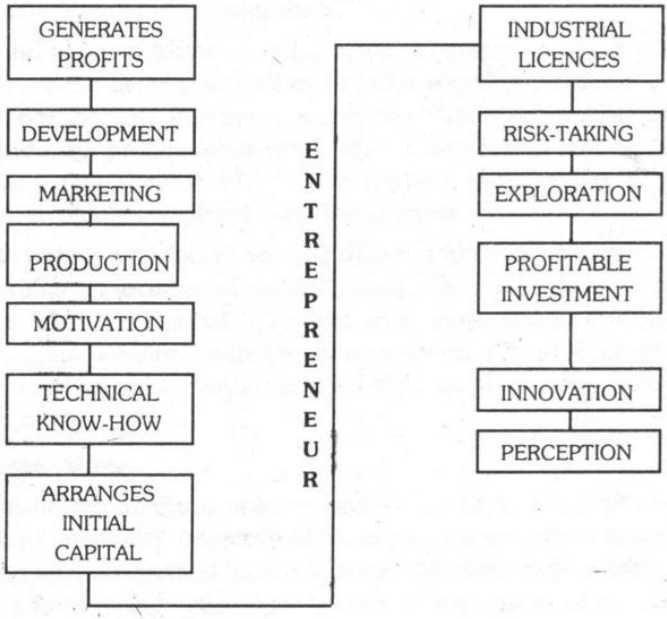


Fig. 5.2 Flow Chart of an Industrial Entrepreneur

Conclusion

Major theories and expositions from Cantillon to Kirzner view the entrepreneur as performing various functional roles as risk taker, decision maker, organiser or coordinator, innovator, employer of factors of production, gap seeker and input completer, arbitrageur, etc. In spite of the diverse roles portrayed, certain common themes could be identified. All the theories ascribe a functional role to the entrepreneur in the productive process and entrepreneurial rewards are explained by the degree of success attained by fulfilling that function, rather than by a purely proprietary claim on income by virtue of mere asset ownership. Again, all the theories have been grounded against the backdrop of a capitalist society and as such the functional roles performed by the entrepreneur is determined within the capitalist paradigms of production and distribution.

The varied theories evolved over more than two centuries have thrown up the concept of intrapreneur as a logical evolution of entrepreneurship in corporations. The intrapreneur is a professional with entrepreneurial skills. The concept of enterpreneurship will certainly undergo a change with the advancement of technology, information technology in particular. The evolution of entrepreneurship is a continuous process.

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"Entrepreneur is a person who discovers new ideas and business opportunities, brings together funds to establish a business, organises and manages its operations in order to provide economic goods and services, for the public. Entrepreneurs have strong convictions, self motivation, the will to grow and prosper tremendously and also the courage to go bankrupt if they fail in their venture. But in majority of cases they start with nothing but entrepreneurial ability and end with positive results

CHAPTER 6

CLASSIFICATION AND TYPES OF ENTREPRENEURS

Introduction

In the previous chapter, we have analysed the concept of entrepreneurship and its understanding over the centuries, particularly in the post industrial revolution. In modern times entrepreneurial development has the thrust area of development planners, economic thinkers and policy makers. What is more, the entrepreneur has emerged as a kingpin of development.

By and large, entrepreneurs are found in every economic system and in every form of economic activity as well as in other social and cultural activities. They are found amongst artisans, labourers, artists, importers, exporters, engineers, supervisors, bankers, industry, professionals etc. They are also found among farmers, fishermen, forest workers, tribals and so on. Some writers have also identified entrepreneurs among politicians, theologists, philosophers, bureaucrats.

This chapter attempts to analyse different types of entrepreneurs in business as well as in different faculties of understanding. On the basis of his study of American agriculture, Clarence Danhof classified entrepreneurs into four categories, namely, innovative Entrepreneur, initiative Entrepreneur, fabian Entrepreneur and drone Entrepreneur. The other classification is based on technology, economic activity and market economy.

Economists' View

In economic analysis, entrepreneurial functions are supposed to be directed towards the materialistic objective of maximisation though its foundations may be of a high order such as spiritual, patriotic, social, psychological or ethnic. Entrepreneurial activity is a form-giving activity-giving form to the wishes of the society, to ideas, to the efforts of factors and to the raw material to be processed through.

J.S. Mill has listed three entrepreneurial functions:

1. Superintendence
2. Control, and
3. Direction

J.B. Say has stated that it is function of the entrepreneur to rationally combined the forces of production into a new producing organisation. J.S. Mill lists superintendence, control and direction as entrepreneurial functions. *Superintendence:* to assemble the means, turn out maximum at minimum cost and to supervise the work. *Control:* the flow of goods, use of finance, utilisation of machinery and the activities of the subordinates. *Direction:* he is a goal-oriented person; he has to keep the organisation constantly on the path of his objective. His is an activity of producing in present what the future will demand. Mill emphasises managerial and administrative functions. Organisation and superintendence are major functions of an entrepreneur. Organisation building capacity is the most critical skill expected of an entrepreneur.

Kirzener viewed the entrepreneur as a disequilibrating force. It is the alertness to unnoticed opportunities which creates a tendency of the ever-circular flow of equilibrium. Harvey Leibenstein states, "Entrepreneur is an individual or group of individuals with four major characteristics. He connects different markets; he is capable of making market deficiencies (gap-filling); he is input completer and he creates or expands time-binding, input-transforming entities (firms).

Much has been said by this economist on Entrepreneurship. So it can be deleted.

According to B.F. Hoselitz, "The primary function of entrepreneurship is the investment of time, capital and energy in economically significant pursuits; the emphasis is on decision-making on its various aspects." Another economist Harbinson enumerates four functions: in entrepreneurship the undertaking or managing of risk and handling of economic uncertainty; planning and innovation; coordination, administration and control, routine supervision. Ability to build organisation is, perhaps, Harbinson adds, the most precious of all entrepreneurial skills. Redlich's threefold division of functions ND/are:

(1) capitalist — employing the factors and buying raw material, setting up the organisation; (2) managerial — Innovation, supervision and coordination of productive activities; and (3) entrepreneurial – decision-making. Benjamin Higgins lists seeing opportunities for introduction of new techniques, new products and exploitation of new resource and organising factors of production into an enterprise to avail of these opportunities as they are essential for economic development.

B.C. Tandon discusses the functions of an entrepreneur in a developing economy in the context of economic, legal, political and cultural environment. Accordingly, the entrepreneur must possess *(a)* capacity to risk and have self-confidence; *(b)* technological knowledge, alertness to take existing opportunities, willingness to accept change and ability to initiate; *(c)* ability to marshall resources; and *(d)* ability of organisation and administration. He has to have tact, patience, sagacity, power of observation and ability of discriminating. He should have perseverance to overcome obstruction and fear, have the capacity to pick and choose associates and subordinates and wisely delegate authority to inspire loyalty. He must be able to develop "himself"

effectively. Tandon describes entrepreneur as an "ideal-type" rather than as "social-type." Knight is said to have identified entrepreneurship with control and responsibility.

Economic functions describes above isolate the entrepreneur from the economic environ, social milieu and political ethos in which he functions. Maximisation is taken as the pole star in his voyage. It seems to be conveniently assumed that he is abundantly provided with all the resources and the market readily absorbs what he puts into it. Reality is, however, full of bottlenecks and hurdles which are ignored in the above-mentioned works. Small industry is a natural habitat of the entrepreneur where his role is like that of a stoker who keeps the fire burning.

Sociologists' View

Sociologists consider the entrepreneur as a role performer corresponding to the role expected by the society. Wishes of the society are exhibited through customs and taboos, rewards and restraints, ethnic values and child-rearing practices, nationalistic attitude and patriotic inculcations and protestant ethics. He is conditioned by the social milieu to which he belongs. According to Peter Marris, to assemble or reassemble from what is available, very concrete kind of imagination, to see what others have missed, sensitivity to business and social environment, zest in industrial development and entrepreneurial courage are the factors that make an entrepreneur. According to Flavia Derossi, coordination at every stage — inception, maintenance and expansion — is the function of an entrepreneur. She feels an entrepreneur needs two qualities: (1) An optimistic outlook that there is a possibility of change, the environment can be mastered and he himself can introduce the required change. He finds difficulties challenging and stimulating; he thrives on them. (2) In a sphere as dynamic as industry, new problems are seized upon as opportunities for testing one's own capabilities.

Psychologists' View

Among psychologists, Frank Young describes an entrepreneur as a change-agent. K. L. Sharma maintains that entrepreneurs are men with qualities of leadership in solving persistent professional problems; but those persons likewise demonstrate eagerness to seize unusual opportunities. T. V. Rao and Udai Pareek describe entrepreneurship as a creative and innovative response to environment. The entrepreneur is goal-oriented rather than means-oriented. He must not only have a high capacity of risk-taking but must also have a high capacity of risk-sustaining which call for high degree of self-confidence.

Economists present him as a perceiver of otherwise unnoticed opportunity, organisation builder, adapter of new profitable activity and beneficiary thereof. Sociologists present him as a personality moulded by various practices of social enforcement and values imbibed in him. Psychologically, entrepreneurship is a vigorous application of the person's energies towards the long-cherished goals.

Types Entrepreneurs

The entrepreneurs have been broadly classified according to the type of business, use of professional skill, motivation, growth and stages of development. The various types of entrepreneurs are shown in the Fig. 6.1.

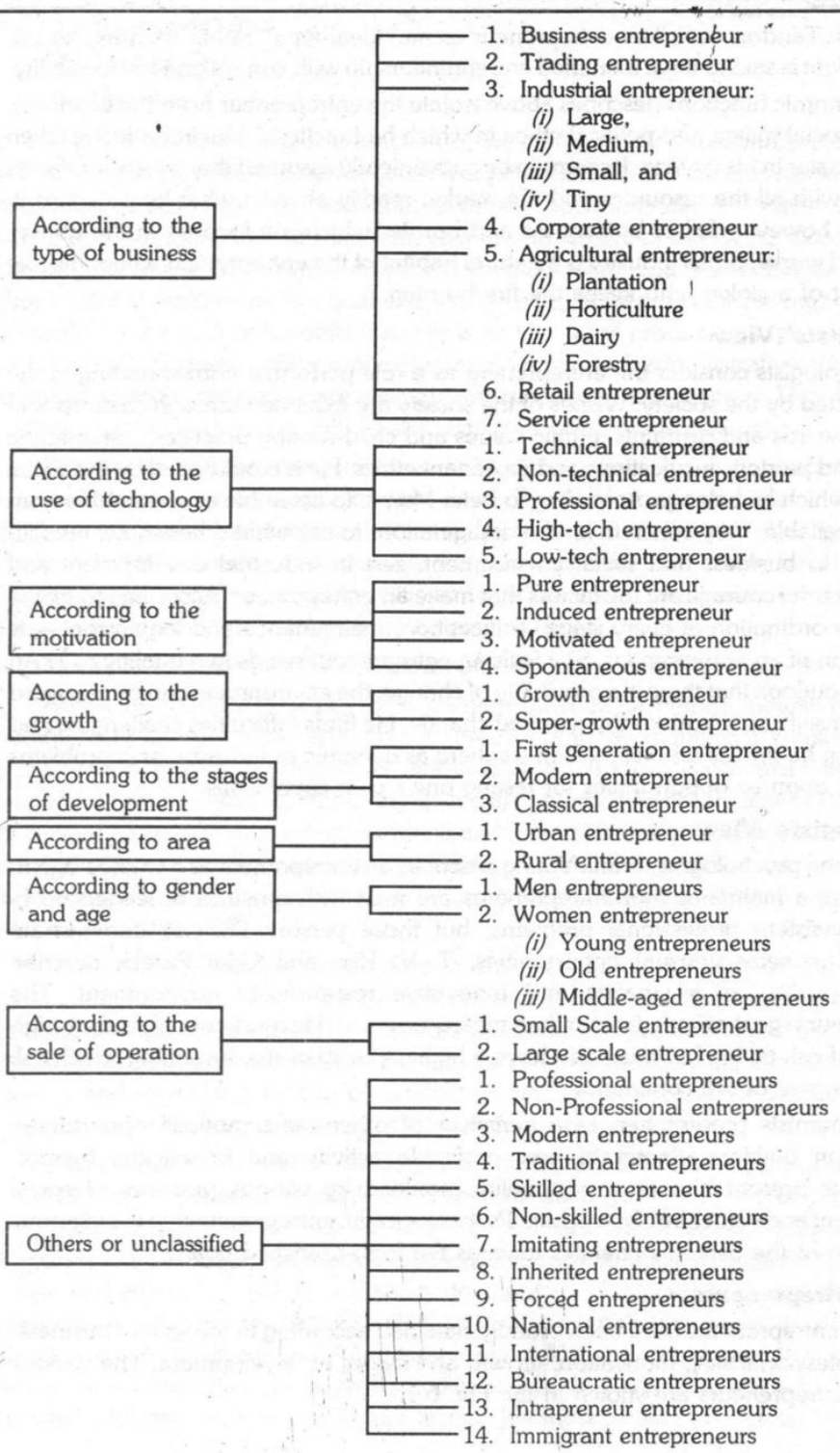


Fig. 6.1 Types of Entrepreneurs

The above classification of entrepreneurs is not exhaustive, for it aims at highlighting the broad range of entrepreneurs found in business and profession. We shall now discuss in brief, each type of entrepreneurs.

Entrepreneurs according to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

Business Entrepreneur: Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialise their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertising agency, readymade garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

Trading Entrepreneur: Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade. Britain, due to geographical limitations, has developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing many ideas ahead to promote their business.

Industrial Entrepreneur: Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors a product or service to meet the marketing needs. He is a product-oriented man who starts in an industrial unit because of the possibility of making some new product. The entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in industrial units as the electronic industry, textile units, machine tools or video cassette tape factory and the like.

Corporate Entrepreneur: Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act which gives it a separate legal entity. A trust registered under the Trust Act, or a company registered under the Companies Act are example of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.

Agricultural Entrepreneur: Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilisers and other inputs of agriculture. They are motivated to raise agricultural through mechanisation, irrigation and application of technologies for dry land agriculture products. They cover a broad spectrum of the agricultural sector and includes its allied occupations.

Entrepreneurs in Technology

The application of new technology in various sectors of the national economy is essential for the future growth of business. We may broadly classify these entrepreneurs on the basis of the use of technology as follows:

Technical Entrepreneur: A technical entrepreneur is essentially compared to a "craftsman." He develops improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. On not much sales generation by and does not do various sales promotional techniques. He demonstrates his innovative capabilities in matter of production of goods and rendering of services. The greatest strength which the technical entrepreneur has is his skill in production techniques.

Non-technical Entrepreneur: Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

Professional Entrepreneur: Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established. A professional entrepreneur sells out the running business and starts another venture with the sales proceeds. Such an entrepreneur is dynamic and he conceives new ideas to develop alternative projects.

Entrepreneurs and Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his business acumen.

Pure Entrepreneur: A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

Induced Entrepreneur: Induced entrepreneur is one who is induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the induced entrepreneurs enter business due to financial, technical and several other facilities provided to them by the state agencies to promote entrepreneurship. A person with a sound project is provided package assistance to his project. Today, import restriction and allocation of production quotas to small units have induced many people to start a small-scale industry.

Motivated Entrepreneur: New entrepreneurs are motivated by the desire for self-fulfilment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit.

Spontaneous Entrepreneur: These entrepreneurs start their business their by natural talents. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity. Such entrepreneurs have a strong conviction and confidence in their inborn ability.

Growth and Entrepreneurs

The development of a new venture has a greater chance of success. The entrepreneurs a new and open field of business. The customer's approval to the new product gives them psychological satisfaction and enormous profit. The industrial units are identified as units of high growth, medium growth and low growth industries and as such we have "Growth Entrepreneur" and "Super-Growth Entrepreneur."

Growth Entrepreneur: Growth entrepreneurs are those who necessarily take up a high growth industry which has substantial growth prospects.

Super-Growth Entrepreneur: Super-growth entrepreneurs are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

Entrepreneur and Stages of Development

Entrepreneurs may also be classified as the first generation entrepreneur, modern entrepreneur and classical entrepreneur depending upon the stage of development. They are explained below:

First-Generation Entrepreneur: A first-generation entrepreneur is one who starts an industrial unit by innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

Modern Entrepreneur: A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

Classical Entrepreneur: A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximise his economic returns at a level consistent with the survival of the firm with or without an element of growth.

Others

Innovating Entrepreneurs: Innovating entrepreneurship is characterised by aggressive assemblage in information and analysis of results, deriving from a novel combination of factors. Men / women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services by changing their utility, their value, their economic characteristics into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even the reorganisation of an existing enterprise.

Innovating entrepreneurs are very commonly found in developed countries. There is death of such entrepreneurs in underdeveloped countries. A country with little or no industrial tradition can hardly produce innovating entrepreneurs. Such entrepreneurs can emerge and work only when a certain level of development is already achieved and people look forward to change and progress. Innovating entrepreneurs played the key role in the rise of modern capitalism through their enterprising spirit,

hope of money making, ability to recognise and exploit opportunities, etc. Innovative entrepreneurs are creative and always bring in innovation in their work.

Imitative Entrepreneurs: Imitative entrepreneurship is characterised by readiness to adopt successful innovations by entrepreneurs. They imitate techniques and technology innovated by others. Thy are adoptive and more flexible.

Imitative entrepreneurs are also revolutionary and important. The importance of these humbler entrepreneurs who exploit possibilities as they present themselves and mostly on a small scale must not be underestimated. In the first place, such adaptation requires no mean ability. It often involves what has aptly been called 'subjective innovation', that is the ability to do things which have not been done before by the particular industrialist, even though, unknown to him, the problem may have been solved in the same way by others. By western standards, an imitative entrepreneur may be a pedestrian figure, an adopter and imitator rather than a true innovator. He is more an organiser of factors of production than a creator. But in a poor country attempting to industrialise, he is nevertheless a potent change producing figure. He can set in motion the chain reaction which leads to cumulative progress. This humbler type of entrepreneur is important in undeveloped countries.

Conclusion

It should be noted that private entrepreneurship has to harmonise economic opportunities with social and moral responsibility. As our wise people have said, unless the pursuit of wealth is integrated with the pursuit of *Dharma,* there could be no lasting prosperity and peace, whether within a country or among nations. The highly developed countries have realised that aggressive entrepreneurship without an ethical base can produce more harm than good, more misery than happiness and more destruction than creation. *Harmonised planning of economic and moral values is a long-drawn-out process, but the goal has to be kept in mind constantly.* One should remain optimistic that entrepreneurship in India will develop on these lines — to promote India's economic development on a sound basis, as an integral part of the development of the economy. The burst of creativity and innovation in emerging teleological industries holds promise for economic development and growth of technology and business. When talent is linked with technology, people recognise and then push viable ideas and the entrepreneurial process is under way.

In this time of rapid socio-economic development and technological change, the entrepreneurial spirit can be of advantage but only if we learn to use it. The entrepreneurs are the agents of change and our hope for the future.

CHAPTER 7

ENTREPRENEURIAL TRAITS AND MOTIVATION

Introduction

Entrepreneurial traits and motivation are an indispensible function of management. Entrepreneur is human being who has his dignity, self-respect, values, sentiments, aspirations, dreams apart from economic status. Indeed, economic betterment and social upliftment motivates a person to distinguish from others. The entrepreneurs have some basic values and responsibilities.

In this chapter, we shall examine the entrepreneurial traits and motivation.

Creation of a Dream

Creating a dream intention gives entrepreneurs the energy and desire to become involved in its implementation and to be willing to change. During the formulation of the dream, everyone participates (including the leaders), and this allows people to start seeing each other in a different light. How long they will maintain their commitment depends upon *(a)* how well the organisation's leaders function in their new role of facilitating needs or issues that are at variance with the dream, *(b)* how clearly the leaders articulate and share information about the business needs, and (c) how well the leaders openly acknowledge their willingness to change in whatever fashion to attain the dream or intention.

The process of creating the dream, in other words, intention should be tailored to the situation with the objective of having the entire organisation ultimately own the dream. In a large organisation, there will be many dreams formulated by interdependent parts of the organisation. At some point, these should be integrated into a total organisational intention. We have found that creating a dream in a bottoms-up manner where all organisational levels participate in some fashion is better than a tiered top-down approach.

To illustrate the content of a typical dream, let us look at the leadership portion of this from a Honeywell factory, which evolved as follows:

Leadership should be the ability of those leading work units (managers, supervisors, engineers, technical support, and group leaders) to create an atmosphere of acceptance, openness, and trust that will properly motivate members of the work units.

* Leadership incorporates Interpersonal Competence and Administrative Competence.

Interpersonal competence, i.e., the ability to relate, to people in a considerate and effective way:

Leadership should incorporate the following attributes.

— Give positive feedback for a good job.
— Initiate confidence in employees.
— Be fair and objective, not vindictive.
— Practise what is preached; do not ask for something that he or she would not be willing to do.
— Have a down-to-earth, person-to-person approach; act as part of a team.
— Be compassionate and understanding; create an atmosphere of acceptance and trust.
— Listen actively.
– Clarify priorities.
— Be available for discussion.
— Link management with employees, employees with management, and employees with each other. Communicate effectively to all people on all shifts at all levels of the organisation.
— Provide feedback for both good and bad work.
— Talk openly and give straight answers about what is happening.
— Encourage advancement.
— Give direction to the work unit.
— Be proud and supportive of employees.
— Has a sense of vision — a dream that is blended with employees' dream.
— Project a positive attitude.
— Is courageous.
— Sets a good example; is friendly, not moody.
— Enjoys his or her work.
— Keeps promises; plows through red tape.

Administrative competence is the ability to achieve organisational goals within the bounds of the business constraints policies and procedures. This means that the leader should,

— Understand his or her job.
— Understand employee's jobs — by

(a) Utilising people's skills effectively.

(b) Be concerned with employees' work and the workflow.

(c) Stand up for and show confidence in employees.

Take immediate action by

(a) Giving priority to problems.

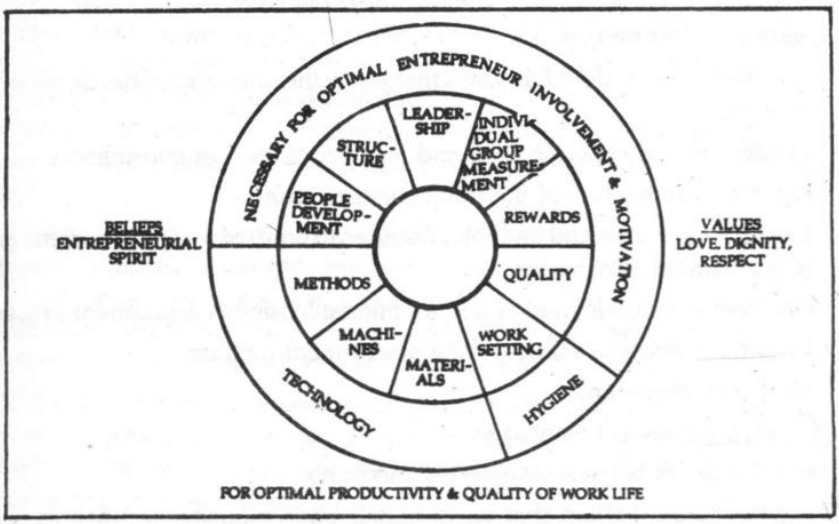
(b) Follow up on promises.

(c) Get tough when necessary.

(d) Take action to remove poor performers.

(e) Assure that the next in command knows his role and has authority to act.

(f) Provide proper human resources for all shifts all levels of organisation.



Fig, 7.1 Basic Elements — Entrepreneurial Involvement

Entrepreneurial Initiative

Recent data on entrepreneurial initiative and self-employment reflect a few problems. To overcome these problems it is essential to develop entrepreneurial skills for which the entrepreneur has to initiate the process of development. This is a challenging task. This unprecedented, perpetual change with unlimited barriers make entrepreneurial initiative in the future more significant and more dynamic.

This means that entrepreneurial initiative is a strategic process which embodies calculated strategic choices. There are strategies open to the entrepreneur himself in terms of industry choice and individual and resource-task fit, and there are strategies open to the regulators and support agencies in terms of industrial policy tools, incentives and explicit stimulation of industrial sectors or branches. A conceptual framework that contains both dimensions will provide a convenient base for analysis and possible policy action.

Encouraging entrepreneurial initiative is an issue applicable to both developed and developing countries and the search for effective means is proceeding in earnest. The analysis has dealt with a way of viewing the constraints embodied in the process of creating a new business or manufacturing operation.

The slow pace of the propensity to enterprise is mainly due to the existence of a tangible set of barriers prohibiting the process of entry into, continuity in, and an eventual exit from a business venture of a would-be entrepreneur if it is a function of forces that one may view as barriers limiting full-fledged business performance. There may be *entry barriers, survival barriers and exit barriers.*

Entry barriers are those forces limiting access to identified business opportunities and capitalisation on these opportunities. Survival barrier are constraints on the conditions essential for the small business entity. Exit barriers are constraints limiting the termination of small industrial ventures that have outlived their business viability or the growth of such ventures to a different size category.

The existing entry barriers are:

1. A cultural bias in identifying and managing the entrepreneurial development process.
2. Limited industry-specific data and insufficient market information.
3. Limited effectiveness of the infrastructural base.
4. Existence of visible and invisible obstacles to entry of a specific societal group (e.g., women) into business.
5. Unorganised capital market and traditional feasibility assessment processes.
6. Unsympathetic and cumbersome government attitude.
7. Hostile environment.
8. Limited access to technology.

Observed survival barriers include the following:

1. A behavioural pattern that could impair basic managerial practices.
2. Constraining practices within the capital market.
3. The threatening shadow of changing technology.
4. Limited learning.
5. The cultural management of resources.
6. Failure of guidance agencies to guide.
7. Scarce information and limited dissemination of that information.

Identified exit barriers include:

1. The emotional commitment of the entrepreneur to his venture.
2. Specialised assets, sunk funds.
3. The increasing demand for managerial skills.
4. Fear of failure.

Barriers, single or combined are said to have an impact on to strategic and long-term planning perspective of the small entrepreneur and could, equally, have an impact on the government's promotional policies within the sector. Low entry and low survival industries (or industrial branches) could provide policy-makers with an area for quick and intensive intervention. At the other extreme, industries with high entry barriers and high survival barriers, can probably be regarded as low priority areas that deserve a different kind of attention, i.e., barrier adjustment instead of enterprise development. The relationship between entry and exit barriers could lead to a similar set of conclusions. One of those conclusions is the advisability of the management of enterprise flow and the early identification of the potential for switching (a form of exit), or planned divestment. Again this can prove valuable for government policies for small industry promotion at the national and regional levels.

Characteristics of an Entrepreneur

The characteristics of an entrepreneur that contribute to success are the result of his achievement motivation. The characteristics of achievement motivated persons as identified by McClelland have been discussed in the chapter on "Future of Entrepreneurship in India." A successful entrepreneur must be a person with technical competence, initiative, good judgement, intelligence, leadership qualities, self-confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.

1. *Mental ability:* Mental ability consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made.

2. *Clear objectives:* An entrepreneur should have a clear objective as to the exact nature of the goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may also have the objective to establish the product, to make profit or to render social service.

3. *Business secrecy:* An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitors is a serious matter which should be carefully guarded against by an entrepreneur. An entrepreneur should be able to make a proper selection of his assistants.

4. *Human relations ability:* The most important personality traits contributing to the success of an entrepreneur are emotional stability, personal relations, consideration and tactfulness. An entrepreneur must maintain good relations with his customers if he is to establish relations that will encourage them to continue to patronise his business. He must also maintain good relations with his employees if he is to motivate them to perform their jobs at a high level of efficiency. An entrepreneur who maintains good human relations with customers, employees, suppliers, creditors and the community is much more likely to succeed in his business than the individual who does not practise good human relations. Human relations ability can also be referred to as tactfulness.

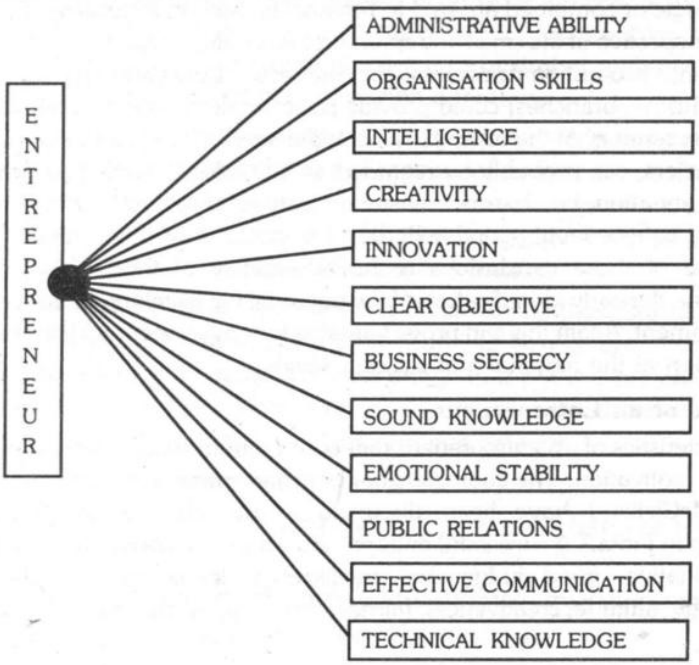


Fig. 7.2 Characteristics of an Entrepreneur

5. *Communication ability:* Communication ability is the ability to communicate effectively. Good communication also means that both the sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.

6. *Technical knowledge:* An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the one ability that most people are able to acquire if they try hard enough.

An entrepreneur who has a high level of administrative ability, mental ability, human relations ability, communication ability, and technical knowledge stands a much better chance of success than his counterpart who possesses low levels of these basic qualities. Brilliant men with first class degrees from universities shy away from becoming entrepreneurs because the one thing they cannot be taught is coping with human emotions.

Robert D. Hisrich has identified a few more capabilities or personal characteristics that an entrepreneur should possess. According to him, the entrepreneur must have an adequate commitment, motivation, and skills to start and build a business. The entrepreneur must determine if the management team has the necessary complementary skills necessary to succeed. Some key characteristics of a successful entrepreneur are:

Motivator: An entrepreneur must build a team, keep it motivated and provide an environment for individual growth and career development.

Self-confidence: Entrepreneurs must have belief in themselves and the ability to achieve their goals.

Long-term involvement: An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.

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

CHARACTERISTICS OF SMALL-SCALE ENTREPRENEURS

1. They are young men.
2. They are energetic/ zealous/enthusiastic.
3. They have minimum basic education.
4. They are pleasant-mannered.
5. They are hard-working
6. They are determined.
7. They are systematic.
8. They are self-made men.
9. They are self-confident.
10. They are disciplined men.
11. They follow a planned approach.
12. They are trained/experienced.
13. They have entrepreneurial zeal.
14. They have meagre capital.
15. Their area of operation is small.
16. Generally they deal in one product.
17. They employ a few people.
18. Their turnover is small.
19. They are flexible.

CHARACTERISTICS OF LARGE-SCALE ENTERPRISE

1. Promoted and professionally-managed through employed persons.
2. Large capital.
3. Capital contributed by a large section of shareholders.
4. Shares are registered in the share markets/stock exchanges.
5. Large assets.
6. Assets acquired on classified credit.
7. Engaged in diversified activities.
8. Promotes and pushes goods in the market.
9. Huge turnover/sales/profits.
10. Easy access to institutional finance.
11. They have greater leverage for development.
12. They are well acquainted with political and officialdom.
13. They are the trend setters.
14. They can create demand for their products through consumer awareness programmes, education etc.
15. They are great visionaries, who foresee the need of the country well ahead of times.
16. They are responsible and have a value-driven, corporate philosophy.

Persistent problem-solver: An entrepreneur must have an intense desire to complete a task or solve a problem. Creativity is an essential ingredient.

Initiative: An entrepreneur must have initiative accepting personal responsibility for actions, and above all make good use of resources.

Goal setter: An entrepreneur must be able to set challenging but realistic goals.

Moderate risk-taker: An entrepreneur must be a moderate risk-taker and learn from any failures.

These personal traits go a long way in making an entrepreneur a successful man/woman. But however, no entrepreneur possesses total strengths. In such cases, he associates and/or acquires and thus strengthens his enterprise.

Qualities of an Entrepreneur

A true entrepreneur besides possessing functional qualities, must also possess the broad personality which help in developing initiative and drive to accomplish great tasks and face challenges squarely.

James J. Berne has stressed the following qualities of a good entrepreneur:

1. He is an enterprising individual. He is energetic, hard working, resourceful, aware of new opportunities, able to adjust himself to changing conditions with ease and willing to assume risks involved in change.
2. He is interested in advancing technologically and in improving the quality of his product or service.
3. He is interested in expanding the scale of his operations by reinvesting his earnings.
4. He visualises changes and adapts.
5. He is a firm believer in planning and systematic work.
6. He works for the society at large and for the good of his fellow-beings.

These qualities sum up, what is usually implied from the phrase, the "spirit of enterprise." It is difficult to conceivers of a first-rate industrial entrepreneur who is not adaptable to change, anxious to grow larger and improve technologically.

Entrepreneurship appears as a personal quality which enables certain individuals to make decisions with far-reaching consequences. The personal qualities that contribute to the success of an entrepreneur are as follows:

1. *Motivation Towards Achievement:* A successful entrepreneur should be a good administrator. He should know the art of getting things done by other people without hurting their feelings or self-respect. He should have a strong motivation towards the achievement of a task and must be able to exert considerable efforts in getting things done by others.

2. *Creativity:* Mental ability consists of intelligence, an analytical approach and creative things. An entrepreneur should have creative thinking and be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study various situations in which decisions may have to be made.

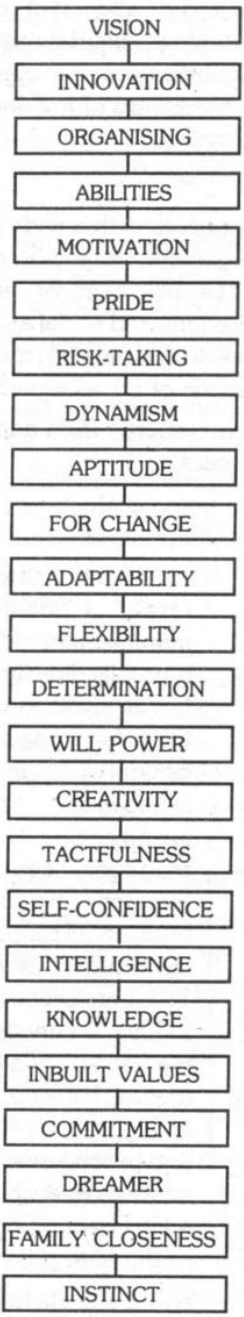


Fig. 7.3 Qualities of a Successful Entrepreneur.

3. *Clarity:* An entrepreneur should have clear objectives as to the exact nature of the business, the nature of the goods to be produced and the subsidiary activities to be undertaken.

The qualities of an entrepreneur are given in Fig. 7.3.

Kilby has rightly enumerated the following activities for a successful entrepreneur in an underdeveloped economy:

1. Perception of market opportunities (novel or imitative).
2. Gaining command over scarce resources.
3. Purchasing of inputs.
4. Marketing of the product and responding effectively to competition.
5. Dealing with public bureaucracy as regards concessions, licences, taxes, etc. provided through the various fiscal policies of the government.
6. Management of the human relations within the enterprise.
7. Management of customer and supplier relations.
8. Financial Management.
9. Production management, including control through written records, supervision, coordinating input flows with orders, maintenance.
10. Acquiring and overseeing assembly of the plant.
11. Taking care for minimising inputs for a given production process.
12. Maintaining the production process and improving the quality of the product.
13. Introduction of new production techniques and product lines.

From the above discussion and definitions, it can be stated that entrepreneurial activities encompass those factors right from the perception

of the profitable opportunity to its translation into reality through establishing a successful enterprise and further leading to its growth and development. Especially in an underdeveloped economy, the expectations from entrepreneurial units are much more varied and related to many dimensions, including socio-economic objectives. This is because this type of economy is characterised by a majority of low income strata than the developed economy characterised by high income.

Entrepreneurial Skills

To deal with entrepreneurial skills is to concern oneself with a wide coverage of aspects of setting up an enterprise and its management. It is not confined to visualisation, planning, setting-up and risk-taking. The skills with an entrepreneur include his ability to deal with view situations, organisations and social and economic forces as they emerge from time to time. The skills to deal with a situation fore-visualised or suddenly emerging must be an essential characteristic of an entrepreneur.

The small entrepreneur must have skill to positive response from administrators, bankers, infrastructure institutions, clients and employees.

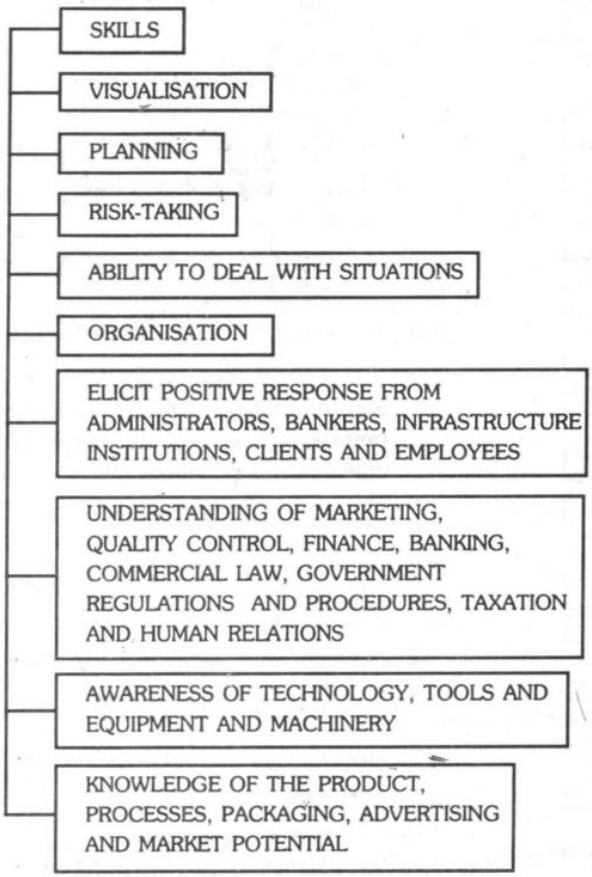


Fig. 7.4 Entrepreneurial Skills

The entrepreneur is rarely a master of the management skills, and yet is usually directly responsible for all aspects of business. Often he or she has to be the general manager, production manager, purchasing manager, personnel manager, controller and research organiser for the business all rolled into one at least during its early years. The entrepreneur therefore to have an understanding of marketing, quality control, finance, banking, commercial law, government regulations and procedures, and human relations as each of them has a vital bearing on the health of the enterprise.

Need for Skills

We often talk of transfer of technology. As a matter of fact, the whole world is

talking about it. There is hardly any international event at global and regional level where this subject does not come up for discussion. The poor nations demand technology and resources from industrialised and rich countries and rightly so. The developing countries would rather export semi-finished and finished products which are value added than export raw materials. The development of entrepreneurial skill must precede transfer of technology if we do not desire to keep such technologies and equipment serving such technologies idle. One has also to realise that the technologies are developing very fast and also the skills to match with this dynamic growth. The entrepreneur has to be made aware of the imperative needs of updated technologies, modern tools and equipments, processes and system and skills. In this task his whole organisation, however small it may be has to join the exercise.

It is observed that in many least developed countries, sophisticated equipment and machinery imported at heavy cost, often under pressure of international financial institutions or aid agreements are lying unutilised for want of trained hands. It is obvious that the accelerated development of human resources and appropriate training of manpower must be concurrent with the transfer of technologies which are relevant to the needs of each developing country. This will call for an inventory of existing manpower, degree of their present skills, arrangements for proper imparting and skills needed. This should have a relation to natural endowment and resources and their optimum utilisation.

Types of Skills

Types of skills vary according to location, products, clientele etc. In rural areas, a small enterprise making goods for local consumption based on local raw materials would need relatively simpler skills. In urban areas, the product, processes, packaging, advertising have to match with the growing sophistication of consumer goods, preference of needs etc. They call for an intensification of effort to develop matched skills in all areas of entrepreneurial activity.

Skills for New Class of Entrepreneurs

As stated earlier, entrepreneurship till recently in most of the developing countries has been confined to persons coming from the traditionally trade-oriented families. Now there is emphasis on new classes of entrepreneurs. These would include women, tribals and young men from non-traditional families. For women entrepreneurs, special training facilities have to be provided owing to the special difficulties faced by them as compared to men. For tribal entrepreneurs, care will have to be taken that their basic culture, crafts and skills are not materially affected.

Attributes of Entrepreneurs

The attempts to discover the secret of entrepreneurs' success has pre-occupied writers and analysts from a variety of disciplines. Biographies of successful entrepreneurs and businessmen, for example, frequently reflect the tendencies of the subjects of such studies in terms of simple virtues of thrift, hard work, and clean living. As an alternative to the biographical models are those studies that turn the entrepreneur into a superman, manipulating the complexities of an uncertain world with a sure and omnipotent touch. Thus emerges the notion of the "genius entrepreneur" whose

success is in large measure caused by his unswerving dedication to setting high goals and to reaching for them. He has vision on which he bases his own objectives and sets his own goals. And he does this not simply on the basis of last year's results plus some growth factor, but on the basis of his own perception, of his own capabilities and to satisfy his own needs.

Among other distinguishing attributes of entrepreneurship are a willingness to assume risks; a sense of acquisition or unceasing curiosity; insight into the relationship between concepts, objectives, needs, and needs satisfaction; sound judgement as to what is central and peripheral to attaining his objectives; imitative and creativity; problem-solving ability, ability to marshall resources needed to achieve his objectives and goals; and the administrative ability to organise those resources to accomplish his goals and satisfy his minor needs.

Motivation

Motivation is an indispensable function of management. When man is at work, he cannot be forced to work like a machine. He is a human being who has his dignity, self-respect, values, sentiments and aspirations apart from the economic status. Under such circumstances the efficiency of the enterprise is related not merely to the efficiency of sophisticated machines installed but more importantly upon the satisfaction and the spontaneous desire of man to put his mind and heart into the work. This spontaneous urge to involve in work is not merely related to monetary awards or assignment of position or the direction to perform the duty or even the fear of punishment but to the mechanics and system of motivation.

Motivation encompasses complex aspects of human behaviour to which contribution has been made by sociologists, social anthropologists, psychologists and business executives. This concept has its roots in motives within a person which induce him to behave in a particular manner. Generally speaking, the concept of motivation is by and large psychological which "relates to those forces operating within the individual employee or subordinate which impel him to act or not to act in certain ways" —

"Motivation refers to the way in which urges, drives, desires, aspirations, strivings or needs direct, control or explain the behaviour of human beings."

This is a deep-seated definition of Motivation. It includes three things:

(i) The urges, drives, desires, aspirations, strivings or needs of human being influence human behaviour.

(ii) The factors which influence human behaviour — psychological, sociological, economic or managerial.

(iii) The efficiency of such behaviour — this may be tested by the resultant action. Whether this behaviour has directed, controlled or implemented the desired action.

If the entrepreneur feels motivated his behaviour will bring about the desired action.

Here, one reaches the most crucial point in the Regional or District Development Strategy of the underdeveloped regions. The development agency, with all the institutions concerned, will have to formulate a motivation programme and by continuous and ingenious methods, involve people in the process of development so that they acquire new attitudes and confidence to enter into new activities and to show the propensity of enterprise. Appropriate values will have to be inculcated and risk-taking capacity be cultivated. Unless this aspect is given its due weightage in the Development Plan, in spite of all the incentives, most of the projects will hardly make much progress. Development is the consequence of motivated people.

Motivational factors constitute the inner urge present in an individual which continuously demands from him to do something new and unique as also to perform better than others. The motivational factors again are comprised of three basic elements — entrepreneurial motivation, personal efficiency and coping capability. The achievement motivation is also termed *efficiency motivation.* McClelland and Winter have made considerable studies and concluded that what motivates a person to do something new or something to seek better is the inner urge which directs him towards such ends. This urge also force a person to use the resources efficiently than to be negligent of it. Also important is the power of motivation which is really the urge to have control over others and to direct their course of activities towards the end which one seeks to attain. These motivational factors induce the person to undertake entrepreneurial activities which relate to creating a new business where there was none. This also means to excel the performance in carrying out any activity by striving through persistent efforts unlike others who do not have sufficient capacity for hard work.

What Makes an Entrepreneur?

This is a frequent question. What makes an entrepreneur is the combination of various factors that have enabled the personality formation right from the childhood as also the psychological urge that exists intensively in the person.

These psychological processes which lead men to set up their own successful business enterprises begin in the very early life and have cumulative effect. The influences of early childhood and other social roles are determinant factors for the formation of that personality which motivates an individual towards becoming an independent businessman or entrepreneur.

In the case of persons who take up jobs, it has always been found that they have secured success in the established organisations. These people do not have a rejection towards the established institutions and neither do they attempt to rebel against the traditional path to success. On the other hand, an entrepreneur fails to achieve educational success through the established organisations and this is because of the general rejection of the established organisations at all levels. People who tend to like security and not uncertainty get more satisfied by taking up jobs which are less risk-oriented and hence are not motivated towards building up their own industrial enterprise.

Men who establish new business are men who have right from the childhood faced a different set of environment in their family, school and other social situations.

Research studies have indicated that successful entrepreneurs identify a crisis before they venture into new Entrepreneurial activities. Even in their childhood most of them had threatening non-supportive and disgusting adult figures who had much say in their social and economic life. Most of these have a childhood of impoverishment and stress. Economic deprivation also works as a motivational factor towards creating something on their own and free oneself from the clutches of oppressing forces which attempt to kill their spirit of individualism. Thus it has been found that creating a successful new business is not due to an isolated incidence in the life of an individual but it has been as a result of learned response to their total social, emotional and economic environment.

The family plays an important role in developing the personality necessary for turning into an entrepreneur later in life. In family situations where security and non-risk bearing activities are encouraged right from childhood, the individual likes to be more security-oriented rather than attempt on his own in areas where adventures and uncertainty conditions prevail. Also in families where deep attachments and emotional relationship are encouraged, it has been seen that the child growing under such situations tends to take up activities which are more security-oriented than risk-oriented. Since in most of the middle class families attachment and security-oriented activities are encouraged despite seeking academic excellence, it itself does not help the person to develop the urge to be independent and create a framework required for enjoying autonomy.

As a result of this many bright graduates deviate from placing themselves in open positions. On the contrary they choose to stay in the established organisations because they have developed a favourable attitude towards the establishment. On the other hand, the entrepreneurial personality would rather face the impersonal forces of the economy than cope with enter-personal relations of the established organisations. Due to this characteristic of an entrepreneur, they tend to shift from job to job till they have finally found a field of activity in which they will ultimately have a say and also enjoy the happenings of events by their will, determination and efforts.

While people who take up jobs prefer to see success in the traditional and highly structured roles in the established undertakings, entrepreneurs prefer to have a different approach toward success and be unique in their own way. They find more satisfaction in their creative faculties getting an opportunity to express themselves fully rather than submitting themselves to structured and rigid forces. The bright graduates may very often lack creativity and be unable to break through the undifferentiated mask of circumstance and make something of their own.

The entrepreneurs, on the other hand, find such situations extraordinarily challenging and attempt with determination and persistence to come out of this web of oppressing factors, which tend to keep him in the rigid framework. Thus we find entrepreneurial characteristics are formed through a combination of various social, economic and psychological factors to which the person becomes subjected to right from childhood. These factors reinforce in him to urge to excel others and seek satisfaction in creating on his own a new enterprise instead of seeking a security-

oriented job. In the absence of these reinforcing elements which go into the formation of the entrepreneurial personality, however successful a person may be in his academic life it does not guarantee that he would become a successful entrepreneur. Something more than mere academic excellence is a pre-requisite for becoming an entrepreneur of success and repute. These requisites are embodied in the various qualities that the entrepreneur must have basically within himself in order to establish himself a successful entrepreneur. But many graduates do lack in these qualities.

Table 7.1

Entrpreneurship: Sources of Supply and Motivation

Author	*Entrepreneurial Phenomenon*	*Source of Entrpreneurial Supply*	*Motive Force or Triggering Factor*
1. Schumpeter	Individual	Extraordinary individuals	Innate urge to achieve success
2. Weber	Status Groups	Extraordinary individuals	Religious beliefs Calninist ethic
3. McClelland	Religious and social groups	Individuals with high n-achievement, creative	Child-rearing practices and climate
4. Hagen	Subordinated Groups	Individuals in the society driven by a duty to achieve	'Status withdrawal' and 'relative social blockage'
5. Cochran	Individual	Society's model, personality determined by its cultural values, role expectations and social sanctions	'Social Acceptance' of entrepreneurial role
6. Young	Homogenous	Relative subgroups (ethnic communities) occupational groups, or Politically-oriented factors	Deviant view of the world strengthened by group solidarity
7. Kunkel	Group	Operant conditioning procedures in a society	Reinforcing stimuli and average stimuli
8. Hoselitz	Group	Culturally marginal groups	Gaining social recognition

Source: V. Lakshmana Rao: Industrial Entrepreneurship in India, pp. 85-86.

Challenge of Motivation

Since new employees and managers will be of a calibre selected with an eye on the future, they will all be of a high competence level. It will be a challenge to keep motivating them. It is conceivable that organisational structure will have to be looked into order to meet motivational needs of people and "position" them in jobs with the right type of responsibility.

Introduction of high technology and work groups operating without the traditional band of supervisors or inspectors will become more common. Such 'semi-autonomous work groups' will have to be trained so that they are motivated to take care of equipment and meet output targets and tough quality standards.

This will also demand leadership attributes of a high order on the part of people manning such decentralised operations.

V. Lakshmana Rao has aptly summarised the views of various experts on the sources of entrepreneurial supply and motivation as presented in Table 7.1.

Conclusion

Apart from earning a livelihood and/or making profit, the entrepreneur is also motivated to fulfill his/her innate urge to achieve success in life, improve his/her social standing, gaining social recognition, to provide something to society. The motivational factor vary from place to place, time to time as well as entrepreneur to entrepreneur. Yet motivation moulds the different entrepreneurial traits. The traits and motivation are moulded by the socio, economic, political, cultural and psychological environment and varies from country to country.

The study of entrepreneurial traits and motivation is useful in developing a profile of a successful entrepreneur. It is indeed a positive approach in developing entrepreneurship and enterprise in the country. Although, the entrepreneurial traits are complex, the goal of entrepreneur is to build enterprises to earn profit and serve the society.

◆ ◆ ◆

"The objective aimed at should be maximum production, equitable distribution, and no unemployment. With India's vast population, this cannot be achieved by having a big industry only, or cottage industry only."

— Jawaharlal Nehru

CHAPTER 8

GROWTH OF ENTREPRENEURS

Introduction

Industrialisation results from the interaction of technological change, specialisation and trade. Good transport, efficient communications, entrepreneurship and an educated labour force help to promote the rapid development of industries. Well-defined rules reduced the cost of transactions as specialisation increases and economies become more complex.

A stable institutional framework speeds up the process of development. When governments seek to improve the working of markets rather than replace them, the economy generally works better. A rapid and balanced economic development and expansion of opportunities for employment as well as self-employment are the basic objectives of developmental planning. Economic development is primarily related to the impulse of social change reflecting the developmental urge for self-respect, self-help and self-reliance. Undevelopment or underdevelopment is primarily due to the lack of such an impulse.

The rate of development appears to be directly proportionate to the intensity of the social impulse of change, displayed qualitatively in some sections, marking a departure from the traditional behaviour and conventional occupational pattern which may be called social mobility. Where the social impulse has emerged, the first hurdle in the march of economic progress is overcome. The next task is to see that the impulse is sustained, if not quickened. Where it is conspicuously absent, efforts should be concentrated for its emergence. This demands conscious and massive efforts on the part of leaders of society in virtually all walks of life. A force must set in, so that new techniques of production and correspondingly different types of institutions will make their appearance.

The process of re-structurisation of economy and the society must give a visible evidence. The society in a country must shed inertia and pulsate with a new vigour and urge. Self-reliance, enterprise, innovation and attitudinal change are the attributes of a development-oriented society. These propensities need cultivation, if economic

growth is to become a reality. Basically, the task is to change the stratified socio-economic structure in the underdeveloped regions. This can only be achieved if a change is brought about in social attitudes and behaviour. A developmental mind has to be cultivated in the society of underdeveloped areas, shedding lethargy, apathy and traditional psychology. Further, a new industrial culture has to emerge in the backward regions, reflecting the urge and willingness to observe the industrial discipline and readiness to seek self-employment and gainful employment opportunities.

Role of Entrepreneurs

Entrepreneurs, on the other hand, as Schumpeter and many others have already pointed out, are distinct from business owners and managers. They are essentially strategic innovators, seeking profitability with growth. Promoting entrepreneurship, in that sense, is intrinsically different from promoting small-scale industries.

If small business in the developed countries has received special attention it is due to innovation and creativity. Studies have shown that a large number of innovations have come from small, rather than large, business. As these innovative firms entered the market they made profits and created jobs. In the U.S. Presidents Jimmy Carter and Gerald Ford emphasised that small business created 60 per cent of new jobs there. And this employment generation was due to its better financial performance. Similarly, the Bolton Committee, 1971, and the Wilson Committee, 1979, also concluded that the small business in the U.K. had higher profitability than large business.

The studies on entrepreneurship also point out that, "most of the risk in entrepreneurial management lies not in misperception of opportunity, but in trying to pursue opportunity without adequate resources. One of the fundamental errors of large corporations, on the other hand, is overcommitment of resources."

Growth of Entrepreneurs

In terms of benefiting the people, the development of small and medium-scale industries and businesses offered many advantages. Most important perhaps, amid the mounting unemployment, are the small and medium enterprises which generate more jobs and often use labour-intensive methods of production. Industries and businesses of smaller size also work towards promoting better income distribution and development of entrepreneurship in addition to broader benefits as rural industrialisation and increased export earnings.

One of the most potentially profitable areas of human resources development for small and medium-sized enterprises is the training of entrepreneurs and managers. Such training programmes should be as well rounded as possible, covering not only the basics of business, technology and so forth but also helping the trainees to identify their aptitudes, motivating them, encouraging innovative thinking and helping to develop personalities and attitudes geared for success. Indeed, small industries and business are ideally suited for capitalising on entrepreneurial skills, initiative and talent and thus assisting in building a dynamic private sector in developing countries.

The growth of entrepreneurship in the post-planning period has been significant. For example, between 1960 and 1995 the number of private companies went up from 26,000 to nearly 3,25,200. It will be seen that the maximum increase in the number

of factories was in the case of industries which by virtue of their being in the small/medium-scale sector are less regulated than others. The increase in the number of factories in industries like tobacco and related products, wood and wood products, rubber and rubber products, jewellery, photographic and optical goods, watches and clothes, medical, surgical and scientific equipments, sports equipments, cold storage, etc. was more than forty times during the period 1959-1995.

The growth in the number of small entrepreneurs has been encouraging. The small-scale sector has grown in volume from 16,000 units in 1950 to over 26 lakh units by the end of 1995. The range of items produced by the small-scale sector ranges from consumer good to high precision items.

Not only has the number of entrepreneurs grown over a period of time but also the scope of entrepreneurship is getting broad-based. Earlier for a large proportion of firms in India, the basic unit of entrepreneurship was the extended family. This tendency is now getting diluted. A study conducted a few years back by the Economic and Scientific Research Foundation (ESRF) indicates that out of a sample of entrepreneurs studied by them, around 1/5 of them were managers and engineers before they turned entrepreneurs. It was found that around 57 per cent of the new entrepreneurs in starting small-scale units were motivated by the experience that they had gained from the previous employment. Entrepreneurship in these cases was not necessarily in-born but largely acquired.

Though impressive in certain ways, the development accomplished so far, as indicated before, is inadequate and far from satisfactory when set against the needs as also the existing vast potential. In fact, according to Prof. Herbert Giersh, a noted economist, there is no shortage of entrepreneurial talent anywhere in the world, but the actual numbers depend on the demand conditions, i.e., the demand permitted, induced or actively provoked by the socio-economic structure and the politico-economic environment. According to him, a mixed capitalistic economy such as ours offers scope for development of entrepreneurial talent not only in the private sector but also in the government sector The main disadvantage is that bureaucracy tends to limit the scope for entrepreneurial activity in the private sector.

Prospects

With the buoyancy achieved in the industrial production as evidenced by the increase in the rate of growth during the current Plan period, expectations of better capacity utilisation and a favourable investment climate reflected in the response of the capital market to the various issues, the prospects of the industrial sector during the Eighth Plan period are quite encouraging. The availability of sufficient investable resources, development of financial services and the optimism engendered in the corporate sector and also in the private investors at large would help the industrial sector to move to a higher growth path.

A combination of fiscal and credit policy measures, growth centred programmes recently launched for industrial development, rationalisation of import duty structure on capital goods and measures of technology upgradation and excise duty relief for weak but potentially viable sick units will give further fillip to the country's industrial

development. The Government of India has signed Memoranda of Understanding with important public sector undertaking so as to ensure that the performance targets envisaged are achieved.

Promotion of savings and industrial investment through new saving schemes, creation of new intermediaries and extension of fiscal concession were important measures incorporated in the Budget of 1995-96. Removal of Section 115(I) of the Income-tax Act and reduction in corporate tax rate are expected to have a favourable impact on corporate profitability. Withdrawal of investment allowance is expected to contribute to a more efficient use of capital. Policy measures were announced in May 1990 to further stimulate industrial investment. With these developments and looking to investment proposals in the pipeline, institutions seemed optimistic about the growth prospects. While the pressure on balance of payments continues to cause concern, the economy can be expected to sustain the tempo of growth in the coming year in the context of buoyancy in the key sectors. With this optimism, reflected in their pipeline cases as well, the financial institutions look forward to yet another year of growth.

Conclusion

As industrialisation is important, organisations and society must develop entrepreneurs, intrapreneurs, managers and skilled workers. Their skills should be sharpened as they live in a competitive world. It is important to develop sound institutions to sustain and broad-base entrepreneurship. The individual's ability to perceive opportunities inherent in change and succeed is founded on the knowledge of products and markets. The entrepreneur has to have a better idea of a product or service and/or a better way to deliver that product or service to a paying customer. If we wish to respond to the new economic and technological environment, we should recast our educational system, broad-base the institutional infrastructure and provide the much-needed support through a single window in each district, taluka or even a town with development potential for Entrepreneurship is more than a word, it is a mission. Rapid industrialisation needs full support from all concerned to bring about economic progress.

Entrepreneurship has opened avenues of great scope in the Indian economy. Our national economy is most suited to the growth of small business enterprise. Small business units offer a more convenient means of nurturing and developing entrepreneurship by providing the means of entry into business for new entrepreneurial talents. It is a breeding ground for the first generation entrepreneurs.

Small business units provide enormous opportunities to the entrepreneurs in different sectors of the national economy. An entrepreneur can start a new venture in the industrial, agricultural or service sector. Small business sector is by far, the most important sector of the national economy which accounts for about 55 per cent of the total industry production in the country. This sector provided enormous opportunities to the new entrepreneurs.

It holds a key to success in the prevailing socio-economic environment.

Small-scale industries are labour-intensive and can play an important role in solving the problem of unemployment. These industries provide industrial experience and serve as a training ground for a large number of entrepreneurs.

"Excellence doesn't happen miraculously but springs from pace setting levels of personal effectiveness and efficiency. Great business, government and non-profit organisations owe their greatness to a few individuals who mastered leadership skills and passed those skills on to others."
— John Gardner

CHAPTER 9

NATURE AND IMPORTANCE OF ENTREPRENEURS

Introduction

The world is rapidly changing; we should be able to change our attitudes and approaches to prevent a country of India's size and potential to exist on the periphery of the world's economy. The process of development includes creation of appropriate infrastructure and setting up and management of public utilities. Non-conventional energy sources have to be developed on a commercial scale. Similarly, application of modern scientific techniques in agriculture and horticulture has become imperative for providing a sound base for a more rapid growth of employment and incomes. There is also a need for rapid growth of distributed industries in a multi-directional way. Apart from land, labour and capital, there is greater need for entrepreneurs to strive for growth on an ongoing basis. In this context an attempt has been made in this chapter to analyse the nature and importance of entrepreneurs.

Entrepreneurial Qualities

The entrepreneurial qualities are to some extent innate. But not all of them are entirely innate. Some can be enhanced by training, or simply by experience. For example, analytical ability and computational skill can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced by the general experience of everyday life. Entrepreneurial careers will be strongly influenced by the desire to enhance qualities which are scarce, yet difficult to obtain through delegation because of the problems involved in screening for them. Of the two indispensable qualities of the entrepreneur, imagination is almost entirely innate, while foresight, can be enhanced by a varied experience. Imagination and foresight are the scarce qualities which are difficult to analyse and quantify. Delegation skill and organisation skill, though not essential, are highly desirable whenever large-scale decision-making is involved. These are qualities which can be enhanced through experience.

Entrepreneurial Functions

A successful entrepreneur recognises the commercial potential of a product or service, design operating policies in marketing, production, product development and the organisational structure. He carries out the whole set of activities of the business. He has a high capacity for taking calculated risks and has faith in his own capabilities.

According to some economists, the functions of an entrepreneur incorporate co-ordination of the business management of the enterprise, risk-taking, controlling the enterprise, innovation for change, motivation and other related activities. In reality, an entrepreneur has to carry out a combination of these in keeping with time and environment. Truly, he has to consider new ideas, demands and exploit the opportunities, and thereby contribute to technical progress. He is thus a nucleus of high growth of the enterprise.

An entrepreneur is expected to perform the following functions:

1. *Assumption of Risk:* The entrepreneur assumes all possible risks of business. which emerges due to the possibility of changes in the tastes of consumers, techniques of production and new inventions. Such risks are not insurable. If they meterialise, the entrepreneur has to bear the loss himself. Thus, risk-bearing or uncertainty-bearing still remains the most important function of an entrepreneur which he tries to reduce by his initiative, skill and good judgment.

2. *Business Decisions:* The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers him the best prospects and produces whatever commodities he thinks will pay him the most and employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location, techniques of production and does everything that is needed for the development of his business.

3. *Managerial Functions:* The entrepreneur performs the managerial function though they are different from entrepreneurial functions. He formulates production plans, sees to the finance, deals with purchase of raw materials, provides production facilities, organises sales including management. In a large establishment, these management functions are delegated to the paid managerial personnel.

The entrepreneurial functions can be performed by different categories of people under different economic systems. In principle, the entrepreneur could be a planner in a socialist economy, or even a priest or king in a traditional society. In practice, entrepreneurship is closely identified with private enterprise in a market economy.

An entrepreneur performs many useful functions. He undertakes a venture, assumes risk and earns profit. He is the man having a strong motivation to achieve success. He is self-confident in his entrepreneurial abilities. He exploits opportunities wherever and whenever they arise.

The entrepreneur can identify opportunities to start a business either as a manufacturer or as a distributor, for entrepreneurship exists in every field of economic endeadvour. Manufacturing activities require a relatively high capital investment and a greater degree of entrepreneurial abilities than distribution activities. Entrepreneurship

has also been developed in the trading sector. Britain, for example, has developed trading entrepreneurship while Germany and Japan have developed industrial entrepreneurship. A manufacturing entrepreneur demonstrates his entrepreneurial talents by bringing out new products while a trading entrepreneur performs his entrepreneurial functions in creating demand for the business in which he deals.

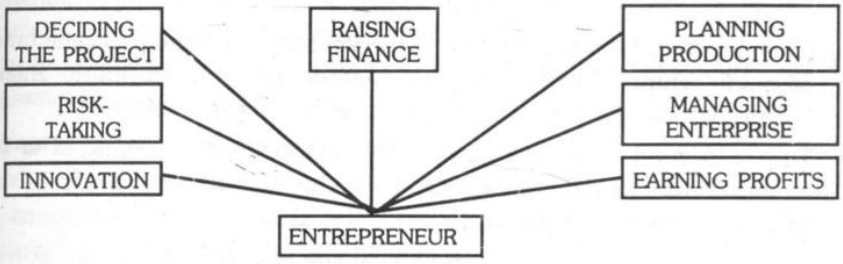


Fig. 9.1 Entrepreneurial Functions

Decision-maker

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

1. The determination of those objectives of the enterprise and the change of those objectives as conditions required or made advantageous;
2. The development of an organisation, including efficient relations with subordinates and all employees;
3. Securing adequate financial resources, and maintaining good relations with the existing and potential investors;
4. The requisition of efficient technological equipment and the revision of it as new machinery appeared;
5. The development of a market for the products and the devising of new products to meet or anticipate consumer's demand; and
6. The maintenance of good relations with public authorities and with the society at large.

Modern writers on this subject have outlined the following three broad functions of an entrepreneur:

1. Innovation,
2. Risk-taking, and
3. Organisation and management of business so as to have leadership and control over it.

Innovation means "doing new things or the doing of things that are already being done in a new way." It includes new processes of production, introduction of new products, creation of new markets, discovery of a new and better form of industrial organisation. Risk-bearing means making provisions for capital in order to enable the entrepreneur is to reduce uncertainty in his plan of investment and expansion of the enterprise. Thus innovations may occur in the following forms:

1. Introduction of a new good, that is, one which consumers are not yet familiar with or of a new quality of a good.
2. Introduction of a new method of production, that is one not yet tested by experience in the concerned unit of manufacture, which needs to be founded upon a discovery scientifically new and which can also exist in a new way of handling a community commercially.
3. Opening of a new market, that is, a market into which the particular branch of manufacture of the country in question has not previously entered, irrespective of whether or not this market has existed before.
4. Turn into good account a new source of supply of raw material or half-manufactured goods, irrespective of whether this source already exists or whether it has first to be created.
5. Carrying out of the new organisation of any industry, like the creation of a monopoly position (for example, through trustification) or the breaking of a monopoly position.

Before coming to other functions, it is necessary to clarify how innovation differs from the two other notions with which it is sometimes confused: *research and invention.*

The aim of research is to produce knowledge, that of innovation to produce objects which are practical and can be sold. Since it is inspired by different objectives, innovation can be completely independent of research. It is not based on the same skills. Even the relevant information required on markets, on patents and on management has little to do with research. Innovation may be based on the application of knowledge produced by research but it may also be purely empirical: indeed practice often precedes theory and innovation may open the way to research (the steam engine for thermodynamics, or the computer for programming). Moreover, many innovations are not based on research but on ingenuous combinations of existing materials and components.

Invention too is different from innovation. An invention becomes an innovation only when it is embodied in a product which can be successfully marketed. History abounds in examples of bankrupt inventors whose brainchild projects took hold years later. The innovator, on the other hand, is the person who comes on the scene at the right moment to find the missing elements in an invention which will make it eminently marketable. Thus it is always difficult to identify the true innovator. Several individuals or organisations may simultaneously claim the authorship of ideas or inventions which have given rise to innovation.

Innovation cannot be confined to a simplistic scheme. Facts show that small and medium firms, at least in some countries, can make a very significant contribution to technical prosperity. For instance, it is estimated that firms of less than 1000 workers and individual inventors were responsible for more than 40 per cent of the major innovations appearing in the United States in the early 1970s. This innovation potential can be explained by the advantages enjoyed by small firms over large ones.

It is now well recognised that entrepreneurs can be rooted out through appropriately designed entrepreneurship development programmes which envisages

the approach: developing achievement motivation and sharpening of entrepreneurial traits, four strategies — project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations, and developing managerial and operating capabilities. Various techniques and approaches have been developed and adopted to achieve these objectives, keeping in view the target-groups and/or target areas. The structuring of the programmes and training methodology also necessitate consideration of the specific target-groups and target areas. Methodology for selection of the prospective entrepreneurs as well as support services after training have a significant impact on the success of the entrepreneurs' development programmes.

Entrepreneur vs. Entrepreneurship

"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:

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

Entrepreneurship management is basically concerned with the development and co-ordination of entrepreneurial functions. In a way, entrepreneur precedes entrepreneurship.

Experience shows that entrepreneurship as an economic function is not a single point but rather a range of behaviour, There are six critical dimensions that distinguish entrepreneurial behaviour from more administratively-oriented behaviour:(1) strategic orientation; (2) commitment to opportunity; (3) the resource commitment process; (4) the concept of control over resources; (5) the concept of management; and (6) compensation policy.

Self-perceived power to achieve goal	Desired future state involves growth or change: Yes	Desired future state involves growth or change: No
Yes	Entrepreneur	Satisfied manager
No	Frustrated potential entrepreneur	Bureaucratic functionary

Fig. 9.2 Manager's Opportunity Matrix

Opportunity Matrix

A matrix defining entrepreneurship is shown in Fig 9.2. One can see how t present position influences whether one is entrepreneurial or not. It stands clear th particular skills, talents, and attitudes towards risk influence the perception as to wheth an outcome is feasible. Training, knowledge, and self-confidence contribute to su perceptions.

The importance of this figure cannot be overemphasized since individuals pla themselves in their particular box for rational reasons relating to their own live however, for the firms desiring to build the entrepreneurial spirit, action is require

Entrepreneurial Decision

Entrepreneurial decisions occur despite recession, inflation, high interest rate lack of infrastructure, economic uncertainty etc. Each of these derisions is a person human process, which although unique, has some common characteristics. Th impulsive motive to change his/her life style and create something new and an inn urge to do something worthy are the forces behind these decisions. At times, perha even more stimulation for change comes from a negative force — disruption. At time the available opportunities force a decision on individuals to take up entrepreneuri work. Like all processes, it entails movement from something non-existent to somethin new.

What causes this change in the work environment of disruption to result in a ne company being formed instead of something else? The decision to start of ne company occurs when an individual perceives that it is both desirable and possibl

The perception that starting a new company is desirable results from a individual's culture, sub-culture, teachers, family, and peers. A culture that values a individual who successfully creates a new business will spawn more compan formations than one that does not. For example, India's economic scene places a hig value on being your own boss, individual opportunity, being a success, and makin money — all aspects of entrepreneurship. What is more, many different sub-culture that shape value system are operating within a cultural framework which suppo and even promote entrepreneurship.

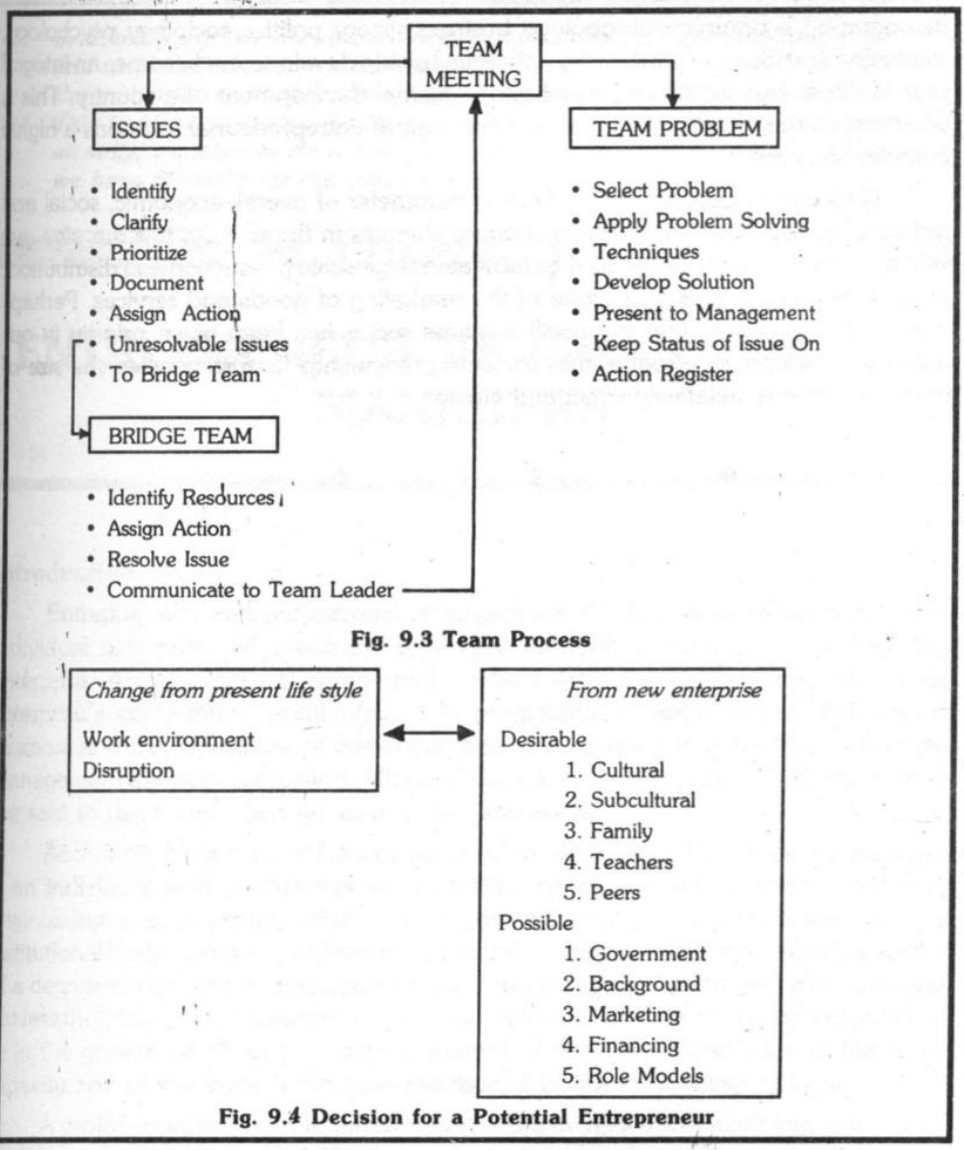


Fig. 9.3 Team Process

Fig. 9.4 Decision for a Potential Entrepreneur

Conclusion

Entrepreneurs play an important role in the development of society. For example, the use of Jeans in America has created the demand for it throughout the world. Similarly Coca Cola has been accepted as a social drink. The introduction of the television has provided the society a means of information and entertainment. The society has accepted the innovations of such entrepreneurs as Gillet, Wright Brothers, and Henry Ford. The inventions of these great entrepreneurs of the history has revolutionised the life style of people in the society.

Modern business studies have a distinct entrepreneurial discipline. The approach to the study of entrepreneurship is multi-disciplinary. It impinges on such areas as

demography, economic anthropology, business history, politics, sociology, psychology, marketing and finance. That is why entrepreneurship development becomes an integral part of the overall economic, social and industrial development of a country. This is what makes the identification and management of entrepreneurial functions a highly complex exercise.

Thus entrepreneurship, the *de facto* barometer of overall economic, social and industrial growth has brought revolutionary changes in the society. It is the *sine quo non* of a nation's progress. Which has facilitated large-scale production and distribution. It has widened the area and scope of the marketing of goods and services. Perhaps it is for these reasons that the small business sector has been given priority in our national development programmes for entrepreneurship flourishes when the size of business remains relatively small and viable.



"We have to industrialise our country and introduce new techniques both in industry and in agriculture. We can do it, in a way, by buying machines and technical experience from abroad and asking the experts to put up the machines and work them here. This has been the normal method. This is all right in the beginning of a process but if we want to do it steadily, we have to do it ourselves. We have to build up the skills and we have to build up the machines here."

— Jawaharlal Nehru

CHAPTER 10

ENTREPRENEUR VS PROFESSIONAL MANAGERS

Introduction

Entrepreneurs and professional managers are the two sides of the coin. Their individual itineraries will make the difference between success and failure for the enterprise. An effective entrepreneurial strategy should be an integral part of an enterprise's competitive positioning. The progressive development in the size of business and the separation of ownership and management in enterprises has made management a distinct profession. Although both strive to achieve the similar goals they are said to distinguish themselves in varied measures.

According to the Sachar Committee on Company Law "A professional manager is an individual who *(i)* belongs to the profession of law, accountancy, medicine, engineering or architecture, or *(ii)* is a member of a recognised professional body or institutional body exercising supervisory jurisdiction over its members, or *(iii)* is a holder of a degree or diploma in management from any recognised university and possesses not less than five years' experience in an executive capacity in a company, corporation or in the government"; or possesses minimum of ten years' experience in the same capacity and in the same institutions mentioned in the third category.

A professional manager is one who specialises in the work of planning, organising, leading and controlling the efforts of others by the systematic used of classified knowledge and principles. He subscribes to the standards of practice and code of ethics established by a recognised body. To be a professional manager he should *(i)* have an insight of his job requirements; *(ii)* carry out continuous updating of his learning to fulfil his job requirements; *(iii)* have a performance-oriented relationship with his subordinates, super-ordinates and colleagues based on mutual respect to facilitate team work for collective contribution to the organisation; *(iv)* have a relationship based on long-term mutual benefit approach with customers, suppliers and other members of the public; and *(v)* have communication with colleagues to improve the standard contribution and the prestige of the managerial profession.

Professional Management

The progressive development in the size of business and the separation of ownership and management in the corporate enterprises have contributed to the emergence of management as a distinct profession. A management can be professional not by hiring professional managers but by adopting the style of professional management. Professional management organises managerial functions by setting long-term objectives, formulating policies and strategies, developing formal communication network and evaluation system to deal with the emergence of business problems.

The characteristics of professional management are as follows:

Body of Knowledge: Management theory has a philosophy of its own. It is based on systematic and scientific studies. Precisely, the management of knowledge is the passport to enter the world of entrepreneurship.

Management Tools: Tools of management such as accounting, business law, psychology, statistics and data processing have been developed to enhance the practical utility of the science of management.

Specialisation: There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional area of management. This has created greater demand for professionals.

Separate Discipline: Management studies in many universities and institutions of higher learning are recognised as a separate discipline. Seminars, special courses, and training programmes have become essential in management areas like export management, personnel management, production management, marketing management, financial management, etc.

Code of Conduct: Business management is regarded as a social institution. It has social responsibilities towards customers, employees and the society on the whole. Consumer-oriented marketing concept is an important corporate code of conduct. Pressure of consumerism, trade unionism, public opinion and legislation are definitely inducing the management to evolve a code of ethics for consumer satisfactions and holding a major market share.

Professional Association: In our country too, business management associations have been formed. They mainly aim at spreading the ethics of business management and build up a sound public image of the managerial profession.

A professional manager is required to possess specific management knowledge relating to *(a)* Technical processes, products, materials, equipment and procedures; *(b)* Economic knowledge about the basic objective of the entrepreneurs and its position in the economic and social system within which it is operating; *(c)* Human knowledge about employee motivation, moral and delegation of authority; and *(d)* Administrative knowledge about application and analysis of data. This will facilitate him to deal with various problems of the organisation in an effective manner.

A person can become a professional manager by the acquisition of knowledge through formal education. An owner-manager can achieve success due to his personal and cultural traits. Many great entrepreneurs are self-made, for they were not handicapped by their lack of formal education but came out as successful entrepreneurs

due to their skill and intelligence. One can easily identify such an entrepreneur manager in any profession, may it be bidi or agarbatti manufacturing, polishing or grinding, retailing or wholesaling.

MANAGERS AND ENTREPRENEURS

Both managers and entrepreneurs are answerable for producing results. The results are, of course, different. In their respective result areas, the buck stops with them. While they can delegate, they are finally accountable.

Both have to produce results through people working with them though they deal with different sets of people. They are not effective in the long run, if they are loners.

Both are decision-makers but the decisions are different as their tasks vary.

Both have to operate under constraints which are understandably different.

To be effective in their respective roles, both have to follow sound principles of management like planning, staffing, delegation and control. The focus of these management tools may vary depending upon the ultimate purpose.

Table 10.1 summarises the similarities, focusing on the different perspective within each similarity.

Table 10.1

SIMILARITIES BETWEEN MANAGERS AND ENTREPRENEURS

Areas of Similarity	*Differing Focus*	
	Managers	*Entrepreneurs*
To produce results	Results of today, this month, this year. Short-term and medium-term.	Results of tomorrow, next year and coming five years. Long-term and very long-term.
To produce results through people	Have usually to handle people oriented to day-to-day management of nitty-grity and nuts and bolts type — Men of details.	Have to deal with people who can conceptualise with aggregate pespectives. — Strategists.
To take decisions	Operational and administrative decisions, which have a bearing on short-term and medium-term results.	Mostly strategic decisions, involving growth through expansion, diversification, take-overs and mergers.
To co-operate under constraints	The constraints are usually organisational, i.e., those within an organisation like machine capacity, labour productivity, routing and scheduling, information availability, financial limitations etc.	The constraints are usually environmental which lie outside an organisation like the policy of financial institutions, import policy, licensing policy, infrastructural constraints etc.
To follow sound principles of management	The principles are more oriented towards internal administration and control like delegation, accountability, responsibility, planning, budgeting, reporting and information system.	The principles are with reference to macro-social aspects like social responsibility, equal opportunity, employment, ethical advertisement practices, adherence to government policies, etc.

A successful organisation needs both entrepreneurship and management. The entrepreneurial role may be played by the Chief Executive and his team of top-level executives, the managerial role by the middle-level and joint-level executives.

A Management Tool

The efficiency of professional management lies in the managerial approach which does not suffer from dogmatic, ideological and political trappings. It is an approach which trackles the problem as a 'whole' and not in 'fractions.'

The professional manager brings into operation planning, organising, staffing, motivating, controlling and coordinating the work of technocrats and professional aspects to achieve pre-determined goals. The professional manager must possess a desire to achieve, to expand, to build and to grow. His goal should be to produce the best results in the shortest time and at least cost. The manager, who has had to benefit of management education and has exposed to the managerial tools and techniques of achieving the profit-cum-growth, will be in a position to deliver the goods to in developing economy like ours.

It is characteristic of an established profession that its members accept the obligation to contribute to the advancement of standards and to the education of the future aspirants. The more eminent the member, the more readily he recognises the obligation. It is quite likely that his personal contribution to teaching may be small but it will be of high quality. This is the task facing the professional managers of the future.

Illustrations

Professional managers are the forerunners in the corporate sector. Two brief profiles reflect on the varied aspects of these achievers and doers. They are young, energetic, educated and possess the much needed drive.

Arvind Vijh, 29, is the group manager for chemicals and allied products at Birla 3M in Bangalore, a company he joined last year because he was taken up by the American multinational's plans to "manufacture a range of products which will make it a force to reckon with soon." An MBA from IIM, Calcutta, Vijh has had a rapid rise since he began his career at the Indian Organic Chemicals in Mumbai as a management trainee. After a six-month stint there, he moved to the ICI, first as a management trainee and then as sales manager in charge of speciality chemicals. During his three and a half years with the chemical and fertiliser giant, he claims to have first picked up the ropes on "how to get into new business" — and this is what he intends doing successfully in Birla 3M.

Her promotion six months ago has *Arti Luniya* one of the youngest branch managers in the Steel Authority of India Ltd. (SAIL). "Creating a demand for steel," is how the 33-year old describes her job at the Howrah branch which sells about 10,000 tonnes of steel per month. Handling up to 50 customers a day, her work includes distribution, planning and outdoing competitors.

Obtaining a degree in economics, she did a post-graduate course in international relations from Jawaharlal Nehru University, New Delhi. SAIL has been her first and only employer. She joined SAIL as a management trainee and underwent rigorous training in the various departments of the steel giant. "I do feel a sense of pride in being the first lady branch manager," she admits.

The entrepreneur may be a manager but a paid manager cannot acquire the position of an entrepreneur.

An entrepreneur has great motivation to manage his business successfully. He is keen towards developing business through innovation and is satisfied when his efforts give him positive results. He is the investor, risk-bearer, manager and controller. The entrepreneur may appoint a manager and delegate some of his functions. However, manager even after performing his assigned duties cannot substitute the entrepreneur.

The entrepreneur lays down a broad policy for business, assumes risk and makes the business a concern. The main factors which distinguish an entrepreneur from a professional manager as shown below:

Table 10.1

DISTINCTIVE FEATURES OF ENTREPRENEURS AND PROFESSIONAL MANAGER

Entrepreneur	*Professional Manager*
1. Perception of an/opportunity	1. Setting of objectives
2. Risk-taking	2. Policy formulation
3. Tactical Planning	3. Strategic Planning
4. Interpersonal communication	4. Formal communication
5. Negotiating	5. Organising
6. Trouble-shooting	6. Motivating
7. Making it a growing concern	7. Controlling
8. Innovator	8. Administrator
9. Motivator	9. Skilled, knowledgeable
10. Determined	10. Confident
11. Idealist	11. Specialist
12. Committed	12. Loyal
13. Visionary	13. Planner
14. Planner	14. Implementer

Entrepreneur vs Manager: The entrepreneur is a person who is motivated to satisfy a high need for achievement in innovative and creative activities. His creative behaviour and innovative spirit which forms a process of an endless chain is termed as entrepreneurship. It is not enough for the entrepreneur to build up the process, but equally important task for him is to manage the business. He performs entrepreneurial vis-a-vis managerial functions. The entrepreneur enters at a transitional stage in which what is initially with innovation becomes a routine for him the transition from an entrepreneurship to management. Also, the emphasis switches from techniques and analytical methods to insight and to involvement with people. The entrepreneur perceives and exploits opportunity, and the subsequent steps necessary for organisation are pertinent, to management.

The entrepreneur differs from the professional manager in that he undertakes a venture for his personal gratification. As such he cannot live within the framework of occupational behaviour set by others. He may engage professional manager to perform some of his functions such as setting of objectives, policies, procedures, rules, strategies, formal communication network. However, the entrepreneurial functions of innovation, assumption of business risk and commitment to his vision cannot be delegated to the professional manager. Failure to the professional executive may mean a little more than locating a new job perhaps even at a higher salary, whereas failure of an entrepreneur in his efforts would mean a devastating loss to his career. The professional manager has to work within the framework of policy guidelines laid down by the entrepreneur.

This distinction between entrepreneur and the professional (traditional) manager is presented in Table 10.2.

Table 10.2
DISTINCTIVE FEATURES OF TRADITIONAL MANAGERS AND THE ENTREPRENEUR

	Managers	*Entrepreneur*
Primary Motives	Want promotion and traditional corporate rewards. Power-motivated.	Wants freedom, goal-oriented, self-reliant, and self-motivated.
Time Orientation	Respond to quotas and Budgets, weekly, monthly, quarterly, annual planning horizons, the next promtion or transfer.	End goals of 5-10-year growth of business in view as guides. Takes action now to move the next step along way.
Action	Delegate action. Supervising and reporting take most of energy.	Gets hands dirty. May upset employees by suddenly doing their work.
Skills	Professional training. Often business-school trained. Abstract analytical tools, people-management, and political skills.	Knows business intimately. More business acumen than managerial or political skill. Often technically trained if in technical business. May have former P & L responsibility in corporation.
Courage and Destiny	Sees others in charge of his or her destiny. Can be forceful and ambitious, but may be fearful of others' ability in case of optimism.	Self-confident, optimistic, courageous.
Attention	Primarily on events inside corporation.	Primarily on technology and market place.
Risk	Careful	Like moderate risk. Invests. heavily, but expects to succeed.
Market Research	Has market studies done to discover needs and guide product conceptualisation.	Creates needs. Creates products that often can't be tested with market research — potential customers don't yet understand them. Talks to customers and forms own opinions.

Status	Cares about status symbols (corner office, etc.)	Happy sitting on an orange crate if job is getting done.
Failure and Mistakes	Strives to avoid mistakes and surprises. Postpones recognising failure.	Deals with mistakes and failures as learning experiences.
Decisions	Agrees with those in power. Delays decision until he gets a feel of what bosses want.	Follows private vision. Decisive and action-oriented.
Who they Serve	Please others.	Pleases self and customers.
Attitude Toward the system	Sees system as nurturing and protective, seeks position within it.	May rapidly advance in a system, when frustrated, reject the system and form his or her own.
Problem-solving Style	Works out problems within the system.	Escapes problems in large and formal structures by leaving and starting over his own.
Family History	Family members worked for large organisations.	Entrepreneurial small-business, professional, or agricultural background.
Relationship with Parents	Independent of mother, good relations with father, but slightly dependent.	Absent father or poor relations with father.
Socio-economic Background	Middle-class background.	Lower-class background in some early studies, middle-class in more recent ones.
Educational Level	Highly educated.	Less well educated in earlier studies, some graduate work but not Ph. D. in later ones.
Relationship with Others	Hierarchy as basic relationship.	Transactions and deal making as basic relationship.

Entrepreneur and Enterprises

Entrepreneur is the fourth factor of enterprise. According to Noah Webster, "entrepreneur is one who assumes the risk and management of business."

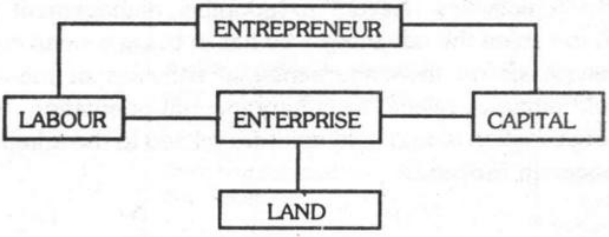


Fig. 10.1 Four Factors of an Enterprise

The enterprise is the basic unit of an economic organisation. It produces goods and services worth more than the resources used. Thus, any effort for it to bear fruit ultimately affect directly or indirectly individual enterprise. Enterprise is an undertaking which involves activity, courage, and energy. It involves the willingness to assume risks and decision making, in undertaking an economic activity. It also involves innovation. Thus, entrepreneur and enterprise are inter-linked, enterprise being the offshoot of an entrepreneur. Its success is dependent on the entrepreneur. Peter Drucker has observed, "Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being practised."

Intrapreneurs

Of late, a new breed of corporate entrepreneurs has come to the fore in large organisations. They are called "intrapreneurs." They are entrepreneurs who catch hold of a new idea for a product, service, or process and work to bring this idea to fruition within the framework of the organisation. Intrapreneurs with their innovations and dedicated effort are perceived as a valuable asset by the organisation, inspiring others. He serves as a champion to others in the organisation. In America, a number of intrapreneurs are leaving their jobs to start their own ventures. Many such intrapreneurs have become exceedingly successful in their new ventures and, what is more, they are causing a threat to the companies they left a few years ago.

Entrepreneur vs. Administrator

Management in a small business organisation is performed quite differently from the management process in large companies. In fact, the role of entrepreneurs is quite different from the role of professional administrators in large organisations. A person in effective control of a business unit underlines the adaptive nature of managerial processes in a small firm. Entrepreneurship has connotations of enterprise, opportunism, individuality, in contrast to the connotations of the terms "manager" and "administration", which are associated with notions of organisation, planning, professionalism, rationality and predictive management processes.

The administrator in a large firm is primarily concerned with those activities relevant to predictive management processes, that is, with activities related to prediction and control. On the other hand, the owner-manager of a small business organisation needs primarily to perform activities relevant to adaptive management process, activities that enable him to exploit the advantages he has in being a small enterprise. An entrepreneur puts emphasis on the entrepreneurial activities of management process, so he would hold attitudes related to entrepreneurial orientation, while the administrator of a large organisation would hold attitudes related to the administrative orientation of the management process.

Table 10.3
OWNER-MANAGER VS. PROFESSIONAL MANAGER

	Owner Manager	*Professional Manager*
1. *Source of Authority*	Traditional (ownership) Personal	Expertise Office
2. *Basis of Philosophy*	No diffusion between ownership and control	Control without ownership
	No conflict between personal and company objectives	Conflict between individual and organisational goals
	No distinction between person and role	Very clear distinction between the individual and the post he occupies.
	Integration of work and social values	Values of the work-place divorced from both individual and social values.
	Not subservient to economic goals	Economic 'performance' as ultimate criterion.
3. *Characteristic Skills*	Adoptive Diagnostic	Predictive Prognostic
	Exploitation of change opportunism	Control of change
	Tactical facility	Strategic facility
	Pragmatic use of techniques as aid to problem-solving	Coordination and control of specialists.
	Social skills applied on a personal basis	Manipulative skills applied largely on an impersonal basis.
	Consequences mitigating decision-making	Event shaping decision-making
4. *Organisation*	Informal relationship	Formal relationship.
	No divorce between the planners and the doers	Divorce of planning from doing.
	Appointment and promotion often on the basis of birth of personal friendship.	Technical qualifications as basis of appointment and promotion.
	Everyone prepared to muck-is as required.	Precise definition of rights and obligations, duties and responsibilities.
	Open system of communi-cations	Structured communications system.

Source: Philip Clarke, *Small Business: How they Survive and Succeed,* David & Charles, Great Britain, 1973, pp. 109-111.

Owner-Manager vs. Professional-Manager

The owner-manager is identified with individuality, flair, strong motivation to achieve success and the urge to grow while the professional manager conjures up a picture of organising, planning, motivating and controlling. The ower-manager exhibits a strong desire for independence, which he demonstrates through the building of an organisation. The owner-manager assumes all business risks and stands to lose not only his capital but reputation and prestige in the event of failure of business, whereas the professional manager is not exposed to such risks.

The differences between on owner-manager and a professional manager are much deeper which can be studied with respect to the function, business philosophy, and the characteristic skills which each incorporates.

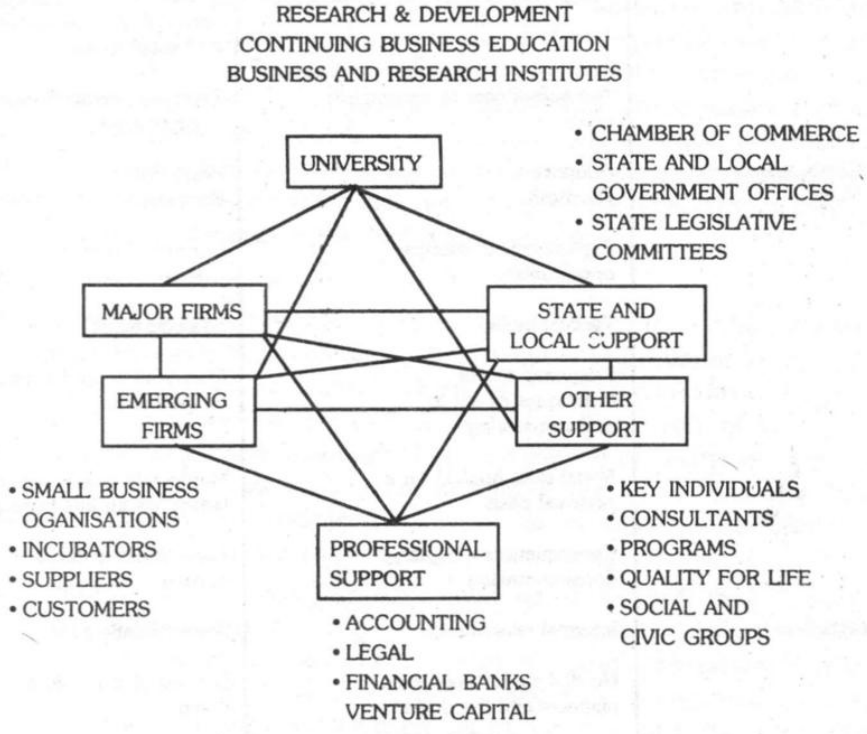


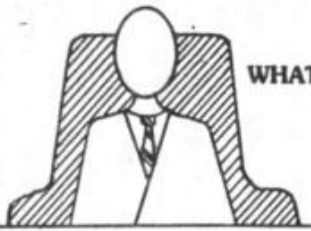
Fig. 10.2 The Entrepreneurial Network

The Entrepreneurial Network

Entrepreneurship is a dynamic process which requires links not only among and between individuals but also among and between a variety of institutions. The stronger, more complex and more diverse the web of relationships, the more the entrepreneur is likely to have access to opportunities, the greater are his chances of solving problems expeditiously, and ultimately the greater the chances of success for the new venture.

THE CEO OF THE FUTURE

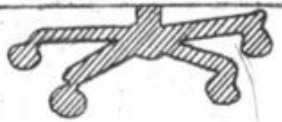
To get a broad perspective on the changing requirements for successful business leadership in the next century, an executive search firm in the US conducted a multilingual survey of 1,500 senior executives, 870 of them CEOs in 20 countries. Those surveyed were asked to assess the dominant characteristics that describe today's CEO and that will describe the ideal CEO of the year 2000. The results:



WHAT TRAITS CEO'S WILL HAVE AND WILL NEED

Traits or talents dominant now in CEOs and important for the CEO of year 2000 in percentages

Personal Behaviour	Now	2000	Knowledge and skills	Now	2000
Conveys strong sense of vision	75	98	Strategy formulation	68	78
Links compensation to performance	66	91	Human resource management	41	53
Communicates frequently with employees	59	89	International economics and politics	10	19
Emphasises ethics	74	85	Science and technology	11	15
Plans for management succession	56	85	Computer literacy	3	7
Communicates frequently with customers	41	78	Marketing and sales	50	48
Reassigns or terminates unsatisfactory employees	34	71	Negotiation	34	24
Rewards loyalty	48	44	Accounting and finance	33	24
Makes all major decisions	39	21	Handling media and public speaking	16	13
Behaves conservatively	32	13	Production	21	9



Lee Iacocca sums up the changes he sees coming:

"If a guy wants to be a chief executive 25 years or 50 years from now, he will have to be well rounded. There will no more of 'is he a good lawyer, is he a good marketing guy, is he a good finance guy.' His education and experience will make him a total entrepreneur in a world that has really turned into one huge market."

The entrepreneurial network, as depicted in 10.5, illustrates some of the potential links and relationships that can promote and sustain new ventures in an economic area.

Conclusion

Growth is a conscious, controllable factor which must be planned and coordinated. Entrepreneurship plays a crucial role in this growth process. In sum, I realize the managing change may be my actual theme. I am reminded of something that John Stuart Mill said more than 100 years ago: "Mankind is divided into those who are still what they were and those who have changed: into the men of the present age and the men of the past." Successfully managing the "unmanageable" requires us to become those men who have changed. It requires flexibility, imagination and a willingness to accept change as an opportunity and a stimulus for development and growth. Therefore, organisations, governments and society must encourage it. Entrepreneurship perceives opportunities inherent in change, creates a desire for pursuing them and creates an environment in which success is possible. The concept of the entrepreneur should be understood in its broadest sense that he is a person who acts as an agent of change for the good of the people. He not only brings change in economy but is respcnsible for social development also. At the same time, the professional manager translates the entrepreneurial vision into a reality by adopting his professional efficiency and managerial skills. The entrepreneur and professional managers are, therefore, a critical input of socio-economic development.



"The stage is set for social take-off for women from a low development path to an accelerated pace in achieving higher level of self-sustaining economic growth .... Women entrepreneurs have to graduate from a state of dependence on subsidies/concessions to that of seizing opportunities as they emerge in an open economy."

CHAPTER 11

DEVELOPMENT OF WOMEN ENTREPRENEURS

Introduction

The emergence of entrepreneurs in a society depends to a great extent on the economic, social, religious, cultural and psychological factor prevailing in the society. In the advanced countries of the world, there is a phenomenal increase in the number of self-employed women after the World War. In the United States, women own 25 per cent of all business, even though their sales on an average are less than two-fifths of those of other small businesses. In Canada, one-third of small businesses are owned by women and in France it is one-fifth. In the UK., since 1980, the number of self-employed women has increased three times as fast as the number of self-employed men.

Women entrepreneurs have been making a significant impact in all segments of the economy in Canada, Great Britain, Germany, Australia and the U.S. The areas chosen by women are retail trade, restaurants, hotels, education, cultural, cleaning, insurance and manufacturing. They have made their mark in business for the following reasons:

(i) They want new challenges and opportunities for self-fulfilment.

(ii) They want to prove their mettle in innovative and competitive jobs.

(iii) They want the change to control the balance between their family responsibilities and their business lives. Dina Lavoie, a Professor of Entrepreneurship, Montreal has observed that, women business owners hire an average of two or three employees, whereas men are more likely to have nine employees or more. Often, a micro-business fits a woman's life-style. Expansion might mean a loss of control or disruption in the amount of time she invests in other facets of her life. She may also want to oversee and control every aspect of her business and may feel she will lose that opportunity if she grows to the point where she cannot."

In a recent study, economist Catherine Swift, has mentioned that women face tougher security requirements on their lines of credit than do men. However, she also explains that other identified differences such as higher interest rates, lower credit approval rates and espousal co-signature requirements are primarily attributable to the fact that women operate younger and smaller firms that are known to meet with such financing problems, whether they are owned by men or women.

The percentage of business started and operated by women in the U.S. is less than those started by men. However, the number is increasing at a rapid rate. For example, the number of female sole proprietorships was 3,104,029 or 22 per cent of all sole proprietorships, according to the Internal Revenue Service, whereas the Bureau of Labour Statistics has indicated that between 1974 and 1984 the number of self-employed women grew 74 per cent or six times faster than self-employed men.

Table 11.1
SURVEY ON WOMEN ENTREPRENEURS
Number of Women Entrepreneurs

Country	*Years*	*% Increases*	*Employed*	*Independent*
			(in lakhs)	
U.S.A.	1977-1983	56	3.3	5.4
Canada	1987	50	4.3	1.3
Australia	1987	45	2.0	6.0
Germany	1987	25	0.6	0.8
Norway	1987	29	3.9	1.1
Sweden	*1972-82*	*9*	*2.3*	*8.7*
England	1986	25	0.6	6.3
France	1987	25	0.8	6.5
Holland	1979-85	36	0.5	4.5

Women get independent jobs more easily in these countries. All people working independently have been classified or termed as entrepreneurs. The highest number of women are found in laundries, dry cleaning, hair-dressing, private nurseries, hotels etc. According to the table above, the highest number of self-employed women were in Sweden followed by England, France and the U.S.A.



Rita Singh: Woman Entrepreneur in the Business World

Rita Singh, founder of the M'escos (Mid-east Shipping Company) group, is one of the first woman entrepreneurs to make it big in the business world.

Rita's is a rags to riches story. Starting from scratch about 20 years ago, she now exports trendy M'escos shoes, owns a fleet of state-of-the-art helicopters and ships, and a Rs. 450-crore steel plant.

The M'escos group with an annual turnover of over Rs. 1500 crore, employs more than 7,000 people.

The only daughter of a Punjabi college professor who migrated from Sargodha in Pakistan to Nagpur after Partition.

With only a degree in science, she set up a small dairy farm with two buffaloes near the Hindon air station and a sulphur plant at Hapur. She sold off their small farm and started exporting rice and tapioca. Then she went into shipping in a small way. Within a year, her annual income crossed the Rs. 50 lakh mark. In the coming years, she entered into steel, aviation shoes, etc.

What are the factors behind her success? "attribute my success to one thing — never run away from life. Face it boldly. Dare to be different."

Why aren't there many women entrepreneurs in the big league? Singh feels that a false sense of security and fear of failure are the main stumbling blocks in the path of success. "It hardly matters whether you are a man or a woman if you are insecure inside. I have never been bothered about security.

Designing Dreams

Name	:	Neeru Kumar
Education	:	B.Sc. (Chemistry), Ahmedabad University, 1974; Graduate, National Institute of Design, Ahmedabad, 1980
Experience	:	Designer, Fab India, 1980-81
Track Record	:	Turnover has grown from zero in 1984 to Rs. 3 crore in 1994-95
Investment	:	Rs 10,000
Employees	:	10
Work Style	:	Hands-on
Work Philosophy	:	Keep experimenting
Hobbies	:	Collecting old Indian textiles and antique furniture

Spinning off Her Old Job into a New Business was really not on Neeru Kumar's mind. Until, that is, the 1980 graduate of the National Institute of Design, Ahmedabad, was handed a Rs. 1 lakh contract from Tata Exports to develop a fabric for soft furnishings. "I started with their advance of Rs. 10,000," recalls Kumar. It allowed her to set up a small unit, with overheads comprising a monthly rent of Rs 1,500 and a daily wage bill of Rs. 25 for each of the two weavers she hired to craft woolen carpets. Today, her enterprise, Tal, rakes in Rs. 3 crore annually, selling its products through an exclusive retail outlet in the capital as well as upmarket stores in the UK, the US, and France.

Exclusive Accessories Business

Make silk purse out of a thoroughbred's ear. That's what Rutty Birdy, the managing partner of the low-profile Christina, has managed to do over the past decade.

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Quite successfully too, with the sales of this tiny chain of accessories boutiques galloping past the Rs. 1-crore mark last year. However, nine years ago, when Birdy first dabbled with a line a of leather-and-silk accessories, she chose as the inspiration for her brand name — of all things — a horse.

With Christina accessories now emerging as the racegoer's delight, Birdy's gamble has more than paid off. To be sure, she had an unfair advantage. Not only was Bird's father a book-keeper at the Mahalaxmi Race Course in Mumbai, she practically grew up on the turf. An ardent race-goer, it was only natural that Birdy would choose the feminine version of Christoff — her favourite among the four racehorses her family once owned — to christen her own start-up.

FACT FILE

Name	:	Ruty Birdy
Education	:	Presentation Convent, Kodaikanal, 1964; dropped out of St. Xavier's College, Mumbai, in 1965
Work Experience	:	Designer, Star Industries; set up Christina in 1987
Initial Investment	:	Rs 40,000
Track Record	:	Turnover has gown from Rs. 40 lakh in 1989-90 to Rs 1.28 crore in 1994-95
Work Style	:	Hands-on
Management Philosophy	:	Enjoy your work and treat your employees as family
Hobbies	:	Reading, riding

Women Entrepreneurship in India

Out of total 940.98 million people in India, in the 1990s females comprise 437.10 million representing 46.5 per cent of the total population. There are 126.48 million women workforce (representing 28.9 per cent of the female population), but as per 1991 census, only 1,85,900 women accounting for only 4.5 per cent of the total self-employed persons in the country were recorded. Majority of them are engaged in the unorganised sector like agriculture, agro-based industries, handicrafts, handlooms, and cottage-based industries. Participation of women as industrial entrepreneurs, however, is comparatively a recent phenomenon — commencing from 70s onwards. There were more than 2,95,680 women entrepreneurs claiming 11.2 per cent of the total 2.64 million entrepreneurs in India during 1995-96. This is almost double the percentage of women (5.2%) among the total population of self-employed during 1981. Of this, a majority were concentrated in low-paid, low-skilled, low-technology and low-productivity jobs in the rural and unorganised sector. 90% (79.4 million) women workers were in the rural areas as against only 10% (8.6 million) in urban areas. Only 2.5 million women workers were in the organised sector — a mere 12.4% of the total employed.

During the Eighth Five Year Plan, the number of SSIs expected to rise from 1.7 million to 2.5 million, adding 0.8 million in the 5-year period or 1.60 lakh every year. The rough estimate showed that amongst the SSI entrepreneurs approximately 9% were women entrepreneurs. Their participation, however, is increasing. Considering the trend, women participation in another five years was 20% more, raising the number of women entrepreneurs to about 5,00,000. Therefore, one could aim at developing

at least 3,50,000 women entrepreneurs during Eighth Five Year Plan through training and other developmental efforts. The present rate of 30% success in EDP training was likely to go up to 45% with growing experience and improved techniques of training and follow-up. Based on this assumption, for getting 3.5 lakh women entrepreneurs it was necessary to train and support about 7.78 lakh entrepreneurs during the Eighth Five Year Plan. Besides the SSI women entrepreneurs, a large number of women entrepreneurs particularly in district and rural areas were likely to be developed for small business. Even assuming a very modest target of 335 women entrepreneurs per district, the number of women entrepreneurs would have come to 1,42,375 per year. These women were to be given training in self-employment/entrepreneurship of shorter duration as well as some training in trade and skill areas. In order to mobilise such percentage of women entrepreneurs, a number of activities such as motivational drive, preparation of information material; conducting training; creation of women industrial estates/areas/sheds; creation of common marketing exposition centres; training of trainers/promoters; and use of mass media, etc. are required. Combined effect of all these is bound to accelerate the process of women entrepreneurship development.

Women Entrepreneurs in Several Industries

Today we find women in different types of industries, traditional as well as non-traditional, such as engineering, electronics, readymade garments, fabrics, eatables, handicrafts, doll-making, poultry, plastics, soap, ceramics, printing, toy making, nurseries, creches, drugs, textile designing, dairy, canning, knitting, jewellery design, solar cooker etc. What motivates women to aspire for career in business is an interesting thing to explore and analyse. According to Mclelland and Winter, motivation is a critical factor that leads one towards entrepreneurship. This apart, the challenge and adventure to do something new, liking for business and wanting to have an independent occupation are some of the attractive leverage for women. These factors indicate a relatively deeper commitment to entrepreneurial profession on the part of entrepreneur. Responsibility thrust, due to death or incapacitation of a near relation, tax benefit for self and for relations are the push factors. In addition, special qualifications attained for running a concern, identifying the demand from the market, external motivation, employment to needy and destitutes to set up an ancillary unit, business already in the family are some of the factors which gave stimulus to women entrepreneurs to start business.

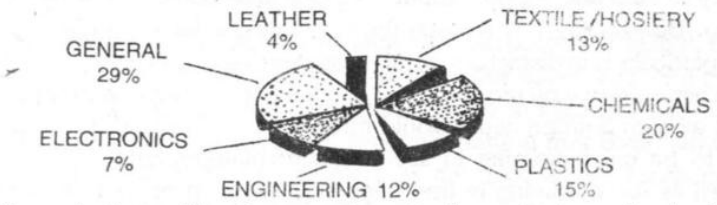
Moderate Investment

Mostly women are interested in moderate returns. Knowing their other limitations, they prefer smaller projects and thus select business opportunities requiring moderate investment. Merely 10-12 per cent of women set up their ventures with investment above Rs. 10 lakh. Approximately, 70 per cent of enterprises set-up by women range between Rs. 1 lakh to Rs. 5 lakh investment.

There is a general belief that women have inclination towards simple products involving low technologies. The impression is that pickles and garments are the products specially suitable for women. While the selection of opportunity is based on the motives and special constraints for women, the enterprises set-up by women cover a wide range

of activities and only 2 per cent are in food products and 13 per cent in traditional business of garments/hosiery. Twenty per cent women opt for chemicals and another 12 per cent for engineering items.

OVERALL PRODUCT SELECTION BY WOMEN ENTREPRENEURS



The selection of business venture is dependent on the background of the entrepreneur:

Figure 11.1 gives the overall distribution of products for women entrepreneurs. It is observed that educational background and experience has little or no effect on the choice of selection of business opportunity.

A lady with no technical qualification may be in the business of manufacturing electrical bulbs or special chemicals. Similarly, a lady with specialised knowledge of computer software may be in printing business.

The general assumption that only technically qualified woman will go for technical items and other prefer non-technical items does not seem to hold true, rather a close higher correlation is found between the activities of the husband and the venture selected by a woman.

Successful Women Entrepreneurs

Although the list of successful women entrepreneurs is quite long, a selected representative women entrepreneurs are mentioned here. Among some accomplished women entrepreneurs, Smt. Sumati Morarji of Shipping Corporation been seen as beacon to women entrepreneurs. Smt. Sharayu Daftary of Automobile Radiators, Smt. Yamutai Kirloskar of Mahila Udyog Limited, Smt. Vimal Pitre, manufacturer of surgical instruments, Smt. Manik Vandrekar of leather crafts, Smt. Radanika Pradhan of Plastic Industries, Smt. Gogate for Drugs, Smt. Swati Bhatija in engineering industries, Smt. Prerang Thakore of Jayant Vitamins Limited, Smt. Nargis Wadia of Inter Publicity, Smt. Neena Malhofra in Exports, Smt. Rajani Aggarwal in engineering, Smt. Shahanaz Hussain in beauty clinical cosmetics, Smt. Wadia in fabrics, Smt. Weheeda Rehman in fast foods all stand out as successful women entrepreneurs. Other outstanding women entrepreneurs — Smt. Priya Khanna, Smt. Savitri Debi, Smt. Raman Suri, Smt. Madhura Chatrapathy, Smt. Prabha Thakkar, Smt. Sunanda Pant.

What is more, since the inception of the National Awards to small Entrepreneurs instituted in 1983, 10 women entrepreneurs have received special recognition awards. They have attributed their success in their enterprise to hard work, perseverance, dedication, devotion, determination, integrity and confidence in themselves. However, there are still others striving to get their enterprises established. Behind every successful woman entrepreneur there is a man and vice versa.

A Success Story

She certainly has been the most powerful woman of Indian origin living in the United States. Roman Malkani was listed by the respected *Washingtonian* magazine as one of the 100 most powerful women living in the US capital, along with the likes of Jeane Kirkpatick, Carla Hills and Elizabeth Dole. And more importantly, her success has been in an area which even in the US has traditionally been male-dominated: of specialised high technology communication systems.

Malkani left India in 1967 when her father, a professor of engineering at Roorke University, went on a Fulbright scholarship to the University of Virginia. In 1979, father and daughter, who by then had a master's degree in computers, founded Information System and Network Corporation (ISN). Roman, who took over full charge a year later, has since turned the company into the largest woman-owned US government contractor.

With a revenue of over $60 million (Rs. 105.21 crore) and an employee strength of 580, ISN was listed by the chic US women's monthly *Savvy* as the 43rd largest, female-owned and run company in that country, and the only one in the top 60 involved in manufacturing telecommunication systems.

Lakshmi G. Menon, 47, could not resist a challenge. When the top slot at the Madras-based Hindustan Teleprinters Limited (HTL) fell vacant, she applied for it. After an interview with the Public Enterprises Selection Board, she was selected — to become the first ever woman chief executive of a public sector organisation.

"I am an electronics person. I love to be in the thick of things, planning, specifying, installing and manufacturing systems in the telecommunications arena," she said. The electronics bug had bit her as a student at Trivandrum University. On graduating with a B.Sc. in 1961, she headed for the Madras Institute of Technology, and in 1964 acquired a post-graduate diploma in electronic engineering.

Menon has been known to initiate a lot of enthusiasm to her job. And Hindustan Teleprinters was in need of it. This company's performance at that time has been dismal. Though sales increased to Rs. 27 crore in 1988 as against Rs. 19 crore in 1987-88, net profit had come down to Rs. 184 crore. The company's electronic teleprinter capacity still 50 per cent underutilised, and the original target turnover of Rs. 100 crore expected to be achieved in 1989-90 was pruned down to Rs. 50 crore. But Menon stood unfazed. "My primary concern is to decide on the best course of action for HTL, which will diversify in the telecommunications field. A corporate plan is being formulated," she said.

D. Jayalakshmi Devaraj

Smt. Jayalakshmi Devaraj was just like any other housewife till June, 1983, when God took away her husband Mr. Devaraj, the founder of the Sri Vigneshwara Group of Industries. Instead of closing down the companies in despair, she rose to the occasion and took up the challenge of running the industry started by her husband.

The total sales turnover of the foundry has been recorded as Rs. 33 lakhs in 1984-85 to nearly Rs. 50 lakhs in 1988-89. Smt. Jayalakshmi has been responsible for providing employment to nearly 200 persons through her various concerns.

She was the winner of the CODISSIA Award 1989 for the best woman entrepreneur.

Women Intrapreneurs

Karthy Inamdar, a graduate of the Indian Institute of Management (IIM), Ahmedabad, started her career with a two-and-a-half year stint at Citibank in Mumbai. Then she moved to Citibank, Delhi, had a family and went back to work for a year before deciding to take a break in her career. Six years later, after raising two children to school-going age, she joined American Express Bank in Delhi as a senior accounts manager.

Another entrepreneur in Jamshedpur, Rekha Marsalamani, also an IIM graduate had opted out of her job as assistant manager, management development, at Tata Engineering and Locomotive Company (TELCO). For five years, she reared two children before taking up a job as executive assistant to TELCO'S resident director there.

Both women entrepreneurs symbolised a small but growing phenomenon: women who quit relatively well-paid jobs to raise children, before returning to the job market. And it's a phenomenon that's cutting a broad swathe across industries as diverse as computers, communications, advertising and banking.

As most professional women have confirmed it's easier to make a comeback in sunrise professions like marketing, advertising, management and perhaps even banking.

Professional Women

At Tata Steel in Jameshedpur, 33-year-old Rupa Manhanty is an example, who, after eight years with the organisation and different responsibilities, has held the post of the deputy manager, human resources planning. Her job is to chalk out a detailed plan for career development of more than 4000 officers at Tata Steel.

With a bachelor's degree in statistics from Mumbai, Mahanty studied management at IIM, Calcutta before joining Tata Steel in 1981. And she has struck a long record with the company because "here we are neither discriminated against nor favoured, but taken as we are."

"Aggressive marketing", according to her "is the name of the game." The marketing manager of Poona Industrial Hotels Ltd. (PIH) has significantly contributed to raising the sales of this Kirloskar company to Rs. 10 crore during her tenure.

As, an MBA from Pune University, she joined PIH as a trainee in 1984 and rose to the managerial level in two years. PIH owns Blue Diamond, a five star hotel in Pune and Hotel Pearl in Kolhapur and she has boosted her company's sales tremendously when she initiated setting up a number of retail outlets — Banker's Basket — and also the flight catering services at Pune airport. In addition, Uttamchandani opened offices in Mumbai and Delhi for more business. She was involved in setting up a chain of smaller hotels in the towns of interior Maharashtra.

Profile of a Woman Entrepreneur

Who is this Woman entrepreneur? What are her qualities?

She is a woman of commitment, who is not relevant, independently employed, she has a close relationship with her father and, after obtaining an undergraduate and subsequently a graduate degree in some area of liberal arts, marries, has children and starts her first significant entrepreneurial venture in the service area in her late 30s or early 40s. Her biggest problems at start-up and later in the venture reflect a lack of business training and generally are in the financial area.

Table 11.2
PROFILE OF A WOMAN ENTREPRENEUR AND HER BUSINESS

First-born child of middle class parents
Father and/or mother in independent business
College-educated
Married
Early 30s for the first significant venture
Previous experience in new venture
Desires independence
Motivated by desire for independence and job satisfaction
Small and young business
Self-confident
Moderate risk-taker
High tole ance for ambiguity
High energy level
Biggest problems in start-up:
Lack of business training
Obtaining credit
Availability of Information
Obtaining seed capital
Marketing
Personnel management
Biggest problems in current operations:
Lack of experience in financial planning
Weak collateral position
Cash flow management
Taxation

With education and training, the women have gained confidence to do all work, which was the prerogative of man and do it excellently, rather-better than men. Over the years, the educated women have become ambitious, acquired experience and basic skills of competency and self-assurance.

Leadership Qualities

Some of the outstanding qualities of women entrepreneurs are as follows:

Accept challenges	Adventurous
Ambitious	Conscious
Drive	Educated
Enthusiastic	Determination to excel
Hard work	Keenness to learn and imbibe new ideas
Patience	Experienced
Industrious	Intelligent
Motivator	Perseverance
Skilful	Studious
Unquenchable optimism.	

Psycho-Social Barriers

Although some women entrepreneurs have excelled in their enterprise, the fear of success haunt women in general. Some psycho-social factors impeding the growth of woman entrepreneurship are as follows:

1. Poor self image of women
2. Inadequate motivation
3. Discriminating treatment
4. Faulty socialisation
5. Role conflict
6. Cultural values
7. Lack of courage and self-confidence
8. Inadequate encouragement
9. Lack of social acceptance
10. Unjust social-economic and cultural system
11. Lack of freedom of expression
12. Afraid of failures and criticism
13. Susceptible to negative attitudes
14. Non-persistent attitude
15. Low dignity of labour
16. Lacking in leadership qualities, i.e., planning, organising, controlling, coordinating and directing.

The New Thrust

Earlier researches conducted indicate that several women are now willing to become entrepreneurs due to various factors. These factors can be broadly classified under two headings, namely, "Pull factors" and "Push factors." Under the first category, the women entrepreneurs choose a profession as a challenge and adventure with an

urge to do something new, liking for business and to have an independent occupation. The other category of women takes up business enterprises to get over financial difficulties and responsibility is thrust on them due to family circumstances. However, the latter category forms a negligible percentage of the total women entrepreneurs.

The new thrust given to the process of economic development of the country by the new dynamic leadership has created an all-round enthusiasm and the new slogan of "March towards the twenty-first century" had gained popularity. But in this new enthusiasm a very vital sector of the society which can contribute substantially towards the economic development of the country is not given enough attention — women entrepreneurs. In fact the Harvard School experts feel that the basic quality of efficient management is futuristic outlook and a capacity to nurture and plan for the future or unknown. This comes naturally to women. Therefore they feel that successful managers will be those who combine this feminist attribute of nurturing and futuristic planning with male aggressiveness. But this inherent management talent of woman and her entrepreneurial skill go unrecognised and unaccounted as it does not show profit or loss in monetary terms.

With the spread of education and new approaches/awareness, women entrepreneurs are achieving higher level of 3Es, namely, engineering, electronics and energy, though the number of such units is not as large as it should be. But the very fact that women are putting up units to manufacture solar cookers as in Gujarat, small foundries in Maharashtra and T.V. capacitors in the industrially backward area of Orissa show that women if trained and given opportunities can venture in non-traditional industries. Even the so-called socially tabooed industrial activity of wine-making and selling is being done by women entrepreneurs in Mumbai. So today no field is unapproachable to the trained and determined modern Indian women.

Basic Problems of Women

The basic problem or difficulty of a woman entrepreneur is that she is a woman — this pertains to her responsibility towards family, society and work. With joint families breaking up, many women simply don't have the support of elders. Women have been confronted by such dilemmas ever since they started leaving home for the work place. On the other hand, the attitude of society towards her and constraints in which she has to live and work are not very conducive. In spite of the constitutional equality, in practice the attitude of men is not only tradition-bound but even of those who are responsible for decision-making, planning and research is not of equality. They still suffer from male reservations. This attitude of reservation creates difficulties and problems at all levels, i.e., family support, training, banking, licensing and marketing. Women in rural areas have to suffer still further. They have to face not only resistance or reservation from men but also from elderly women who are ingrained in the attitude of inequality. In rural areas joint families are still the norm. The overbearing presence of elders restrain even young men from venturing out; so one can imagine how much a young girl needs to put up to become economically independent. Though in rural areas women are working along with men since times immemorial, their contribution in monetary terms remains unaccounted, or if at all accounted, it is given a very low

value. They are mostly engaged in low-paid, back-breaking agricultural activities or act as helpers in handicrafts.

It is not that women do not have skills or capacity but they are not properly trained or initiated in craftsmanship because it is taken as a taboo — it is wasted because when she gets married she takes away the skill with her. Therefore, a woman can only act as a helper. She was not allowed to function independently. Training is basic for any entrepreneurship. Facilities are available, many institutions have been imparting training under various schemes but again social attitude do not appreciate this independence and thus keep women away from them — both in urban and rural areas.

At the government level, the licensing authorities and labour officers and sales tax inspectors ask all sorts of questions like what technical qualifications you have, how will you manage labourers, how will you manage both house and business, does your husband approve, etc.

Most important question is asked regarding strategies for marketing — both of raw material and of finished goods. To market her product she has to be at the mercy of middlemen who eat up a big chunk of profit. Besides the middlemen try to exploit women entrepreneurs at both ends. They deny her discount or give the minimum discount in the purchase of raw material and on the other hand, try to extract maximum credit discount and commission on purchase of finished products from her.

If she decides to eliminate middlemen, it involves a lot of running about. Secondly, in these days of stiff competition, a lot of money is required for using advertisement. If the product happens to be a consumer then it takes time to win people away from other products and make this product popular. And then there is a tendency to always question the quality of the product produced by women entrepreneurs, though many agree that they are most sincere in maintaining the quality and time schedule.

New Awareness

The new Industrial Policy of Government of India has specially highlighted the need for special entrepreneurship programmes for women entrepreneurs in the nature of product-process oriented courses — to enable them to start small-scale industries. It further adds that the objective of this course is to give representation to women in the field of small industry development with a view to uplifting their status in the economic and social fields.

Due to the aforesaid fillip, growth of industrialisation, urbanisation, education and democratic system in the country, the tradition-bound Indian society has seen a major technological change and the women are now seeking gainful employment in several fields in increasing numbers. The women entrepreneurship movement has taken off the ground and it is felt that the moment has crossed the stage of transition. It is only during the last 15 years women have started becoming entrepreneurs and started industries and business and they are yet to go a long way to be on par with men. The fact however cannot be denied that women have to play a dual role as a housewife and also as an income-earner. Thus arises a role conflict in many a woman, which prevents them from taking a prompt decision in entering business. Despite the

modernisation and other factors mentioned above, the weight of tradition and the responsibilities of the faunally tends to slow down this movement. Further, occupational backgrounds of the families and the educational attainment of the husbands have a direct bearing on the development of women entrepreneurship. The development of kindergartens, day nurseries and creches and limiting the size of the family help the women entrepreneurs to some extent to enter business in such a manner that their husbands' prestige is enhanced.

Some of the major conclusions and recommendations made at a seminar on "Women and Rural Entrepreneurship" held at Madura-Kamaraj University early in September, 1990 were: Women are not weak, but very strong; the industrial and business opportunities are many — electronics (printed circuit boards, floppy discs), engineering (armature winding, machine manufacturing), plastic injection moulding, film making, chemicals (golden paste and laboratory chemicals), food and allied products (protein biscuits and cake mixture), rubber, pharmaceuticals, machinery and equipment, energy, fuel etc.

A majority of women entrepreneurs are from the middle class families but have low technical education, less family responsibilities (owing to the joint family system) but desire to become entrepreneurs. This potential should be identified and trained.

Adequate infrastructural support by one single coordinating or nodal agency to facilitate flow of adequate working capital, technology, electricity, land and marketing for rural women entrepreneurs may be helpful and mobile training centres should be opened. Post-training follow-up is vital for the success of entrepreneur development programmes.

Conclusion

Today, there is a greater awakening among women. Given an opportunity, they will deliver the results. In education, they have not only excelled but also become top makers. Likewise, in office and industry, many have shown brilliant results. Even in rural India with education, women have shown better performance. Educating women is absolutely essential in straightening her personality. The need of the hour is to provide an opportunity in a conducive atmosphere free from gender differences. The need for awareness motivation to be an active member of the society and courage to correct the faults of male counterparts are great challenges today. It is, therefore, encouragement of the growing intensity of motivation amongst educated young women for coming in the entrepreneurial stream and extend support with scientifically designed package of the technical and financial assistance. The non-governmental organisations have a bigger role in stimulating and nurturing the spirit of entrepreneurship amongst women. Towards this end, an integrated approach is necessary for making the movement of women entrepreneurship a success. For this purpose, both the Government and non-Government agencies have to play a vital role.

ANNEXURE - 1

INTERNATIONAL CONNECTIONS

Two major international organisations for women business owners have been created to assist women business owners in overcoming many of the challenges they face in business. The oldest is Les Femmes Chefs d' Enterprises Mondiales (FCEM). Created in France in 1946, it now represents approximately 30,000 women business owners in thirty countries. The FCEM has NGO status with the United Nations and consultative status with the European Union and the International Labour Organisation.

The other is the International Federation of Women Entrepreneurs (IFWE) which was established as an offshoot of the World Associaiton of Small and Medium Enterprises (WASME) five years ago. IFWE represents women business owners in more than twenty countries and also has NGO status with the United Nations and consultative status with the International Labour Organisation.

Both of these organisations hold annual congresses and meetings in different parts of the world in order to bring women business owners together to meet, learn about each others' businesses, identify new opportunities, and create friendships that will lead to long-term relationships. The shift in recent years has definitely been away from "socially" oriented "business" and action oriented meetings. Women have become more serious about doing business together.

FCEM and IFWE are dveloping strategic plans which help bring them and their members into the 21st century. Because they already are established internationally recognized organisations with an infrastructure in place, they should use their membership strength and influence to more aggressively represent the issues their members face. Both organisations participated in the recent OECD Conference on Women Entrepreneurs in Small and Medium Enterprises, identifying these issues and helping to prepare policy recommendations to the OECD Secretariat.

These organisations can play an important role in recruiting and assisting women business owners from various countries at different stages of development and in bringing attention to the great disparities that exist worldwide among women in business. With chapters all over the world, these organisations have existing networks which are ideal to promote cross-border trading and mentoring among their members, mobilizing technology to create virtual markets, and promoting research and statistics that underscore the contributions of women business owners worldwide.

Other worldwide associations such as the International Alliance and the International Business and Professional Women's Association are also well known. All of these organisations aim to bring together women in business to help them achieve their business goals. Less formal business women's networks have also been created. For example, the Can Asian Business Women's Network was established exclusively to develop trade and interaction between women business owners in Asia and Canada.To this end, it already organised trade missions from Asia to Canada and from Canada to Asia.

Other international efforts have been made to strengthen the representation of women in international commerce. The Women Leaders' Network, which includes

women from academia, the private sector, and women business associations, has called on the leaders of the Asia Pacific Economic Cooperation (APEC) group to recognize the impact of trade liebralisation on women's businesses and offered to be a source of expertise to APEC. The July 1996 Global Women Entrepreneurs' Trade and Investment Forum held in Ghana was another such effort (see page 10 for details).

In Latin America, initial meetings to establish a network of women business leaders were held in May 1997 in Brazil as a parallel event to the trade ministerial conference on the proposed Free Trade Area of the Americas (FTAA). This network will represent the business interests of women business owners in the countries of the Western Hemisphere.

All of these networks are "virtual" organisations, making use of information technology to perform their role. They recognize the need to unite behind a common set of issues in order to show policymakers not only the impact women-owned business have on the world economy, but why their organisations' policy positions should be heard.

ANNEXURE - 2

EXAMPLES OF GOALS AND SUPPORTING ACTIVITIES

Some of the activities women's business organisations may undertake to accomplish their goals are:

To strengthen women entrepreneurs through public policy advocacy and research

1. Organise public policy days or an annual roundtable discussion to educate women on legislation that affects them. Legislators, government officials, and representatives of women's business organisations would participate.
2. Inform policymakers on a monthly or a quarterly basis about the organisation's activities, providing them with data on annual revenues generated by women-owned businesses as a percentage of GNP and how much these revenues contribute to the national tax base.
3. Develop a databank with local, regional, and national economic and political information to be used by the organisation's members.

To expand services, such as training and credit, to women business owners

1. Train 200 women in negotiation leadership, and management skills so they can gain the tools and confidence to run their businesses.
2. Establish a savings and loan institution to provide credit to women to start fifty new businesses per year.
3. Help identify partners for women-owned businesses.

To empower women business leaders through networking

1. Hold an annual grade show to bring women entrepreneurs together with potential partners or investors.
2. Organise monthly networking events for professional business women, political officials, educators, and mass media representatives to meet each other, develop professional contacts, and discuss common issues.
3. Set up a databank for women entrepreneurs to include information on business opportunities, training programs, etc.

To promote women's entrepreneurship

1. Publish newsletters, profiles of women entrepreneurs, and data to highlight their economic contribution to society.
2. Sponsor a contest to honour a leading business woman.
3. Develop a campaign targeted at the local media and schools to portray successful women in business.

◆ ◆ ◆

UNIT 2

ENTREPRENEURIAL DEVELOPMENT

Many governments in developing countries recognise that small and medium-scale industries continue to play an important role in their socio-economic development. There is growing interest in developing programmes for stimulating and encouraging entrepreneurship development in these countries with this the entrepreneur becomes the focal point in economic activities, especially in developing countries.

The most commonly adopted approach to entrepreneurship development is training.

Approaches to Entrepreneurship Development

There are various approaches to entrepreneurship development which policy makers, planners, trainers and other officials involved in development may choose. This development could be achieved within the conceptual framework in which the various strategies and policies of an entrepreneurship development programme are evolved or formulated. There is need for a thorough discussion of the various theories and their implications for the organisations' resources and capabilities. But however it is approached, entrepreneurship development should be viewed in the total perspective and should integrate entrepreneurial training, provision of incentives, consultancy services, sectoral development and other essential strategies of intervention. There are at least four major approaches:

1. Develop and arrange the course content by analysing needs and stating outcomes.
2. Choose the appropriate training methods.
3. Consider the subject area, the nature of learning, the trainee populations, the trainers themselves and time and material factors.
4. Achieve training objectives.

Training

Achievement motivation training is designed to increase the achievement orientation of the trainees with the idea that positive behaviour, such as striving for excellence, learning from feedback and moderate risk-taking, is initiated. Likewise, it strengthens the ability of an individual to generate alternatives as well as to solve problems creatively. It also develops the ability to define and set goals in life. As such, entrepreneurship development is viewed as behaviour-oriented. One of the factors contributing to the success of this training intervention in entrepreneurship development is that it is based on experience. In entrepreneurship training, learning by discovery is usually preferred. Here, one is able to learn from one's actions and behaviour in training, learning by discovery is usually preferred. Here, one is able to learn from

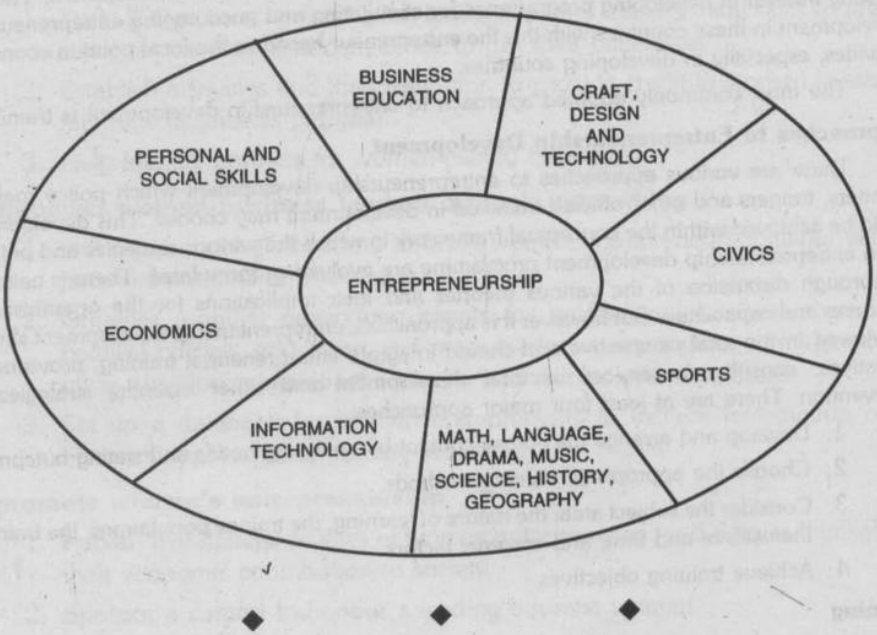
one's actions and behaviour in training. Thus, the learning process becomes a positive reinforcement.

Although there are some variations of and/or models for this intervention, the overall objective of this aspect of training is making the entrepreneur more professional. The training intervention may also take the form of management skills development. Most entrepreneurs lack managerial skills and techniques needed to deal with the management problems of the enterprise. Therefore, for any entrepreneurship development programme to succeed, it is important not only to motivate the trainees but also to provide them with all the skills necessary to run their business successfully.

Designing an Entrepreneurship Training Programme

As mentioned earlier, designing the training programme involves setting training objectives, developing the course content and choosing appropriate training methods. The programme design is prescribed by the training needs of the target clientele. These objectives should be stated clearly, be trainee-centered, employ practically and be concerned with ends rather than means. When objectives are set, the course content can be developed. The elements of content are knowledge, habits, skills and control of emotion. The material to be included should be accorded priority according to the goal to be achieved.

GATEWAYS INTO THE CURRICULUM



"Entrepreneurship plays a key role in the economic development of a country."

CHAPTER 12

ENTREPRENEURIAL ENVIRONMENT

Introduction

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, and (6) Cultural environment. (See Table 12.1).

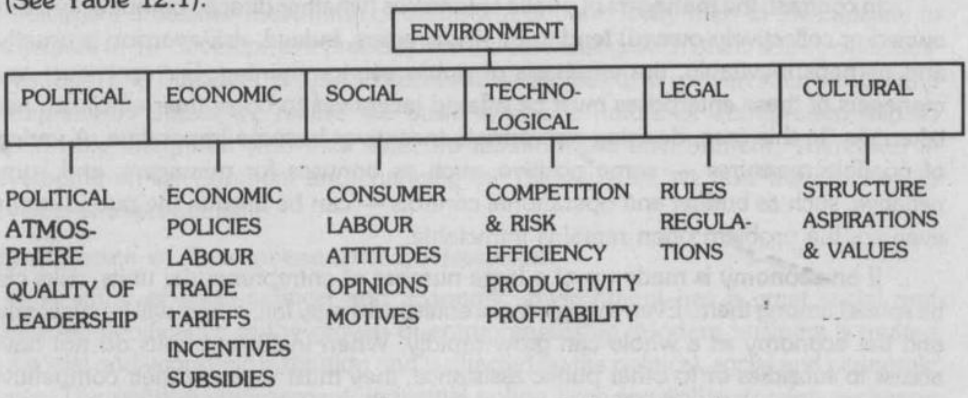


Fig. 12.1 Entrepreneurial Environment

Private Enterprise and Development

The existence of uncertainty in the economic call for the attention of environment means that there are limits to planning. These limitations call for the attention of entrepreneurs to play a leading role in the growth process.

Individual entrepreneurs such as farmers and small businessmen and individual enterprises such as manufacturing, construction, transport, and wholesale enterprises

and collective farms continually face risks. Whether they are privately or publicly owned, they must take account of uncertainty. Private entrepreneurs and the managers of private enterprises take risks, despite the heavy costs of failure because of the possibility of high profits or large bonuses. In any case, they must run their business efficiently if they are to make a profit and survive. The problem usually arises because major industrial decisions, which will affect the lives of thousands of ordinary people, are taken without proper planning and without public consultation. The result is that environmental activists have no choice but to fight a rear-guard action. This often gives the impression that environmental activists are against all growth and industry. In fact, they are more than conscious of the need for a balanced approach to growth and industry. All they say is that industrial decisions ought to be taken after considering the impact on environment and also that the public has a right to know all details.

Environmental activists have repeatedly pointed out the havoc caused by some of our petrochemical, heavy chemical, dyestuff and other polluting industries, as also the environmental damage caused by large-scale open mining, quarrying and deforestation, which will take decades to reverse. For their dogged determination, these environmentalists deserve our gratitude.

At the same time, it is now clear that technology has advanced significantly to allow efficient use of resources. Worldwide, industry has become conscious of the need to use renewable resources as far as possible and utilise non-renewable resources within planned limits. With potential developments taking place in the industry, we should learn from past incidences of industrial disasters leading environmental disaster and ensure further growth, consistent with environmental protection.

In contrast, the managers of public enterprises (whether directly or indirectly state-owned or collectively-owned) tend to be risk-averters. Indeed, risk-aversion is usually, and perhaps inevitably, the emphasis of public service training. Entrepreneurs and managers of these enterprises must be offered incentives to boost their efficiency and take risks. In this case, devising appropriate incentives become imperative. A variety of possible measures — some positive, such as bonuses for managers, and some negative, such as budget and operational controls — can be used in the public sector; even so, the problem often remains intractable.

If an economy is made up of a large number of entrepreneurial units, risks can be spread among them. Even though some enterprises may fail, others will be successful and the economy as a whole can grow rapidly. When inefficient units do not have access to subsidies or to other public assistance, they must improve their competitive position or disappear. Such failures need not be excessively costly because the economy's expansion creates job and income earning opportunities for entrepreneurs and employees of falling enterprises. Some of these may be in "informal" or small-scale activities and may not be counted in the formal employment sector. Nonetheless, they provide gainful employment.

Unfortunately, experience shows that private enterprises have to compete to survive. In most countries public enterprises are protected from failure by implicit or explicit subsidies. Public enterprises are often expected to create employment

opportunities for political reasons. But allowing public enterprises to operate inefficiently will mean very heavy costs in the long run. It affects not only a country's ability to produce efficiently but also its capacity to save and invest for future production.

Private enterprise and entrepreneurs can function smoothly and contribute to development only in an appropriate public policy environment.

Entrepreneurial Urge

Entrepreneurship is the creative 'elan' of industrial development which for historical reasons is feeble in backward areas. It is not feasible to expect entrepreneurial urge among people who live in poverty, illiteracy and ignorance. Conceptualisation of entrepreneurship in terms of self-confidence, optimism, achievement motivation and other such attributes constituting the variable, residual non-marketed services receiving the residual profit income as payment (Kilby) does not have any meaning in backward areas; because these qualities themselves need a minimum of economic well-being below which the hard preoccupations with the basic needs of life leave no room for critical reflection and initiative necessary for any enterprise. Entrepreneurial qualities are born of an environment through individuals' creative response to potential opportunities. An entrepreneur needs a clear perception of economic opportunities and the investment capacity to pursue these opportunities. In backward areas where the basic struggle for existence is so tough, per capita income so low and where illiteracy or low level of education prevents access to business information or ideas, there is neither perception of opportunities nor the capacity to exploit these opportunities. Not only the environment is timid without brisk activities or aggressive ideas but also men are too deprived to have an urge to know and grow. When we think of the development of backward areas, we must think of the ascent of these lowly men to the capacity to participate in the development process, into the cosmetic growth of the soil by outsiders' investment and outsiders' profit. No effort will be successful to convert such people into entrepreneurs unless we realise the basic symbiotic nature of entrepreneurship so inextricably integrated with their total life-situation and environment. Therefore, in developing an environment and changing the life-situation, we take the first step to develop entrepreneurship.

Significance of Entrepreneurial Environment

A study of socio-political and economic environment has a great social and economic significance to the growth of entrepreneurship. Modern business is treated as a social and economic institution and is affected by the political, social and economic forces. The political environment, industrial policy, licensing policy, foreign exchange regulations, banking policy, technological development and social change form the framework within which an enterprise has to work. It is for these reasons that all business plans must be based on the immediate environment. An entrepreneurial plan cannot be framed and finalised for its implementation without its relevance to the political, social, economical and technological requirements. In fact, it is environment which regulates entrepreneurial activities. Business environment has a positive relationship with the development of entrepreneurship.

Infrastructural Network

It has been argued that the development of industries be preceded by development of agriculture which introduces certain economic changes that culminate in industrial activities. "A developed mass agriculture is normally needed before you can have widespread successful development in other sectors" (Michael Lipton: *Why Poor People Stay Poor?*). But we cannot, perhaps, wait that long till a "developed agriculture sector provides wage goods and savings capacity" needed to support rapid industrailisation. If agricultural development does not create savings for industralisation, an industrial development process can be induced by substantial investments on certain selected nucleus industries, leading to a number of ancillary and other related industrial units. This method has gained wide acceptance. But before such nucleus industries are set up in backward areas, necessary infrastructural facilities have to be provided. Even then, the location of these industries may not necessarily lead to a development process in which the poor people of backward areas whose development is the real development area successfully participate — unless the choice of nucleus industries is such that it can utilise the available skills and capacities of a large number of small artisans or farmers. Otherwise, the entrepreneurial opportunities thrown up by such nucleus industries will be exploited by affluent entrepreneurs from outside who have the capacity to invest. It has been seen that entrepreneurs from developed areas have normally gravitated towards these backward areas which are *contiguous* to developed business centers with a view to availing themselves of the incentives and concessions. But such enterprises have not created any economic impact on the people of the backward areas except, perhaps, creating some negligible employment avenues.

It is, therefore, very important to ensure that the infrastructural facilities created to pave the way for nucleus industries are extended to cover a vast multitude of small artisans or farmers whose products can be processed in the nucleus industries. "An integrated infrastructural programme geared to the needs of small-holder farms and small-scale enterprises is the best means of promoting both types of productive activity." (J. Muller: *Promotion of the Manufacture of Rural Implements in the United Republic of Tanzania*). For example, if there are a number of small dairy farmers, a central refrigeration plant can serve all the farmers in the area by an active network of communication. As a result, each farmer can get the benefit of an assured market and an enhanced income. If a large number of farmers are producing soyabean, a central soyabil processing unit would serve as ideal nucleus plant. Such a step would not only integrate agricultural development with industrial development, it would also bring about a pervasive growth of both. On the other hand, if a unit manufacturing some sophisticated machinery is the nucleus plant, its ancillaries would also need the precision or sophistication which will not be possible to achieve within the capabilities of the target-beneficiary group whom we want to develop through the development of backward areas. As Paul Streeten has said, "Industry should produce consumer goods required by the people, the majority of whom live in the countryside, hoes and simple power-tillers and bicycles, not airconditioners or expensive cars and equipments. Much of the recent criticism of inefficient, high cost industrialisation behind high walls of protection and quantitative restrictions should be directed at the types of product

and technique which cater for a highly unequal income distribution and reflect entrenched vested interests" (Paul Streeten: "Industrialisation in a United Development Strategy," *World Development,* January, 1975). Actually the production of simple goods depends on the character and potential of a particular backward area; and the essential infrastructure so developed that it would be capable of sustaining active linkages between the subsidiary units in the villages and the central unit.

Environmental Analysis

This integrated approach which is the key to the development of backward areas implies a very careful environment analysis or research study of the target groups of beneficiaries, their activities and differential needs; and the practical modes of operation by which their activities can be linked with the covering enterprise. Unless these studies are made meticulously, the entire planning will only give unproductive results. Most of the development schemes fail to benefit the target clientele because elaborate linkages are not identified and built up. An imaginative study should —

1. Identify the beneficiaries or target groups;
2. Analyse the environment for immediate feasible enterprises in an integrated manner;
3. Delineate the linkages and institutional arrangements;
4. Recommend appropriate organisational structures to provide necessary promotional support.

Unfortunately, in most of the studies on backward areas, there is a tendency to make generalisations and ignore the specific details of really feasible projects. As a result, immediate perception of concrete opportunities by interested entrepreneurs is left in confusion. Sometimes "Area Studies" make a general statement of demand and resources and recommend certain enterprises which are not immediately feasible due to important reasons unaccounted for in such studies. It is also not seriously contemplated whether the recommended enterprises are feasible within the capabilities and investment capacity of the target-group. In short, most of the studies fail to discern the real issues of growth in the target area and fail to identify the concrete and specific needs of these endowments like resource, skill etc. to flourish. Enunciation of general objectives and generic beneficiaries tend to blur the distinct contours of one homogeneous group from the other. Also, the extension of certain standard facilities or services does not serve their actual needs. All this possibly happens because in such basic studies, we fail to identify clearly the target-groups and their specific problems, and make theoretical studies on resources and demand in an impersonal manner, as a result of which even the schemes devised on the basis of such studies tend to become too impersonal and rigid. Sometimes, the schemes become so inflexible on account of a standardised petrified approach that in some most genuine cases demanding a certain departure from the fixed framework, the scheme is incapable of giving requisite help. It is, therefore, absolutely necessary that any action plan for a backward area must first identify the target-group, identify the specific services they need for monitoring their enterprises and devise an appropriate structural support for comprehensive coverage of their needs.

The Green Arm of the Law

Three important Indian legislations presently enjoin the industry to remain within the pollution control standards set by Government:

1. Water (Prevention and Control of Pollution) Act, 1974, with amendments made in 1988:

- Following the 1988 amendments, permission is necessary to set up any industry which is considered environmentally hazardous — one that uses or discharges any poisonous, noxious or polluting matter. Standards must be those set by State pollution boards. Industries set up prior to the amendment need to obtain clearance within three months of its coming into force.
- State pollution control boards (PCBs) have the power to obtain information regarding the construction, installation or operation of any process of the industry.
- After the 1988 amendments, the PCBs can issue directions or order for closure or stoppage of electricity or water supply, if standards are not being met by the polluting industry.
- Penalties for non-compliance have been increased to Rs. 10,000 for defaulting and Rs. 5,000 per day for continued default.

2. Air (Prevention and Control of Pollution) Act, 1981, with 1987 amendments:

- The definition of air pollutant was extended from harmful solid, liquid or gaseous substances present in the atmosphere to include noise pollution.
- Unlike the practice earlier, now all air polluting industries must have the sanction of their respective PCBs to prevent any liabilities later.
- Penalties are as those in the Water Act.

3. Environment (Protection) Act, 1986:

- The Central Government has the power to take all such measures as it deems necessary for protecting the environment.
- Section 3 of EPA empowers the Central Government to: *(a)* restrict areas in which any industry, operations, process or class of industries can be carried out under certains safeguards; *(b)* lay down procedures and safeguards for the prevention of accidents which may cause environmental pollution and initiate remedial measures for them; *(c)* lay down procedures for handling hazardous substances; *(d)* examining manufacturing process and materials; and *(e)* widespread inspection powers.
- As in the other two Acts, the EPA gives the Centre wide powers to direct closure, prohibition and regulation of any industry if it contravenes the provisions of the Act.
- In addition, the Marpol Convention, pertaining to marine pollution control, was drawn up by the International Maritime Organisation, a United Nations agency, any ratified by India in 1978.

- The five annexures of this convention deal with the prevention of oil pollution; prevention of pollution by noxious liquid substances in bulk; prevention of pollution by noxious packaged substances; pollution from sewage and from garbage.
- The Indian government has ratified only the first two annexures. Thus a vessel can be penalised for oil or chemical pollution. But the remaining forms of pollution are unchecked.

Instrumental Synergy

Comprehensive coverage of dynamic needs cannot be ensured unless this strategy incorporates the necessary organisational support. In the development of backward areas, two things are of fundamental importance. Firstly, the needs of the entrepreneurs or the target-groups are wider than those immediately related to an enterprise. Unless the complex structure of his private and social needs is understood, our assessment of his requirements which will have to be met to sustain him in a desired enterprise like a small industry or a farm will be unrealistic and lopsided. The amount sent on his enterprise tends to remain unproductive. Unless we support the entrepreneur in all his needs and exigencies till his enterprise yields profit, entrepreneurs are often coerced out of their enterprise during the initial years, because they lack the capacity to withstand inevitable risks, if any. In order to develop small enterprises and like small farmers in an integrated manner with an industrial project, the socio-economic conditions of these people have to be understood to appreciate their needs, and devise appropriate loan schemes. The weaker sections of the population are likely to benefit from a programme is designed to meet the varying needs of beneficiary groups *(Development Programme for the Door: Do Strategies Make a Difference?*, Samuel Paul and Ashok Subramaniam). Sometimes, even the consumption needs of the poor artisans have to be provided for in order to sustain in their work.

Secondly, an integrated approach to rural industrialisation which has to deal with a complex structure of differential needs requiring regular monitoring and timely intervention of promotional agencies calls for active coordination among institutions. "The more backward a country's economy, the greater was the part played by the special institutional factors designed to increase the supply of capital to nascent industries and in addition to provide them with less decentralised and better informed entrepreneurial guidance; the more backward the country, the more pronounced was the coerciveness and comprehensiveness of these factors." (A. Gershenkson: *Economic Backwardness in Historical Perspective)*. In a backward place, the role of government institutions is of the highest significance. The institutions should not only cater to a variety of needs but also fulfil their role in the desired sequence so as to make the project work. This is what has been described by some as "synergistic effect or congruence." For example, small industrial units get term-loans from term-lending institutions but the desired working capital is not sanctioned at the right time as a result of which the entire scheme goes wrong. Similarly, if raw materials are not supplied for the essential utilities, the investment may remain idle, unproductive and eventually succumb to heavy accumulated liabilities. Various institutional supports must permit coverage in a synergy to make a success of an enterprise which needs all of them in a given order.

In urban or developed areas, institutional synergy can perhaps be overcome by the resilience of the entrepreneurs, but in backward areas, the staying power of the entrepreneurs is so feeble that they quickly wear out with the smallest obstruction. Institutional patronage must, therefore, be comprehensive, continuous and synergistic.

Training

It is only against this background that we can effectively plan out training programmes for the development of entrepreneurship in the backward areas. The basic difference between a backward area and a developed area is that unlike the latter, backward areas do not have a hidden reservoir of potential entrepreneurs who through motivation, training and support can quickly become competent entrepreneurs. Entrepreneurs from the backward areas have to be given comprehensive functional training based on the specific conditions of the entrepreneur and the choice of the enterprise. The entrepreneurship development programme must deal with the following:

(1) On the basis of an elaborate action-plan based on environment analysis, various areas of entrepreneurial activities should be identified and specific projects formulated. These areas should be suitably assigned to develop the inherent skills of artisan groups and high-school drop-outs, educated unemployed, farmers and men of other trades.

(2) For each area of activity, institutional linkages should be clearly spelt out. Simultaneous attempts where necessary, should be made to build new institutions which are needed to give financial marketing or other necessary support. For example, if we are promoting a large number of dairy farms, a central refrigeration plant in the area should simultaneously come up.

(3) On the basis of institutional linkages, thus worked out, an inter-agency team should be constituted to take up each identified group of entrepreneurs for training. Since the product an entrepreneur of such a group is to manufacture is known, and his own socio-economic conditions are also known, a series of needs of each entrepreneur in implementing his project should be clearly identified by the agency to look after each need or group of needs in a time-bound programme.

(4) The training programme should briefly make the entrepreneurs by a multi-disciplinary familiarisation course aware of the nature and problems of entrepreneurship in their context. Further, the training programme should discuss their schemes and proceed with the implementation. No training is more effective than the actual experience in implementation — the agencies must ensure that the entrepreneur gets all assistance and guidance in the implementation of his project. This would eliminate inter-agency disputes and the consequent delay which prove fatal to many entrepreneurs.

(5) There should be a nodal agency, preferably an agency which organises the training programme, to monitor the progress of the implementation of each trainee's project. This calls for coordination of the functions of various promotional agencies in order to make its specific services available to the entrepreneur in right time.

Training programmes for entrepreneurship development which involve all promotional agencies and financial institutions have proved to be the most successful. Involvement in the training programme does create a continuing interest to prove advantageous to the entrepreneurs among these agencies. And since for backward areas, project-oriented training programmes have been considered indispensable, the multi-agency involvement in the training programme helps in a better appraisal and quicker implementation. These agencies should work in a manner as if they are escorting an entrepreneur right from the conception of a project-idea to the state when the units starts production. Even after that stage, specific institutional arrangements have to be made to extend continuing marketing support.

Such a multi-agency "escort" approach compensates for many deficiencies which the entrepreneurs of backward areas are beset with by their birth and circumstances, and it helps engender entrepreneurial qualities among them through practical experience.

Artisans' Development

An integrated approach to rural industrialisation calls for giving priority to the organised development of artisans — a formidable task beset with problems are not as simple as they often appear to be. They live in scattered places and do not constitute a homogeneous group. Their problems vary from place to place although the products may be the same. Their productivity is unremuneratively low, and the standard of their products is not always suitable for wider acceptability. Their input supply system is irregular and fragile, and the market is restricted. And above all, these artisans live in so much of want that their socio-economic needs keep them permanently as wage-earners almost in bondage to some middlemen. Unless their consumption needs and other social exigencies are properly taken care of, they cannot really come up as independent entrepreneurs. The incentives and assistance given to them often fail because the training programmes fail to provide for the varying needs of the artisans. Many artisans just cannot attend design development training programmes because they can neither afford to stay out of daily wage-earning routine and face financial crisis. Sometimes, they sell their highly value added works of art at throw away prices to middleman because they can neither afford to wait for long nor can they take them to the right market. As a result they choose to work as daily wage-earners and the profit of their highly value-added items accrues to the middleman who employs the capital. What we need, therefore, is not a set of incentives or concessions but an enveloping support to the entrepreneurs in the backward areas which can reasonably cater to their varying individual and social needs.

Besides providing for their needs, the strategy should be to establish cooperative societies or government agencies to provide raw materials to help them in making and marketing their products. But since they stay scattered, it is not easy to organise rural market centres under this strategy on a regular basis. It is, therefore, necessary that the supplies from this sector should be given preferential status in marketing and if necessary, competition from big manufacturers has to be banned. In that case the total demand for such products in a region will have to be met from this artisan sector and more people can be inducted into this sector to increase output and even the under-employment of the existing artisans would disappear.

For example, if simple agricultural implements are only in the artisan sector, the total demand of a region can give so much work that the artisans no longer remain in financial crisis. The only problem is to organise this vast network to touch each atomic unit. But all this has to be done if the backward areas are to be easily awakened. "It is not argued that the village metal smiths and tin smiths should be promoted for any nostalgic or romantic reasons. On the contrary, these craftsmen, if supported, constitute a basis for rural industrialisation which will otherwise be wasted and by rural industrialisation is not meant the establishment of any industries in rural areas, it means the establishment of enterprises that are linked backward and forward to other productive activities within the rural communities" (J. Muller).

Appropriate technical and consultancy organisations must work constantly to introduce appropriate technological innovations to increase productivity without displacing labour. New designs and improvements can be introduced for decorative crafts to cater to sophisticated markets which are ever widening. It is just enough to allow the artisans to survive but to make them increasingly relevant to the changing needs. If more efficient agricultural implements are available, no one would buy old-fashioned implements, simply because they are the products of the artisans. Nor, would it be proper to upgrade their skill so as to enable them to produce more efficient equipments without adopting the stylistic changes and needs. Otherwise, the market for these products would quickly shrink. But it is not so easy to introduce these innovative changes among the illiterate or semi-literate artisans. In order to do this, we have to create active linkages between research organisations and these artisans on a permanent basis. Training programmes have to be organised which must expose their inadequacies and teach them to assimilate the innovative ideas. And this cannot be done unless their tradition, skill and quality of work are studied in depth and imaginative training programmes designed. Similarly, arrangements have to be made to market their products. Organisations sponsored by Government should initially buy their products in order to ensure quick payment to the artisans and then release the profit when the product is ultimately sold to the real customer.

Conclusion

Entrepreneurship, therefore, will flourish only under the right atmosphere said to be conducive to the social, political and economic issues. Even though the urge to excel others and to create something new is inborn and psychologically oriented in the larger analysis, this urge to excel others will fail to obtain the full freedom of expression unless the right environment is available. Entrepreneurial environment, therefore, a high awareness of incorporates existing potentials and enough source of capital is available, and also where there are sufficient number of individuals and institutions which provide adequate help and advice for the establishment and growth of industrial enterprises.

Thus, since entrepreneurship involves a complex of economic and social behaviour, it can only survive where conditions are ideal in terms of political, economic, social and ethical concerns, and when economic changes are free from restraints — for the benefit of all concerned.

An integrated approach to backward area development requires a unified administrative machinery itself animated by a passion for distributive justice. And in no small measure, the proselytising entrepreneurial zeal of the deprived and the down-trodden is a reflection of that passion.

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"The characteristics of entrepreneurship are knowledge, vision, meticulous planning, drive, dynamism, hard work, gambler's instinct and may be, a certain degree of ruthlessness for achieving results as per the plan."

CHAPTER 13

THE PROCESS OF ENTREPRENEURIAL DEVELOPMENT

Introduction

The Entrepreneurial development is a key to achieve overall economic development through higher level of industrial activity. Emperial studies have shown that entrepreneurs are made. Entrepreneurial development is a process in which persons are injected with motivational drives of achievement and in sight to tackle uncertain and risky situations especially in business undertakings. The process of entrepreneurial development focuses on training, education, reorientation and creation of conducive and healthy environment for the growth of enterprises.

Entrepreneurial competence makes all the difference to the rate of economic growth — this calls for the entrepreneur's potential inputs to boost the economic development of India. In India, state and private entrepreneurships co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. Entrepreneurship development and small-scale industry development are the same coin. Small-scale enterprise is the initiation into entrepreneurship. Further, that the rapid growth of small-scale sector is mainly due to the entrepreneurship development is also true. It is, therefore, in this context that an increasingly important role has been assigned for the identification and promotion of entrepreneurs in this sector.

So, entrepreneurship involves taking risks or making investment under conditions of uncertainty and to innovate, plan and take decisions so as to increase production and productivity.

The Meaning of EDP

Entrepreneurial Development Programme (EDP) designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. 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 a programmer. 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. Although all these inputs are required by a new entrepreneur, a programme not touching entrepreneurial motivation and behaviour cannot be called an EDP.

Though EDP has been recognised as an effective human resource development tool, many a times there are very many expectations from a single programme, like removing unemployment, enhancing industrial development, promoting small-scale industries, developing industrially underdeveloped regions, etc.

EDP is primarily meant for developing those first-generation entrepreneurs, who on their own cannot become successful entrepreneurs. It covers three major variables: location, target group and enterprise (entrepreneurial activities). Any of these can become the focus or starting point for initiating and implementing an EDP. The remaining two then will follow by making proper synthesis with the first. As for example, if the objective is to promote women entrepreneurs, suitable location and proper entrepreneurial activities must match or if the objective is to develop North-East region, then the potential target group and feasible entrepreneurial ventures must follow.

EDP by itself therefore aims at achieving the specific objectives of the programmes and therefore cannot create any magical result. It is a continuous process of training and motivating then to set up profitable enterprises in large measure.

Appropriate Design

It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes. These programmes broadly envisage a three-tiered approach: developing achievement motivation and sharpening of entrepreneurial traits and behaviour, project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations, and developing managerial and operational capabilities. Various techniques and approaches have been developed and adopted to achieve these objectives, keeping in view the target-groups and/or to target areas. The structuring of the programmes and training methodology also necessitate the consideration of the specific target groups and target areas. Methodology for selection of the prospective entrepreneurs as well as support services after the training have a significant impact on the success of the entrepreneur development programmes.

Another important aspect of an EDP is the human factor. The human factor refers to the attitude, desire and motivation of the individual, his capability to perceive the environmental changes and opportunities as well as ability to solve the problems which he as an entrepreneur is likely to face. Training develops all these aspects of human factor, and also sharpens his skills, builds up a sound value system.

Misconceptions about EDP

EDP is a catchword. But misconceptions about EDP prevail. Lack of understanding and clarity has limited its growth. EDP has yet to contribute much to the industrial economy of the country. Chandramauli Pathak has listed some of the prevailing common misconceptions about EDP. They are:

Join an EDP, all your Problems are Solved

Joining an EDP is a privilege. It is indeed a valuable opportunity not available to all. But many a times an impression is created that joining EDP means assurance of finance, obtaining the required licences for business ventures and availing of the special incentives.

This misconception arises either because of lack of "honest" promotional efforts to get participants for EDP, or by attracting entrepreneurs by raising false hopes. It may also be a result of entrepreneur's expectations in gaining such advantages like finance, licences, raw material, quotations, etc. since most EDPs are state-sponsored. Unless this misconception at both ends (trainers and trainee) is not removed, EDP will only create more problems rather than solving them.

In reality, an EDP equips and makes them competent to anticipate and deal with a variety of problems that any entrepreneur may face. It prepares them to deserve and make good use of various forms of assistance.

EDP means only Training

Any attempt to develop potential entrepreneurs through classroom training has been treated as EDPs.

In fact, training is only one of the segments in "the process" of developing entrepreneurs. The ED process starts from identifying the potential and right candidates, linking suitable projects with each one, training and developing managerial and entrepreneurial capabilities, counselling and motivating the entrepreneur and providing the required follow-up support to help him/her in establishing the venture. The whole process extends much beyond "training." Much of it is personal counselling and support.

Higher the Number, better the EDP

EDPs unfortunately have often been linked with statistical output rather than qualitative results. The quantitative dimension has forced manipulations in EDPs. It is taken that an EDP is a success with the maximum number of participants of responses.

The quality and impact of the EDP matters more than the quantitative dimension. Strategies to promote a particular target group, the nature of the non-traditional entrepreneurial activities and higher chances of success in new ventures go a long way in deciding the quality and impact of an EDP.

EDP Success is the Sole Responsibility of Trainer-Motivators

It is the responsibility of the Trainer-Motivator in most cases, to conduct the programme. However, many environmental factors challenge his role as a motivator.

The trainer alone cannot control or influence external factors which usually come in the way of 'start-ups' out of an EDP. EDP conducting agencies and the trainers alone cannot develop entrepreneurs and help them set up their enterprises since many other support agencies like Banks, SFCs, DICs, etc. are also involved to create better co-ordination and effective linkages with these agencies.

Such misconceptions prevail amongst EDP trainers or funding agencies, as also among entrepreneurs. We do hope that better awareness and clarity about the EDP process and strategy will help get EDPs their due importance and recognition.

Entrepreneurship Development Programme

Past experience has shown that industrial promotion by provision of facilities, technical assistance, management training, consultancy, industrial information and other services alone are not sufficient to develop entrepreneurs. It was concluded that the focal point should be aimed at the overlooked entrepreneurial spirit and entrepreneurial characteristics of the people to be developed. The EDP package was, therefore, launched. Over the years, the EDPs have become a vital strategy for harnessing the vast untapped human skills, to channelise them into accelerating industrialisation, in general and growth of the small-scale sector, in particular.

Of late, entrepreneurship development has become extremely important in achieving the goals of all-around development in the country. Consequently, many entrepreneurial opportunities are emerging in various fields. Be it electronic, medicine, engineering, agriculture, communication, atomic energy, telecommunication, food technology and packaging, entrepreneurial opportunities have surfaced at rapid pace in all these and many other areas. Such opportunities, however, become more perceptible and profitable to entrepreneurs when exposed to latest developments in the respective fields either in terms of technology, use or style of living. Accessibility and understanding of such information widens the base of opportunity sensing by potential entrepreneurs.

Objectives of the Programme

In line with the national programme for the promotion and development of small and medium industries in the countryside, the Industrial Service Institute (ISI) under the Department of Industrial Promotion (DIP) launched the EDP to give substance to the government's policies of stimulation of economic growth, dispersing industries to rural areas and promoting the processing of local raw materials. The EDP was considered a part of the industrial development policy which was articulated in the Five-Year National Economic and Social Development Plan.

The Programme had sought to develop entrepreneurial activities in the rural areas of Thailand as a vehicle for economic growth with the achievement of the following objectives:

(a) To promote the development of small and medium enterprises that would encourage self-employment among potential entrepreneurs;

(b) To provide, in the rural areas, special programmes designed to stimulate new ventures and encourage expansion of existing activities of small and medium industries;

(c) To generate employment and self-employment opportunities in the processing of indigenous raw materials for local consumption and for export;

(d) To develop entrepreneurial opportunities for potential entrepreneurs and upgrade managerial skills for existing entrepreneurs.

For a sound training programme for entrepreneurship development in India, the expert group constituted by the NIESBUD accepted that it must be able to help selected entrepreneurs to:

(a) Develop and strengthen their entrepreneurial quality/motivation;

(b) Analyse environment related to small industry and small business;

(c) Select project/product;

(d) Formulate projects;

(e) Understand the process and procedure of setting up of small enterprise;

(f) Know and influence the source of help/support needed for launching the enterprise;

(g) Acquire the basic management skills;

(h) Know the pros and cons of being an entrepreneur; and

(i) Acquaint and appreciate the needed social responsibility/entrepreneurial disciplines.

Some of the other important objectives of entrepreneurial training are:

(i) To let the entrepreneur set or reset the objectives of his business and work individually and along with his group for their realisation.

(ii) To prepare him for accepting totally unforeseen risks of business after such training.

(iii) To enable him to take strategic decisions.

(iv) To enable him to build an integrated team to fulfil the demands of tomorrow.

(v) To communicate fast, clearly and effectively.

(vi) To develop a broad vision to see the business as a whole and to integrate his function with it.

(vii) To enable him to relate his product and industry to the total environment, to find what is significant in it and to take it into account in his decisions and actions.

(viii) To enable him to cope with and coordinate all relevant paper work, most of which is statutorily obligatory.

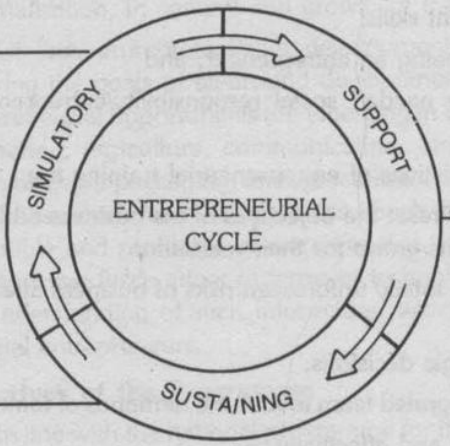
(ix) To make him accept industrial democracy, that is, accepting workers as partners in enterprise; and

(x) To strengthen his integrity, honesty, and compliance with law, the key to success in the long run.

Evolution of Entrepreneurship Development Programmes

The various motivation campaigns or programmes taken up by the Small Industries Service Institute and SIET Institute in the sixties tried to fill the existing information gaps relevant for small entrepreneurs. The entrepreneurs required a lot of information and technological know-how for setting up a business and in that context, the contribution of these programmes was essentially in the area of disseminating

1. Entrepreneurial education
2. Planned publicity for entrepreneurial opportunities
3. Identification of potential entrepreneurs through scientific method
4. Motivational training to new entrepreneurs
5. Help and guidance in selecting products and preparing project reports
6. Making available techno-economic information and product profits
7. Evolving locally suitable new products and processes
8. Availability of local agencies with trained personnel for entrepreneurial counselling and promotions
9. Creating entrepreneurial forum
10. Recognition of entrepreneurial skills.



1. Registration of unit
2. Arranging finance
3. Providing land, shed, power, water, etc.
4. Guidance for selecting and obtaining machinery
5. Supply of scarce raw materials
6. Getting licences/import licences
7. Providing common facilities
8. Granting tax relief or other subsidy
9. Offering management consultancy
10. Help marketing product
11. Providing information

1. Help modernisation
2. Help diversification/expansion/substitute production
3. Additional financing for full capacity utilisation
4. Deferring repayment/interest
5. Diagnostic industrial extension/consultancy source
6. Production units legislation/policy change
7. Product reservation/creating new avenues for marketing
8. Quality testing and improving services
9. Need-based common facilities centre

Fig. 13.1 Entrepreneurial Development Cycle

knowledge on financial, technical and managerial aspects. To that extent, these programmes were in the nature of supportive programmes for the existing and new entrepreneurs.

Based on the above experience and in the context of the emergence of financial and industrial development corporations in the states, it was visualised that creation of all external facilities is not a sufficient condition for the promotion of entrepreneur-

ship. Equally important are qualities of the individual who responds to the external opportunities (i.e., availability of funds, financial incentives, etc.). Also, social and organisational factors help people to perceive opportunities and learn to respond to them.

Experiences in EDPs Abroad

It will not be out of place to touch upon the experiences of some foreign countries in the area of entrepreneurship development. In a recent workshop organised by the East-West Centre Technology Institute, Hawaii, the EDP experiences of various countries were discussed which revealed that training made positive contributions in the performance of entrepreneurs. The non-entrepreneurial participants were motivated to start a business. The general conclusion was that EDPs could be developed as a valid substitute for natural institutions (i.e., business families). The experiences of other institutions like Development Technology Centre, Institute of Technology, Bandung Institute of Psychology, University of Indonesia, Jakarta also reiterate that EDPs have a great scope in increasing the number of new entrepreneurs to accelerate the process of industrialisation.

The basic features of the EDP programme has gone through several modifications over time as:

(a) Identification and careful selection of entrepreneurs for training;

(b) Developing the entrepreneurial capabilities of the trainee;

(c) Equipping the trainee with the basic managerial understanding and strategies;

(d) Ensuring a viable industrial project for each potential entrepreneur;

(e) Helping him to secure the necessary financial, infrastructural and related assistance; and

(f) Training cost is highly subsidised and only token fee is charged. A deposit is, however, taken to ensure commitment of participants.

Entrepreneurial Discipline

Entrepreneurs who are developed and promoted at social cost have a certain responsibility to the society that promotes and supports them. The society expects adequate returns from these people. Towards this end, entrepreneurs are expected to follow a certain discipline which is essential for entrepreneurial career. This covers subjects like:

(1) Repayment behaviour.

(2) Response to tax and statutory requirements.

(3) Progressive outlook towards labour.

(4) Care for ecology and environment etc.

Issues of EDPs

The development of EDP as a strategy contributing to the industrialisation and economic growth of backward and other areas needs a proper direction and organisation for making it more effective and purposeful. The contribution of EDPs is

very uneven among regions for which definite programmes need to be chalked out to bring about some degree of uniformity and upgradation. Before this is tackled, some important issues need immediate attention. They are detailed below for consideration.

1. Structure and Composition of EDPs: The ED programme should have a practical content with inter-institutional organisational arrangement to make it a success. The successful EDPs have, at their base, the inter-institutional co-operation or an institution such as Gujarat Centre of the State Bank of India, which besides having conducted the programmes has also arranged for finance and other inputs for the entrepreneurs. The EDPs conducted in isolation would dissipate resources and talents. The issue, therefore, for effective functioning of EDPs is to have a financial agency strongly backing up efforts for entrepreneurial development. The place and role of TCOs need to be reviewed and their activities suitably accelerated. Who should conduct an EDP is an important issue.

2. Areas of Operation: As has been stated earlier, in North-Eastern Area, entrepreneurial development activities have not been benefiting from the support activities of financial institutions. In these areas, programmes have to be linked with support activities.

3. Fixing Priorities: Another area of fixing the priorities of EDPs is to consider their working in terms of efficiency and social need criteria. Evaluation of EDPs have revealed that those who have business experience, education and skills are proving successful entrepreneurs. This source should be tapped first and then go to the stratum to cover entrepreneurs from the non-traditional class, i.e., without business and industrial experience, but having the potential of becoming successful entrepreneurs. Next come the entepreneurs belonging to backward and other communities who have to overcome many additional handicaps to become successful entrepreneurs. A proper course content of EDPs has to be developed to meet the specific requirements of each of these three strata of entrepreneurs in proper balance, without sacrificing the efficiency criteria.

4. Lack of Specialists' Support: Entrepreneurship has been an area of study requiring inter-disciplinary efforts by people from different disciplines. A large number of organisations/agencies engaged in entrepreneurship development in India do not have in the home all the specialists required and have to depend upon outside faculty. The number of specialists available in the country for developing small-scale industries is not very large. As a result, many a time organisations are unable to locate/avail services of experts. On the other hand, there are specialists who have time to spare in which they can render their services to the organisations.

This apart, the ED Programmes in India are afflicted with a number of operational problems. As such, though there are many a institution to train entrepreneurs, the growth of entrepreneurs is inhibited by these problems. The operational problems of EDP are as follows:

- Inherent inability,
- Diverse opinions,
- No proper strategy,
- Low institutional commitment,

- No local support,
- Non-availability of inputs,
- Poor follow-up,
- No adequate research facilities,
- Ill-planned training methodology,
- Inconsistent programme design,
- Perpetual ambiguity,
- No clear-cut objective,
- Lack of clarity in approach, and
- Lack of creativity and commitment.

1. There appears to be an inherent inability to identify the needs of the institution and differences of opinion prevailing amongst the practitioners and trainers.
2. There seems to be low institutional commitment for local support to entrepreneurs besides low involvement of marketing, voluntary and financial institutions in the programme, except for a few.
3. Non-availability of various inputs, i.e., raw materials, power, etc. and infrastructural support entwined with poor follow-up by the primary monitoring institution, results in failure of EDP.
4. There seems to be ill-planned training methodology, inconsistency in programme design, its content, sequence and theme and focus of the programme.
5. Training institutions do not show much concern for objective identification and selection of entrepreneurs and the follow-up after training.
6. Some of the institutions seem to be still debating whether to look for proper identification and selection of entrepreneurs for making successful entrepreneurs.
7. Those involved and concerned with the 'selection and follow-up' activities have either limited manpower support or a narrow linkage with other support agencies.
8. There does not appear to be standard course curricula even in terms of broad module being adopted by such institutions.
9. Majority of the institutions engaged in EDP are themselves not convinced of what they are doing as a task delegated by the Government of helping the policy in attaining its social objectives.
10. Perceptual ambiguity of the EDP objective seems to have percolated to grassroot level with a significant distortion both in terms of content and intent.

To conclude, it can be stated that many of the issues related to an EDP are conceptual in nature, many are practical and operational and many are in the borderline between concept and practice. Research and studies, building sophisticated

skills and expertise, coordinating, collaborating, corroboration of ideas and actions are necessary strategies that should be continuously pursued to confront these issues.

In the post-independence period, the nation laid stress and put its faith in science and technology. The country has made tremendous investments in scientific institutions and scientific and technical manpower. These investments need to be harvested. We have learnt that the managerial skills necessary to harvest businesses are different from the skills required to create businesses. Similarly, to create technology enterprises we may also require a different breed of managers in our institutions. Development of technical entrepreneurship and the management of science and technology cannot be dealt with in mutual exclusion.

Development of Women Entrepreneurs

With a view to encouraging women entrepreneurs to take up industrial project, Industrial Development Bank of India (IDBI) has provided, under a special scheme, refinancing at a concessional rate of 9 per cent a year, the ceiling on the rate of interest on the loan being 12.5 per cent. A reduced minimum promoter's contribution of 15 per cent has been stipulated except for projects in the most backward districts where the minimum contribution is further reduced to 12.5 per cent. The IDBI also extends 100 per cent refinancing to SFCs in respect of proposals covered under the automatic refinancing scheme and 85 per cent if the proposals come under the normal refinancing scheme. For commercial banks, refinancing is extended at 75 per cent of the loan amount under both schemes. Over and above the financial assistance, organisations are being identified and encouraged to provide liaison, training, consultancy and extension support to women entrepreneurs: the cost of these services is being borne by the IDBI subject to a ceiling of Rs. 10,000 per beneficiary. While the support is need-based, it is envisaged that the subsidy will be broken down as follows:

Service	*Amount*
EDP training	Rs. 2,500.00
Feasibility/project report preparation and other consultancy services	Rs. 5,000.00
Follow-up and other extension services	Rs. 2,500.00

Training organisations have been advised to keep in mind the following:

(i) In the pre-training component, the need for identification of industrial opportunities consistent with the knowledge, skills and personal background of trainees.

(ii) The facility for the training part could include women trainers so as to help participants to open up and discuss their problems freely.

(iii) Women trainees should be motivated to set up modern small-scale units, for example, in electronics, engineering, plastics and chemicals, rather than conventional female enterprises.

(iv) The extension services should be tailored to the special needs and problems of women entrepreneurs, such as the long lead time invariably required by them to complete procedural formalities, arranging finances and tying up marketing arrangements.

(v) Apart from knowledge and skill inputs, demonstration of entrepreneurial initiative and exposure to actual industry operations through field visits should receive due weight.

(vi) Post-training escort services would be provided by the conducting agency till the projects taken up by women entrepreneurs reach their break-even stage.

The experience in conducting EDPs for women indicates that:

— Though women have the same potential as men to succeed as entrepreneurs, they suffer from two distinct disadvantages as compared to men and these entitle them to some special considerations. The first is solely internal and therefore, within their control to improve: Bring forth their initial confidence in their own abilities. The other is the long lead time required to complete all legal and procedural formalities in view of the various restrictions on their mobility.

— The majority of women entrepreneurs felt that discrimination was evident during the implementation stage but became less severe once the units were established.

— While carrying out the market survey during their training and in marketing their products after they had started their enterprise, some women entrepreneurs had to face the discouraging attitude of tradition-bound traders.

— Women coming from families in industrial and business activities could achieve success faster than most others. They easily assumed the role of independent decision-makers and had leadership qualities in the fullest measure.

— Young unmarried women were not found suitable for our programme as the course of their future life was not in their hands. Compared to them, married women in the age of 30-45 were found to be more reliable as their responsibilities towards their family were clearly defined and were gradually lessening.

— Today, 8 out of 10 working women forgo their careers for the sake of their family. We naturally do not expect women entrepreneurs to be free from this concern. We have seen that almost all successful women entrepreneurs had strong family support in the form of finance and business know-how, and enjoyed personal freedom. The family adjusted and rescheduled the normal house routine to suit them.

— Generally, women are considered less aggressive and more emotional. Initially, they get involved in the business situation where a man would usually remain cool. But, with a little experience, they quickly learn to be tough and remain objective.

— Their patience and gentleness make women sound personnel managers in small enterprises. They can generally understand the feelings of others and have a keen sense of justice and fairness.

Strategy for Entrepreneurship Development

Keeping this background in view, the following strategies of entrepreneurship development in India may be suggested:

(i) Public entrepreneurship should remain confined only to those industries and sectors where private enterprise, individual or corporate, is generally not attracted. Existing public entrepreneurship should be improved through better management and by putting relatively greater emphasis on research and development. There is need to streamline the R & D wing of public sector enterprises.

(ii) All possible efforts be made very seriously for the development of an industrial culture. It should be realised that the central core of entrepreneurship is the motive force since an appropriate, entrepreneurship implies positive action and initiative. Motivated individuals with combination of abilities and attributes can pursue their goal with enthusiasm. One can easily give examples of men like J.N. Tata or Ranchodlal Chhotalal who established their enterprises against heavy odds in the country under British rule. Without motivation, an individual cannot become a successful entrepreneur even though he may have access to finance. Individual qualities of vision, vigour, leadership and enterprise need be inculcated.

(iii) There is need to develop management education and industrial training. In modern times, management education is being viewed as an effective supplement to the development of entrepreneurship since entrepreneurial decisions have to be effectively supported by managerial decisions. Quite often, the entrepreneur functions a manager especially in small-scale industries where the entrepreneur is his own technician and manager. This fact justifies the route of formal education and necessitates the establishment of business schools and management institutes in the country, where relevant courses may be introduced. Happily, some such institutions have come up but they should further be strengthened and developed into first-class institutions comparable with their counterparts in developed countries. In addition, facilities should be provided on an increasing scale for sending talented young men and women to business schools abroad. But, strategies should be chalked out to give an conducive environment for them to come back to India and apply this knowledge in a suitable manner. Besides, industrial training programmes should be frequently organised. This will help in widening the mental horizon toward practical business and industrial problems. New industrial training centres well equipped may as well be established. Education and training will very much help in developing and augmenting a race of new entrepreneurs needed to harness and utilise the scarce resources for economic development.

(iv) The development of backward regions/areas constitutes a new challenge. Programmes for their development be drawn up and should be effectively implemented. Such programmes await new entrepreneurs whose technical expertise and managerial competence would bring about the desired development and fulfil social needs.

(v) Adequate measures are a must for mobilising and fostering entrepreneurial talent in the country. In this context, it should be realised that entrepreneurs are not

the gift of a particular class. For instance, in Japan, innovators came from the underprivileged classes as the affluent classes had hardly any incentive to innovate. "Innovating entrepreneurs have frequently come from those classes of people normally barred from advancement to status-bearing positions."

(vi) Economic administration by the State should be improved and made more effective so that objectives of economic policies may be fully achieved in the overall interest of the country's economy. Better economic administration would go a long way in ensuring and increasing entrepreneurship. Monopoly benefits to a few big entrepreneurs is an evil and must be checked. The general policy of encouraging the small entrepreneur will go a long way in activating and broadening the leadership potential. Improvement in business climate by the state through its well-designed economic policies, be it fiscal, commercial, industrial or agricultural will benefit the entrepreneurs in a changing technological society and thus facilitate healthy development of entrepreneurship.

(vii) Institutional framework should work towards meeting major industrial or economic needs or goals. Such framework, in addition to its several facets, must place entrepreneurial development and its objectives in a proper and meaningful perspective following which entrepreneurs may plan their business activities within the bounds of such a framework for the desired coordinated development.

(viii) Greater emphasis should be put on research relating to processes and enhancement of the value of indigenous techniques. This would have an encouraging impact on entrepreneurship and technology at the domestic level. As a general rule, Indianisation of entrepreneurship should be effected in place of foreign collaboration. However, general guidelines should be stated for cases in which foreign collaboration with well-known foreign companies may be allowed.

(ix) Financial institutions should provide adequate and timely credit and technical assistance, especially to small and medium-sized enterprises. They should also impart knowledge about the needs of the economy and they should file their massive data in terms of growth of new entrants or entrepreneurs in the field of industry. These may as well be dwelt upon at length in their reports and other publications. All this will go a long way in inculcating and sustaining entrepreneurial spirit in the newly-emerging classes.

(x) Now, special categories of entrepreneurs, viz., women, retired army personnel, handicapped persons, educated youths, Non-Resident Indians (NRIs), displaced persons etc., have appeared on the economic scene. Their emergence is more directly conditioned by economic and industrial factors and not only by social factors of caste, community and social approval or disapproval. Factors like access to capital, business experience, opportunity to acquire technical and managerial competence have played a crucial role. For instance, in the case of light engineering products, electronics, computers and in several other new products, the entrepreneurial source is generally not traceable to any specific caste or community background. The entrepreneurs in such fields are usually technologists and in their endeavour to establish manufacturing units, they reveal a multiple basis of entrepreneurship, viz., foreign collaboration, diversification, etc. Conducive working environment should be ensured for the healthy

development of such entrepreneurs in future. It is only then that their qualities of vision, vigour, leadership and enterprise can be well utilised for the industrial development of the country.

Entrepreneurship is not confined to industry and is needed in all activities. Its existence in agriculture among the cultivators, small and large, is seen by all today. The growing farm of today in many parts of the country is a proof of such entrepreneurship. The need for entrepreneurship is even greater in management of the Government, more so as it is the largest entrepreneur.

India has a proud record of entrepreneurship. Its present growing status in the industrial world is its proof. It has now to prepare itself for entrepreneurships of a different order. Tremendous advances of science and technology will have to be harnessed and incorporated requiring on the part of the people and the Government a more mature approach to be on par with advanced countries. Philips, Sony, Honda, Ford are the signposts of entrepreneurship today for all to emulate. Some of these have come up only in recent years and from small beginnings. In India, too, one sees glimpses of such entrepreneurship.

Conclusion

It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes. These programmes broadly envisage a three-tiered approach: developing achievement motivation and sharpening of entrepreneurial traits and behaviour, project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations, and developing managerial and operational capabilities. Various techniques and approaches have been developed and adopted to achieve these objectives, keeping in view the target-groups and/or target areas. The structuring of the programmes and training methodology also necessitate consideration of the specific target-groups and target areas. Methodology for selection of the prospective entrepreneurs as well as support services after the training have significant impact on the success of the entrepreneurs development programmes.

More importantly, the Government and the financial institutions are in forefront in entrepreneurial development. However, it is said that various training programmes of these institutions work at training people for self-employment to acquire gainful employment. Thus the very purpose of developing entrepreneurial talent among the youths is defeated. This calls for a critical evaluation of EDPs and of personnel with conviction and commitment to undertake the task of planning, designing and implementing programmes in this area. More importantly, entrepreneurial programmes must be attuned to Indian economic environment and be made available in regional languages. The need of the hour is to develop genuine and not imitative entrepreneurs to accelerate the process of industrialisation. The need of the hour is for stimulating innovation and the entrepreneurial spirit to support the development of new ideas through new and mature enterprises.

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CHAPTER 14

ENTREPRENEURIAL DEVELOPMENT TRAINING

Introduction

All individuals have a need for training; new recruits need induction into the rationale and objectives of their jobs, besides being trained in specific skills and routines. New professional staff may need to undergo additionally programmes of training to enable them to improve their professional qualifications. Certain individuals may need training for a specific purpose, the development of a new service, taking on a new role in the organisation, preparing for retirement.

But, in a world where development and promotion happen more rarely, everyone still needs training, or rather needs it even more; if a job at any level becomes drudgery, then it cannot be effectively performed. The role of training is to develop the critical awareness of staff and prevent in-growth. An employee who can make some appraisal of her or his role, compare the situation of colleagues elsewhere, and feel that management promotes this process, is likely to feel satisfaction in the job, however great the constraints on achievement. And job-satisfaction is a clear way towards effectiveness; if individuals at all levels can contribute towards the formulation of goals — then those goals are more likely to be the most appropriate in the context.

Importance of Training

The importance of training employees has the following advantages:

(1) It makes sure the availability of skilled workers at all levels of management.

(2) It increases the potential abilities of workers and thus improves their performance to the maximum attainable level.

(3) It enables workers to perform the work more efficiently and precisely so as to maintain the quality of products.

(4) It minimises excessive scraps, defective outputs and wastage in the production process.

(5) It minimises accidents said to be increasing as unskilled and semi-skilled workers are more to industrial accidents.

(6) Training reduces fatigue.

(7) Training enables the workers to work speedily and thus increases the earning of employees.

(8) When the speed of production increases, overtime work can be avoided and therefore, the payment of overtime does not arise.

(9) A trained worker does not feel the need to join other factories and thus reduces the labour turnover.

(10) Training improves the good relations between employees and management.

(11) New techniques can be easily adopted through trained employees.

(12) Standardisation can be adopted in a factory where trained employees are available.

(13) Team spirit and team work can be promoted when employment are fully trained.

(14) Training enables employees to occupy higher positions of authority.

(15) As trained workers do not require any consolation and because of less spoilage resulting from their performance, the supervision cost can be minimised.

Objectives of Training

The training programme is designed to subserve the following objectives:

(i) To impart basic knowledge about the industry, product and production methods;

(ii) To build the necessary skills of new entrepreneurs and workers;

(iii) To assist the entrepreneur/worker to function more effectively in his present position by exposing him to the least concept, techniques and information;

(iv) To build up second line of workers and prepare them to shoulder additional responsibility and/or switch on to the production of a new product, if there is any diversification;

(v) To expose the entrepreneur to the latest developments which directly or indirectly affect him;

(vi) To broaden the vision of entrepreneurs by providing them suitable opportunities for an interchange of experiences within and outside an industry;

(vii) To impart customer education;

(viii) To impart knowledge of the marketing of goods.

The Principles of training may be enumerated as under:

(1) Training should be given in a proper atmosphere and that too systematically through duly qualified and trained instructors.

(2) Training should be of reasonably long duration so as to enable the workers to understand the theory and develop skills for managing the job accurately.

(3) Training should be given at all levels. This means training programme of a factory should include induction training, job training, training for promotion and refresher training.

(4) The level of training should be high. It must be comprehensive and the participant should be made familiar with the latest trends in production technology.

(5) Training should consist not only of theory; it should be supplemented by practical training and made interesting to all participants.

Methods of Training

The following are the important methods by which training may be imparted:

(1) *Individual instruction:* Under this method, a single individual is selected for training. This mode of training is undertaken where a complicated skill is to be taught to an individual.

(2) *Group instruction:* This mode of training is suitable for a group of individuals with a similar type of work and where general instructions are applicable to all are to be given.

(3) *Lecture method:* Here the instructor communicates in theory the practice to be followed by the learners. Under this method, whenever there are any doubts, they may be clarified on the spot.

(4) *Demonstration method:* Where the performance of work is to be shown practically by the instructor for better understanding, this method can be followed. This is more concerned with the practical than theoretical aspect.

(5) *Written instructional method:* The medium of training is followed where a future reference is to be made by the learners. This method is mostly followed where a standardised production system is followed.

(6) *Conference:* Conferences are frequently organised wherein experts in the field share their ideas and bring to the notice of learners new ideas and techniques to increase production.

(7) *Meetings:* Meetings are a mode of training involving a group of people who discuss the various problems confronting them. They involve exchanging ideas and views and later on, coming to a firm conclusion based on the various proposals and alternatives.

Small-scale industries in India suffer from various handicaps one of the most important among these is the non-availability of technical and managerial personnel of the required calibre. On the Contrary, large-scale industries can employ qualified staff specialised in different areas of production and management. Further, they can afford to retain from time to time their own supervisory personnel and workers. As against this, the small industrialist cannot afford to employ workers and supervisors having a sound educational background and the requisite experience in production and

in trade. Besides, they do not have the equipment and resources to train their own staff. To meet this lacuna, the training of small industrialists and their workers has been taken up as an important part of the Industrial Extension Service rendered by the Development Commissioner, Small-scale Industries Organisations. The courses provided are designed to familiarise small industrialists and their workers with the latest tools and techniques in their respective fields. The object of the training of personnel for and from small-scale industries is to equip them with improved management/ technical know-how and to apprise them of the kinds of assistance available from various Government organisations training programme of such personnel is suitably geared to the needs of individuals with different background and performing different functions.

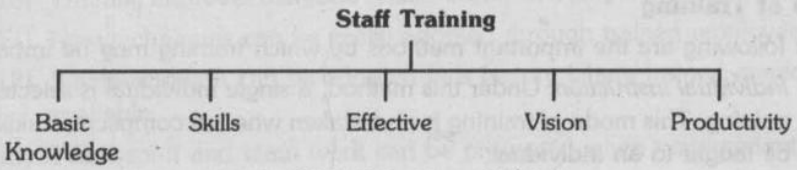


Fig. 14.1 Objectives of Training

The training of instructors at various levels was a *sine qua non* of the programme. Besides training officers of the DCSSIO, it became imperative that State Government officers, entrusted with the development of small-scale industries, should be given similar training, since the development of small industries is a State subject under the Constitution. Indeed, the training programmes of this organisation commenced within orientation training for its own officers in charge of the Pilot (industrial) Projects under the Community Development Programme, the small-scale Industries Organisation has extended the benefit of its training resources and programmes to other developing countries which, being interested in the development programme of small-scale industries, have been deputing their officers for participation in training programmes, study visits, etc., specially arranged by it for them.

In the post-independence period the nation laid stress and put its faith in science and technology. The country has made tremendous investments in scientific institutions and scientific and technical manpower. These investments need to be harvested. We have learnt that the managerial skills necessary to harvest business are different from the skills required to create businesses. Similarly, to create technology enterprises we may also require different kind of managers in our science and technology institutions. Development of technical entrepreneurship and the management of science and technology cannot be dealt with in mutual exclusion.

Training in Technical Trades

Regular ad hoc training courses in various technical trade are conducted by Small Industries Services Institutes, Branch SISIs, Extension Centres and Production Centres for Artisans, both skilled and semi-skilled, sponsored by small-scale industries for upgrading their existing skills and broadening their areas of competence to meet the specific requirements of small-scale industries.

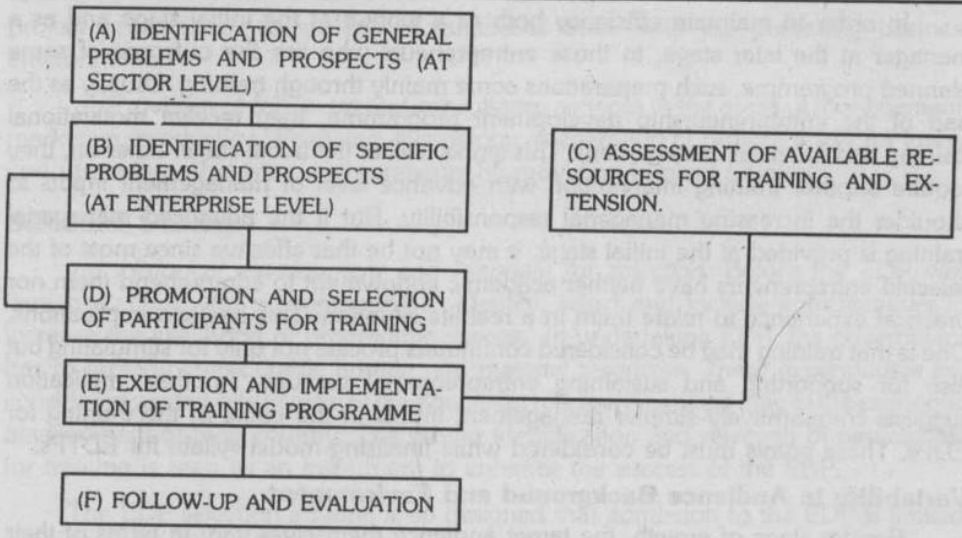


Fig. 14.2 Building up an Action-oriented Training Programme.

Stage of Growth

The training contents will largely depend on the stage of growth of entrepreneurs. Entrepreneurs of the small industry and small business are usually owner-managers. In the beginning stage, they are more concerned with the start up work and at this stage they play the role of workers rather than that of a manager.

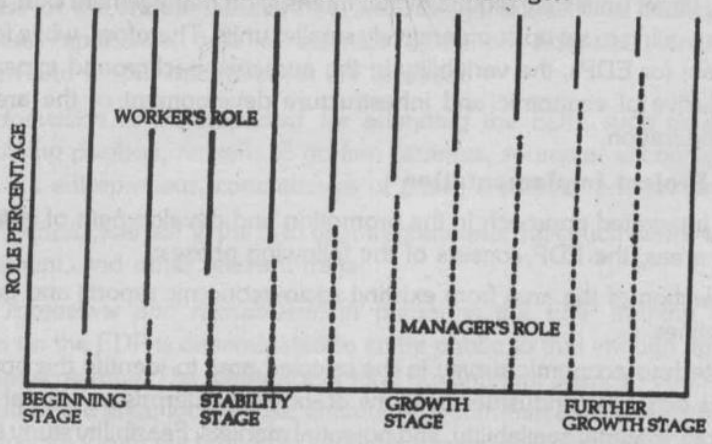


Fig. 14.3 Role of SSI Entrepreneurs

But as soon as the industry attains stability in terms of production/service, entrepreneur starts planning its growth and improvement. At this stage, his role as a worker gradually diminishes and proportionately the manager's role increases. Finally, with the growth of the industry, manager's role starts dominating. Thus, the role of small entrepreneur is a dynamic one and follows a continuum between worker's and manager's roles.

In order to maintain efficiency both as a worker at the initial stage and as a manager at the later stage, to those entrepreneurs who are the outcome of some planned programme, such preparations come mainly through training. Usually as the part of the entrepreneurship development programme, they receive motivational training and financial management. This works well at the initial stage. Later on, they require another training intervention with advance level of management inputs to shoulder the increasing managerial responsibility. But if the advanced managerial training is provided at the initial stage, it may not be that effective since most of the selected entrepreneurs have neither academic endowment to comprehend them nor practical experience to relate them in a real life situation. This has two implications. One is that training may be considered continuous process not only for stimulating but also for supporting and sustaining entrepreneurial pursuits. Another implication suggests comparatively simpler management inputs in the initial in the training for EDPs. These points must be considered while finalising model syllabi for EDTPs.

Variability in Audience Background and Environment

Besides stage of growth, the target audience themselves vary in terms of their background, experiences, training and exposure to the business world. These variabilities demand for the matching training inputs with varying degree of intensity to bring these entrepreneurs to inputs with varying degree of intensity to bring these enterprise and be able to manage them successfully. For example, a group of MBA entrepreneurs may require less intensity on management skill development input as compared to other aspects. Similarly, for a group of entrepreneurs who want to set up considerably larger units may require higher intensity on management skills rather than those who are going to set up comparatively smaller units. Therefore, while formulating training syllabi for EDPs, the variability in the audience background experience and training inclusive of economic and infrastructure development of the area deserve serious consideration.

Details of Project Implementation

As an integrated approach in the promotion and development of entrepreneurs in the rural areas, the EDP consists of the following phases:

(a) Selection of the area from existing socio-economic reports and government policy guidelines.

(b) A techno-economic survey in the selected area to identify the opportunities for new and expanded industries in terms of existing enterprises, natural resources, labour and raw material availability, and potential markets. Feasibility study on selected types of industry with good prospects will be carried out, including preparation of industry profiles for industries.with investment opportunities.

(c) Identification of potential and existing entrepreneurs who are interested to diversify or expand their business through the use of predetermined recruitment and selection scheme.

(d) Training of these potential and existing entrepreneurs to increase their motivation and equip them with the skills in management, project feasibility study and

project preparation, as well as to familiarise them with the prevailing business environment.

(e) Provision of follow-up and consultancy services in the areas of management, marketing, production, financing, technology, preparation of project, apply for loans, and upgrading of existing entrepreneurs by providing in-plant training.

Selection Scheme

(a) Historical development and rationale for selection: Before the EDP was launched, there was a programme to identify, select and include entrepreneurs to increase the likelihood of programme success. In undertaking EDP, the government has to provide considerable human and material resources. These expenditures are considered worthwhile in view of the significant role entrepreneurs play in the economic development of their country. The proper identification and selection of participants for training is seen as an instrument to enhance the success of the EDP.

The EDP selection scheme is so designed that admission to the EDP is limited to the top 25-30 applicants who are presumed to process the traits or qualities of potential entrepreneurs.

The selection scheme was based on the assumption about the entrepreneurial characteristics which were considered to be generally accepted. The general and principal requirements to be met by an applicant for training are:

(i) Biographical: Demographic and socio-cultural data of the applicant to assess his readiness for the entrepreneurial role, such as age, educational background, work and business experience, type of business operation, financial resources, equity participation and labour intensiveness are essential.

(ii) Motivation of the applicant for attending the EDP, such as exposure to business, sibling position, reasons to go into business, source of encouragement and support to the entrepreneur, concreteness of plans, credibility and endurance.

(iii) Psychological test in the field of entrepreneurial traits such as risk-taking, need for achievement, and other relevant traits.

(b) Promotions and recruitment: In preparing the EDP training course, the information on the EDP is disseminated to entire public so that enough applicants are generated for screening. The assistance of local government agencies concerned in the development of the area, local banks, chambers of commerce, service clubs and some types of industrial forum are tapped in identifying target participants. The commencing of the training programme is usually announced by various means of advertisement, e.g., local radio, television, the local various means of advertisement, e.g., local radio, television, the local newspapers and posters. Brochures on the programme will also be distributed to local businessmen and individuals interested in going into business. They refer to the integrated package of assistance through the EDP, and is an opportunity for discussions with participants from other provinces who have benefited from EDP training.

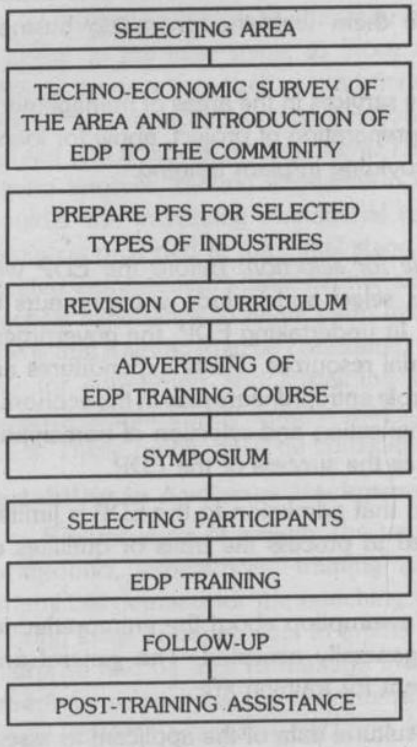


Fig. 14.4 EDP Flow Chart

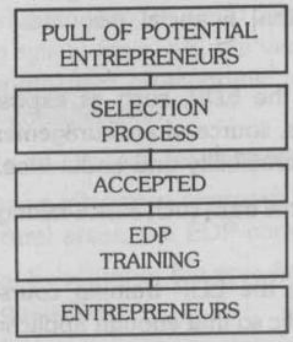


Fig. 14.5 Entrepreneur Selection Process

(c) Selection procedures: The selection scheme consisted of a three-step process:

(i) Each applicant completes an application form which probes into his family background, education, work and business experience, business plans and financial resources.

(ii) The applicant is interviewed as to his motivation in becoming an entrepreneur, entrepreneurial potential, and desire to participate in the programme.

(iii) The applicant takes a psychological test which aims to measure entrepreneurial traits such as need for achievement, risk-taking, need to influence, optimism, and other relevant traits. Fig. 4.5 shows the process of selection.

A decision to admit an applicant to the EDP wholly depends on selection results. The number of participants to attend the training course are limited to a maximum of 30 persons per course.

Training Programme: Course Content and Curriculum

The EDP training will be set up according to the training needs of participants, who are both existing and potential entrepreneurs, and industrial prospects of the area. The training programme lasts for four weeks, and consists of six modules.

(a) Introduction of entrepreneurship: This module covers general knowledge on factors affecting small-scale industries, the role of entrepreneurs in economic development, entrepreneurial behaviour and the facilities available.

(b) Motivation training: Motivation training is a three-day live-in-module aimed at increasing the participant's level of achievement and confidence and developing the right attitude and behaviour toward business. Successful entrepreneurs are invited to speak about their experience in setting up and running a business.

(c) Essentials of management: This module is aimed at providing participants with basic management and technical know-how required to enable them to operate their business enterprise effectively and efficiently. It consists of the following subjects:

(i) General management.

(ii) Marketing management.

(iii) Production management.

(iv) Financial management.

(d) Fundamentals of project feasibility study: This ratio provides guidelines on the effective analysis of feasibility of the project in view of marketing, organisation, technical, financial and social aspects.

(e) Organising the business: The purpose of this module is to enable participants to know the environment in which they will operate their business. This covers such aspects as government incentives, industrial opportunities, policies, business laws and regulations, etc.

(f) Plant visit: Plant visits are necessary to familiarise the participants with real life situations in small business. Such trips also provide participants with opportunities, to learn more about an entrepreneur's behaviour, personality, thoughts and aspirations, including his plans and projects.

The training method is a combination of group dynamics, lecture discussions, case studies, actual preparation of project assignment, and workshop exercise.

Course Duration and Schedule

The training programme is a 25-day course. Except for the achievement motivation training (a three-day live-in module), the daily programme consists of 2 sessions/day. The lecture sessions are conducted daily during the day or in the evening, depending on the opinion of people in the target area gathered during the industrial potential survey.

German Experience

The worldwide acclaim achieved by the German companies has been due to the rapid adaptation to change and restructuring the training accordingly. The common features of restructuring are:

(1) Broadbased training to start with, followed by specialisation. This has led to a reduction in the number of trades.

(2) Development of multi-craft skills.

(3) Development of unique training modules and units.

(4) Industry's lead and initiative in restructuring the training.

(5) Change in complexion of the workforce leading to more skilled workers.

(6) Retraining programmes for skill upgradation of the existing workforce, and

(7) The overall personality development of the workforce through emphasis on 'key qualifications' which will equip the workforce with the ability to cope with change. This is illustrated in the diagram.

Two important recommendations emerged when there was an interchange of German and Indian experiences, through a workshop organised by the Confederation of Engineering Industry.

Multi-skill Concept

(1) The pattern of Indian training system needs to be overhauled. This is needed particularly in respect of offering broad training with limited number of trades and offering specialised modules in tune with the hitech requirements. Also, the multi-skilled concept which is fast emerging as a response to hitech needs would necessitate this approach.

(2) At the operational level, the modification of the existing training programmes to include the allied elements. In particular, the maintenance aspect has been much stressed, whether it be mechanical, electrical, electronics or the processing sector.

To make training successful, the German experiences point to the absolute necessity for developing good training materials and updating the instructors on their use.

Japanese Approach

In total contrast to the German approach, the Japanese place little accent on formalised institution training. On the other hand, tremendous emphasis is laid on "on-the-job" training. The primary objective of job training is to bring about a change — an increase in knowledge, the acquisition of a skill, or the development of confidence and good judgement. Job training is not successful unless the person can do something new or different or demonstrate a change in behaviour.

There are three dimensions in each job that an employee must master in order to perform effectively knowledge, skill and ability.

Knowledge refers to the information that is needed to perform a set of activities efficiently and effectively. Skill refers to the techniques, the approaches, and the styles of translating knowledge into action or practice. Ability refers to the intangible qualities or characteristics that are necessary for performance and are often referred to under the umbrella of 'motivation' or 'attitude.'

Job training is structured to consist of both formal and informal activities that address each of these three dimensions — knowledge, skill and ability — and the goals of training made clear enough so that the trainee understands what outcome or behaviour is desired.

In trying to solve job related problems, often the Japanese employees are encouraged to communicate their own training needs so that these can be arranged. This is in direct contrast to the practices prevalent in many factories here, wherein every one participates in determining the training needs of a person excepting the person himself.

For example, through the participation as members of Quality Circles, in the process of problem solving, the employees may identify specific skill needs to improve product quality. These are then arranged to be provided.

Table 14.1
NEW TRAINING TOOLS

No.	*Level*	*Tool*	*Use*
1.	Top & senior levels	ZOPP	Realistic organisational diagnosis and action plans to overcome problems.
2.	Middle level managers	Blockage concept	Identifying and helping to remove blockage to competency, "empowering" them for greater effectiveness.
3.	Work force	Modular training	Adaptation to hi-tech integrated approach to Operation & Maintenance.
4.	Cross-functional	The New Seven tools of QC	To ensure better product quality and meeting customer expectations.

Entrepreneurship Development Programme Organisations

There are several organisations engaged in conducting entrepreneurship development programme in India. The lead in the matter was given by the Small Industries Development Organisation through its service centres. Entrepreneurial development in Gujarat has been conducted for a long time, and sophisticated selection techniques and training methodology have been developed. The programme has integrated identification and training of potential entrepreneurs, identification of viable industrial projects and developing managerial capabilities. Institutional support in the areas of finance, infrastructure, etc. is also linked with the programme.

Other organisations that have been actively conducting entrepreneurship development programmes are State Bank of India; financial institutions such as IDB; Entrepreneurial Motivation Training Centre in Northern-Eastern Region; Xavier Institute of Social Services, Ranchi; industrial consultancy organisations in various states; Centre for Entrepreneurship Development, Ahmedabad; State Financial Corporations; the Centre for Entrepreneurship Development, Hubli; Small Industries Extension Training Institute, Hyderabad; National Science and Technology Entrepreneurship Development Board etc.

The need for a national organisation to serve as an apex body to coordinate training programmes of various centres and organisations in the country, to train trainers and motivators in entrepreneurship development, to prepare model syllabi training for various target groups and target areas, etc. was felt, with a view to evolve an integrated national approach to this subject.

Entrepreneurships Development Model/Promotion

Pre-requisites for EDP

The entire infrastructure of an area should be reviewed. Entrepreneurs require a variety of assistance and support in arranging finance, plant and machinery, land, readymade sheds, power, raw materials and finally information relating to industry. The support activities provide nurturing and help entrepreneurship to grow and survive. The inadequacy of support system may impede provision of timely help to entrepreneurs. The co-ordinator of the entrepreneurial training programme should arrange meetings of various developmental agencies to elicit their co-operation.

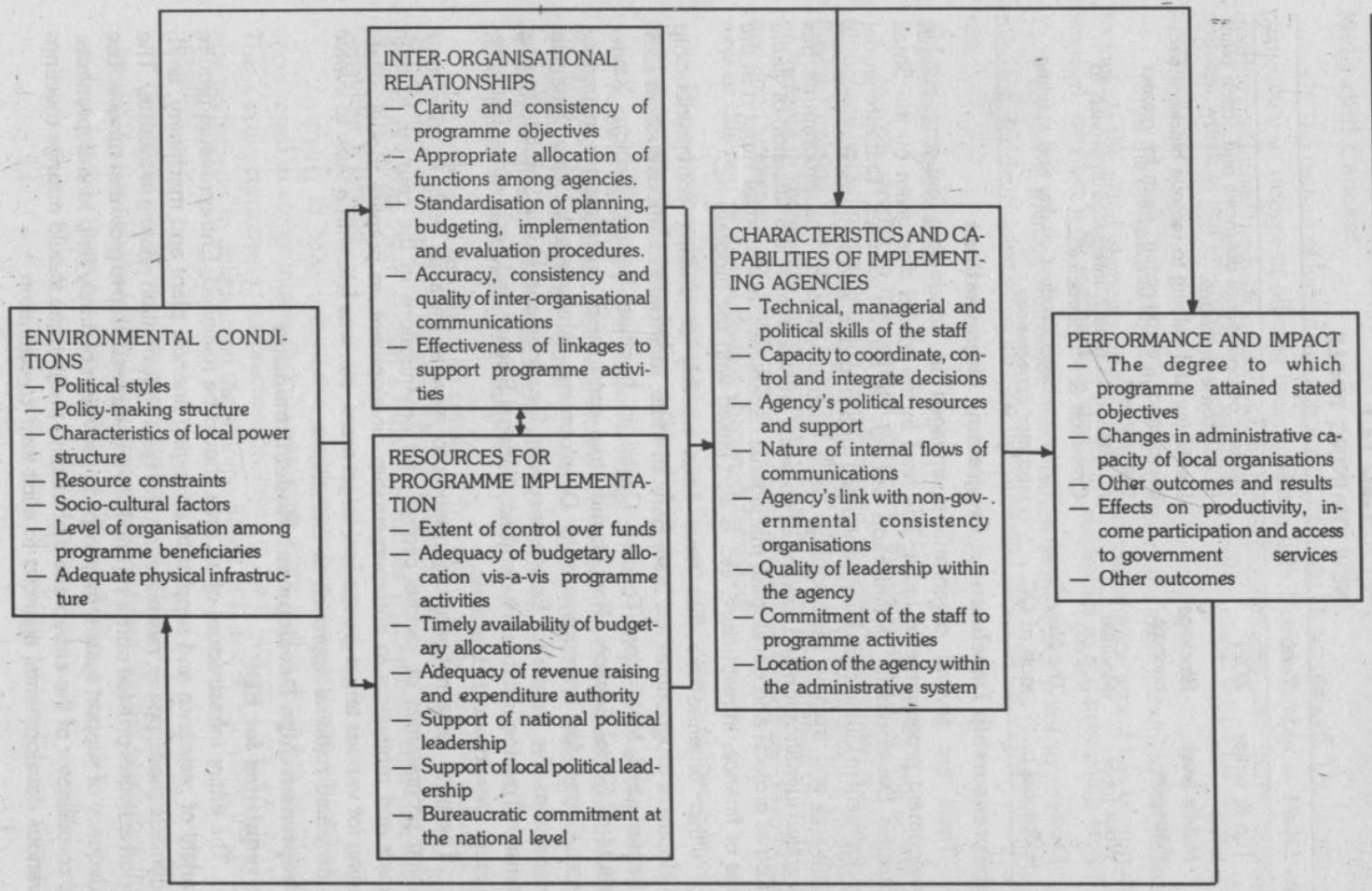


Fig. 14.6 Factors Affecting Implementation of Entrepreneurial Development

Survey of Entrepreneurial Opportunities

It consists of identifying viable industrial activities and enterprises based on demand and resources and the extent of competition. Although the emphasis is to be given to demand of an area, the adjoining areas having linkages and the requirement of a region should also be considered. The objective of a survey is to identify opportunities in industries and other allied activities which offer a promising future for entrepreneurs.

Selection of Entrepreneurs

Selection methodology is a critical input in the entrepreneurship development scheme. If the entrepreneurs are not properly selected, the entire programme can be defeated; and this has a direct bearing on success rate.

A number of techniques are employed for selecting entrepreneurs. The selection procedure to be adopted by an organisation should be based on sound theoretical background and standardised tests administered by experts. In India, several institutions of repute administer scientific tests such as Thematic Appreciation Test, Entrepreneurial Capacity Test, etc., followed by personal interviews. When entrepreneurs are selected, chances of drop-outs are minimised and entrepreneurial training becomes effective for the achievement of goals and objectives.

Inputs for Entrepreneurship Development Training

The objective of the programme of training in entrepreneurship development is to develop motivation of potential entrepreneurs, help them in taking up suitable enterprises and activities, enable them to prepare economically viable and technically feasible project reports and enhance their enterprise-building skills. The motivational inputs include psychological games, tests, goal-setting exercises and role play. The objective of these inputs is to enable the participants to do a self-study, understand their own entrepreneurial personality and behaviour and bring about changes in self-concept, values and skills, leading to positive entrepreneurial behaviour.

The training programme further enables entrepreneurs to develop skills in identifying suitable items for manufacture which will give good returns. The technique of conducting studies, market surveys and research should further be covered in the programme of training based on which project reports have to be prepared. For organising an industry, information on government policies and programmes is helpful to the entrepreneurs. A number of institutional agencies offer the necessary infrastructure for putting up plants. Some countries have also introduced schemes of incentives and concessions available to entrepreneurs. A programme for training for entrepreneurship development should also cover information on programme of assistance and support systems.

Any training programme should not only develop proper entrepreneurial motivation and skill but should also ensure that entrepreneurs are able to develop their enterprises well by scientific managerial techniques and contents in various fields of management — financial management, marketing management, production management, inventory control, labour laws and taxation.

There is also the need for visits to the industrial units, consistent with the items identified by the entrepreneurs, to gain more knowledge on production processes and machines required for the purpose. Facilities for in-plant training will further heighten the usefulness of the programme, particularly when the enterprises are very small or in areas where there is paucity of skilled personnel.

Support System

Individuals and organisations which provide assistance to entrepreneurs constitute a support system. Experiences in India have demonstrated that the calibre and willingness of a support system greatly influences the success of a programme. The various agencies of the support system should be involved in the training programme from the selection process to training and follow-up. The organisation conducting the training should be associated with these agencies to ensure that timely assistance is available to the entrepreneurs.

Follow-up

It is as important to take up follow-up measures after conducting entrepreneurial development courses. Some of the institutions in the country have introduced cards for each trainee where progress is recorded from time to time. Project leaders contact the entrepreneurs by personal visits or otherwise to ascertain difficulties and to follow-up their needs with the appropriate agencies. Regular system of reporting should be developed to get feedback on the performance of entrepreneurs.

It has been envisaged that while the basic structure will remain the same, the degree of emphasis could vary in such areas as in-plant training, theoretical training etc. depending upon the requirements of the target group.

Economic activities are directly linked with the entrepreneurial level of a nation and, therefore, entrepreneurship development is a critical input for industrial and business development efforts of a country. Need for entrepreneurship development training has been established and the above model could be adopted considering the local parameters.

Work Plan

After the final survey and investigation were carried out, an action plan was formulated with the following objectives:

— To create an atmosphere of confidence so that the owner manager would be willing to receive comprehensive assistance in management and technical development of his organisation (training in new technologies, *i.e.,* in electrical and oxi-carbide welding, and in addition, training in business management, i.e., cost calculation);

— to collect further information about the participating sector/industries;

— to develop cooperation with larger industries;

— to gain further experience in on-the-job and group training; and as a secondary objective;

— to provide on-the-job training and practical instruction to junior extension officers.

The work plan was presented to the selected cooperating partners. These were the local office of the Ministry of Industries and the Metal Industries Development Centre (a national extension and research institution). After informal adoption of the plan, the various partners were contacted officially and the plan set into motion.

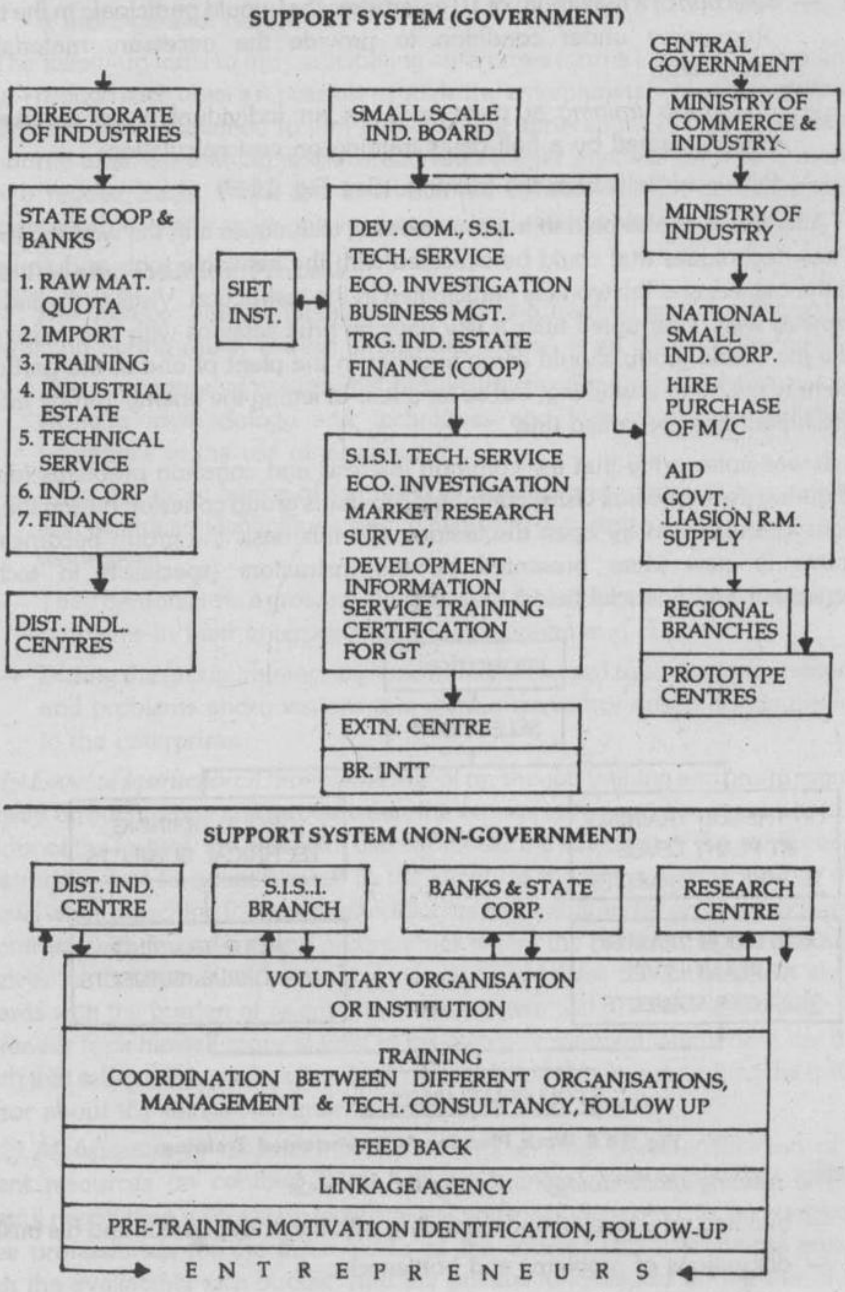


Fig. 14.7 Support System

The main steps in the plan were:

— *promotion* at individual level (enterprise level) of the work plan: 15 enterprises were approached, and interviews were held with their owners/ managers;

— *selection* of a maximum of 10 enterprises that would participate in the training programme under condition to provide the necessary materials and equipment;

— *on-the-job training* at plant level on an individual basis, followed and complemented by a half day's training on cost calculation;

— follow-up visits after the training. (See Fig. 14.8)

Attention was also paid to improve existing techniques and the working methods and new techniques that could be executed with the available tools and equipment. Both the owners and the workers participated in the instruction. Visits to the individual enterprises were interrupted after a few days by brief sessions with the entire group. Ideally the whole group should come together in the plant of one of the participants to see how the other is working; but so far a fear of letting the enemy intrude into your establishment has prevented this.

It was noteworthy that the common interests and common problems (encountered during the individual visits) contributed towards group cohesion during the group sessions characterised by open discussions. On this basis the group becomes more receptive to new ideas presented by the instructors (specialists in technical, management and financial fields).

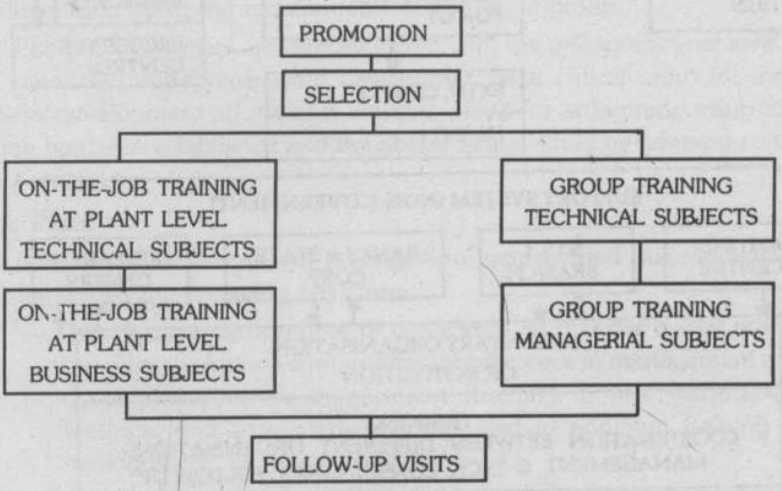


Fig. 14.8 Work Plan for Action-oriented Training

The *training methodology* was oriented towards:

— building up a level of understanding with the entrepreneur and his business;

— discussions of problems and bottlenecks;

— training-cum-assistance in new techniques;

— introduction and practising of new techniques (also on repair of equipment);

— demonstration of related management concepts. Participants received half a day of classroom instruction and half a day on cost calculation;

— group instructions afterwards to discuss common problems, and aspects of a more general nature.

The follow-up visits to the participating enterprises form a logical complementary activity. Through such visits it is possible to guide the entrepreneur with the "translation" of all that has been presented to him into practical application. Follow-up visits take place shortly after the training sessions and after longer intervals (of 3 to 6 months) but on a regular basis. While the first visits are concerned with guidance during implementation, the later ones can be seen as evaluation visits.

Benefits of the Training Process

(a) The training: The combination of on-the-job training and consultancy with group training during rather a short time (three weeks) is an effective strategy.

— The entrepreneurs/participants demonstrate a willingness to improve existing working methodology and techniques and learned the possibilities or limitations in the use of equipment;

— They are more aware of the need to develop and introduce new products and production techniques; and relationship of theory to the situation in their workplace;

— They demonstrate a growing awareness of the relationship between technical problems in their enterprises and management and control;

— During the group training, an opportunity is created to exchange experiences and problems and questions that were observed or arisen during the visits to the enterprises.

(b) Level of instruction: Through the mix of on-the-job training and group training, but mostly through direct contact between the entrepreneur and the instructor at the work floor of the former, the instructor usually speaks the language of the entrepreneur. The instructor had to adapt himself to the client, to the entrepreneur, and to think at his level while searching for new methodologies and solutions for problems observed. This contrasts with formal training programmes where the participants have to adjust themselves to the trainer and his environment, and where the participants are left afterwards with the burden of re-entry into their system with the new knowledge. The entrepreneur feels himself more at ease in his own environment where he is the boss; and with that self-confidence he often feels more comfortable in questioning the trainer/instructor about the things he himself considers to be of interest.

(c) Mobilisation of resources: Within a limited time, the identification of the pertinent resources on contract terms for the training programme was initiated. Successful negotiation with a state technical training institute resulted in the contracting of three professionals for the three weeks of the course. This was mainly possible through the availability of a budget, and the possibility to decide on the use of that budget without approvals and endorsements of third parties or higher authorities. With

this the mobilisation of resources through contracts approved at local level directly was made. Furthermore, the contribution of the larger industries was ensured, which resulted in the release of one instructor for a three-week period at no cost. Although his participation was of high value, his release by the large industry was a marginal cost, and was seen as a contribution to the development of the area (social investment by the large industry, also to improve their general image). Unfortunately, it was not possible to use the workshop facilities of a particular industry.

Table 14.2

COST ASPECT OF TRAINING THROUGH SUBCONTRACTORS VS. TRAINING BY THE INSTITUTION ITSELF

	Subcontracting arrangements		*Institutionalised operations*	
	Recurrent cost	*Incidental cost*	*Recurrent cost*	*Incidental cost*
(1) Professional manpower	Low	High	High	Low
(2) Administrative support	Relatively high	Low	Low	Low
(3) Logistic support	Low	Low	High	Low
(4) Material cost	Low	Low	High	Low
(5) Follow-up	High	Low	High	Low
(6) Staff training	Low	Low	High	High

It became evident that even governmental services could be mobilised and integrated into the programme at the working level. Approaching the government at higher level for official approval and release would have been less attractive, because such activities are normally not foreseen in annual plans and budgets, nor do the budget cater for such additional expenditures.

(d) Cost effectiveness: One of the major objections raised against the individualised training approach (albeit for a group of trainees) like the one described here, is related to the cost aspects. It is often claimed that the costs of group training alone (without consultancy and the like) are considerably less than the consultancy-cum-instruction technique. This, however, is not at all that obvious.

In the field of training in the small-scale enterprise sector, we see the following principles being adopted more and more:

— Training of entrepreneurs is seen more as a process of transfer of know-how;

— More attention is being paid to the process of adult learning instead of just setting university and college courses;

— Training programmes are more individualised, with special attention to the individual training needs;

— Training programmes are becoming more practice-oriented, with more attention being paid to on-the-job training aspects.

— Consultancy and extension are seen more and more as a part of the process of transfer of know-how; and

— More attention is being paid to ensuring active participation of both the entrepreneur and the "instructor."

Conclusion

Training refers to the process of increasing knowledge and skill of an employee for doing a particular job. Soon after a worker is selected and inducted into a job, we may not expect full contribution from him initially in attaining the objective of the factory, as he is just a "raw" human resource. For ensuring satisfactory job performance, training is essential at all levels of management. Training serves not only the purpose of motivation but also as a means of developing various methods of work. The terms "training" and "development" are often synonymously used. But there is a difference between the two. While training is viewed as a process by means of which the aptitudes, skills, and capabilities of an individual employee to perform a specific job are enhanced, development implies the nature and direction of change induced in the employee through the process of education and training. Several factors have increased the adoption of training and development schemes of factories.

It is obvious that the achievement in rural areas is contingent upon the evaluation of a national training policy, the creation of a national training infrastructure, the formulation of suitable co-ordinative mechanisms at all levels, the acceptance of manpower planning and budgeting as the basis for training programmes, the developments of multiple skill courses, acceptance of area planning approach for training institutions at district and block levels, at the cutting edge level. Unless a massive training programme is organised to support ambitious rural development programmes, the goal of full employment may not be achieved within the stipulated time.

More importantly, the government and the development financial institutions are in the forefront in entrepreneurial development. However, experience shows that the various training programmes of these institutions are aimed at training people to take up self-employment and acquire gainful employment. Thus, the very purpose of developing entrepreneurial talent among the youths is defeated. This calls for a critical evaluation of EDPs and to develop personnel with conviction and commitment to undertake the task of planning, designing and implementing programmes for entrepreneurship development. More importantly, these programmes must be attuned to Indian economic environment and be made available in regional languages. Overall, business will need to reappraise its own role in designing new ways of preparing young people for the entrepreneurial challenge of the 21st century. There needs to be new kinds of partnerships between institutions and raining and development. Every one concerned should strive to achieve the goal of adopting education to the diverse entrepreneurial needs of the next millennium. The need of the hour is to develop genuine entrepreneurs accelerate the process of industrialisation. The need of the hour is for stimulating innovation and the entrepreneurial spirit to support the development of new ideas through new and mature enterprises.

ANNEXURE I

A PROGRAMME OF TRAINING SMALL INDUSTRY ENTREPRENEUR — MANAGERS

Types of Individuals to receive training	*Types of training measures required*	*Sources of personnel to staff training facilities*	*Means of Training the Trainees*
		FULL-TIME	
Typical managers of small factories or other planning to establish such factories.	Short courses	*(a)* Staff members of advisory services operated by Governments, associations or other bodies.	*(a)* Joint use can be made of facilities provided for manager training, e.g., short courses advanced management course, self-educational measures.
Exceptional managers of rapidly expanding semi-modern factories.	Advanced Management Courses (either national, regional or international).	*(b)* Staff members of educational institutions, development corporations, banks,	*(b)* Specialised training can be given to management training personnel in the institutions — either national or foreign — designed for large industry; e.g., in business, engineering or economics.
Manager candidates	Preparatory courses	*(c)* Foreign specialists.	*(c)* Internships may be possible in large industrial plants — national or foreign — to give practical training to prospective staff members.
		PART-TIME	
All types	Self-education measures	*(d)* same as *(a)*, *(b)* or *(c)* above *(e)* Managers of modern small factories. *(f)* Managers of medium and large-sized factories, banks, Utilities, etc., *(g)* Government officials *(h)* Members of professions:	

"Research is the word which moves me. It gives me all kinds of perspectives in my mind. In the larger sense of the word, research looks upon it as something more than that: as something leading a community or country forward or humanity forward in its march towards the goal that it has."

— Jawaharlal

CHAPTER 15

INSTITUTIONS IN AID OF ENTREPRENEURS

Introduction

Since 1950, a substantial volume of study has gone into the different facets of entrepreneurial development in India to accelerate the process of industrialisation. The study showed that entrepreneurs are born and can also be made — their skills sharpened, quality of an enterprise improved and generated in good number. It is possible to identify individuals in all communities, in rural and urban areas, among men and women with entrepreneurial talent, to motivate and train them through properly organised programmes undertaking risk-bearing innovative activities for raising the growth rate in agriculture, in industry as well as in the service sector.

The Entrepreneurial Development Programmes (EDPs) thus became a new concept for harnessing the vast untapped human resources. The EDPs are presently one of the most talked about social development activities which many organisations have taken up in right earnest. It strikes a welcome note in respect of change in perception and recognition of the critical role the entrepreneurs play in industrial development by creating potential avenues for self-employment.

Focus of EDPs

While organising EDPs, it should be remembered that entrepreneurs cannot be created like degree-holders in a university and that it would be necessary to eliminate those who do not possess the basic capabilities for entering into business ventures, weed out such persons and help develop latent facilities of those who possess the potential for becoming entrepreneurs.

As the quality of entrepreneurship differs from region to region, the type of inputs that a particular group of entrepreneurs would require should be understood clearly and the training programmes tailored accordingly. Training should be not only to set up an industrial venture but also to enable the trainee to run it successfully. The focus of EDP should be on the person rather than on the project and this calls for proper

counselling facilities available to the trainees. These programmes should be conducted in places where necessary infrastructure for training is available and proximity of the support agencies is assured. This would underline the need for proper selection of the trainees. It should be ensured that the trainees show interest in setting up industries and that they do not treat the ED as a stop Ps gap arrangement for taking up a job subsequently. For this purpose, we should think new techniques to make the process of selection more appropriate. Poor involvement on the part of the institutions as also trainees and an incorrect selection of target groups contribute largely to the failure of a number of EDPs. One of the objects of training should be on changing the attitude and set of mind of young people from security-oriented activities to risk-taking through entrepreneurship development.

Entrepreneurship Development Programme Organisations

There are several organisations engaged in conducting entrepreneurship development programmes in India. The lead in the matter was given by Small Industries Development Organisation through its Small Industries Service Centres.

In the area of creation the institutional infrastructure for entrepreneurship development, the first step of India financial institutions including IFCI was the establishment of Entrepreneurship Development Institute of India (EDII) in March, 1983, at Ahmedabad as a resource organisation at the national level. The Central Government also established in the same year the National Institute for Entrepreneurship and Small Business Development (NIESBUD) at New Delhi, with the objective of co-ordinating activities related to entrepreneurship and small business development. Both these organisations are working hand in hand for giving a fillip to the entrepreneurship development movement.

In addition, institutions established by the government are: Rural Entrepreneurship Development Institute (RED) at Ranchi in 1983, Rural Management and Management centres (RMEDC) at Maharashtra and Training cum Development centres (RDCS) aim increasing interaction between entrepreneurs and enterprise.

This apart, a host of management institutions various universities have included entrepreneurship development in their Curriculum.

Other organisations that have been actively conducting entrepreneurship development programmes are State Bank of India; financial institutions such as IDBI; Entrepreneurial Motivation Training Centre in Northern-Eastern Region; Xavier Institute of Social Services Ranchi; industrial consultancy organisations in various states; Centre for Entrepreneurship Development, Ahmedabad; state financial corporations; the Centre for entrepreneurship Development, Hubli; Small Industries Extension Training Institute, Hyderabad; National Science and Technology Entrepreneurship Development Board etc.

For institutionalising the entrepreneurship development activities at the state level, Institutes of Entrepreneurship Development (IEDs) in Uttar Pradesh, Bihar and Orissa have already come into existence with the support of India's financial institutions, concerned State Governments and banks, and are carrying on their activities on a full-fledged basis. During the period under review, a Centre for Entrepreneurship Development

(CED) was registered in Madhya Pradesh on 17th November, 1988, taken up later by IFCI. An Institute for Entrepreneurship Development was also set up at Goa under DB on the same pattern as other IEDs. A proposal to set up an IED for North-Eastern Region was also under consideration by the North Eastern Council. A few State Governments of Karnataka, Andhra Pradesh, Rajasthan, etc., have also expressed the desire to set up CEDs in their respective States. The proposals of these State Governments to be considered on their merits by the financial institutions in due course, while the focus of the national organisations like EDII, NIESBUD etc., continued to be on *(a)* institutional entrepreneurship activities, *(b)* generating, sharpening and sharing knowledge through research documentation and publication, *(c)* creating and developing professionals in the discipline of "entrepreneurship" to emerge and flourish, and *(e)* developing new products and pursuing market segments for carrying the entrepreneurship development in priority areas and sections of the people. The State-level Institutes/ CEDs endeavoured to carry out at the grass-root level to provide the support of human resources to various State and district EDPs level organisations engaged in entrepreneurship. The State-level organisations also continued to provide industrial extension motivation services, business opportunities guidance, project counselling, etc., and helped in initiating entrepreneurship at school level in the career planning of the younger generation. For this these organisations conducted, during the period under review, a number of workshops, seminars, conferences and brought out well researched publications, for training of entrepreneurs. The organisations also produced a number of video films as audio-visual aids for training the entrepreneurs and motivating them towards enterprise setting and operating the same on sound and healthier lines.

Management Development Institute (MDI)

For developing and improving the quality of day-to-day management, which is so crucial for the success of any industrial venture, as also, with a view to encouraging professionalisation in management, IFCI had sponsored in 1973, the Management Development Institute (MDI) at Gurgaon (Haryana) near Delhi. MDI is now a cornucopia of management training, research and consultancy, its prime goal being to improve managerial effectiveness in the industry/government and banking' sectors of the economy. Research studies undertaken by MD are in both macro areas of economic and industrial development as also in micro areas relevant to a specific industry or economic activity.

A mention was made in the last year's Annual Report about MD having been chosen by the Government of India, Department of Personnel and Training as an agency for conducting the first-ever intensive 15 month National Management Programme (NMP) for Government Officers belonging to IAS/ Group 'A' Services as well as executives from public and private sector organisations having potential to acquire top positions.

MDI conduct Management Development Programmes in various disciplines. These programmes included the programmes for officers of the Indian Economic Service (IES), Indian Administrative Service (IAS) and for the executives of a number of PSUs of, like Oil & Natural Gas Commission (ONGC), Bharat Heavy Electrical Ltd.

(BHEL), Bharat Aluminium Co. Ltd. (BALCO), Export Credit Guarantee Corporation of India (ECGC), Bureau of Indian Standards (BIS), Hindustan Zinc Ltd. (HZL), Hindustan Machine Tools Ltd, (HMT), Indian Drugs & Pharmaceuticals Ltd. (IDPL), Uttar Pradesh State Industrial Development Corporation Ltd. (UPSIDC), Madhya Pradesh Financial Corporation (MPFC), etc.

MDI also had conducted in Karnataka a programme on Identification, Promotion and Implementation of Industrial Projects' (IPIIP) special catering to the needs of officers of 'District Industries Centres (DICs) State-level Promotional and Financial Institutions, Commercial Banks, etc. In addition, a number of programmes, particularly in concerning strategic planning, marketing of new products, strengthening of co-operative short-term credit system, marketing and sales, management consultancy, development banking, labour-management relations, human resources development, evaluation of small industries financing performance, role of directors, merchant banking, leasing, working capital financing, technology transfer, management, documentation and recovery practices of Development Financing Institutions, etc., were carried out by MDI and its subsidiary Development Banking Centre (DBC). As many as 23 workshops were conducted by MDI under the Planning Commission International Labour Organisation United Nations Development Programme, In-house Management Consultancy Development Project (Phase II).

A major effort was also made by MDI during the period in the area of consultancy and research — focus was not only on developing management consultancy through training programmes and workshops but also undertaking process consultancy assignments in large complex organisations and directing efforts to develop in-house management consultancy teams in public utilities. The Consultancy and Research Wings of MDI have done extensive work in areas like corporate planning, evaluation of appraisal systems, feasibility studies, job structuring, management information systems, manpower planning, marketing appraisal, capital markets, off-shore banking, inter-firm comparison, seed capital, technology — its relevance, assessment and diffusion etc.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD)

The need for a national organisation to serve as an apex body to co-ordinate the training programmes of various centres and organisations in the country, to train a larger number of trainers and motivators in entrepreneurship development, to prepare model syllabuses of training for various target groups and target areas, etc. was felt for further accelerating training in entrepreneurship.

The Delhi-based National Institute for Entrepreneurship and Small Business Development (NIESBUD), established by the Government of India, is an apex body for coordinating and overseeing the activities of various institutions and agencies engaged in entrepreneurship development particularly in the area of small industry and small business. The Institute, registered as a Society under Government of India Societies Act XXI of 1860, started functioning from 6 July, 1983.

Over the years, the Institute stands devoted to evolving model syllabi for training various target groups — by effective training strategies, methodology, manuals and tools; facilitating and supporting Central/State governments and other agencies in executing programmes of entrepreneurship and small business development; maximising benefit and accelerating entrepreneurship development; conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies. Above all organising those that help in developing entrepreneurial culture is worth appreciation in society. The Institute is also the secretariat of the National Entrepreneurship Development Board (NEDB), the apex body which determines policy for entrepreneurship development in the country. The Institute, therefore, performs the task of processing the recommendations made by the Board.

Objectives

The main objectives of the Institute are:

— To accelerate the process of entrepreneurship development ensuring its impact throughout the country and among all segments of the society.

— To help/support institutions/agencies in carrying out activities relating to entrepreneurship development with greater success.

— To evolve standardised process of selection, training support and sustenance to potential entrepreneurs enabling them to set up and run their enterprise successfully.

— To provide vital information support to trainers, promoters and entrepreneurs by organising documentation and research work relevant to entrepreneurship development.

— To provide functional forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.

Since development of entrepreneurship and self-employment is basically a promotional and industrial extension activity, the programmes organised by the Institute are mostly by the founded government. However, the institute's training activities are restricted to areas in which either demand for programmes is very great or there is absence of such training programmes. For organisations directly or indirectly engaged in promoting entrepreneurship and self-employment in the country, the NIESBUD'S role is that of a catalyst as it helps in developing the effectiveness of all these organisations. Programmmes initiated/sponsored by the NIESBUD are constantly evaluated and revised to suit the changing needs in the area of entrepreneurship and small business development. The institute is engaged in creating a climate conducive for entrepreneurship and in developing favourable attitude amongst the general public in support of those who opt for entrepreneurial career.

Activities

The activities of the Institute include evolving effective training strategies and methodology; standardising model syllabi for training various target groups; formulating scientific selection procedures; developing training aids, manuals and tools; facilitating and supporting Central/State/other agencies in executing entrepreneurship development

rogrammes; maximising the benefits and accelerating the process of entrepreneurship evelopment.

The various functions which the National Institute has been called upon to erform are as follows:

- To serve as an apex national level institute;
- To organise and conduct training programmes;
- To co-ordinate the training activities of various institutes and organisations in the country imparting training in entrepreneurship;
- To affiliate institutes and organisations conducting entrepreneurship training;
- To identify, train and assist potential entrepreneurs amongst technical and non-technical personnel in setting up self-employment ventures in small industries including service industries;
- To hold examinations and tests and confer certificates and diplomas on the trainers as well as trainees;
- To undertake documentation and research in the field of entrepreneurship and small business development;
- To conduct workshops, seminars and conferences, etc. for promotion and development of entrepreneurship in small scale industries and small business;
- To publish literature for furtherance of entrepreneurship and small business development;
- To provide a forum for interaction and exchange of view with agencies engaged in various aspect of entrepreneurship in small industries and small business development.
- To assist in setting up of regional and state level training institutes for entrepreneurship and small business development.

The Institute interacts with all other organisation centres engaged in conducting entrepreneurship development programmes in the country and provides them support in various areas including funding of programmes wherever necessary and feasible. The Institute addresses itself to working with them in enhancing the efficiency and utility of entrepreneurship development programmes bringing about co-ordination.

With the setting up of this Institute, entrepreneurship development in India ıgh organised training has assumed added significance particularly for training ated unemployed youth for taking up self-employment ventures.

epreneurship Development Institute of India (ED II)

Entrepreneurship Development Institute of India (EDII), the principal agency with al responsibility for entrepreneurship development in the country, has been sing attention on developing programmes for entrepreneurship development and ative training techniques for trainers. The Institute has developed an experimental for women, keeping in view their special needs and the first such EDP was ıcted in September 1988. EDII over the years has carried out experiments in rural

entrepreneurship development in a cluster of villages of U.P. and Orissa in collaboration with a voluntary organisation. EDII prepared a video cassette on the "focussed behaviour event interview technique" for assessing entrepreneurial potential. In addition, it conducted an entrepreneurs' meet, entrepreneurship development orientation programmes and training programme for trainers, besides giving professional assistance to various institutions for their entrepreneurial development activities. EDII continued to offer its service to Sri Lanka, Nepal, Kenya, Ghana and other African Commonwealth countries. The Institute has organised a special camp on entrepreneurship in which more than 2,000 students had participated in various activities creating interest in entrepreneurial pursuits. In the Nehru Centenary Year, EDII brought out a book entitled "Self-made Impact making Entrepreneurs" based on a study undertaken by it.

Institutes for Entrepreneurship Development

As part of a strategy of giving special attention to entrepreneurship development needs of the more backward states, IDBI had announced the proposal to set up Institutes for Entrepreneurship Development (IEDs) in association with other financial institutions and banks and the State Governments. IEDs set up in Uttar Pradesh, Bihar and Orissa have become operational and the proposed IED in Madhya Pradesh has already been registered.

IED in the UP had conducted 16 EDPs covering 664 trainees, besides training state level trainers. It also has conducted programmes on industrial extension motivation, business opportunity guidance and project counselling for women, entrepreneurial awareness workshop for ex-serviceman, state level meet of EDP conducting agencies, studies on "Factors inhibiting and facilitating turnaround possibilities in small sector" and "Relevance of hill wool scheme." IED in Orissa had conducted 11 EDPs which benefited 307 trainees. It also conducted four Management Development programmmes four entrepreneurship awareness camps and lecture-cum-discussion session on "Problems and Prospects of Indo-US Trade and Investment." IED in Bihar conducted two EDPs and organised an entrepreneurs' meet during the period under review.

Science and Technology Entrepreneurship Parks (STEPs)

As part of the programme for supporting the setting up of 15 STEPs jointly with other institutions, IDBI over the years has assisted seven STEPs, viz., those sponsored by the Birla Institute of Technology (BIT), Ranchi, National Entrepreneurs Chemical Park (NECP), Regional Engineering College (TREC), Trichy, Harcourt Butler Technological Institute (HBTI), Kanpur, Sri Jayachamarajendra College of Engineering (SJCE), Mysore, Guru Nanak Engineering College, Ludhiana and Maulana Azad College of Technology, Bhopal with the aggregate assistance of Rs. 6.2 crore. While the first five STEPs were sanctioned assistance prior or 1988-89, the last two were sanctioned assistance during the reporting period. STEPs proposed by Guru Nanak Engineering College will specialise in machine tools and electro-mechanical control equipment while the STEP sponsored by the Maulana Azad College of Technology will be specialising in electronics and power engineering.

BIT-STEP has developed a unique technology for automatic wire length measurement system and import substitutive stainless steel wedge wire screen, besides other technologies for industrial applications. NECP is engaged in the preparation of project profiles of selected imported drugs. TREC-STEP has developed technology for hit-tech paints for nuclear applications, besides other hi-tech and import-substitutive products. Commercial production had already been started by seven TREC-STEP entrepreneurs. Student entrepreneurs of HBTI-STEP are working on projects which include fibre reinforced concrete and plastic components. SJCE-STEP has already transferred technology of liquid level pump controller to one of its entrepreneurs for commercial exploitation and eight of the STEP entrepreneurs have established their units.

The Centre for Entrepreneurship Development

Development of entrepreneurs on a systematic basis started in 1970. A number of specialised institutions came up to provide training to various target groups — educated unemployed persons, women, technicians, foremen, rural artisans, physically handicapped persons, etc. The Centre for Entrepreneuship Development (CED), Ahmedabad was sponsored by the State government and public sector corporations concerned with industrial development in the State. This Centre conducts entrepreneurship development programmes. Persons were selected from amongst the employees, workers, merchants and graduates and training was imparted at six centres. The following are some of the significant features of the programme of training:

(a) Before conducting the programme of training, a survey of investment opportunity was made for identifying industries having good scope in the area;

(b) Appropriate linkage was developed with various agencies which provide support and service to entrepreneurs in getting finance, readymade sheds, raw materials and other inputs;

(c) Entrepreneurs were selected through bahavioural tests. Due weightage on experience was given rather than education or unemployment;

(d) Programmes of training included theoretical and practical coverage, including visits to industrial units consistent with the items identified by the entrepreneurs.

(e) Follow-up action was taken by the full-time project leader and individual attention was given to each entrepreneur trainee.

The success rate of CED programmes is reported to be of the order of 66 per cent.

The Entrepreneurial Motivation Centre, set up in Assam in the north-eastern region of India, conducts entrepreneurial development programmes. In the earlier stages 28 officers drawn from various departments of the state government were given training in entrepreneurial motivation, economic investigation and survey, management of small enterprise etc. in the Small Industries Extension training Institute in Hyderabad. These officers then joined the various branches of the Entrepreneurial Motivation Training Centre in six districts.

The Entrepreneurial Motivation Training Centre gave wide publicity to the entrepreneurial development programmes and invited applications from educated unemployed persons. Selection was made based on psychological tests and personal interviews. Selected entrepreneurs were given preliminary motivation training of two weeks for developing or strengthening the motivation for self-employment, managerial and economic aspects of entrepreneurial development. The entrepreneurs were further assisted in selecting enterprises for themselves, conducting guided market surveys and preparing economically viable and feasible project reports. The Centre acted as link agency and helped the entrepreneurs in obtaining finance from banks and other institutions, and readymade sheds as working space. The Centre further provided 10 per cent of the sanctioned amount as seed money wherever necessary. An evaluated revealed that by March 1975, the number of entrepreneurs trained came to 1,550, of which 1,053 entrepreneurs (68 per cent) completed their project reports and 581 were given in-plant training. Among those who completed the project reports, 310 entrepreneurs were assisted in obtaining sanction of financial assistance. Of these 310 entrepreneurs, 279 (90 per cent) actually established their enterprises and started functioning.

The Xavier Institute of Social Service in Ranchi was involved with tribals and people from the villages in training to become entrepreneurs. A group of young tribal youths constituted into a local organisation for promotion of socio-economic and health schemes (known as Vikas Maitry) received some funds from the Indo-German Social Service Society in New Delhi in 1975. They desired that an entrepreneurship development programme be run for them. A project leader who himself was a tribal was appointed. The programme was organised and 20 candidates were selected, all belonging to tribal areas. In selecting, little importance was given to academic qualifications. Clarity of presentation of goals and determination to reach that goal were the important considerations. Four months full-time training was arranged. During the day the entrepreneurs worked as apprentices in shops of the type they intended to set up themselves. In the evening, they got a grounding in the basis of achievements, motivation, leadership and communication, management, finances, costing, laws and taxation, marketing and project preparation. After completion of the training course, the entrepreneurs went back to their respective villages and made mini-market surveys. They brought back the field data and worked these into a project proposal for financing by the bank. The financing was undertaken through the intermediacy of Vikas Maitri Kalyan Sangh and the organisation undertook to stand guarantee for the young entrepreneurs. Continuous and sustained follow-up action was undertaken. This was the responsibility of the project officer and assistant project officer. A success rate of 60 per cent was attained. The State government later gave assistance to the Institute for conducting entrepreneurial development programmes for unemployed engineers, diploma holders, graduates and ITI trained boys and the Institute has done well.

Role of Development Banks

Various development banks in India have introduced "special capital" and "seed capital" schemes to provide equity of assistance to new and technically-skilled entrepreneurs who lack financial resources of their own. In view of the long-term

benefits to society from the emergence of a new class of entrepreneurs, development banks have been actively involved in entrepreneurship development programmes and in establishing a set of institutions which identify and train potential entrepreneurs. The promotional activities like carrying out industrial potential surveys, identification of potential entrepreneurs, conducting entrepreneurship development programmes and providing technical consultancy services have contributed in a significant manner to the process of industrialisation and effective utilisation of institutional finance by industry. In recent years, the development banks have initiated special measures for the creation of specialised institutions for the training of entrepreneurs and research in this field.

Upto end-March 1995, the IDBI extended support to 3084 EDPs, of which 2412 were completed benefiting more than 58,223 potential entrepreneurs; the remaining were under progress.

The Institutes of Entrepreneurship Development (IEDs) set up with Bank's support in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh, continued to make good progress.

SIDBI's strategy for entrepreneurship development involves support to specially designed programmes covering the target groups like rural poor, women, Scheduled Castes/Tribes, ex-servicemen, etc. In tune with the renewed policy initiatives on rural development, the Bank has given thrust to promote rural entrepreneurs. This is evident from the fact that of 102 EDPs supported during the 1994-95 for various target groups, 66 were exclusively targeted at rural entrepreneurs. Besides rural EDPs conducted during the current year, SIDBI supported 30 EDPs for women and 8 for other groups having special focus on North Eastern and other backward areas. A few specialised technical institutes like Central Institute of Plastic Engineering & Technology at Bhopal, Patna, Lucknow and Madras; Rural Technology Institute, Ahmedabad and UP Electronics Corporation, Lucknow were extended assistance for conduct of product specific EDPs. To back up the EDP efforts, the Bank has been compiling project profiles on viable project ideas suitable for tiny and rural entrepreneurs. A compendium of Profiles on Food Processing and Agro-based Industries, prepared by Central Food Technological Research Institute, Mysore, on behalf of SIDBI, was brought out during the year. Two more compendia — one on new hi-tech projects prepared by various CSR laboratories in collaboration with National Research Development Corporation and the other on location neutral projects (Volume - II), prepared by Gujarat Industrial and Technical Consultancy Organisation Ltd. have been Published.

Role of Commercial Banks

The State Bank of India at that time was the only bank amongst commercial banks to come out with a comprehensive programme for entrepreneurship development. From the orthodox role of commercial banks, the State Bank of India pioneered as a premier banking institution in India by assuming the role of a development bank. The sixties and early seventies saw many important strides towards the fulfilment of this objective. The bank recognised the importance of small-scale industries in industrial development and started financing small-scale industries on a large scale. To cater to the specific needs of this sector a package of schemes and programmes was formulated

by the bank. These are in (*i*) Liberalised scheme of financing small-scale industries wherein 75 per cent of the project cost is met as bank loan; (*ii*) Entrepreneur scheme for financing technically-qualified persons where the entire project cost could be financed by way of term loan; and (*iii*) Equity Fund Scheme for providing interest-free loan to meet the equity gap up to Rs. 1 lakh.

Approach Modifications

Looking to the characteristics of the small-scale industries, it must be realised that these are basically owner-manager oriented and need special attention and support. The norms for financing such industries were, therefore, liberalised and a need-based approach was evolved — a major departure from earlier security-oriented approach.

Non-financial Support

In spite of liberalisation in financing policy and government incentives, the progress in industrialisation was not so rapid. Realising that mere provision of financial support was not sufficient for bringing about that desired change, the need was felt for evolving a policy of providing for non-financial assistance. A number of measures were thereafter initiated — development of management skills of the SSI borrowers through Management Development Programmes and Management Appreciation Programmes. The bank went to the extent of conducting training programmes for development of entrepreneurial attitude and financing such entrepreneurs. It was indeed the beginning of a new banking era.

To set up an industry, the ability to meet the margin money requirements of the small-scale project itself is not enough, but entrepreneurial characteristics have to be identified and reinforced in the entrepreneur of that industry. Thus the important characteristics of the entrepreneur, namely, psychological, economic, social and managerial characteristics, have to be learnt, understood and digested by every prospective entrepreneur. For the success of the industry, the man behind the project is more important than its fixed assets; the entrepreneur has to be trained well. Industrial and Technical Consultancy Organisation Limited (ITCO), as subsidiary of Industrial Development Bank of India, having a professional experience in counselling the entrepreneurs, identifying the project ideas and preparing detailed project reports, conducting EDPs with the following objectives:

1. Assess and develop entrepreneurial abilities required to become a successful industrialist.
2. Dissemination of information on the formalities and procedures to be followed for starting small-scale industries.
3. Dissemination of information on the facilities and incentives available for starting small-scale industries.
4. Guidance in selecting projects suitable for different trainees based on their investment, educational background, technical expertise, proficiency, aptitude, etc.
5. Acting as a liaison between the various officers/organisation engaged in industrial promotional activities in the State and trainees for availing of necessary facilities available in their projects.

6. Dissemination of information on how to plan and manage a small-scale industry successfully.

These programmes cover all educated unemployed youths —

1. Having a strong desire to set up an industry and having the confidence of its success.
2. With basic technical qualification of S.S.C. with 5 years' industrial experience.
3. In the age group of 21 to 35 years.
4. Able to invest the required share capital (25 per cent of project cost) to the selected project.
5. With independent thinking and decision-making status.
6. Claiming nativity of the district.

This course is intended to give a working knowledge of industrial promotional agencies, project report preparation, general management of small-scale industries, besides transforming the prospective entrepreneurs by achievement motivation. These programmes include the academic inputs necessary for the purpose.

SBI's Programmes

The State Bank of India formulated an elaborate plan to conduct the EDPs, particularly in the backward areas and started conducting such programmes since 1978. As per the Bank's model, the EDPs consist of one month's intensive training in Behavioural Sciences, aspects of Management and field training. During this period, the entire cost of boarding and lodging is borne by the Bank. In this year, the bank had conducted 7 EDPs covering 11 districts in Madhya Pradesh (7 lead districts plus Surguja, Bhind, Morena, and Gwalior districts) and a total of 156 candidates were trained under these programmes. A total loan of Rs. 121 lakhs has been sanctioned to 44 such trained persons.

Phases of Entrepreneurship Development

In broad terms, the EDP consists of three basic phases:

(i) Initiation Phase: For creating awareness about the entrepreneurial opportunities.

(ii) Development Phase: Through training programmes in developing motivation and management skills.

(iii) Support Phase: Counselling, encouragement and infrastructural support for establishing and running an enterprise.

In the initiation phase, it is aimed at identifying persons with a potential for development of entrepreneurial disposition. The development phase aims at infusing motivation through achievement motivation training, supported with adequate management and technical knowledge. But finally, the most important is the support phase as from the entrepreneurial point of view, the most crucial stage is the start-up period.

The development of entrepreneurship depends very much on organisation, education, stimulation and motivation of the clientele through a concerted and

systematic approach, focusing on individuals and groups. Entrepreneurial development, is essential not only to solve the problem of industrial development but also to solve the long existing problems of unemployment, unbalanced area development, concentration of economic power, and diversion of profits from traditional avenues of investment. Therefore, one can notice some attempts made by the Government's agencies and other institutions to undertake the task of entrepreneurial promotion. Most of the promotional activities are directed towards the financial and physical facilities with a strong belief that there will be a conglomeration of entrepreneurs if such facilities are created in the a conglomeration economically backward states of India. Financial and physical facilities are not the only crucial inputs in the development of entrepreneurship. There are other inputs also which one has to consider in any model for entrepreneurial development. In this study, a quantitative survey of entrepreneurship development India has been presented. The study says that in spite of abundant natural resources, the pace of industrial and entrepreneurial development is slow not only because of lack of basic facilities and financial institutions, but due to untapped entrepreneurial talent in the country and suggests that timely action by the Government and other agencies should be taken for the entrepreneurship development in the country.

Role of NAYE (National Alliance of Young Entrepreneurs)

NAYE has been a pioneer in promotion and development of entrepreneurship among women. In keeping with the emerging trends, then NAYE had set up a Women's Wing in 1975, the internationally acknowledged Women's Year. NAYE convened a Conference of Women Entrepreneurs in November 1975 in New Delhi to discuss at length steps to be taken to make women self-reliant and to raise their status in the society. Since then three International Conferences and eight National Conventions of Women Entrepreneurs have been organised in different cities in the country.

Women's wing of NAYE assists women entrepreneurs in:

(a) getting better access to capital, infrastructure and markets;
(b) development of management and production capabilities;
(c) identifying investment opportunities;
(d) attending to problems by taking up individual cases with appropriate authorities;
(e) sponsoring delegations, participation in trade fairs, exhibitions, buyer-seller, specialised conferences, etc.;
(f) organising seminars, workshops and training programmes for giving them wider exposure to available facilities and developing their entrepreneurial capabilities;
(g) lobbying for them in Press, Parliament, State legislatures and other forums;
(h) advocating effectively for securing their rightful place in the Indian economy.

In addition, the Association of Women Entrepreneurs of Karnataka (AWAKE), Women Entrepreneurs Association of Maharashtra (WIMA) and Self-Employed Women's Association (SWWA) are not only fighting for their rights but also striving to promote entrepreneurship among women.

Set up in May 1985, WIMA — the Association of Women Industrialists/ Entrepreneurs of Maharashtra has 400 members all over Maharashtra, with its head office in Pune, and branches at Mumbai, Aurangabad, Nasik and Dhulia. NAYE of which WIMA forms a part, presented the organisation with a national award in 1988 for promoting entrepreneurship among women. WIMA aims to help 1,000 women all over Maharashtra.

WIMS's main objective has been to provide a forum for members and to help them sell their products. But making is their main problem. WIMA also has training programmes.

Having conducted approximately 20 exhibitions, the association held its first state level convention of women entrepreneurs of Maharashtra on its fifth anniversary in May 1990. "The women had good ideas for their projects." Observed a bank official who attended it, "but they needed guidance. Many, for example, did not know how to prepare feasibility reports, or of the existence of counselling centres, such as the ones run by Mahila Arthik Vikas Mahamandal (MAVIM)."

In 1989, the Industrial Development Bank of India (IDBI) set up the Mahila Udyam Nidhi (MUN) and Mahila Vikas Nidhi (MVN) schemes to help such entrepreneurs. The former had provided 15 per cent equity assistance for new units with project cost not exceeding Rs 10 lakh. Eligible entrepreneurs were required to bring in a token contribution of 10 per cent, and allowed to retain central or state investment subsidies, if any, to meet working capital requirements. The MVN scheme extend aid to voluntary agencies in decentralised industries for training-cum-production centres and management and skill upgradation.

There were also a third scheme, under which indirect loans were given through State finance corporations and State industrial development corporations. In 1989-90, 563 units promoted by women were provided aid totalling upto Rs. 20.1 crore, as against Rs. 10.4 crore in the previous year for 323 units. The schemes have since been transferred to the Small Industries Development Bank of India (SIDBI), a subsidiary of IDBI set up on 2 April 1990.

Mumbai-based Sharayu Lele, one of WIMA's earliest members, was among those who benefited from IDBI aid. Ten years ago, with an initial investment of Rs. 5 lakh, she started a computer data centre with hand punches and hired IBM machines. With a Rs. 10 lakh turnover, she has acquired 20 Uptron data entry machines, and her initial clients were Air India, State Bank of India and Datamatics.

WIMA had received IDBI aid to the tune of Rs. 4 lakh in August 1988 for the development of the WIMA Bazaar in Pune. Of this, Rs. 1 lakh was in the form of a grant, and the rest, a soft loan.

There should be a curriculum change along with proper career guidance in women's polytechnics, which will shape the students to become capable entrepreneurs in future. There should also be some reservation for admission of women to disciplines like engineering, medicine, law, agriculture and architecture, with some concessions in regard to the qualification marks. It will be worthwhile to consider the institution of special scholarship schemes for meritorious women students. As far as the State and

Central Governments are concerned, a scheme could be evolved for extending additional concessions for women entrepreneurs for setting up industrial units. As in the case of weaker sections of society, the financial institutions and banks should consider feasibility of waiving collateral security, because women do not possess any land or other property. Women should also be given property rights and an equal share in their fathers' property.

Although the rate of interest then charged by banks on loans extended to women entrepreneurs slightly lower than that charged on the normal loans, what is more important is further reduction and the reorientation by the Reserve Bank of India. In order to ensure that there was adequate credit flow to women entrepreneurs, a sub-goal was considered under the priority sector advances by the banks as is being done presently for advances to weaker sections and other special sectors. More importantly, the condition of a guarantor in the case of women entrepreneurs should be waived by the banks.

In order to ensure that development of women entrepreneurship takes place, as fast as possible, there is a case for setting up apex bodies at the State capital level and organisations at district levels which could be affiliated to the apex body. Separate industrial cooperative estates for women in different cities may be set up. And 15% to 20% of the purchases of the state governments should be made from women entrepreneurs.

Women entrepreneurs in rural and backward regions need special assistance and incentives from the Government and other associate agencies. What is more, training of lakhs of women entrepreneurs in the coming decade is a Cherculean task for various agencies.

Although it is still in the growing stage, there is unquestionably a business revolution in the works across the nation — and women are a major part of it. Whether they opt to remain on a micro level, or move to expand on a major scale, they are making their impact felt on the society.

Structuring Entrepreneurial Deveopment Programmes

The above case studies bring out certain features important for the success of entrepreneurial develoment programmes. The training programme aims at identification and careful selection of entrepreneurs (using advanced series of psychological tests), developing the motivation and entrepreneurial capabilities of the trainees, equipping the trainees to identify viable industrial projects and to prepare project profiles or brief project reports, equipping the trainees with basic enterprise-building skills, imparting basic managerial skills required for the successful management of the unit and helping the trainees to secure the necessary financial, infrastructural and related assistance during the implementation of the project. Skill training formed a vital and major component of this programme.

Conclusion

Economic activities could be directly linked with the entrepreneurial level of a nation and, therefore, entrepreneurship development be considered as a critical input

for industrial and business development efforts of a country. In this process, institutions play a catalytic role in entrepreneurship development.

Entrepreneurial development in India has now been conducted for a long-time, and sophisticated selection techniques and training methodology have been developed. The programme integrates identification and training of potential entrepreneurs, identification of viable industrial projects and developing managerial capabilities. Institutional support in the areas of finance, infrastructure, etc. is also linked with the programme.

The role of EDPs in accelerating industrialisation of a state or a region can hardly be over-emphasised. All those who are engaged in the administration of this programmme must fully realise the enormous responsibility entailed in seeking to assist those without much influence, managerial ability or capability to bear risks. No tangible results can, therefore, be expected unless all the agencies involved in the task work with determination, zeal and a sense of dedication and commitment. Entrepreneur development is to be attuned to economic needs. It is, therefore, necessary to recognise the importance of entrepreneurship as an aspect of social life. Similarly, entrepreneurship education should be made more socially utilitarian. It is, nevertheless, imperative to restructure the entire curriculum — should identify the area of entrepreneurship and to motivate young people to start their own business at an early age in their chosen field of interest, for entrepreneurship exists in every profession, irrespective of its size. This will generate self-employment, which is always more satisfying than working for others.

A TEACHER'S GUIDE

In the early 1990s, the International Center for Entrepreneurial Studies, the University of Maryland's Dingman Center, and CIPE developd a core curriculum for Romanian trainers. The courses covered the essential elements needed to expose potential entreprenerus to the realities of business life. The following list presents some of the subjects included in the core curriculum:

Introduction to Business and Economics

- Global economy
- Wealth distribution
- Relationship between government and industry
- Regulation in a "free market" economy
- Tax structure
- Stock, bond, and futures markets
- Bank and thrifts

Basic Concepts of Entrepreneurship

- Dynamics of change
- Opportunities and resources
- Entrepreneurial viewpoint and personality
- Risk and risk/reward factor
- Case histories

Venturing

- Innovation
- Objective analysis
- Creation of a team

Strategic Planning in New Ventures

- Business definition
- Market research and analysis
- Competition analysis
- Formulation of overall business strategy

Financial Planning in New Ventures

- Financial statements
- Financial projections
- Determination of funding requirements
- Debt and equity financing
- Valuation of company

Winning Business Plan

- Business plan objectives and targets
- Step-by-step guide to business plan preparation
- Presentation of business plans to financial community
- Operations plan from business plan

Raising Capital

- Fundraising tools and team
- Financiers' considerations
- Sources of funding: equity and debt capital
- Negotiating the deal

Organisation for Success

- Company name
- Organisation forms
- Boards of directors
- Structuring the company organisation
- Attracting outstanding key employees
- Infrastructure without bureaucracy.

◆ ◆ ◆

"Information technology's youth and dynamism make it highly resilient. New developments and opportunities constantly arise. Its very importance and increasing pervasiveness make it resistant to all but the most ill-conceived and consistently misguided policy initiatives."
— Ralph Weindling

UNIT 3

PROJECTS MANAGEMENT

Entrepreneurial development has assumed great importance and has become one of the dominant topics of discussion with the world moving towards the 21st century — an era of technological advancements and achievements. In the context of rapid industrialisation in India resistance to change can be resolved by involving human resources in the process. The remedy lies in fostering an entrepreneurial spirit among the people.

The professional expertise of entrepreneurs, no doubt, contribute to significant inputs to the country's economic development. The need for a broad-based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production, dispersal of economic activities, creating employment opportunities — thus leading to economic growth. It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes on a sustained basis.

A Project

It is known that a project is planned to achieve a specific objective which calls for a specific authority to implement it.

Every project has three basic attributes: the input characteristics, output characteristics and the social cost benefit characteristics. The input characteristics define what the project will consume. Projects require raw materials, energy, manpower, financial resources and an organisational set up. In order to make the input characteristics of project explicit, it is necessary to evaluate the nature as well as the magnitude of each of these essential inputs.

The output characteristics of a project define what the project will generate — production of addition goods, provision of additional services. In either case, it is essential to have a broad idea of quantitative as well as qualitative of the project outputs. It also becomes necessary in case of quantifiable projects to assess financial outputs which the project will generate.

Input and output characteristics of a project define the impact of the project on the project implementing body and the environment. Every project, however, has a social cost-benefit aspect which affects the current equilibrium of the availabilities and non-availabilities in an economy and thus involves the entire society in its implications. The sacrifice which the society will be called upon to make and the benefits which will be accrued to the society have therefore to be carefully evaluated.

The identification of the project characteristics provides the basic information, which along with the information obtained from a study of the project implementing body and the environment forms the basis of evaluation of the feasibility prospects of the project idea.

More importantly, an appraisal of a project must be carried out in explicit, well-defined, preferably standardised terms and should be based on sound economic logic. Informal and cursory treatment should give way to thorough and rigorous analysis. The setting up of an enterprise should be based on careful and sound evaluation. Project appraisal brings credibility to a project and protects from in-built weaknesses. And, a healthy and viable industry comes up.

CHAPTER 16

SEARCH FOR A BUSINESS IDEA

Introduction

Industrialisation is widely recognised not only as one of the important means to usher in socio-economic transformations and achieving industrial self-sufficiency but also for the accelerated development of agriculture, transport, trade, services and other potential sectors through the forward and backward linkages. It is a process which accelerates economic growth; effects structural changes in the economy, particularly in respect of resource utilisation, production functions, income generation, occupational pattern, population distribution and foreign trade; and induces social change. Jawaharlal Nehru had emphasised that "Real progress must ultimately depend on industrialisation. Throughout the world, industrialisation has indeed become the magic word of the mid-twentieth country."

Industralisation is brought about by well-trained entrepreneurs. Entrepreneurship is one of the most important factors of industrilalisation in the process of economic growth.

Choosing an Idea

Establishing yourself as a successful entrepreneur depends, in part, upon choosing a good idea. That idea must not only be good for the market, but good for the project and good for the entrepreneurs. It should also be manageable by you without much dependence on others. Importantly, the idea should give satisfacting results to you.

As an entrepreneur, when you are searching for an idea worthy of your commitment, don't pursue one idea at a time. Develop five or ten in parallel until one emerges so appropriate that it begins to dominate your thoughts and fantasies. To adopt one idea at a time has several disadvantages. First, because you are constantly receiving random information from what you read and from people you talk to, having a number of back-burner ideas gives you a greater likelihood of finding uses for information you pick up. Secondly, if you are pursuing a single idea by feigning commitment before you feel it, you may put yourself into a tight corner. It is very hard to be objective when you are down to your last idea.

Choosing an idea is quite difficult and the entrepreneur has to weigh objectively his intrinsic capabilities in finalising an idea.

In the idea stage, suggestions for new products are obtained from all possible sources: customers, competitors, R & D, distributors, and company employees. Frequently, one of the creative problem-solving techniques discussed below are used to develop marketable ideas. The suggested ideas need to be carefully screened to determine which are good enough to qualify for a more detailed investigation. Established objectives and defined growth areas provide a basis for developing these criteria.

PRODUCT IDEA

It had been an exhausting day. Mansukhbhai had spent all morning cycling to and fro, hawking his home made goods in the lanes and bylanes of the crowded city. Now he sat outside a pan shop, trying to snatch a few minutes rest before starting another round.

As he sat there, he noticed how the customers at the pan shop kept growing, in number and impatience. Mansukhbhai saw the time it took to make each pan, the panwallah trying to attend to a dozen people at the same time. It occurred to him that if pan could be packaged and sold, it would instantly find a ready market.

And an idea was born. A man of the masses, with only his native shrewdness to guide him, had hit upon a marketing idea in a million. The kind that takes a genius to think of. That man was Mansukhbhai Mahadevbhai Kothari. The man behind Pan Parag Pan Masala.

An Illustration: Choice of a Product

Sanitary Napkin

The product was first introduced in the late 60s, and the concept of a sanitary napkin was popularised through the 70s while the 80s introduced new variations like the beltless napkin and tampons.

Since the very concept of a sanitary napkin was so new to India, one realised that conventional retailing alone was not enough to sell the product. What was important was educating women about the product and about personal hygiene, so the manufacturers started schools, screening firms on menstruation and how to cope with it. This was followed up by free sampling.

Estimated to be a growing Rs. 30 crore industry (that's an astonishing 180 million pieces), with a growth rate of more than 15 per cent, manufacturers are unanimous that this is still just the tip of the iceberg. It is likely to scale new heights in the 90s. And, the entry of Procter and Gamble with the much publicised dry weave technology for Whisper, the market is expected to double at the turn of the century.

The market leaders and pioneer in the field is undoubtedly Johnson and Johnson with Carefree, Stayfree, OB tampons and now, Freshday, Pantyliners. As things stand, the consumer does not yet have a real choice in terms of wide price variations, for instance. But the market is poised for a boom and even smaller manufacturers who admit that they earn 50 per cent of their income from his one product category alone are doing well, though they are not advertising or retailing their product.

Starting with the base, which is still the belted napkin, the pyramid narrows to the apex consisting of products like tampons (3 per cent of the market share) and pantyliners. There is still a tremendous potential for expansion even at the base. The women population needing sanitary napkins is estimated to be around 20 crores, of which 5 crore lives in urban centres. There is thus scope for (Rs. 840 crore industry) 500 crore pieces alone in urban centres. At that time, big cities were prime targets for expansion and the hudge rural market remained untapped. Given this scenario, the 90s will see many new brands and consequently more brand wars, hopefully resulting in the ideal napkin at the right price, for the consumer. And this is what is happening in this industry.

Observations

With the constant awareness campaign, the entrepreneurs have targeted the consumers and made an impact on them. The product has a ready market. Technology is available. Raw material is in plenty. With the widenings of the market the demand for the product has increased manyfold. It is profitable. It is healthier, comfortable and socially accepted. Market is vast but tricky. The product is tempting entrepreneurs/ manufactures to step into this field.

Selection of Product

At this stage, the entrepreneur is concerned with identifying a particular product that he hopes to market successfully at a reasonable profit. Therefore, the selection of the right product is very essential for being successful in the business venture. The right product here means that which can be marketed at a reasonable profit which will go towards growth business. Various factors influence the entrepreneur in selecting the right product. These decisive factors are *(i)* whether import restrictions or the items selected are banned items would considerably weigh favourably or otherwise in the selection of the products. This is because in the case of banned items the domestic market offers considerable scope for selling as the demand for such a product would not be met by import.

Thus, if the item selected fall in the category of banned import items, the entrepreneur would favour it the category of banned import items, the entrepreneur would favour it and in the case of unrestricted import of the items, he would definitely not show his favour for selecting such a product. *(ii)* If the entrepreneur himself or his partners have gathered, substantial amount of experience in the manufacture and marketing of certain products, then the selection of such a product would be to their advantage. Therefore, most often the items selected are of those lines of products in which the entrepreneur or his colleagues have gathered enough experience. The line in which they are not experienced obviously would not be favoured much as it will entail uncertain situations very often. *(iii)* The selection of the product will also be based upon the degree of profitability that generally rules in the market. Such information can be obtained from the banks or the financial corporations or the market itself. The selection, therefore, will depend upon the information compiled for the particular line of product for its profitability. *(iv)* Many concessions are available from the government for producing a product which serves as an import substitute or even essential item,

hence if a particular product enjoys a substantial amount of incentives, concessions, liberal taxation policies, obviously the entrepreneur will select that item to enjoy these advantages conferred on the production of this particular type of product. *(v)* Many products belong to the priority industries or small-scale sector also; certain products are listed by the Government for purchasing exclusively from the small-scale sector. As a result if a particular product belongs to this category, the selection of such a product would be advantageous for the entrepreneur; therefore, these factors also must receive due consideration before the selection of a product. *(vi)* The market for the product also plays a significant role in the selection of the product. If the product also has an export market, it widens the scope of marketing, hence such a product has its own advantages in the success of the enterprise. *(vii)* Certain products are permitted for production only if the licence is obtained from the appropriate authority while others belong to the de-licensed category. In the case of a licensed product, obtaining a licence is obtained a licence would be a difficult proposition or the capacity required for the entire industry may also have been created fully by the government. As a consequence, impossibility of seeking further permission for the production of such a product. A product belonging to licensed category or de-licensed category also is considered before selecting the product. *(viii)* Many products enjoy specific advantages in regard to the scale of manufacture or carry locational advantages, e.g., if produced in a free trade zone or in the backward areas with special incentives and concessions which are made available for manufacturing such a product. Selection of a product therefore depends upon these factors. (ix) If a product belongs to an ancillary unit and serves as a major component for the parent industry, it provides a ready demand, hence selection of this type of product entails easy marketability.

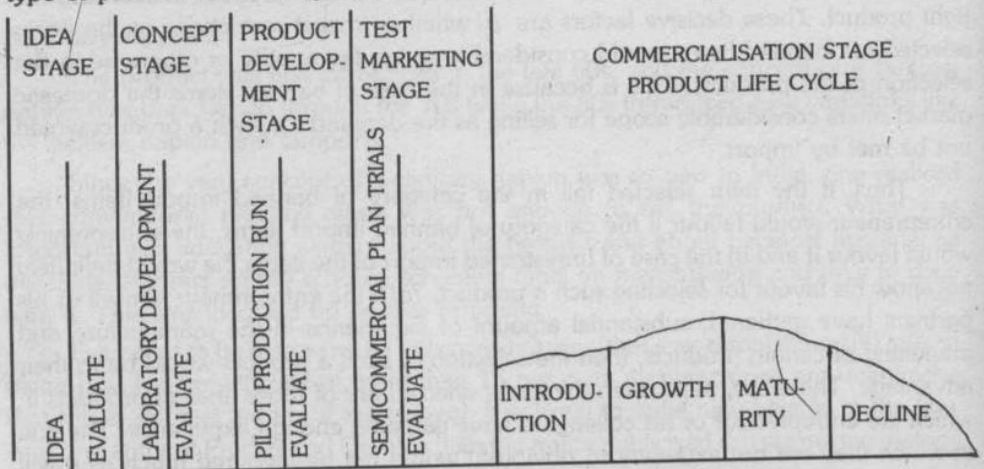


Fig. 16.1 Product-Planning and Development Process

Source: Adapted from Robert D. Hisrich and Michael P. Peters, *Marketing Decisions for New and Mature Products* .
(Columbus, Ohio: Charles E. Merrill Publishing Co., 1984).

Finally, at this stage, the selection of product would also be weighed in favour or against depending upon whether or not the machinery and the raw materials required would be imported or indigenous. Similarly, the section would also be bas

upon the skill and unskilled labour position as well as the technical know-how which is available indigenously or would require foreign collaboration.

The study of the project idea is the starting point of the feasibility analysis. The study is undertaken to identify the logic of the project, the tasks which must be performed for achieving the objectives, and the inputs, outputs and process involved in each activity. The ultimate aim is to identify the characteristics of the project. A project idea poses a problem, on the one hand and seeks a solution of the problem, on the other. In order that the solution may be an appropriate one, it is necessary to examine and appreciate the nature and extent of the problem and to clearly identify its dimensions.

The Adoption Process

The adoption of an innovation demands planned management of change (overcoming the resistance to change). An adoption process is a process bringing about a change in a buyer's attitudes and perception. Consumer adoption process covers the steps that a consumer usually goes through in determining the feasibility of buying new products: (1) Awareness, (2) Interest, (3) Evaluation or mental trial, (4) Trial (physical), (5) Adoption.

1. *Awareness:* A person learns about a new idea, product or practice. He has general information about it, e.g., through advertisement. He has, however, limited knowledge about special qualities, usefulness, performance, etc., regarding the innovation. He merely knows about its existence.

2. *Interest:* He now develops an interest in the innovation. He demands more detailed information about the new product, its utility, its performance, and so on. He listens with interest to Jingles on the radio or TV ads, reads press ads, and learns more about it from others, and is now inclined to actively seek the desired information from sales-persons, opinion leaders, peers, friends, etc.

3. *Evaluation:* The accumulated information and evidences are weighed by the person in order to assess the basic soundness or worth of the innovation. He tries to weight the value of the new product and the extent to which it is good for him. In a sense, he conducts a mental trial of the new product.

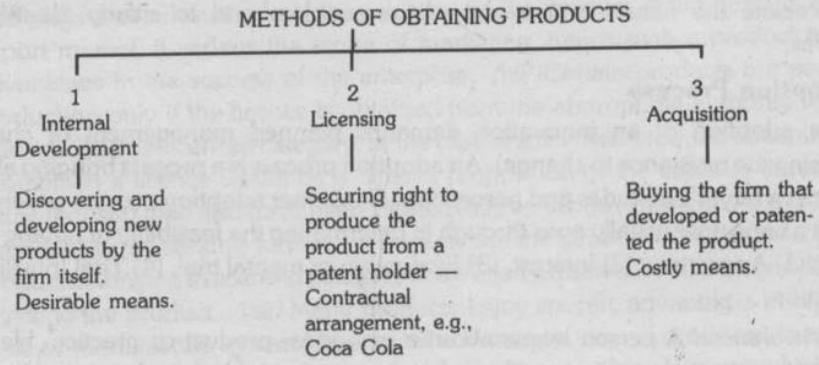
4. *Trial:* The person now is ready to put the idea into practice. Competent personal assistance is necessary to put the innovation to use.

5. *Adoption:* It is the final stage in which he makes a decision to buy. The person now decides to adopt the new idea, product or practice for continued use. If post-purchase experience is good, he becomes a repeat buyer and a talking advertisement of the innovation.

Product Innovation

The innovation attitude of the marketer is expressed in the watch word "innovate or die." Such an attitude must be an integral part of the marketing concept. P. Drucker recognised the equal importance of innovative attitude and marketing concept. He said, "Because it is its purpose to create a customer, any business enterprise must have only two basic functions: *marketing* and *innovation*. All growth industries have an important

role for innovation in their marketing and market penetration plans. Innovation alone assures growth and survival while customers orientation assures survival. The evolution of new products is a practical business function and it is described as a process product management. The new product programme must be organised and controlled if it is to be effectively managed. The process of product planning and development is always adopted for product innovation. Product development is a general term covering the search for new products and new innovations as well as the improvement of existing products.



Note: 1. Internal product innovation implies no payment of profits to inventor or developer.

2. Licensing obviates the possibility of internal discovery and may inevitable or preferable, e.g., complex products like electronics.

3. Acquisition is very costly but gives exclusive rights.

Fig. 16.2

Product Planning and Development Strategy

Marketers have four alternative ways of bringing about an increase in sales and profits: (1) market penetration, (2) market development, product development, and product diversification.

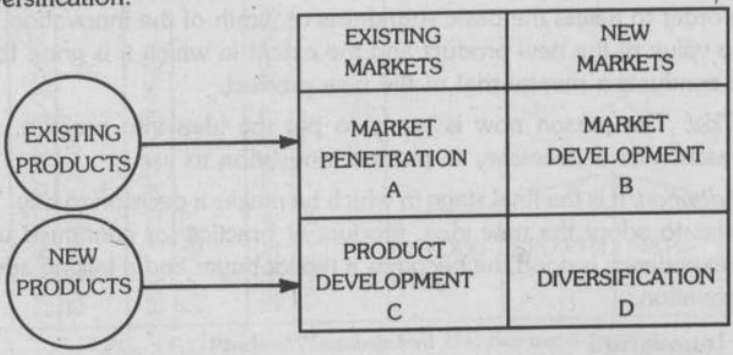


Fig. 16.3 Four Basic Types of Opportunities for Sales Growth

Market Penetration: It involves the expansion of sales of the existing products in the existing markets by selling more to present customers or gaining new customers in the existing markets. The firm can market its present products to existing markets. This is done through a more aggressive marketing mix. Customers from rivals or potential buyers can also be attracted. Existing buyers may be induced to increase their

rate of use. We may have a temporary price cut to raise the volume of sales and penetrate the market in a big way.

Market Development: In market development, a present product is introduced to a new market or segment. Market development is the creation of new markets by discovering new applications for existing goods, e.g., Mini-bus may be made available for goods or passengers. The firm can offer its existing products to new markets. This is another alternative to expand market opportunity, prolong product life cycles, profitability and survival.

Product Development: Product development occurs when a firm introduces new products into a market in which it is well established. Product development is the introduction of new products in the present market, e.g., new synthetic fibres for known textile products. The firm may decide to create new products for the existing market. Established firms with high customer patronage may have new product additions upon existing market successes. The firm by offering new or improved products to present markets can satisfy the present customers better and stand assured of their loyalty.

Diversification: Diversification occurs when a firm seeks to enter a new market with a completely new product. Such a firm has neither market expertise nor product knowledge. The firm may adopt a daring strategy by creating new products for entirely

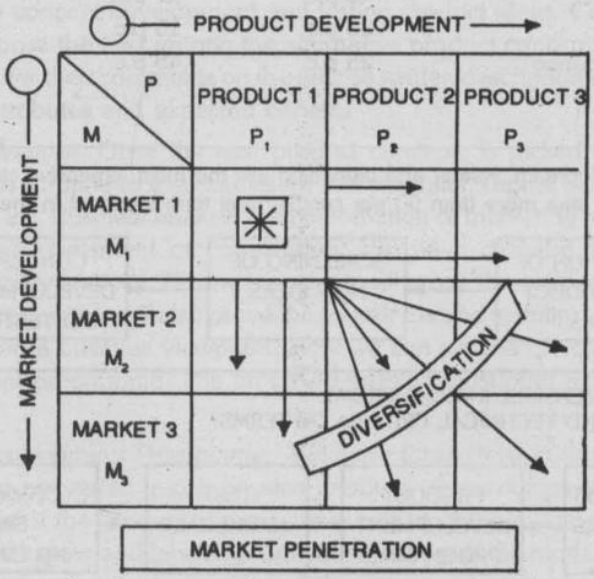


Fig. 16.4 Relationship between Various Marketing Strategies

Note:
1. We have four marketing strategies to achieve growth: (1) Market Penetration, (2) Product Development, (3) Market Development, and (4) Diversification.
2. Market penetration, i.e., penetrating the current market for higher usage rate is a conservative choice.
3. Diversification by entering a new market with brand new product is the most radical choice. It is the most difficult strategy as the firm has no market expertise and no product knowledge. Many firms fail in their diversification strategies.

new markets. The innovations are introduced for the first time in the new markets. Only innovations marketers venture to go in for diversification of products. The strategy is risky but the innovator can have spectacular results. In 1960, polaroid camera and television were in this category in many countries. Micro-wave ovens and digital watches are novelties even today in many countries. We have entirely an unfamiliar product for an unfamiliar market. Factors rating for a new product introduction are: (1) marketability, (2) durability, (3) Productive ability, and (4) growth potential. Philips is an example of diversification or lateral integration: light bulbs, radio lamps, television tubes, radio sets, taperecorders and a wide range of luminaries or lamp shades.

New Product Idea

Excluding the continual search for new ideas, the time and costs involved in the activities relating to product planning and development process, from experience in the U.S.A., is as follows:

Stage	*Time*	*Money cost*	*Ideas reduced from original 60 to*
1. Screening	3 p.c.	2 p.c.	12
2. Business Research	12 p.c.	7 p.c.	7
3. Development	40 p.c.	31 p.c.	3
4. Testing	20 p.c.	15 p.c.	2
5. Commercialisation	25 p.c.	45 p.c.	1 (One successful new product)

Note: 1. Development, testing and launching are the most expensive stages.
2. They take more than 50 per cent of total time involved in the process.

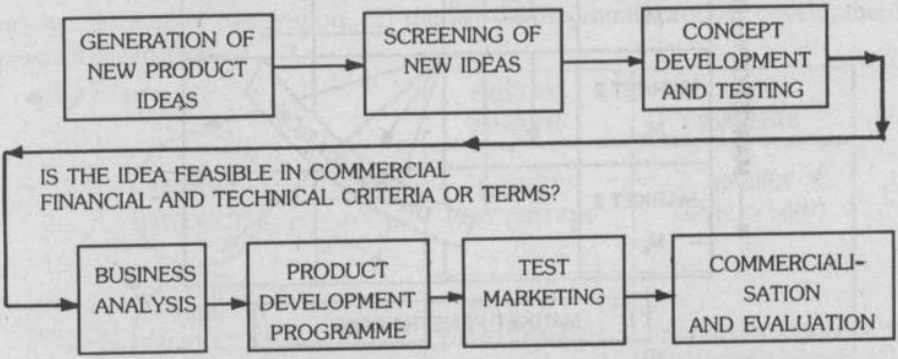


Fig. 16.5 New Product Development Process (Innovation Management)

Note. 1. Product life cycle requires the product development programme for new products and new profit opportunities.
2. New product development must be carefully planned and managed.
3. Special organisational wing is necessary to stimulate, collect, screen, evaluate, develop, test, and commercialise new product ideas.
4. Business analysis is the crucial stage. It concentrates on demand analysis, cost analysis and profitability analysis. It also considers social responsibilities of marketing new product.

Many innovative ideas are needed to find one good idea worth for commercialisation and many new ideas fail to pass the screening stage. Few ideas are compatible with the corporate resources and goals. Finally, five ideas are eliminated for lack of profit potential. Finally, having profitability, only one new product idea becomes eligible for market introduction and officially enters its life cycle.

Product Planning and Development Process

There are seven steps in the planning and development of a new product:

1. *New Product Ideas:* We visualise the detailed features of a model product. Ideas may be contributed by scientists, professional designers, rivals, customers, sales force, top management, dealers, etc. We may need sixty new ideas to get one commercially viable product.

2. *Idea Screening:* We have to evaluate all ideas and inventions. Poor or bad ideas are dropped and through the process of elimination, only the most promising and profitable ideas are picked up for further detailed investigation and research.

3. *Concept Development and Testing:* All ideas that survive the process of screening (preliminary investigation) will be studied in detail. They will be developed into mature product concepts. We will have a precise description of the ideas and features of the proposed product. At this stage, we can incorporate consumer preference into out agenda for concept development and testing product ideas. Concept testing the company to choose the best among the alternative product concepts. Consumers are called upon to offer their comments on the precise written description of the product concept, viz., the attributes and expected benefits.

4. *Business Analysis:* Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital, etc. Business analysis is a combination of marketing research, cost-benefit analysis and assessment of competition. We have demand analysis, cost analysis and profitability analysis. Business analysis will prove the economic prospects of the new product concept. It will also prove the soundness and viability of the selected product concept from a business viewpoint. Now we can proceed to concentrate on product development programme. The proposed product must offer a realistic profit objective.

5. *Product Development Programme:* We have three steps in this stage when a paper idea is duly converted into a physical product. *(a)* prototype development, giving a visual image of the product, *(b)* consumer testing of the model or prototype, and *(c)* branding, packaging and labelling. Consumer testing of the model product will provide the ground for the final selection of the most promising model for mass production and mass distribution.

6. *Test Marketing:* The entire product marketing programme is tried out for the first time in a small number of well-selected test markets, i.e., test markets, i.e., test cities or areas. Test marketing is necessary to find out the viability of a full marketing programme for national distribution. Customer reactions can be tested under normal market conditions. It helps the company to learn through trial and error and to get additional valuable clues for product improvement and for modifications in our

marketing mix. We can use test markets for testing the effectiveness of all ingredients of our marketing mix. Test marketing can answer such questions as: Is the new product labelled and packaged properly? Is the new product liked by the consumer? Is the firm justified in spending large sums on productive capacity? Has the communication (promotion) programme been right? Positive answers will reassure marketers.

7. *Commercialisation:* Once the test marketing gives the green signal for the product with or without expected modifications, the company can proceed to finalise all features of the product. Now marketing management can launch a full-fledged advertising and promotion campaign for mass distribution. Mass production will start and all distribution channels will be duly organised. The product is now born and will start its life cycle in due course.

Conclusion

The search for a business idea is a continuous process. The entrepreneur will have to undertake constant checking of the new product through its life cycle. And, keep a constant tap on the markets, consumer needs and their changing styles, research and development as an ongoing source of information regarding business idea as well as appropriate technology.

CHECKLIST FOR CHOOSING IDEAS

Fit with your skills and experience

- Do you believe in the product or service?
- Does the need it fits mean something to you personally?
- Do you like and understand the potential customers?
- Do you have experience in this type of business?
- Do the basic success factors of this business fit your skills?
- Are the tasks of the enterprise the ones you will enjoy doing yourself?
- Are the people the enterprise employ will enjoy working with and supervising?
- Has the idea begun to take over your imagination and spare time?
- Is the idea innovative to the extent of social benefit?
- Are you expecting a good return?

Fit with the Market

- Is there a real customer need?
- Can you get a price that gives you good margins?
- Would customers believe in the product coming from your company?
- Does the product or service you propose produce a clearly perceivable customer benefit which is significantly better than that offered by competing ways to satisfy the same basic need?
- Is there a cost effective way to get the message and the product to the customers?

Fit with the Enterprise

- Is there a reason to believe your enterprise could be very good at the business?
- Does it fit the enterprise culture?
- Can you imagine who might sponsor it?

- Does it look profitable (high margin — low investment)?
- Will it lead to large markets and growth?

What to do when your idea is rejected?

Frequently, as an entrepreneur, you may find that your idea has been rejected and/or is not successful as envisaged. There are a few things you can do:

1. Give up and select a new idea.
2. Listen carefully, understand what is wrong, improve your idea and your presentation, and try again.
3. Find someone else to whom you present your idea by considering:
   — Who will benefit most if it works and can they be a sponsor?
   — Who are the potential customers and will they demand the product?
   — How can you get to the people who really care about entrepreneurial ideas?

◆ ◆ ◆

"Successful entrepreneurs, whatever their individual motivation — be it money, power, curiosity, or the desire for fame and recognition — try to create value and to make a contribution. Still, successful entrepreneurs aim high. They are not content simply to improve on what already exists, or to modify it. They try to create new and different values and new different satisfactions, to convert a "material" into a "resource", or to combine existing resources in a new and more productive configuration." — *Peter F. Drucker.*

CHAPTER 17

CONCEPT OF PROJECTS AND CLASSIFICATION

Introduction

The project is an important groundwork of an enterprise and is also very crucial to the entrepreneur. Invariably, an entrepreneur cannot succeed in his venture and/or enterprise without a project. By and large, projectes connotes programme of action. There are agricultural projects with sub-projects relating to land development, irrigation, soil-conservation, fertiliser, seeds etc. There are also research projects and so on. The concept of projects is intrinsically woven with all socio-economic and cultural activities. We have made an attempt in this chapter to analyse the concept of a project, its characteristics and assess its role in the setting up of a venture/enterprise.

The dictionary meaning of project is speculative imagination; a scheme of something to be done; a proposal for an undertaking. In this case, two important aspects have to be borne in mind, viz., a scheme and speculative imagination. In other words, innovation and vision form an integral aspect of a project programme. Inter alia, these are also interwoven with the basic characteristics of an entrepreneur.

Meaning of Projects

Several economists and bankers have defined a project in different ways. The ECAFE Report by a group of experts has defined it as "the smallest unit of investment activity to be considered in the case of programming." The World Bank has defined project as an approval for a capital investment to develop facilities to provide goods and services." Little and Mirless meant by a project to any scheme or a part of a scheme for investing resources which can be reasonably analysed and evaluated as an independent unit. It may be any item of investment activity which can separately be evaluated." That is, a project is an appraisal for investment with the definite aim of producing a flow of output over a specific period of time." Giitinger has defined it as the whole complex of activities involved in using resources to gain benefits." Generally, in agricultural projects, we think of an investment activity where we expend capital

resources to create a producing asset from which we expect to realise benefits over an extended period of time.

A project should be understood in terms of economic behaviour. Dr. Albert O. Hirchman has said that "the development project cannotes purposefulness, some minimum size, a specific location, the introduction of something qualitatively new, and the expectation that a sequence of further development moves will be set in motion. Development projects are privileged particles of the development process."

Thus, a project may be defined as a scientifically evolved work plan devised to achieve a specific objective with a specified period of time. The three basic attributes are a course of action, specific objectives and definite time perspective.

A project is a productive activity which can be analysed, appraised and monitored independently. A multi-purpose river valley project is in a sense a gigantic scheme. There are also small projects which call for investments and analysis. A project has specific objectives in terms of geographic location, specific starting and end point, and most important — to serve a target population by achieving good investment returns. What is more, it has an organisation to implement it as shown below:

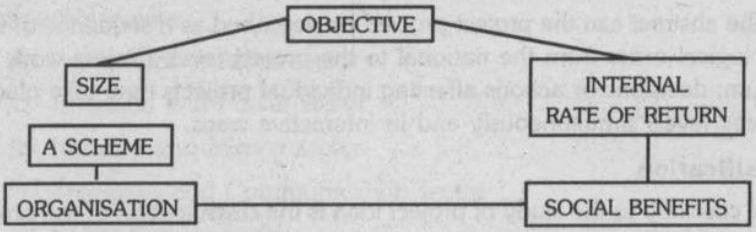


Fig. 17.1 Basic Components of a Project

Characteristics of a Project

Though various cannotation have been given to the concept of a project, they have four basic characteristics:

(a) Investment pattern;

(b) Benefits or gains;

(c) Time limit; and

(d) Location.

In short, "the project is an economic activity with well-defined objectives and having a specific beginning and end." It should be amenable to planning, financing and implementation as a unit where both costs and returns are measurable. A well-planned project includes a correct consideration of alternatives, identification of key issues, broad participation, compactness and enforceability. It should be, neat, clear-cut and of course, spcific.

From the point of view of resource allocation, a project can be considered as a proposal involving capital investment for the purpose of developing facilities to provide goods and services. The goods or services which the project seeks to provide differ widely. A project may involve the establishment of a new plant for the manufacture

of steel ingots, it may involve the provision of additional educational facilities to a particular age group in the community, or it may aim at developing infrastrcture facilities for the marketing of agricultural commodities. Whatever be the nature of the project, a project will involve allocation and consumption of resources, on the one hand and generation of resources, goods, or services, on the other.

Project Levels

Project work in its broadest sense takes place at three levels:

- At the national level, where national investment plans are formulated, priorities among sectors are established, and the macroeconomic framework of policies for economic growth is put in place.
- At the sector level, where priorities for investment within each sector are determined and the issues and problems affecting the development of the sector are addressed.
- At the project level, where individual projects are identified, prepared, and implemented and attention is given to their technical, economic, financial, social, institutional, and other dimensions.

Only in the abstract can the project process be described as a sequence of steps proceeding in logical order from the national to the project level. Project work is in fact a continuum; decisions or actions affecting individual projects may take place at each of the three levels simultaneously and in interactive ways.

Project Classification

A natural corollary to the study of project idea is the classification of the project. Project classification helps in graphically expressing and highlighting the essential features of the project be it quantifiable or non-quantifiable, be it any potential sector be it capital-intensive or labour-intensive, whether it will involve small or large-scale investment — will materially affect the project's feasibility evaluation is undertaken. As seen already, a project is a proposal for investment to create, expand and/or develop certain facilities in order to increase the production of goods and/or services in a community during a certain period of time. In a very broad sense, a project includes all activities which are aimed at —

1. Increased production of goods and/or services,
2. Increasing the capacity of the existing projects, and
3. Increasing the productivity of these goods/services.

To carry out these activities capital assets are acquired to replace worn-out machinery for upgrading and restructuring for modernisation purposes by new technologies.

The real bottleneck for economic development in general and development of backward areas in particular, seems to be a dearth of well-worked out projects which can be implemented at short notice. This has been a characteristic deficiency of project planning. It is of utmost importance to have a large number of well-worked-out projects in various sectors so that the pace as well as the pattern of investments can be carefully

regulated in the context of an emerging economic situation. The establishment of a new business unit to manufacture some product or arrange for the distribution of products of another concern is beset with a number of problems. The entrepreneur's job is, therefore, one of the most difficult and trying in the world.

Projects have been classified in various ways by different authorities:

1. Quantifiable and Non-Quantifiable Projects

Little and Mirrless have divided projects into broad categories, viz., quantifiable projects and non-quantifiable projects. Quantifiable projects are those in which a plausible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such an assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category while projects involving health, education and defence fall in the second category.

2. Sectoral Projects

The Planning Commission in India accepted this sectoral bias as the criterion for classification of projects. A project may, under this classification, fall into any one of the following sectors:

(a) Agriculture & Allied sector

(b) Irrigation and Power sector

(c) Industry and Mining sector

(d) Transport and Communication sector

(e) Social Service sector

(f) Miscellaneous.

This system of classification has been found useful in resource allocation at macro-level.

3. Techno-Economic Projects

Projects are sometimes classified on the basis of their techno-economic characteristics. Three main groups of classification can be identified here:

(a) Factor Intensity-oriented classification: On the basis of this classification, projects may be classified as capital-intensive or labour-intensive depending upon whether large-scale investment in plant and machinery or human resources is involved.

(b) Causation-oriented classification: Here projects are classified as demand-based or raw materials based projects — depending on the non-availability of certain goods or services and consequent demand for such goods or services or the availability of certain raw materials, skills or other inputs as the dominant reason for starting the project.

(c) Margnitude-oriented classification: In this the size of investment forms the basis of classification. Projects may thus be classified as large-scale, medium-scale, or small-scale projects depending upon the total project investment.

Techno-economic characteristics based classification is useful in facilitating the process of feasibility appraisal. United Nations and its specialised agencies are reportedly using the International Standard Industrial Classification of all economic activities (ISIC) in collection and compilation of economic data. Since this classification covers the entire field of human economic endeavour, it forms a useful basis for classification of projects. Economic activities under this classification are grouped into ten divisions, which are sub-divided into ninety sub-divisions. The divisions are:

Division 0	Agriculture, Forestry, Hunting and Fishing
Division 1	Mining and Quarrying
Division 2	Manufacturing
Division 3	
Division 4	Construction
Division 5	Electricity, gas, water and sanitary services
Division 6	Commerce
Division 7	Transport, storage and communications
Division 8	Services and others
Division 9	Activities not adequately described.

4. Financial Institutions Classification

All India and State Financial Institutions classify the projects according to their age and experience and the purpose for which the project is being taken up. They are as follows:

(i) New Projects
(ii) Expansion Projects
(iii) Modernisation Projects
(iv) Diversification Projects.

The projects listed above are generally profit-oriented.

5. Services Projects

The services oriented projects are classified as under:

(i) Welfare Projects
(ii) Service Projects
(iii) Reserach and Devleopment Projects
(iv) Educational Projects

Importance of a Project

The project is of great importance to entrepreneurs for setting up of new ventures and for their smooth, running on an ongoing basis without any hindrances.

Dimensions of a Project

1. They become the catalytic agents of economic development.
2. They initiative the process of development — production, employment, income generation and so on.

3. They have consequnces which are long-term in nature.
4. Projects provide the framework of the future activities of the enterprises.
5. They also shape the future pattern of services.
6. Projects usually involve substantial financial outlays.
7. They also initiate development of basic infrastructure and environment.
8. Project commitments cannot be easily reversed.
9. Project Identification brings the necessary changes in society in course of time.
10. Projects accelerate the process of socio-cultural development.

CONCEPTUALISING THE PROJECT

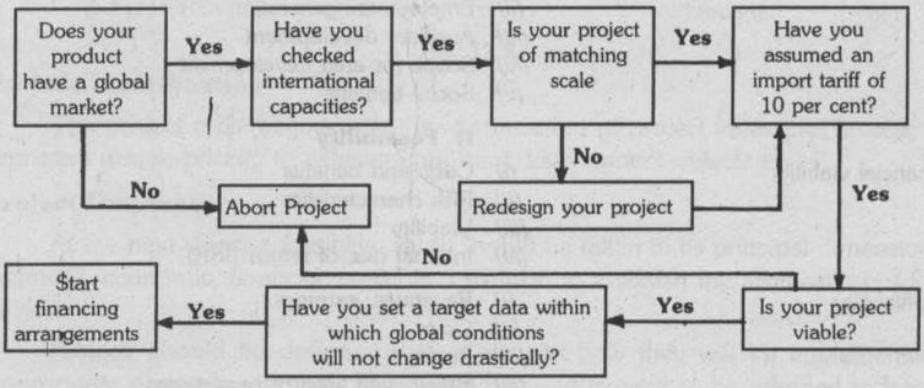


Fig. 17.2

Aspects of a Project

There are two aspects of a project. First, a preliminary aspect of analysing the product, its marketing, technical, financial and economic aspects. Second, the feasibility aspects. It contains adequate information for decision-making and sometimes, even implementation.

The important aspects of a project are as shown below:

Table 17.1
ASPECTS OF PROJECTS

Aspects	*Concerned with*
	I. Preliminary
Product/Service	*(i)* Choice of a product/service
	(ii) Technical characteristics of the product/service
	(iii) Uses of the product/service
Marketing	*(i)* Consumer preferences
	(ii) Nature of competition
	(iii) Potential aggregate demand
	(iv) Likely share of the project

Technical	*(i)* Location *(ii)* Scale of operation *(iii)* Manufacturing process *(iv)* Plant and machinery *(v)* Plant layout *(vi)* Work schedule
Financial	*(i)* Outlay on fixed assets *(ii)* Current assets *(iii)* Working capital *(iv)* Short and long-term finance *(v)* Bills etc.
Economic	*(i)* Utility to society *(ii)* Employment generation *(iii)* Ancillary development *(iv)* Scope for area development *(v)* Social benefits
	II. Feasibility
Financial viability	*(i)* Costs and benefits *(ii)* Risk characteristics *(iii)* Viability *(iv)* Internal rate of return (IRR)
Profitability	*(i)* Revenues, earnings *(ii)* Costs *(iii)* Profits *(iv)* Break-even level of operations
Financial Projections	*(i)* Proforma balance sheet *(ii)* Sources and use of funds
Socio-economic desirability	*(i)* Social goals *(ii)* Desirability of the project from the larger social angle *(iii)* Maximum Returns.

Most of the various aspects of a project presented above are studied simultaneously because they are interrelated. Primarily, the project is assessed for its economic viability in terms of marketing, technical, production, financial and economic aspects. If this analysis suggestes that the project is *prima facie* worthwhile, a more detailed investigation is conducted. It examines the feasibility of the project. The detailed analysis at various stages provides stimulus to its smooth implementation. The project has a number of sub-projects within a project. Detailed examination of all these project pave the way for assessing the soundness of a project. A sound project is one which is socio-economically desirable and it aims at social good of a larger segment of the society.

The Project Cycle

The project work comprises of several distinct stages, commonly referred to collectively as the project cycle. The stages are closely linked and follow a logical progression, with the later stages providing the basis for a renewal of the cycle. The

principal stages of the cycle are the identification of a project; its design, preparation and appraisal; its implementation; and its evaluation once the investment phase has been completed. The Project cycle is illustrated in the diagram.

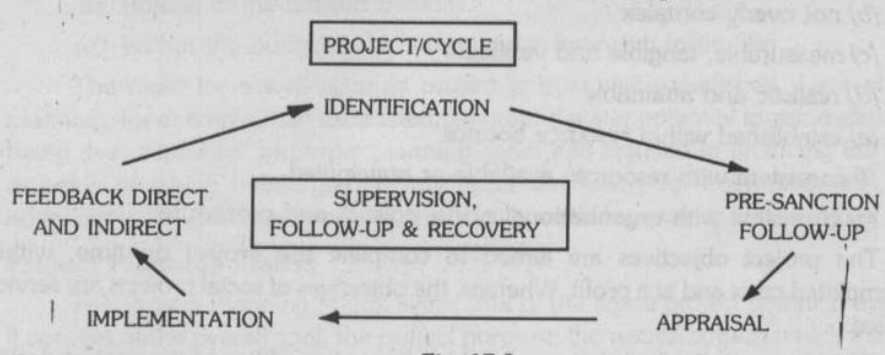


Fig. 17.3

Project Identification

The project cycle begins with the identification of project ideas that appear to represent a high-priority to achieve important development objectives.

Project Preparation

At the next stage, a feasibility study should be taken in its principal dimensions technical, economic, financial, social and so forth to establish the justification of the project.

Projects should be designed with a view to how they will be implemented. Appropriate design is essential. The design of projects need to be adopted to local, political, administrative, economic, and cultural conditions, particularly if success hinges on changing behaviour.

The entire project should be objectively appraised.

Project Implementation

All project identification and preparation work is directed toward facilitating project implementation and helping to ensure its success. Implementation is a critical stage of project work.

Ex-post Evaluation

The project cycle does not end when implementation is completed and the project goes into operation. The main purpose is to learn lessons for the design of future projects and help ensure accountability. Ex-post evaluation should provide a comprehensive and detailed review of the elements of success and failure of the project for enhancing the development impact of project work.

Project Objectives

Project objective is an important element in the project planning cycle. Project objectives are concerned with defining in a precise manner what the project is expected to achieve and to provide a measure of performance for the project as a whole. Objectives are the foundations on which the entire edifice or the project design is built.

The essential requirements for project objectives are:

(a) specific, not general

(b) not overly complex

(c) measurable, tangible and verifiable

(d) realistic and attainable

(e) established within resource bounds

(f) consistent with resources available or anticipated

(g) consistent with organisational plans, policies and procedures.

The project objectives are aimed to complete the project on time, within contemplated costs and at a profit. Whereas, the objectives of social projects are service oriented.

Objectives are the foundations on which the entire edifice of the project design rests. They specify the present position, goals and the time duration. The basic objectives of a project are:

(i) Maximisation of the market value of equity.

(ii) Maximisation of net present value.

(iii) Maximisation of return.

(iv) Increase in the internal rate of return (IRR) at low risk.

(v) Increase in the net present value of monetary flows.

These expected results or goals are to be achieved within a specific period of time, so that the entrepreneur can see the fruits of his innovations and entrepreneurship.

Priority Projects

India being basically an agricultural country must give top priority to rural development. For this, rural development projects intend to provide a sustained increase in agricultural output and generation of adequate gainful employment. Rural development programmes can be accomplished only by uplifting the individual or the family. As already mentioned, taking up schemes or projects for development of rural population on individual sporadic basis would at best touch only the fringe of the problem of mass rural development. This scattered development effort leads to waste of resources. Therefore a package of programme projects, area development schemes and other means should be systematically evolved.

Project Planning

Projects neither come out of nothing, nor would they fall from the blue. They have to be planned. Investment projects should be planned within the framework of national policy directives. Priorities should be fixed. Planning is the most important aspect of project preparation.

Planning is thinking deeply through a problem, examining all the logical paths and writing down all the times in their logical and time order. Planning in any project sector should justify the following:

(a) Planning would help to optimise the use of scarce resources.

(b) Optimisation and better utilisation of the existing resources.

(c) Results in the desired benefits.

(d) Within the budgetary provisions of a financing institution.

The need for a well-planned project is now well established. Lack of proper planning, for example, had exhausted the ground water potential in some states or are being over-exploited. Improper planning again had resulted in financing the farmers desirous of taking hybrid/graded milch animals, going for country breeds, as the advances have not considered the seasonality and adequacy or availability of breeds.

Project Planning Matrix

The Project Planning Matrix is the crux of the entire project planning approach. It consists of the overall goal; the project purpose; the results/outputs which the project manager must achieve and sustain; and activities necessary to achieve results/outputs.

Table 17.2
PROJECT PLANNING MATRIX

	Project Title *Project No.* *Est. Project Duration:*	*Country:*	*PPM prepared (date)*
Summary of objectives/ activities	Objectively verifiable indicators	Means/Sources of verification	Important assumptions
Overal Goal (OG) to which the project contributes	Indicators that OG is reached:		For sustainability of Overall Goal
Project purpose	Indicators which show the achievement of a successful PP		For the achievement of the OG
Results/outputs:	Indicators, describing the Results		For the achievement of the PP
Activities	Specification of Quantities and Unit/Costs for each individual Activity	Information from the accounts	For obtaining the results

The interesting feature of the matrix is that it forces planners to come out clearly with objectively verifiable indicators and the means of verification. This ensures that vague objectives are not entertained.

The PPM also lays down the resources needed for various activities. The specification of input is important for the calculation of costs.

This stage involves the preparation of the feasibility report of the project conceived. The feasibility report relates to technical, economic, financial and managerial feasibility. This will indicate the technical, financial and marketing aspects of the project conceived. For the purpose of preparation of this report, information is,

collected, compiled and analysed in the concerned areas like requirements of raw materials, target market for the product, the technology of production, the financial requirements, the requirement of skilled and unskilled labour, etc. Understanding the market for the product is important and a detailed study must be undertaken, depending upon the various data collected. The market may be regional, national or international, which indicates the probable volume of production that can be undertaken. Also information relating to the existing producers manufacturing similar products, the end users of the project, the potential manufacturers of the product, the potential end-users of the product and any other possible new uses for which the product could be put to must be gathered and the report must be prepared accordingly. Useful information can be obtained for the above purpose from the Annual Reports prepared by the Directorate General of Technical Development (DGTD) guidelines for industries, and the industry-wise notes prepared by development corporation.

Understanding demand for the product is another areas which is significant at this stage. Whether the demand is for original requirements or for replacement should be examined. The sensitivity of the buyers to the quality and price of the product and whether the demand is seasonal and norms that are to be maintained while manufacturing the product, institutional demand, etc. must be carefully considered before arriving at the demand for the product to be manufactured and marketed.

Project Life Cycle

The project life cycle consists of three main stages:

1. The Pre-Investment Phase — The first phase of a project.
2. The Construction Phase — This phase consists mainly of developing the infrastructure for the project as well as creation of assets.
3. The Normalisation Phase — The Primary objective of this phase is to produce goods and services for which a project is established.

Project Approach

The discussion above also indicates that project designing should address itself to possible approaches to areawise development projects. Three possible approaches are usually accomplished. These are described briefly below.

(i) Sub-sector or product approach: The effort is restricted to a sub-sector of production or one product which covers a broad geographical area. Examples, of such an approach are found in the projects involving tea, coffee, rubber or horticultural projects and dairy, poultry or sheep farming etc.

(ii) Functional approach: The effort here is restricted to certain development functions like marketing research or agricultural extension projects. The emphasis is on the services and not on the output or a specific product.

(iii) Regional approach: The effort is limited to a geographically bounded area, within which the tasks are usually broadly conceived. The best example is the Integrated Rural Development Scheme (IRDS) as applicable to each of the blocks.

All these approaches have the same goals, that is, the gradual development of the total economy of the country. The subsector approach seeks to involve ever-increasing number of subsectors of development. The functional approach aims at increasing the services and the regional approach implies a commitment to more and more regions. But the experience in project financing has clearly shown that no distinct demarcation could be made as above, notwithstanding the fact that all these become compartmentalised in cases where state level projects are involved. Otherwise, these are, in fact, parts of a project approach. This could probably be best illustrated with an example, say, of milch animal financing.

The financing bank, as per the above, would develop the scheme as a subsector approach. The definition of project given in the earlier pages underlines that the location should specifically be mentioned. Thus, the regional approach criterion is also satisfied. Mere supply of a high-yielding buffalo or a cow would not solve the problem. The functional approach would now come in when the extension/veterinary services are included in the project.

Project Features

Every project must have certain features to maintain uniformity and ensure success. In short, these are:

(a) Simplicity and clarity.

(b) Availability of attractive technology to promote the project.

(c) Integration of basic production services, especially those of input supply, credit, marketing and extension.

(d) Compatability of the project within the existing administrative mix.

Compliance of the above features and various other factors discussed earlier do not necessarily ensure effective project financing. A most carefully designed project may fail due to faulty management, while a badly designed project may succeed given a rich component of good management. Thus, the above list is not comprehensive but is indicative. All these are like tools in the hands of the mechanic or a sculptor. It is ultimately through the management of the resources by application of tools that success is ensured in project financing.

Project Management

Project management is a specialised branch of management capable of differentiation from others based on a variety of factors which include the organisation structure, the process of planning and control, human relation etc.

The realisation for a systematic approach to planning public works projects can be measured from a report on the UK's postwar national development first published in 1944 by the Institution of Civil Engineers. The report pointed out the following:

"In order to carry out work efficiently, it is essential that a scheme of operations be first decided by those directly responsible for the execution. With such planning, the work can be broken down into a series of operations and an orderly sequence or programme of execution evolved. Without a programme execution can only be haphazard and disorderly... The drawing up of a programme at the beginning of the

work does not mean, of course, that it is drawn-up once and for all and cannot be changed. The exact reverse is the case...."

Project Management

Project management is two-fold: Financial and Administrative. It is, therefore, imperative to understand these two aspects.

An ideal project is one which is carefully selected and prepared, thoroughly appraised/analysed, closely supervised and systematically evaluated. Project management deals with proper identification, formulation and appraisal. These three aspects from the basic foundation for the success of projects.

Phases of Project Management

An entrepreneur has to consider carefully various factors from the start to the finish in converting profitable opportunities into realities. The process of project management may be divided into six broad phases — identification, formulation, appraisal, selection, implementation, and management of projects.

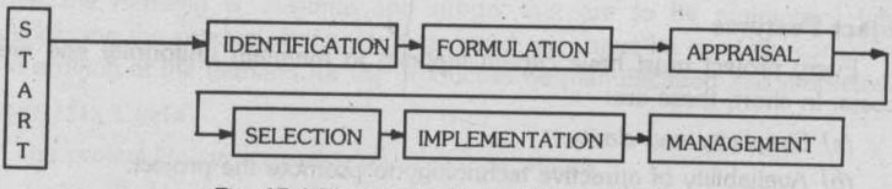


Fig. 17.4 Phases of a Project Management

The requirements of these phases are as follows:

Table 17.3

PHASES OF A PROJECT

Phase	*Requirements*
1. Identification	Selection of a project after a careful scanning of the environment of investment opportunity and its likely return.
2. Formulation	Translation of the idea into a concrete project with scrutiny of its important preliminary aspects. Preparation of feasibility reports.
3. Appraisal	Searching scrutiny, analysis and evaluation of market, technical, financial and economic variables. Assessing the profitability, return on investment and break-even points.
4. Selection	Rational choice of a project in the light of objectives and inherent constraints.
5. Implementation	Expenditious completion within the allocated resources.
6. Management	Judicious operation of a project/enterprise with objectives like maximisation of netpresent value, maximisation of return, and increase in the rate of return at low risk.

The basic tenets of managing projects of all dimensions are:

- Define the objective of the project.
- Determine the constituent tasks.
- Identify important milestones.
- Allocate resources to each task.
- Re-evaluate task relationships and scheduling, pinpointing resource conflicts.
- Execute the project.

But, Managing mega projects calls for a more organised approach and fine-tuned monitoring systems. For, the stakes involved are so high that even minor lapses could lead to huge time and cost over-runs, jeopardising the very cost-competitiveness of the project in the post-liberalisation era.

The Project management is all about total control — during conception, midwifing, and delivery — in a business environment where perpetual change is the only constant. Fail, and you will have fallen victim to the ruthless forces of Darwinian competition that spare none but the fittest. Succeed, and you will have proved your ability to impose a megamethod on the madness of the market.

Project Management Processes

The process of project management is an integrative one — an action in one area usually effects other areas. Successful project management requires actively managing the interactions.

The common project management processes can be categorised into the following:

Operational Management Processes

These activities are seen as ongoing activities with neither a clear beginning nor an expected end.

- *Planning:* Identifying objectives and devising a workable scheme to accomplish them.
- *Executing:* Co-ordinating people and other resources to carry out the plan.
- *Controlling:* Ensuring that the objectives are met by measuring progress and taking corrective action when necessary.

Additional Project Management Processes

Projects are temporary in nature, they have both an identifiable starting point and an emphasis on timely future termination. The additional processes are:

- *Initiating:* Recognising that a project should begin and committing to do so.
- *Closing:* Formalising acceptance of the project and bringing it to an orderly end.

Technical Processes

These vary by application areas and are to be identified and handled by application experts. These processes are not discrete and in an actual project there will

be many overlaps. Basic process interactions occur within each phase such that closing one phase provides inputs for initiating the next. Thus the planning process must not only provide work done in the current phase for successful completion, but, must also provide some preliminary description of or to be done in later phases. The progressive detailing of the project plan is often called rolling wave plan.

Project Interface Management

The core competence to mar age this integrative system involves making trade-offs among competing objectives and alternatives (e.g., performance in one area may be enhanced only by sacrificing performance in another) in order to meet or exceed stakeholders requirements. A balanced approach with certain amount of experience and intuition will lead to successful results.

Project amangers put far too much emphasis on the tie and budget aspects at the expense of other criteria. With enormous amount of analytical techniques and advent of information technology, numerous tools have been developed helping the project management professionals to manage the day-to-day activities more efficiently.

Conclusion

A project is a scheme for investing resources in an enterprise. It can be a gigantic scheme like a multipurpose river valley project or a venture small investment. It contains a blue print of a venture. The project provides enough details and analysis of technical, financial, marketing and economic aspects. It also contains plans and programmes for implementation. Normally, project serves as the basis for bodies. To entrepreneurs, it opens up a programme of action, profitability and economic viability. A project comprises of several stages with sub-projects interwoven and interlinked. A sound project will defintely work towards economic development.

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CHAPTER 18

PROJECT IDENTIFICATION

Introduction

Project identification is the first step of a new venture. A right direction may enable an entrepreneur to scale new heights. Otherwise, he has to undergo a number of hurdles in his way. It is therefore, very crucial to entrepreneurs to identify projects. We have made an attempt in this chapter to analyse the various aspects of project identification.

Theoretically, an entrepreneur has an infinitely wide choice with respect to this project. The important dimensions of choice are: product/service, market, technology, equipment, scale of production, location, incentives, and time phasing. The task of identifying a feasible and promising project is somewhat difficult. Moreover it is interrelated with the government policies, infrastructural development and skills of people.

Project identification is concerned with collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and with the development of such opportunities.

Opportunities according to Drucker are of three kinds: *additive, complementary* and *breakthrough.* Additive opportunities are those opportunities which enable the decision-maker to better utilise the existing resources without in any way involving a change in the character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure. Breakthrough opportunities, on the other hand involve fundamental changes in both the structure and character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. The element of risk is greater in the case of complementary opportunities and is greatest in the case of breakthrough opportunities. As the element of risk increases, it becomes more and more important to precisely define the scope and nature of the project objectives and to select the best possible approach so as to minimise both resource consumption and risks and to optimise the return or gains.

Human mind has an infinite capacity to observe and to innovate and deduct. Observation is one of the most important sources of project ideas. The observant mind continuously comes across situations which can be utilised to develop investment opportunities. The observation may be made during the course of one's routine occupation or otherwise. The dearth of a particular article or service may for instance lead to the development of an industry which can provide the article or service in short supply. The availability of a specified type of raw material or skill may lead to yet another type of industrial activity. The observant mind is always on the look out for opportunities which can form the basis for the development of new project ideas. Observation of the existing processes can sometimes lead to new opportunities and financially beneficial project ideas.

This would for instance be the case when a processing unit decides to manufacture machines which it has so far been using for processing purpose only. The process of deduction is on many occasions used to supplement and rationalise project ideas based on pure observations. In innovative units, it often becomes necessary to depend upon the deductive process for the development of new approaches to the solution of existing problems.

Trade and professional magazines provide a very fertile source of project ideas. The statistics and information given by these magazines and reports and records of professional bodies often reveal opportunities which can be eventually developed into investment propositions. It is very important for every person who is involved in the development of new investment opportunities to remain in touch with the latest developments in his own field of specialisation. It is also necessary for him to keep in touch with developments in order fields which may be horizontally or even vertically liked with his own line of specialisation. Study of technical and professional literature, besides keeping a person all courant, also stimulates thinking and helps in the process of development of new project ideas.

Bulletins of Research Institutes are also a very fertile source of information for new project ideas and opportunities. These bulletins generally give the broad outlines of the new processes or products developed by research institution. However the information made available in the research Bulletin may not be adequate for concretisation of ideas. Further correspondence with the research institute may become necessary.

In most developing countries where planned development has been accepted as an approach towards the removal of poverty, the plan document published by the Government provides a very useful source of project ideas. The plan document generally analyses the existing economic situation in a country and also pinpoints the investment opportunities which fit into the overall planning effort. Considerable information can, therefore, be gathered from the plan document.

Departmental publications of various departments of Governments also provide useful information which can help in the development of new project ideas. These publications are either periodical in character or are issued on special occasions. The census document which is a periodical publication is a very useful source of information

about the economic structure of the society and various trends in the growth of economy and purchasing power and can be used to develop new ideas.

The project idea is a user friendly concept of what a project should be like. It is the raw expression of the desire of the project sponsoring body to achieve something. The exact form in which the project idea is expressed is immaterial. In order to avoid unnecessary communications between the project sponsoring body and the project formulation team, the project idea should indicate broad objectives of the sponsor and limit these in time, space, function and structure. In case no limitations are envisaged, the sponsoring body should state so and leave the project formulation team in no doubt about it.

Criteria for Selecting a Particular Project

After gathering a large number of project profiles, the entrepreneur should consider the following criteria for selecting a particular project:

Investment size: Professional managers, who have worked in multinational companies or large Indian companies, should think of starting medium-sized or large-sized units only. The investment size (project cost) should be at least Rs. 3 to 5 crore. They should not commit the common mistake of restricting the project size to less than Rs. 2 crores so that they need go to all financial institutions. In fact, under the present circumstances, it will be much easier to get projects cleared by the all-India institutions, requiring even lesser promoter's contribution.

Location: A new entrepreneur should locate his project to the extent possible, in and around the State headquarters. There are many backward areas around such cities. It is necessary to have such a location so to attract competent managers. This will also facilitate liaison with the State Electricity Board, State Industrial Development Corporation and various other agencies.

Technology: The first project should not be for a product which requires high technology, necessitating foreign technical collaboration. It is better to go in for product with a proven technology that is indigenously available. It makes life easier to begin with.

Equipment: The entrepreneur should select the best equipment as per advice of experienced technical consultants. He should not compromise on the quality of the equipment. Many entrepreneurs enter into some sort of a deal with the equipment manufacturers for a "kick-back" and in the process sacrifice quality. One should not be short-sighted and come to grief by going in for poor quality equipment.

Marketing: It is not advisable to get into a project particularly the first, which would mean survival amidst cut-throat competition involving direct selling to the ultimate consumer. One should go in for products with a limited number (say 10 to 20) of industrial customers.

Project Ideas — Scanning of Business Environs and Identifying a Project

Project ideas originate from various sources or due to different reasons like the success story of a friend/relative, experience of others in manufacture/sale of product, demand for certain products, chances of producing a substitute of an article imported

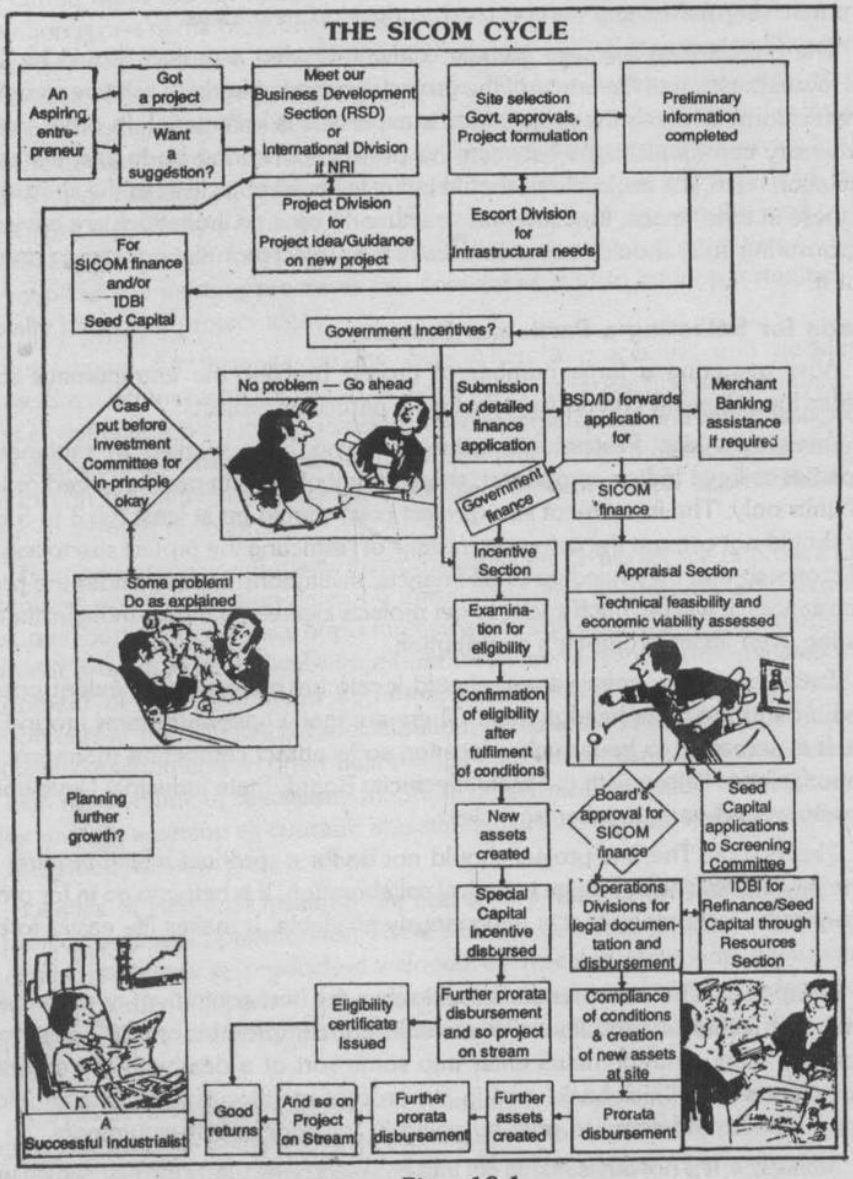


Fig. 18.1

for which there is good demand etc., and of course, the motivation, background and skill of the entrepreneur and his associates.

One major aspect while choosing a project idea should be to ascertain the extent of the marketability of the product proposed to be manufactured, its general use, industries which use it, its end-use and its buyers. You should, therefore, study the demand and supply of the product over the last few years to estimate its future demand based on the past trend. While doing so, it would be necessary to take into consideration

the anticipated changes in fashions, technology and levels of income of the people. If the product proposed to be manufactured has a market throughout the country, the study should take into account the demand and supply of the product for the whole country. However, if the market for the product would be confined to one/two states/ or a particular region, the study may be confined to the concerned states/region. Many units function as ancillaries to major industries. In such a case, their fortunes being very closely dependent and liked to that of the 'parent unit', it is very important that detailed analysis are made on various areas before the decision to become an ancillary is made; i.e., areas like, will the unit be totally dependent on the parent unit, the potential for reasonable profit and future growth, the experience of similar ancillary units, whether there are any problems in obtaining payments or supportive know-how, whether the investment in fixed assets will be such as to facilitate easy branching off into a new product line in case the ancillary arrangement does not yield anticipated benefits, etc.

It will be equally important to judge market demand even when you are setting up a 'general purpose' workshop or service industry. In such cases, it will be necessary to have a clear idea of the industrial environment, the type of job orders you may obtain, whether they will be repeated, who will be giving them local competition, whether there are any large projects/establishments which promise potential for assured orders, whether your unit will have specialisation in a particular type of work which will give an edge over competitors, etc.

An import-substitute product, basically, should have a good market in view of the general policy to encourage indigenous production. It would, however, be necessary to have a clear idea of the government's import policy, present demand, the landed price of the imported item and how your price will compare with it, quality differences, etc.

In order to arrive at reasonable estimates of the future demand for and supply of a product, information relating to the capacity of existing unit manufacturing that product, the extent of its utilisation, the capacity of the units that have already been granted licences but are in the process of being established, import and export potentiality of the product etc., should be taken into consideration.

Although it is difficult to arrive at a precise forecast for demand and supply of a particular product, specially since reliable and up-to-date information is difficult to obtain, on the basis of the available data it should be possible to decide on future prospects of the item proposed to be selected by you. Towards this, capacity utilisation of the existing units could be taken as a broad indication of market for the product. Similarly, underutilisation of the existing capacity could be taken as a signal for little or no scope for setting up a new unit.

An SSI unit generally enters the market which is localised and already has existing manufacturers. The success of the new unit in competing with the existing manufacturers would demand on a combination of its capability to identify and approach its targeted customer group and its marketing features like price, quality, delivery schedule, sales promotion, etc.

Importance of Project Identification

Project identification is often of great importance for the following reasons:

1. They become the catalytic agents of economic development.
2. They initiate the process of development in terms of employment and income generation.
3. They have beneficial consequences which are long-term in nature.
4. Projects provide the framework of the future pattern of activities and services of the enterprises.
5. Projects usually involve substantial financial outlays.
6. They also initiate development of basic infrastructure and environment.
7. Project commitments cannot be easily reversed.
8. Project identification brings the necessary changes in society in course of time.
9. Project accelerate the process of socio-cultural development.

The Enterprise Development Centre

The integrated method for facilitating the formation of new enterprises is known as the enterprise development centre. This brings together the key inputs face to face with the new generation entrepreneurs. It comprises of five principle components, viz., (1) the intrapreneurship centre; (2) the venture capital exchange; (3) the innovation centre; and (4) the incubation centre.

The *intrapreneurship centre* conducts research, creates skills, and an appropriate environment to facilitate the setting up of a new enterprises.

The *venture capital exchange* provides the needed seed capital for new enterprise.

The *innovation centre* provides theological evaluation, entrepreneurial assessment, project planning, evaluation, commercial feasibility studies, and the product development assistance to entrepreneurs.

The *incubation centre* provides the needed impetus to new enterprises to succeed and grow.

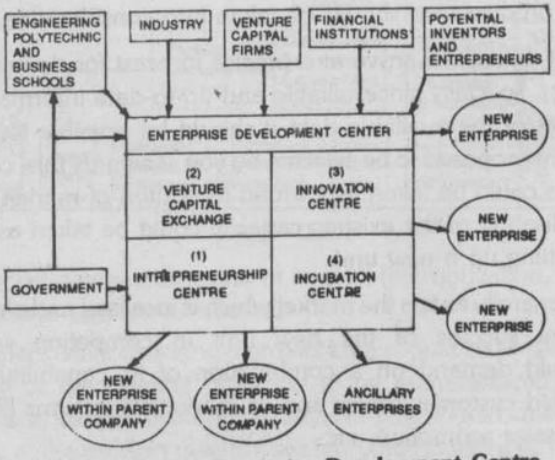


Fig. 18.2 The Enterprise Development Centre

Feasibility Report

Before starting a small-scale industry, it is mandatory for entrepreneurs to consult the Director of Industries Service Institute (SISI) located in one's state. The SISI guides entrepreneurs as to the type of industry to start, where to start and how to start it. The SISI help them odd select the various items of manufacture which have scope for development in different areas. It suggests the lines on which project reports for the proposed units should be prepared for the consideration of various financial institutions with a view to securing financial assistance. Similarly, technical guidance in the selection of proper raw materials and type of machinery is also provided. Apart from this, the SISI gives valuable information on various incentives available to the small-scale industries from various organisations.

Project Feasibility Analyis

A project feasibility analysis includes market analysis, technical analysis, financial analysis and social profitability analysis. Although every feasibility analysis is different and is tailored to suit the product, its goal is to identify the existing strengths and weakness of the project.

The starting point of a project analysis is the establishment of objectives to be attained. The next stage is the pre-selection stage — the advisability of having an in-depth study. The analysis stage consists mainly of three factors — market, technical and financial analysis. A market analysis is a method of screening project ideas as well as means of evaluating a project's feasibility in terms of the market. A market analysis should cover the following areas:

(i) A brief market description including the market area, methods of transportation, existing rates of transport, channels of distribution, and general trade practices.

(ii) An analysis of past and present demand, determination of quantity value of consumption and identification of the major consumers of the product.

(iii) An analysis of past and present supply, broken down as source (whether imported or domestic), as well as information to assist in determining the competitive position of the product, such as selling prices, quality and marketing practices of competitors.

The technical analysis of a project feasibility study establishes whether the project is technically feasible or not, and whether it offers basis for the estimation of costs. Moreover, it provides an opportunity for a consideration of the effect of various technical alternatives on employment, ecology, infrastructure demands, capital services, support of other industries, balance of payments, and other factors. A technical analysis should review the techniques or processes to be applied and should incorporate.

(i) A description of the product, including specification relating to its physical, mechanical and chemical properties, as well as the uses of the product.

(ii) A description of the selected manufacturing process, showing detailed flow charts and presenting alternative processes which may have been considered and the justification for the adoption of the selected process.

(iii) A determination of the plant size and production schedule, which includes the expected volume for a given time period on the basis of start-up and technical factors.

(iv) Selection of machinery and equipment, including specifications, equipment to be purchased and its origin, quotations from suppliers, delivery dates, terms of payment, and a comparative analysis of alternatives in terms of cost, reliability performance, and spare parts availability.

(v) An identification of plant's location and as assessment of its desirability in terms of its distance from raw material sources and markets. For a new project, this part may include a comparative study of different sites, indicating the advantages and disadvantages of each.

(vi) A design of the plant layout and an estimate of the cost of the erection of the proposed buildings and land improvements.

(vii) A study of the availability of raw materials and utilities including a description of physical and chemical properties, quantities needed, current and prospective costs, terms of payment, location of sources of supply, and continuity of supply.

(viii) An estimate of labour requirements, including a detailed break-down of direct and indirect labour requirements, and the supervision required for the manufacture of the product.

(ix) A determination of the type and quantity of waste to be disposed of, together with a description of the waste disposal method, its costs, and the necessary clearance from proper authorities.

(x) An estimate of the production cost of the product.

In the financial analysis of this feasibility study, the emphasis is on the preparation of financial statements, so that the project may be evaluated in terms of the different measures of commercial profitability followed by the magnitude of financing which requires the assembly of the market and also technical cost estimated in various proforma statements. If it is necessary to have more information on which to base an investment decision, a sensitivity analysis or, possibly, a risk analysis may be conducted. This financial analysis should include:

(i) For projects that involve new companies, statements of total project cost, initial capital requirements, and cash flows relative to the project schedule.

For all projects, financial projections for future time periods, including income statements, cash flows, and balance sheets.

(ii) For all projects, supporting schedules for financial projection, stating the assumption made as to the collection period of sales, inventory levels, payment period of purchases and expenses, and the element of production cost, selling, administrative, and financial expenses.

(iii) For all projects, a financial analysis showing returns on investments, returns on equity, break-even volume, and price analysis.

(iv) For all projects, if necessary, a sensitivity analysis to identify items which have a substantial impact on profitability or possibly a risk analysis.

For the small entrepreneur, the studies conducted during the analysis stage of the project provide the material for an assessment. If positive results are obtained, the entrepreneur, in seeking finance, will want to prepare an investment proposal. The planners or government officials, however, having obtained positive conclusions from the economic feasibility study will want to evaluate the element of social profitability.

The purpose of the investment or loan application is to convince a lender (financial institution) that the project is a desirable investment; that it not only possesses the potential for profit but that the proposed management team has the capability to achieve the potential. The investment proposal normally contains:

(i) General information on the product, company history, the nature of the industry and the reputation and qualifications of the existing or proposed management.

(ii) A description of the project, which usually consists of extracts from economic feasibility studies and includes information on such items as market, production, selected manufacturing methods (with detailed indication of the cost of equipment and operational expenses), and a financial statement.

(iii) Miscellaneous information, such as the steps taken for the implementation of the project and the qualifications of the technical partners envisaged or selected.

Conclusion

It can thus be said that project identification is an important dimension of entrepreneurship. Also, move important is its classification which goes towards the emergence of three dimensions — inputs, outputs and social costs and benefits and finally economic development of the country.

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CHAPTER 19

PROJECT FORMULATION

Introduction

But in reality, the case is quite different. A major constraint faced especially in developing countries is the resources constraint. Hence it becomes imperative that certain project ideas are only taken up or pursued in preference to others. How to make this decision or choose only a few projects for implementation? Project formulation, techniques help us in making a choice. When we say project formulation, we mean that a project idea is presented in such a form that it can be subjected to comparative appraisal. This process will aid in definitely determining the priority of projects from the point of view of resource allocation. The project ideas can be analysed from the point of view of inputs as well as outputs.Such an analysis when presented to a decision-maker or to consulting agencies will help them in decision-making. This strategy analyses project ideas not only from the viewpoint of technical feasibility and financial viability but also evaluates the sum total effect which the project will have on the society and the immediate environment.

What is Project Formulation?

Project formulation is defined as *taking a first a look carefully and critically at a project idea by an entrepreneur to build up an all-round beneficial to project after carefully weighing its various components.* It is formulated by the entrepreneur with the assistance of specialists or consultants. Project formulation is, therefore, a process whereby the entrepreneur makes an objective and independent assessment of the various aspects of an investment proposition of a project idea for determining its total impact and also its liability. By all means, this strategy forms an important stage in the pre-investment phase — that is the period from the conception of an idea until the final analysis to decide about the future of a project idea. This makes it an analytical management aid. The aim of project formulation is to achieve the project objectives with the minimum expenditure and adequate resources. In other words, it is to derive maximum benefits from minimum expenses in a short span of time.

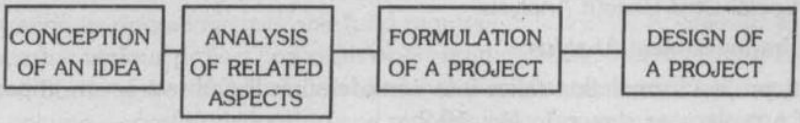


Fig. 19.1 Phases of Project Formulation

It is assessment of the feasibility of a proposal or a scheme of a borrower based on the examination of factors like the capacity of the unit or farm to produce, the repaying capacity generated by the funds asked for, the assets and liabilities and so on. These factors are technical, economic, managerial, financial, commercial, organisational and legal.

The project size is determined by taking into consideration factors like the area of operation, the types and levels of activities undertaken, the type and size of the organisation, amount of investment necessary and the time required for the completion of the activities contemplated under the project.

Steps in Project Formulation

As mentioned earlier, a project comprises a series of activities for achieving predetermined objective or set of objectives. In view of this, to begin with, the objective (s) of the project should be defined as precisely as possible. The objectives may be social, economic or a combination of both and they can be defined under the following categories:

(i) General objectives and

(ii) Operational objectives.

A *general objective* merely states in broad terms the achievements expected whereas an *operational objective* specifically mentions results expected from the implementation of the project or scheme. The definition of objective in clear terms helps in quantifying physical, financial, human and other resources requirements.

Following this, the next strategy concerns itself with the location and size of the project. The location of the project is influenced by the availability or existence of various resources and the infrastructural facilities. Examination of availability/existence of these resources/facilities at one or more sites should lead to a decision on the selection of the location of the project and thus facilitate exploitation of the available resources/ facilities to the advantage of the investor or the community at large or both.

Sequential Stages of Project Formulation

The process of project development has been categorised into seven distinct and sequential stages. They are:

1. Feasibility Analysis.
2. Techno-Economic Analysis.
3. Project Design and Network Analysis.
4. Input Analysis.
5. Financial Analysis.

6. Social Cost-Benefit Analysis.
7. Pre-Investment Analysis.

Thus, project formulation takes into consideration the above seven important aspects of a project, as shown in Fig. 19.2.

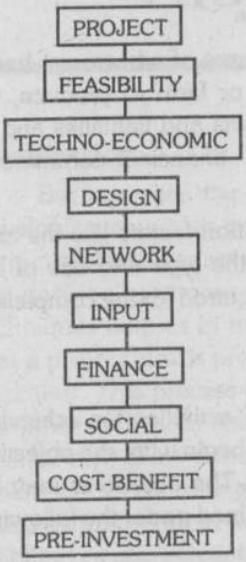


Fig. 19.2 Sequential Stages of Project Formulation

1. Feasibility Analysis: This is the very first stage in project formulation. At this stage, the project idea is examined from the point of view of whether to go in for a detailed investment proposal or not. As project idea is examined in the context of internal and external constraints three alternatives could be considered. First, the project idea seems to be feasible, second, the project idea is not a feasible one and third, unable to arrive at a conclusion for want of adequate data. If it is feasible, we proceed to the second step, if not feasible, we abandon the idea and if sufficient data are not available, we make more efforts to collect the required data and design development.

2. *Techno-Economic Analysis:* In this step, estimation of project demand potential and choice of optimal technology is made. As the project may produce goods or services, it is imperative to know the market for such goods or services produced. Market analysis is also in-built in this step. The choice of technology itself will be based on the demand potential and aid in project design. Techno-economic analysis gives the project a unique individuality and sets the stage for detailed design development.

3. *Project Design and Network Analysis:* This important step defines individual activities which constitute the project and their inter-relationship with each other. The sequence of events of the project is presented. A detailed work plan of the project is prepared with time allocation for each activity and presented in a network drawing. Project design is the heart of the project entity. This paves the way for detailed identification and qualification of the project inputs, an essential step in the development of the financial and cost-benefit profile of the project.

4. *Input Analysis:* The step assesses the input requirements during the construction of the project and also during the operation of the project. In the earlier step, a project was divided into several activities. Now it is better to see to the inputs required for each activity and sum it up to get at the total input requirements on qualitative and quantitative terms. Inputs include materials, human resources. Input analysis also considers the recurring as well as non-recurring resource requirements of the project and evaluate the feasibility of the project from the point of view of the availability of these resources. This will aid in assessing the project cost itself which in turn is necessary for financial analysis or cost-benefit analysis.

5. *Financial Analysis:* This stage mainly involves estimating the project costs, estimating its operating costs and fund requirements. Financial analysis also helps in comparing various project proposals on a common scale, thereby aiding the decision-maker. Some of the analytical tools used in financial analysis are discounted cash flow, cost-volume —profit relationship and ratio analysis. It is very essential to take caution in preparing financial estimates. The objective of this strategy caution is to develop the project taking into consideration resources and also to identify these characteristics. Investment decisions whether made for the provision of goods or services involve commitment of resources in future. Since investment proposition has a very long time-horizon, it is absolutely necessary to exercise due care and foresight in developing project financial forecasts.

6. *Cost-Benefit Analysis.* The overall worth of a project is the main consideration here. While financial analysis will go to justify a project from the profitability point of view, cost-benefit analysis will consider the project from the national viability point of view. Here again, the project design forms the basis of evaluation. When we talk of cost-benefit analysis, we not only take into account the apparent direct costs and direct benefits of the project but also the costs which all entities connected with the project have to bear and the benefits which will be enjoyed by all such entities. This strategy is now taken to be the internationally recognised system of project formulation.

7. *Pre-investment Analysis:* The project proposal gets a formal and final shape at this stage. All the results obtained in the above steps are consolidated and various conclusions arrived at to present a clear picture. At this stage, the project is presented in such a way that the project-sponsoring body, the project-implementing body and the external consulting agencies are able to decide whether to accept the proposal or not. The sum total of the pre-investment appraisal is to present the project idea in a form in which the project-sponsoring body, the project-implementing body can take an investment decision regarding the project.

Project Implementation

When a network design is prepared, the groundwork for the project implementation is said to be in existence. In preparing the network design, the Programme Evaluation Review Technique (EPERT) and Critical Path Method (CPM) are widely used. Briefly, it has already been mentioned that to develop the project design, there is a need to identify the project activities, determination of their interdependencies and the geographical representation of the activities in a logical sequence. This dimension will actually be the work plan for project implementation. The network design also gives time and resource requirement for each activity.

The network design so developed provides a monitoring aid and a controlling instrument. The design helps in avoiding unnecessary expenditure leading to optimal utilisation of resources. For any type of project, the PERT/CPM can be applied at the implementation stage. This network design when developed will help in completing the project in time. Even though if some activity is delayed, the project still has a chance of getting completed in time by utilising the staff, if available. This is an important technique of project management.

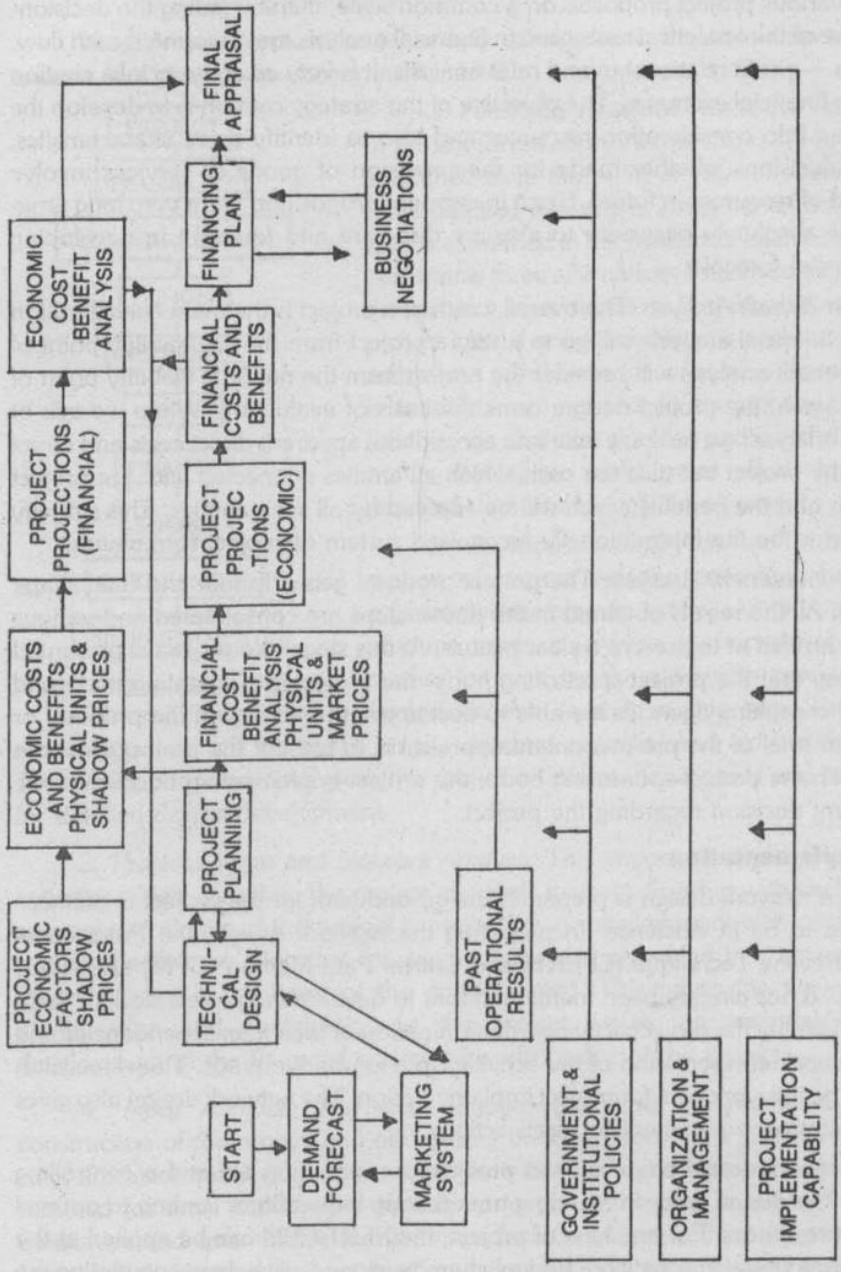


Fig. 19.3 Project Formulation Technique

Project Evaluation

Apart from looking into the financial viability of a project in terms of investment costs and benefits which accrue to the project directly, it is necessary to consider the total impact of the project on the economy of the nation. With a view to evaluate the project, the social cost-benefit analysis is used. Most of the data required for the analysis would have already been gathered in the earlier stages. Social cost-benefit analysis does not look as just an investment proposition. Whatever be the impact of the project on the nation, it is taken into account just as the existing equilibrium of the economy. In the cost-benefit analysis also, the extent to which the project will help the society to improve its image or profile is indicated.

All costs and benefits can be classified into three categories as *primary costs and benefits, secondary costs and benefits and tertiary costs and benefits.* Primary costs and benefits is a category which will be exclusively incurred and which will accrue to the project-implementing body respectively.

Secondary costs and benefits accrue to parties other than the project-implementing body. Most of the projects contribute to the national exchequer by way of direct or indirect taxes. Besides, a project has a direct impact on the community or the area of operation. This is what is called the spill-over effects and multiplier effect. Projects can also have an impact on individual welfare.

While primary and secondary costs and benefits are quantifiable, tertiary costs and benefits include all non-quantifiable spill-over and multiplier effects. Where the impact cannot be quantified, it is stated in descriptive terms. There are certain values which cannot be quantified at all.

Organisational Aspect

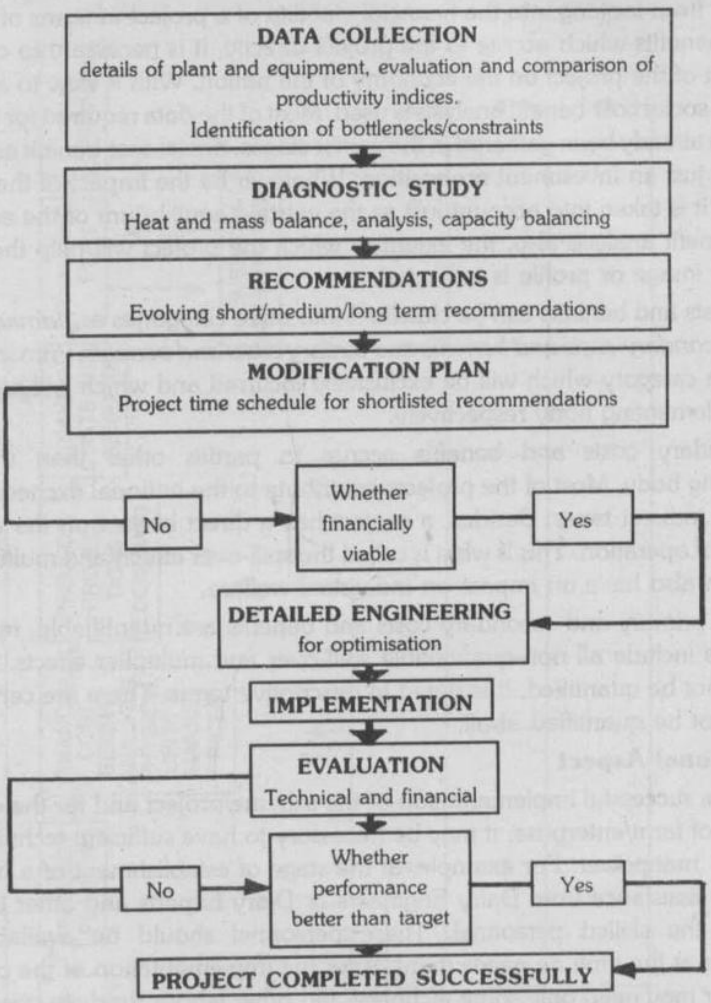
For the successful implementation of the scheme/project and for the day-to-day functioning of farm/enterprise, it may be necessary to have sufficient technical, skilled or unskilled manpower. For example, at the stage of establishment of a big dairy, it may call for assistance from Dairy Engineers or Dairy Experts and other technicians apart from the skilled personnel. These personnel should be available to the entrepreneur at the time he needs them. After the implementation of the project, the entrepreneur may need only some technical and other labour for daily operation and maintenance of the dairy.

Commercial Aspect

This involves the examination of the arrangements for buying or acquiring necessary inputs required for the implementation of the project as raw materials, labour, power, fertiliser, pesticides, etc. Adequacy and timeliness of the availability of these factors influence project implementation to a considerable extent. For example, in digging or deepening of wells, the non-availability of blasting material, bricks or cement may hold up the work of any length of time. In the case of dairy development, non-availability of improved breeds of cattle may hinder the progress of the scheme.

In the case of H.Y.variety crop cultivation, non-availability of improved seeds, fertilizers, etc. may prevent farmers from achieving optimum yields. Existence of suitable facilities for the marketing of the produce, market outlets and adequate demand should also be ensured.

APPROACH TO PROCESS OPTIMISATION AND MODERNISATION



While formulating the scheme, this factor should be examined carefully and the possibility of making the necessary arrangements to overcome any difficulty should be explored.

Legal Aspect

Adequate security for different types of loans should be made available to the banks as per their requirements. Legal problems relating to title deeds, land legislations, etc. that influence the decision with regard to the mortgage or hypothecation of assets or implementation of the project or scheme should be looked into in depth before the scheme or project is financed.

It may be mentioned here that everywhere all the requirements for the successful implementation of a project may not exist or be available. On examining the various

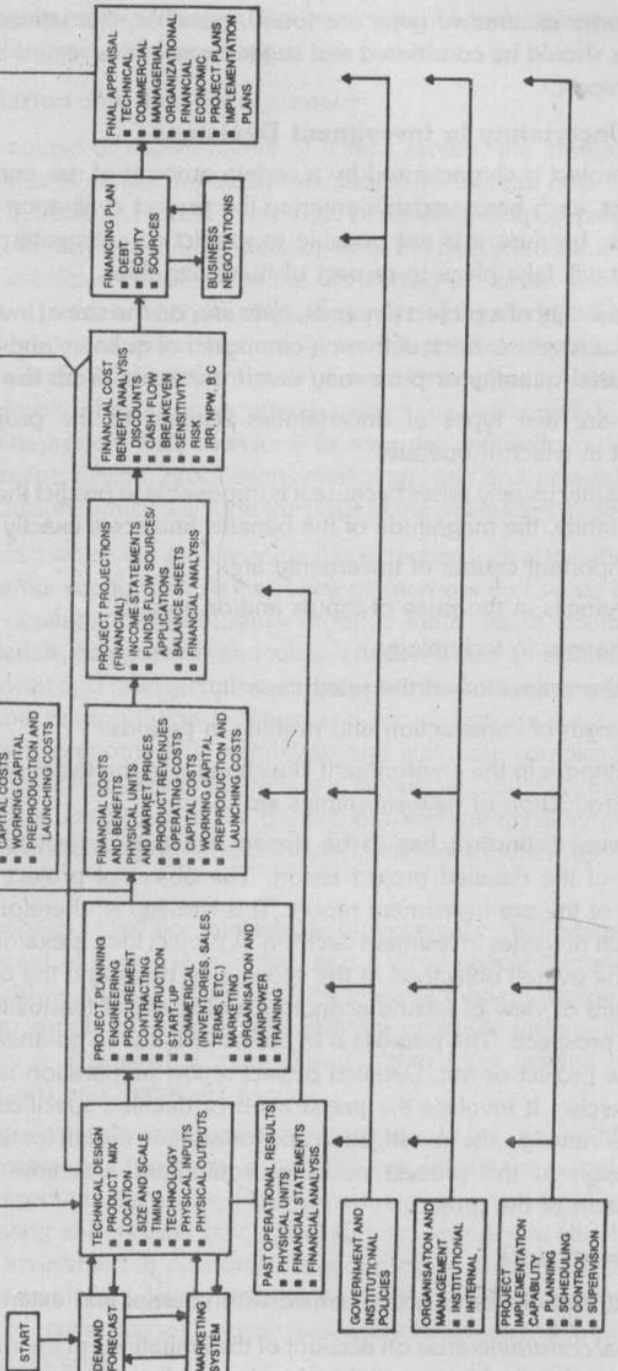


Fig. 19.4 Detailed Flowchart of the Project Formulation and Analysis Process

aspects, if some lacunae or gaps are found, possible alternatives of meeting these requirements should be considered and suggestions in this regard are incorporated in the project report.

Risk and Uncertainty in Investment Decisions

Each project is characterised by a certain amount of risk and uncertainty. As a matter of fact, each basic variable entering the project evaluation could be a source of uncertainty because it is not possible to predict or anticipate perfectly the future changes that will take place in respect of these variables.

The feasibility of a project depends, *inter alia*, on the size of investment, operating costs and sales revenue. Each of these is composed of quantity and price and a change in the estimated quantity or price may divert the actual from the estimated result.

There are two types of uncertainties relating to the project itself and the environment in which it operates.

Uncertainty usually arises because it is impossible to predict the different variables and consequently, the magnitude of the benefits and costs exactly as they will occur.

The important causes of uncertainty are:

(i) Changes in the price of inputs and/or outputs.

(ii) Changes in technology.

(iii) False estimation of the rated capacity.

(iv) Length of construction and running-in periods.

(v) Changes in the environment like changes in the tastes or preferences or the introduction of new substitutes etc.

However, distinction has to be drawn between project formulation and the preparation of the detailed project report. The object of project formulation is the preparation of the pre-investment report. This strategy is, therefore, an investigation process which precedes investment decision. A project idea is examined from the point of view of the overall objectives of the sponsoring body and the country as a whole, from the point of view of techno-economic and financial feasibility and of the social cost-benefit prospects. The purpose is to present whether a go-ahead signal should be given for the project or not. Detailed project report preparation is a post-investment decision exercise. It involves the preparation of detailed specifications and designs, engineering drawings, site investigation and foundation design for the project premises, detailed design of the process or other equipment and time schedules for the implementation of the project.

Project Constraints

Project formulation is accompanied with internal and external constraints.

Internal constraints arise on account of the limitations of the management system which will eventually be responsible for the implementation of a project. Inputs, resources and outputs are the three major elements of the structural aspects of an existing management system.

External constraints depend upon the environment which imposes limitations on the size, nature, location and the extent of the project.

Project Formulation and the Entrepreneur

During the course of establishment of a new project, the entrepreneur has to contend with a series of almost impossible situations. The spread of technology being sporadic, the first difficultly he faces is the matter of selection of appropriate technology for his enterprise. Modern technology developed in the highly industrialised countries does not suit the conditions available in the developing countries. The same applied to the optimal size of plants on account of the limitations of the market which is available for products. Present-day advanced technology being a product of economies that have a scarcity of labour and a relative abundance of capital is oriented towards heavy initial investment. Obviously, heavy investments cannot be sustained by developing countries. The entrepreneur has, therefore, to scan the entire chain of activities — research development, design, production, marketing, sale and post-sales service — and arrive at conclusions which will form the basis of the operations to plan his project.

The second fact which the entrepreneur has to reckon with is the absence or non-availability of external economies. As has been pointed out by Everett Hagen, every Western industry depends for its efficiency on other industries. It assumes the ready availability of materials, components and tools. It depends also on auxiliary enterprises for technical, financial and managerial services on demand, on a complex network of communication and transportation facilities, and on an intricate system of business practices. A Western economy is a technically and culturally complex, not a set of isolated pieces of technology. The entrepreneur in developing countries must, therefore, consider not only the basic costs of the project, but also the ancillary costs which in industrially advanced countries would have been contributed by the external economies.

The third problem is the non-availability of technically qualified and adequate personnel. The extent of expertise is limited and finding people to handle new jobs is extremely difficult. As Myrdal (1968) put it, the use of modern technology calls for a certain minimum supply of various skills that are generally lacking in developing countries. Not only is a somewhat more skilled labour force needed but a greater number of technicians and managers as well.

Resource mobilisation is the fourth major problem. In the context of present-day magnitude and complexity of projects, it is really very difficult for an entrepreneur to be in a position to provide the entire development capital which a project will need. The standard of living and income being already low, savings are also not available in abundance for investment in economic development in the developing countries. The capital market not being developed also does not provide enough relief. Under these circumstances, collection of enough resources to go ahead with the project assumes critical proportions.

Over and above the economic hurdles mentioned, the entrepreneur has to contend with a spate of government directives, licensing procedures, import and export policies, price controls, limits on expansion and a host of other formalities. It is obviously

hard task for any individual to be familiar with all the intricacies of these directives and procedures. Further, these directives, orders and instructions are also not available in a consolidated and detailed form in most of developing countries, with the result that a considerable amount of time is spent in sorting out these formalities. In India, the need for providing a hand-book incorporating all the relevant constraints and procedures has led to the publication of a compendium entitled *Guidelines for Industries.*

Project Profitability Projections

The results project evaluation depend upon the cost and profitability projections. A thorough examination is, therefore, made during the appraisal of the assumptions/ parameters on which the cost of production and profitability statements for future operating years have been based.

The objectives in the estimation of cost of production and profitability are primarily to assess —

- the capacity of the unit to amortise and service the borrowed funds;
- the earning capacity of the project;
- the capability to service the share capital; and
- the surplus available to finance future growth.

In estimating the cost of production, assessment is made of various inputs and also of production capacity build-up. Some of the aspects connected with the build-up of production capacity over the years are discussed below.

(i) Installed Capacity: The installed capacity of the entire plant is assessed in the first instance. For this purpose, it is necessary to furnish the rated capacity and the capacity guaranteed by the supplier for each equipment/section of the plant. The guaranteed capacities of the equipment are indicated in terms of physical quantities per unit of time. The installed capacity of the plant is determined by the capacity of that section of the plant which has the lowest capacity. The installed capacity need not necessarily be static throughout the existence of the plant. It may vary according to the changes in direct inputs, product-mix etc.

(ii) Capacity Utilisation: It may not be possible to fully utilise the capacity of the plant due to several factors. In some industries, a 100 per cent utilisation of capacity seems a distant dream even during the entire life of a project due to several constraints. The factors which, either singly or in combination with other factors restrict during the initial years a fuller utilisation of capacity are as under:

— teething problems in the plant and machinery;

— time taken in the development of a satisfactory product;

— development of operating skills;

— technological/process constraints;

— time taken for building the market.

The factors responsible for the low utilisation of capacity during the life of project after the initial problems have been overcome are as follows:

— technical constraints;
— market constraints;
— frequent changes in product-mix;
— inherent characteristics of the industry.

For deciding the build-up of production capacity over a period, the institutions collect the data of average capacity utilisation of the industry over the past few years and the capacity build-up achieved by similar units during the early stages of their operations.

(iii) Product-mix: Selection of a product-mix for computing future cost of production and profitability depends upon the demand projections. Given adequate demand for each product, the product-mix would generally depend upon the contribution of each product towards profitability and the adequacy of the plant and utilisation.

(iv) Selling Price: Abundant care is taken by financial institutions in fixing the selling price for the purpose of profitability projections. In the case of a new product which is not manufactured locally, the basis of assuming a selling price is the landed cost of a similar imported product. For products which are being manufactured in the country and whose price is controlled by the Government, the pricing pattern as laid down by the Government is adopted. In respect of products whose prices are not controlled, the current market price as also the price trends in the past are taken into consideration. In the case of variations in the current selling price, it is advisable to assume the lowest selling price.

Effluent Disposal

Process of effluent disposal entirely depends upon the analysis of effluents from the industry as also the rules and regulations laid down by the Government authorities in this regard. It may sometimes be necessary to obtain the analysis report of the effluents and the details of their treatment.

In terms of industrial licensing conditions, every industrial undertaking is required to take adequate steps as per the Government rules and regulations to prevent air, water and soil pollution. Further, such antipollution measures to be installed should conform to the effluent and emission standards prescribed by the State Government in which the industrial undertaking is to be located. The formulator would keep in mind the implications of the aforesaid provisions while evaluating the project.

Energy Conservation

The conservation of energy through better energy management is another area which is gaining importance amongst the institutions in view of its scarcity and its increasing demand.

In the case of appraisal of new projects, the following additional information regarding energy conservation is obtained and reviewed:

- Steps proposed to be taken for energy conservation. Whether the project envisages provision of any metering in main and sub-circuits, both electrical and steam or proposes to install any power factor correction equipment.

- Particulars of monitoring equipment envisaged for periodic detection and measurement of energy losses.
- Particulars of energy saving features in the main process plant and equipment.
- The projected energy input cost per unit of output and its comparison with other units in the same industry.
- Scope for use of solar/other renewable sources of energy.

The financial institutions also seek steam and energy plan diagrams as also the data relating to the total energy proposed to be generated/purchased and theoretical and expected requirements of energy in various production departments. The institutions examine whether any alternative process is available, and if so, the comparative energy consumption figures for the various processes are obtained and evaluated.

Utilisation of By-Products

In certain industries, proper and efficient utilisation/recovery of by-products constitutes a major factor for their economic viability and selection of process know-how. In some cases, the appraiser may insist on a pilot plant study with a view to ensure that a proper process is adopted for the optimal utilisation/recovery of by-products.

Choice of Technical Process

Technology refers to such modes of production as are not only technically sound and economically viable but are also suitable to local, social and cultural conditions and are in line with national goals and objectives. In respect of certain projects, there is hardly any choice in technology, while a wide variety of projects have options of many manufacturing technologies. Whenever such choice is available, a detailed examination and evaluation of all the processes already established and those under development is carried out. Some of the important aspects examined while deciding upon a particular manufacturing technology are as under:

- The technology should, as far as possible, be already established.
- If not already established, but expected to be advantageous, the degree of success is assessed and risks calculated.
- The technology should be based on indigenous raw materials and resources; if raw materials are not available indigenously, continuing availability of raw materials from imported sources in the light of Government legislation are examined in depth.
- The technology should be workable under local conditions, e.g., temperature, humidity, quality and availability of raw materials, availability of skilled labour, transportation, power, etc.
- The technology should be in tune with the national goals and objectives, e.g., employment potential vis-a-vis social responsibility for creating as much employment as possible, scope for ancillarisation, import substitution, export promotion, maintenance of ecological balance, etc.

- In selecting a particular technology, the risk of obsolescence and the scope for continuous updating of technology is examined and kept in view.
- Climatic conditions, nature and quality of the product as also the size of the project are invariably taken into account while adopting a particular process/ technology.

Where the process/technology proposed to be adopted is not well established, the following factors are examined:

- whether the technology/process is patented or not;
- degree of realiability of the proposed process;
- scale of development, i.e., whether laboratory scale, pilot plant scale, etc.;
- flexibility, i.e., whether the equipment for the process can be used for alternative processes/products.

It is possible that the effect of some of the above-mentioned factors might be found conflicting. In such cases, each process is separately evaluated keeping in view the effect of the various factors and the process with optimum advantages is selected. In certain fields, where technological progress has been rapid and new improved processes are being developed fast, the risk of obsolescence is also determined.

In order to expedite the examination of technological aspects, the borrower should be fully prepared with explanations for selecting a particular process, technology and its techno-economic advantages over other available processes. The borrower should also prepare process flow charts, material balance-sheet, requirement of utilities and specifications of process parameters.

Check List for Feasibility Report

1. Examination of public policy with respect to the industry.
2. Broad specifications of outputs and alternative techniques of production.
3. Listing and description of alternative locations.
4. Preliminary estimates of sales revenue, capital costs and operating costs of different alternatives.
5. Preliminary analysis of profitability for different alternatives.
6. Marketing analysis.
7. Specification of product pattern and product prices.
8. Raw material investigation and specification of sources of raw material supply.
9. Estimation of material energy, flow balance and input prices.
10. Listing of major equipment by type, size and cost.
11. Listing of auxiliary equipment by type, size and cost.
12. Specification of sources of supply for equipment and process know-how.
13. Specification of site and completion of necessary investigation.
14. Listing of buildings, structures and yard facilities by type, size and cost.

15. Specification of supply sources, connection costs and other costs for transportation services, water supply and power.
16. Preparation of lay-out.
17. Specification of skill-wise labour requirements and labour costs.
18. Estimation of working capital requirements.
19. Phasing of activities and expenditure during construction.
20. Analysis of profitability.
21. Determination of measures for combating environmental problems.
22. Analysis of the past performance of the enterprise responsible for implementing and running the project with respect to project completion, capacity utilisation and profitability.
23. State of preparedness to implement the project rapidly.

Planning Commission's Guidelines for Project Formulation/Feasibility Reports for Industrial Projects

In order to process investment proposals and arrive at investment decisions, the Planning Commission's guidelines for preparing/formulating industrial projects by preparing feasibility reports.

The feasibility report lies in between the project formulating stage and the appraisal and sanction stage. The project formulating stage involves the identification of investment options by the enterprise in consultation with the Administrative Ministry, the Planning Commission and other concerned authorities.

The guidelines have been summarised below:

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 projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plans in the industry, giving their capacity and level of production actually attained, a list of all projects for which letters of intent/licences 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 and its implications should also be looked into. An account of the foreign exchange requirement should 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 report should mention the technology/ process chosen for the project. Information relevant to determining the optimality of the location 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, land, air, flora and fauna, effects arising out of project's pollution, other environmental disruption, etc. The report should contain a list of important items of capital equipment and operational requirements of the plant, requirements of water and power 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 methods and the 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 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: This strategy 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 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 — that is 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 adjustment 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.

To assess major projects, the questionnaire Ministry of Technology, UK can be considered in the Indian context:

1. Would your project, if carried through, promise benefits to the community, and, if so, what are these benefits, how will they be distributed and to whom and when would they accrue?

2. What disadvantages would you expect might flow from your work? Who would experience them? What, if any, remedies would correct them? Is the technology for correcting them sufficiently advanced for the remedies to be available when the disadvantages begin to accrue?
3. What demands would the development of your project make upon your resources of skilled manpower and are these resources likely to be available?
4. Is there a cheaper, simpler and less sophisticated way of achieving at least part of the objective that you have in mind? If so, what would it be and what proportion of your total objective would have to be sacrificed if we adopted it?
5. What new skills would have to be acquired by people who would be called upon to use the product or project which you are recommending and how could these skills in application be created?
6. What skills would be rendered obsolete by the development you propose and how serious a problem would the obsolescence of these skills create for the people who had them?
7. Is the work upon which you are engaged being done or has it been done or has it been started and stopped in other parts of the world and what experience is available from abroad that might help us to assess our own proposal?
8. If what you propose is not done, what disadvantages or penalties you believe will accrue to the community and what alternative projects might be considered?
9. If your proposition is accepted, what other work in the form of a supporting system should be set in hand simultaneously, either to cope with the consequences of it, or to operate for the next stage and what would that next stage be?
10. If an initial decision to proceed is made, for how long will the option to stop remain open and how reversible will this decision be at progressive stages beyond that?

Conclusion

Project formulation is a key input of management aid. The process of project formulation involves a detailed study of the environment, weighing objectively the internal and external constraints and development of the project idea, stage by stage, into an investment proposition. The conclusion drawn at the end of each stage forms the basis of development of the next stage. At each stage, the entrepreneur/intrapreneur or a team of consultants have to look not only forward but also backward. The forward look is necessary to take the project formulation forward and the backward look is to re-check and if necessary, strengthen or modify the project on the basis of experience gained in the project formulation. Thus, project formulation is a significant link between project identification and project appraisal by financial institutions.

Thus, we find right from the time of conceiving of the profitable opportunity to converting the idea from the mind to the marketable product, many complications are involved. Therefore, an entrepreneur has to carefully study the various determinants which will ultimately result in the success or failure of the establishment of an industrial unit. During this period of time, the entrepreneur is expected to weigh each factor carefully and take decisions on the basis of the merits and the advantages of each factor so that the profitable opportunity conceived can be transformed into a reality with an appreciable degree of success.

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CHAPTER 20

PROJECT DESIGN AND NETWORK ANALYSIS

Introduction

The execution of a Project follows a definite path of planning, scheduling and controlling. The first and the foremost aspect of a project is the project design. It is in fact the heart of the project entity. It defines the individual activities which go into the corpus of the project and their interrelationship with each other. Project design enables to identify the flow of event which must take place for the successful implementation of the project.

Network techniques help the management of an organisation in performing these functions efficiently and effectively. Together they stand concerned with the development of the project work plan and the duration time — estimate and evaluation of these in the light of the constraints of the project situation.

The strategy selected as a result of the techno-economic analysis forms the initiation of the project design development. Briefly, project design is the framework of a project formulated with detailed sequences and develops an acceptable work plan for the project. It helps the entrepreneur to implement the project as scheduled without any hindrances.

The strategy is examined in detail and the details are utilised to compile the sequential nation of the constituent activities of the project. This compilation of the sequential narration is known as the Project Logic. When it is represented in the form of graphical pattern, it is known as a network.

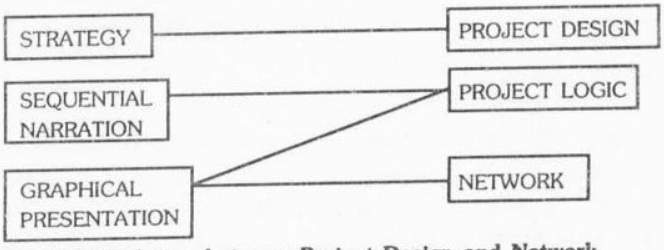


Fig. 20.1 Relation between Project Design and Network

Importance of Network Analysis

The network analysis has the potential of unfolding unknown snags involved in project estimates which, when detected, may provide management not only to improve on the ongoing project estimates but also to take serious lesson for future application. This would, of course, require seriousness and sincere application of different niceties of the technique of network analysis which require, among other things, that —

(a) The whole project should be considered with reference to the sequence of activities and events. Sequence here is not a mere mathematical problem. It underlines activities that are to follow one after another leading to an event.

(b) This would also require that the events should be thought of in different steams of operations and their relationship understood clearly.

(c) The whole project may be put on one network while different segments of the project may be detailed out in separate networks for final integration in the overall network. This would imply that no important detail of any operation in the project, from beginning to end, would miss the attention of the management.

(d) The time estimates may be made taking into view two discrete aspects: one projects in which previous experience does not exist at all and time estimates would have to be based on probabilities and two, time estimates may be deterministic, being based on previous experience of similar types of operations in different other projects.

(e) Cost estimates would depend on the project time estimates and the changes in the prices of different factors of production. In this specific context, mere provision of escalation clauses would not be enough. Inflationary changes would have to be attempted so that management may know for certain what slippage in time would mean in terms of cost. This is apart from efficiency variations — both favourable and unfavourable — depending on circumstances not quite foreseen at the time the estimates were made.

(f) The physical progress of the projects, individuality and simultaneity of events, jobs farmed out snags in different areas of project work would all require adequate notice and application of correctives in proper time. It is also possible that management may think it appropriate and economical to speed up completion of projects by what is known as 'crashing.' The concept of crashing is particularly relevant in view of the avoidance of huge constructive total loss that slippage, dilly-dallying or other factor may cause.

Origin of PERT and CPM

Incidentally, PERT, CPM and MOST are but three of some 40 different names given to network analysis. It is believed and underlined that network is a logical extension of the old Grant Bar Chart. PERT and CPM techniques were developed in the U.S. independently, while CPM came into focus about 1957 as an offshoot of collaboration between Du Pont and Remington Rand. While different distinctions are often ascribed to CPM and PERT, the basic distinction is perhaps that the emphasis

of CPM is essentially on the activities themselves, the costs associated with completion of each activity and optimum plan for the project as a whole. PERT, which was developed about 1958 as a result of collaboration between the Operational Research Division of the United States Navy and a firm of business consultants, had for emphasis the events rather than the activities leading to events. Most of the distinctions have, however, dissolved while both PERT and CPM underwent different measures for attaining perfection through their application as tools.

PERT was applied to help solve problems of producing the Polaris Missile system to a very tight schedule. Application of PERT has been based on probability estimates covering those pessimistic, those optimistic and those considered normal. In unique types of projects like the Polaris Missile, since previous experience in similar types of activities do not exist, probability calculations have occupied a significant place. However, considering that all these techniques concerned with planning and control of projects have network analysis as a common denominator, it is relevant to point out that MOST emphasises more on building up of Gantt type charts covering each activity, event, time, cost, projects farming out, employment of different classes of managers and workers, procurement of materials, deployment of materials relating to the completion of the project. Unlike PERT and CPM diagrams, MOST diagrams actually begin at the end of the project, working back towards the start of the activities. Instead of 'beginning to end' emphasis in PERT and CPM, in MOST the emphasis is on 'end to beginning.' One advantage of MOST diagrams is that it can be converted into PERT-CPM type diagram depending on the requirements of management.

Network

A network comprises a set of exponents connected with each other in a sequential relationship with each step till the completion of a project.

Network analysis is a system which plans both large and small projects by analysing the project activities. Projects are broken down into simple activities, which are then arranged in a logical sequence. It is also decided as to which task will be performed simultaneously and which others sequentially. A network diagram constructed below presents the relationship between all the activities involved (see Fig. 20.2). Time, costs and other resources are allocated to different activities.

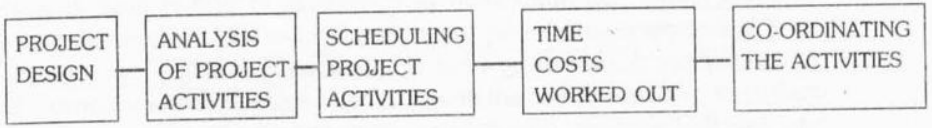


Fig. 20.2 Network Design

Network Techniques

In a project, there may be two categories of jobs or activities — which can be taken up concurrently and which can be taken up only after completing some other activities — either completely or partially. Hence, in a bar chart, some of the bars may run parallel or overlap each other time-wise while some may run serially. The scheduling of construction and identification of potential causes of delay form an important part of a project appraisal. Timing and sequencing of various activities

involved in project implantation are reviewed, keeping in view the conditions regrading the availability of construction materials, labour, procurement and delivery periods of plant and machinery, erection and commission, start-up and trial-runs, training of staff, etc. The implementation schedule also takes into account seasonal and other variations in working conditions which might interfere with the implementation of the project. Several techniques of project scheduling and control such as Bar Charts, Programme Evaluation and Review Techniques (PERT), Critical Path Method (CPM) etc. are used.

Of these CPM have come to be widely used in project management as they are very useful in the basic management functions of planning, scheduling and control. These techniques can be applied in diverse kinds of projects like construction of a building or a highway, planning and launching of new product, large maintenance projects, scheduling ship construction and repairs, end-of-the month closing of accounts, large, research projects, etc.

Need for Network Techniques

Network analysis helps in designing, planning, coordinating, controlling and decision-making in order to accomplish the project economically in the minimum available time with the limited available resources. Network techniques were developed from the Milestone Chart and Bar Chart. These conventional planning methods, because of their inherent limitations, could not be utilised for planning large and complex projects. They had the following disadvantages:

(a) A bar chart becomes too cumbersome while dealing with big and complex projects when the activities are to be considered in detail and their interaction or interdependencies are to be studies clearly.

(b) A bar chart does not point out which tasks should be given priority as regards resources (i.e., men, money, materials and machinery).

(c) The effects of changes in schedule cannot be evaluated with the help of a bar chart.

(d) A bar chart neither satisfactorily tells the time at which the activities begin and end nor does it indicate tolerances in activity timings.

The functions of planning, organising, directing and controlling are essential to very enterprise regardless of the type, size, purpose, or complexity of the operation. Techniques, of course, vary because they must be adapted to and appropriate for each individual firm and its own circumstances. PERT is one of the management techniques which is considerably more useful to some managers than to others. It is of the tested tools of management in industrially-developed countries.

It works a method of minimising production delays, inerruptions, and conflicts; of co-ordinating and synchronising the various parts of the overall job; and of expediting the completion of projects towards scheduling and budgeting resources so as to accomplish a predetermined job. It is a communication facility in that it can report developments and keep the managers posted and informed.

PERT is concerned with two concepts:

1. *Events:* An event is a specific accomplishment that occurs at a recognisable point of time and does not call for either the need of time or resources.

2. *Activities:* An activity is the work required to complete a specific event.

In PERT, the activities, the events, require time, money, and resources for its completion. In this sense, H.L. Gantt was quite right in referring to his events as milestones.

H.L. Gantt, a contemporary of the Father of Scientific Management, F.W. Taylor, developed the GANTT Chart. He called it "Gantt Milestone Chart." This chart depicts work to be done, but what is more important, it also denotes thew interrelationships between and among all phases of the work. Fig. 20.3 illustrates one of Gantt's milestone charts.

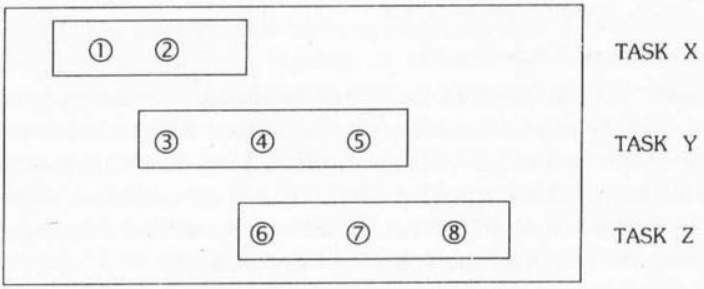


Fig. 20.3 Gantt Milestone Chart

Each of the circles (milestones) represent the accomplishment of a specific phase of the total undertaking, and, of course, each of the rectangles represents a task. The three rectangles taken represent the entire project.

Steps in PERT

The first step in the development of a PERT network is the establishment of objectives. There will be a major objectives to be accomplished, linked by supporting objectives. When these are identified, they must be linked together so as to enable to planner to see the project in its true perspective and also see the relationships between and among all the steps. The second step is to schedule work breakdown in great detail. In the third step, both technical and managerial persons should begin to work together. The fourth step is that each person who participates in the application of PERT to the control of the project should have some basic familiarity with the general nature of the work and with the ultimate objective desired.

Some authors have also indicated the following steps involved in PERT analysis:

1. Development of project network.
2. Time estimation.
3. Determination of critical path, event slacks, and activity floats.
4. Development of project schedule.
5. Calculation of variability duration and the probability of completion in a given time.

PERT deals with the problem of uncertain activity time by the application of statistical analysis to the determination of estimated time for each activity of the project. This technique, as a manager's tool, defines and coordinates what must be done to successfully accomplish the objectives of a project on time. It aids the decision-maker but does not make decisions for him.

In PERT, time is the basic measure. It is usually expressed in calendar weeks the project should be completed within the stipulated optimistic time.

In order to arrive at the most reliable estimate of time, three time estimates are usually employed under this technique as given below:

(i) The optimistic time: It is the shortest time possible if everything goes perfectly well with no complications, the chance of this optimum actually occurring might be one in a hundred;

(ii) the pessimistic time: It is longest time conceivable; it includes time for unusual delays and thus the chance of its happening might be only one in a hundred;

(iii) The most likely time: It would be the best estimate of what normally would occur.

The differences in these three times give a measure of the relative uncertainty involved in the activity.

Advantages of PERT

(a) This technique gives the management the ability to plan the best possible use of resources to achieve a given goal within the overall time and cost limitations.

(b) It helps management to handle the uncertainties involved in programmes where no standard time data of the Taylor-Gantt variety are available.

(c) It presses for the right action, at the right point, and at that right time in the organisation.

Limitations of PERT

(a) The basic difficulty comes in the way of time estimates for the completion of activities because activities are of non-repetitive type.

(b) This technique does not consider resources required at various stages of the project.

(c) Use of this technique for active control of a project requires frequent updating and revising the PERT calculations and this proves quite a costly affair.

Critical Path Method (CPM)

Next to PERT, the CPM for planning and controlling projects has enjoyed the widest use among all the systems that follow the networking principles. CPM was developed in 1956 at the E.I. Dupont Nemours & Co., U.S.A., in connection with the periodic overhauling and maintenance of a chemical plant. It resulted in reducing the shut-down period from 130 hours to 90 hours and saving hours and saving the company $1 million. CPM has two time-cost estimates for each activity (one time-cost

estimate for the normal situation and the other estimate for the crash situation) but does not incorporate any statistical analysis in determining such time estimates. CPM operates on the assumption that there is a precise known time that each activity in the project will take.

Advantages of CPM

Besides being applicable to schedule large and small projects it has some of the important advantages listed below:

(a) It helps in ascertaining the time schedule.

(b) With its aid, control by the management is made easy.

(c) It makes better and detailed planning possible.

(d) It provides a standard method for communicating project plans, schedules, time and cost performance.

(e). It identifies the most critical elements and thus more attention can be paid to these activities.

Limitations of CPM

(a) CPM fails to incorporate statistical analysis in determining the time estimates.

(b) It operates on the assumption that there is a precise known time that each activity in the project will take but this may not be true in actual life.

(c) It is difficult to use CPM as a controlling device for the simple reason that one must repeat the entire evaluation of the project each time when changes are introduced into the network. It may be remembered that CPM was initially developed as a static planning model and not as a dynamic controlling device.

Differences between PERT and CPM

Though the fundamental network of PERT and CPM are identical, yet there are certain differences in details as listed in Chart I.

Application of Network Analysis

For the purpose of application of PERT/CPM, a project is conceived as a collection in independent activities of *jobs*. If one job has to be completed before another can begin, the first job is described as an *immediate predecessor* of the job following or in other words, the latter is an *immediate successor* of the former.

Two types of graphs are used in PERT/CPM. They are:

(i) Activity on the Arrow (AOA) system.

(ii) Activity on Node (AON) system.

In the AOA system, or the Arrow Diagram Method, an activity is graphically represented by an arrow. The tail end of the arrow represents the start and the head represents the end of an activity. The description of the activity is written alongside the arrow. In Fig. 20.5 for example, *a* and *b* describe activities. (For example, in building construction, *a* may be used to denote an activity like excavation and *b* to denote concreting). Alternatively, the activity can be denoted by the numbers of the

nodes. For example, activity can be denoted by the numbers of the nodes. For example, activity *a* can also be denoted as (1, 2) and activity *b* as (2, 3).

CHART I

PERT	*CPM*
1. The origin is military (naval).	The origin is industrial.
2. It is an event-oriented approach.	It is an activity-oriented system.
3. There is allowance for uncertainty.	No such allowance.
4. It has three time estimates.	There is only one single estimate of time and the emphasis in on cost.
5. It is probabilistic model with uncertainty in activity duration.	It is a deterministic model with well-known activity (single) time based upon past experience.
6. It does not demarcate between critical and non-critical activities.	It marks critical activities.
7. It is especially suitable when high precision is required in time estimates, e.g., defence projects.	It is suitable when reasonable precision is required, e.g., civil construction projects, industrial expansion schemes, etc.
8. Time is averaged.	No averaging of time is involved.
9. The concept of 'crashing' is not applied.	The concept of crashing is applied.
10. It lays emphasis on reduction of the execution time of the project without too much cost implications. It is time-based.	It lay emphasis on the greatest reduction in completion time with the least increase in project cost. It is cost-based,

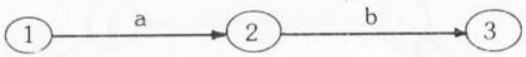


Fig. 20.4 AOA System

An *activity* is the actual performance of a task and it consumes time and resources. An *event* is the start or completion of a task and does not consume time or resources. For example, machine installation is an activity whereas the start of machine installation is an event. Similarly, completion of machine installation is an event.

The length of the arrow in a network diagram does not bear any relationship to the time which the activity takes or the resources which the activity consumes. The direction of the arrow indicates the direction of the work flow. The usual practice is to go from left to right.

All events must be numbered. The same number cannot be used for more than one event.

In the AON system, activities are represented by circles or nodes and arrows are used to show only the dependency relationship between the activity nodes (see Fig. 20.6).

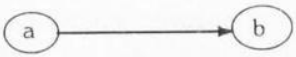


Fig. 20.5 AON

In the AOA diagram, the time required for an activity is indicated alongside the arrow and in the AON diagram, the time is indicated in the circle. For example, if activity

a requires 10 days and *b* requires 12 days, they may be indicated as shown in Fig. 20.7 and Fig. 20.8.

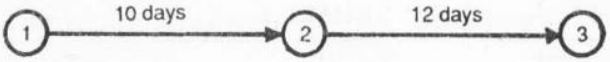


Fig. 20.6 AOA showing time required for activity

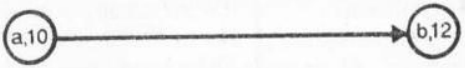


Fig. 20.7 AON showing time required for activity

It becomes necessary to introduce *dummy job (s)* in constructing the network diagram if two or more activities in the project have identical immediate predecessors and successors or if two or more jobs have some, but not all, of their immediate predecessors in common. A dummy is an artificial activity introduced in a network to maintain a unique numbering system for the different activities and to keep the logical sequence of activities and their interrelationships correct. A dummy job takes zero to perform and is used solely to illustrate precedence relationship.

Fig. 20.9 illustrate the use of dummy jobs. Activity *b* is a common immediate predecessor of both *d* and *c*, while *a* is an immediate predecessor of *d* alone, and *c* is one of *e*. Hence two dummy jobs *f* and *g* are introduced to indicate the precedence relationship.

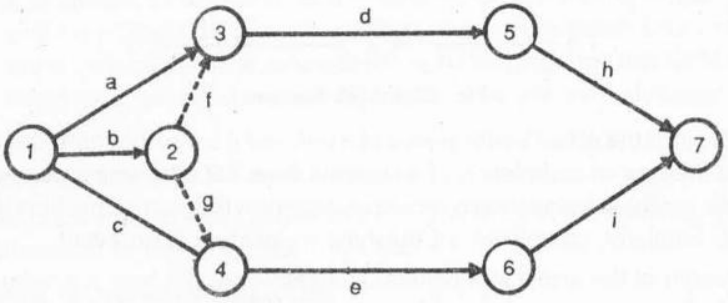


Fig. 20.8 CPM showing dummy activities

To illustrate the CPM technique, let us take a very simple example of a small research project. The project is decomposed into the following activities, viz., preparation of the questionnaire for consumer survey, preparation of the questionnaire for dealer survey, and processing and interpretation of the data collected by the dealer survey, processing and interpretation of the data collected by the dealer survey, processing and interpretation of the data collected by the consumer survey. This is represented on Fig. 20.10.

Job identification	*Job description*	*Immediate predecessor*	*Time required to perform the job*
a	Preparation of dealer questionnaire	—	10 days
b	Preparation of consumer questionnaire	—	10 days
c	Dealer survey	a	20 days
d	Consumer survey	b	60 days
e	Processing and interpretation of dealer survey data	c	10 days
f	Processing and interpretation of data	d	30 days

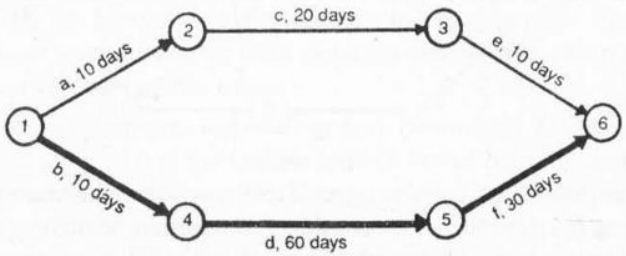


Fig. 20.9 Critical path

Critical Path

The critical path is the longest path in a project network.

A path is a set of nodes connected by arrows beginning at the initial node of a network and ending at the terminal node. In Fig. 20.11, there are two paths: 1-2-3-6 and 1-4-5-6 where the numbers refer to nodes. The length of a path in the network is the total time it takes to travel the path. This time is calculated by adding the individual times between the connected nodes on the path.

The longest path in the network diagram here is the one connecting nodes 1-4-5-6 because it takes 100 days compared to the path connecting nodes 1-2-3-6 which takes only 40 days. The job on the critical path are critical in determining the project's duration and hence they are called critical jobs or critical activities. The critical path is represented by thick lines. Alternatively, it may be represented by double lines.

It is clear that even if the preparation of dealer questionnaire, dealer survey and the processing of the dealer survey data are delayed by a total of 60 days, the total duration of the project will not be affected. This extent of delay that can be caused to jobs on the non-critical path without affecting the total duration of the project is known as *slack*. In our example, the *slack* is 60 days.

The concept of critical path makes it clear that if we want to reduce the total duration of a project, we should be able to reduce the time taken by activities on the critical path. For example, if we want to complete the research project of our example earlier, we have to reduce the time taken by any one or more of the activities on the

critical path (b, d and f). For example, we may reduce the time for the consumer survey by increasing the number of people employed for this purpose. Similarly, the data processing may also be done quickly.

Management Information System

A Management Information System (MIS) is a collection of data processing equipment, procedures, software, and people that integrates the sub-systems of the organisation and provides the needed information in time for efficient managerial decision-making to discharge the managerial functions promptly and efficiently.

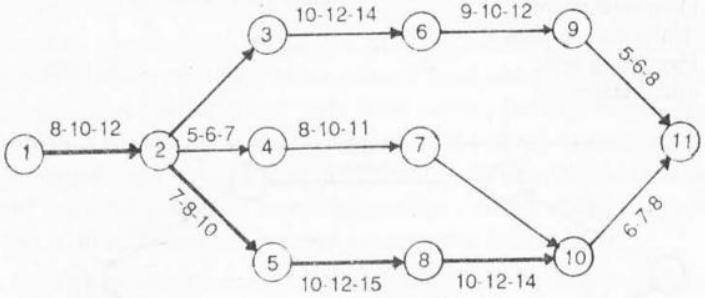


Fig. 20. 10

An efficient MIS plays a very important role in enabling the managers to efficiently perform managerial functions like planning, organising, directing and controlling. Adequate and up-to-date information is an essential input for all these functions. The MIS, therefore, is a prerequisite for efficient management.

The benefits

Network analysis underlines several benefits. The important ones are:

(i) It ensures early and logical planning of the whole project, in terms of both aggregates and disaggregates.

(ii) It puts into perspective the full interrelationship of all activities concerned in the project.

(iii) It monitors the progress of the project to its completion date. Initial planning of projects through network analysis would underline which jobs control the rate of progress and which jobs have time to spare. The controlling jobs are, in fact, the critical jobs or 'key jobs.' Any delay in completing these jobs would hold up the rest of the project while any reduction in time on these jobs can reduce the overall time of the project. The sequence of jobs which require the longest time to complete makes up the critical path.

Determination of the critical path assesses management in focussing attention on the critical jobs, so that they remain on schedule. Naturally, critical jobs would be a relatively small percentage of the total jobs and would call for managerial alacrity so that project completion time does not suffer. Depending on the nature of the project and the criticality of the completion time, management may either slow down or speed up different segments of the project so that activities and events remain in consonance to one another.

Reduction of the overall project time may involve selective increase in direct costs, as a result of crashing. However, such increase would be more than compensated by project completion on date or even ahead of schedule. Network analysis helps management to know and judge alternative ways of optimisation of direct and indirect costs for giving the minimum total cost.

This is particularly important in view of the fact that in many of the Indian public sector projects, expenditure during construction has shot up several times more than the original project estimates due to various factors.

Conclusion

Project design and network analysis are effective tools of management to achieve the objectives of the project. Network analysis could raise timely warning or management of the manufacturing units and efforts could have been made on that basis to persuade buyers to settle dues promptly. It is thus possible for management to pinpoint issues on the basis of network analysis to sort them out. The case study suggests that network analysis can provide radarlike sensitivities, raising signals and indicating directions for managerial action.

The functions of planning, scheduling and controlling are essential to an organisation for execution of a project. Network techniques help the management of the organisation in performing all these functions more efficiently. Indian entrepreneurs have been considered to the extent desirable, similar modern and precise project scheduling techniques like PERT and CPM in drawing up the implementation schedule. The schedule of construction furnished by the promoters of the project in most cases simply indicate the period within which major items of project implementation like acquisition of land and site preparation, commencement and completion of civil construction, placing of orders and delivery of imported and indigenous machinery and commencement of commercial production are expected to be completed. The above schedule neither provides indication of relationship between the various operations nor does it show the extent to which delays in a particular operation would affect the remainder of the project duration time in the comparative appraisal of project ideas. Both the techniques discussed are complementary and beneficial in implementing the project. While PERT is time-based, CPM cost-based. An integrated and co-ordinated technique of PERT and CPM will enable the completion of the project in an optimistic time at a reduced cost. The entrepreneur has to master these techniques in achieving his main objectives. These techniques need to be sharpened and appropriately used in project implementation.



CHAPTER 21

PROJECT REPORT

Introduction

Soon after the identification of a project and its implementation, the project report is formulated after examining various relevant aspects. Usually, the entrepreneur gets a project report prepared before a project or investment is undertaken. That project report prepared before a project of investment is undertaken. That project report assesses the demand of the proposed product to be produced, works out the costs of investment as well as operational costs and thus estimates the expected profitability of the proposed investment. It is on this basis that not only the entrepreneur takes his decision on whether to proceed on the proposed project, but also financial backers, banks and state departments involved in the project base their decisions on the ways and the extent to which the help should be provided. If the entrepreneur has to go to the money market to raise some risk capital for his venture, the project report may serve as his main instrument in convincing the investors about the profitability of his venture.

In fact, the state financing and nationalised banks in India over the years have been insisting on first getting such a project report from the entrepreneur before taking any action on his application for financial and other support. This strategy has been in operation for several decades. However, the number of the closing down of comparatively new businesses, and the emergence of large number of 'sick' mills give a cause of concern about the strategies adopted at the time of project appraisal. These issues not only adversely affect the involved entrepreneurs, but also the financing institutions. Thus it is not only a serious setback to the budding entrepreneurs of a newly developing country; it wastes the scarce investable funds of the nation, and as the banks have to break-even, this situation hikes up the real interest rate in the economy, making development costly.

A Project Report

A project report incorporating relevant data in respect of a project serves as a guide to management and records merits and demerits in allocating resources to

production of specific goods or services. A project report is prepared for analysing the extent of opportunities in the contemplated project.

A project report is prepared by an expert after detailed study and analysis of the various aspects of a project. It gives a complete analysis of the inputs and outputs of the project. It enables the entrepreneur to understand, at the initial stage, whether the project is sound on technical, commercial, financial and economic parameters.

Parties Interested in Project Report

Financial institutions and commercial bankers are the interested parties in the project report which is prepared for direct submission to financial corporations, banks for getting loans. It does not contribute substantially to future operations.

The entrepreneur gets the report prepared by a consultant. As such, these parties providing term loans go for the report because it spells out how production should be organised to yield maximum results.

Scope

Project report includes information on the following aspects.

1. *Economic Aspects:* The project report should be able to present economic justification for investment. It should present analysis of the market for the product to be manufactured. Market analysis basically pertains to the following issues: *(a)* How big is the present market? *(b)* How much is it likely to grow? *(c)* How much of the future market the proposed project can capture after allowing a margin for future entrants? It provides an analysis of the economics of production.

2. *Technical Aspects:* The appropriate report should give details about the technology needed, equipments and machinery required and the sources of availability.

3. *Financial Aspects:* The report should indicate the total investment required including sources of finance and the entrepreneur's contribution. It should present a comparison of cost of capital with the return on capital.

4. *Production Aspects:* It should contain a description of the product selected for manufacture and the reasons for such selection. The report should also bring out the fact whether the product is exportworthy. It should also give details of the design of the product.

5. *Managerial Aspects:* The report should contain qualifications and experience of the persons to be put on the management of the job. If the entrepreneur will look after management, the report must emphasise as to how he is qualified to manage the venture.

Feasibility Reports Setting

A feasibility report or a project report of a new enterprise or of an expansion provides, in general, primary economic information, financial data and technical details which serve a finite number of discrete economic processes or cost structures of the industry concerned. Here, the economic processes are defined as combinations of vectors of material inputs and fuels (distinguished by supplying sectors), labour (by types and skills), capital (by types of function and capacities of categories), permitting different levels of output with varying costs of production but subject to the constraint

of industrial capacities of the enterprise. The *"industrial profile"* is a similar document which also presents a brief history and technical descriptions of processes in terms of technical inputs coefficients for small-scale or medium or large scale manufactures. Given these details, an entrepreneur is concerned with the local market prices and relative prices of substitutes and complements as to guide decision-making for sales and purchases; and to enable to compute and check for profitability (social or private) of the enterprise expansion or of a new plant.

A researcher is, however, concerned with the computation of input, capital and labour vectors, based on the generally available contents of the project report. Further, he examines from the report three aspects: *(i)* Preparation of a number of possible alternative solutions to attain a production target; *(ii)* Comparison of the alternatives and final selection of them; *(iii)* Implementation of the project and scope for economies of scale.

A number of possible alternative solutions of attaining a production target is the result of studying available production techniques, of which choice for the best, singly or in combination can be made. For comparison of alternative solutions among a number of feasible alternatives to the project, a criterion has to be chosen to achieve substantial rate of return with a unique solution, sufficiently profitable to justify the decision to carry on the enterprise. However, the search for such a choice depends on a number of studies of the individual projects or of their combinations.

Tabular data which would appear in the feasibility reports and be of considerable use for estimation and refinement, of input-out coefficients, capital coefficients and labour coefficients vectors of the different processes or sectors are available for reference in Fig. 21.1.

The feasibility report should contain the following details: *(a)* promoters (s) of the project, *(b)* products(s) of the project, *(c)* the level of output, *(d)* the raw materials used and the sources of supply, *(e)* the technical production method selected and the location of the plant, *(f)* the total cost of the project (in local currency and foreign currencies), *(g)* the proposed method of financing (proportions of the various sources of capital) and legal structure of the future enterprise, *(h)* the unit cost of the manufacture compared to those at FOB or CIF prices, *(i)* the size of the market (and the expected trading profits), *(j)* the effects of the projects on the economy, public finances and the labour market, *(k)* the existence of the market: trend of demand, the structure of competing firms and the proposed methods of distribution, trends in imports, exports, income, prices, local producers etc. *(l)* possibility of producing at reasonable cost, alternative methods and brief reasons for selecting, *(m)* initial costs and costs of conversion: *(i)* investment costs and *(ii)* operating costs, *(n)* commercial profitability to ensure repayment of loans and a return on capital investment, *(o)* general information.

Contents of a Project Report

The following are the contents of a project report:

1. Objective and scope of the report.
2. Product characteristics (specifications, product uses and application, standards and quality).

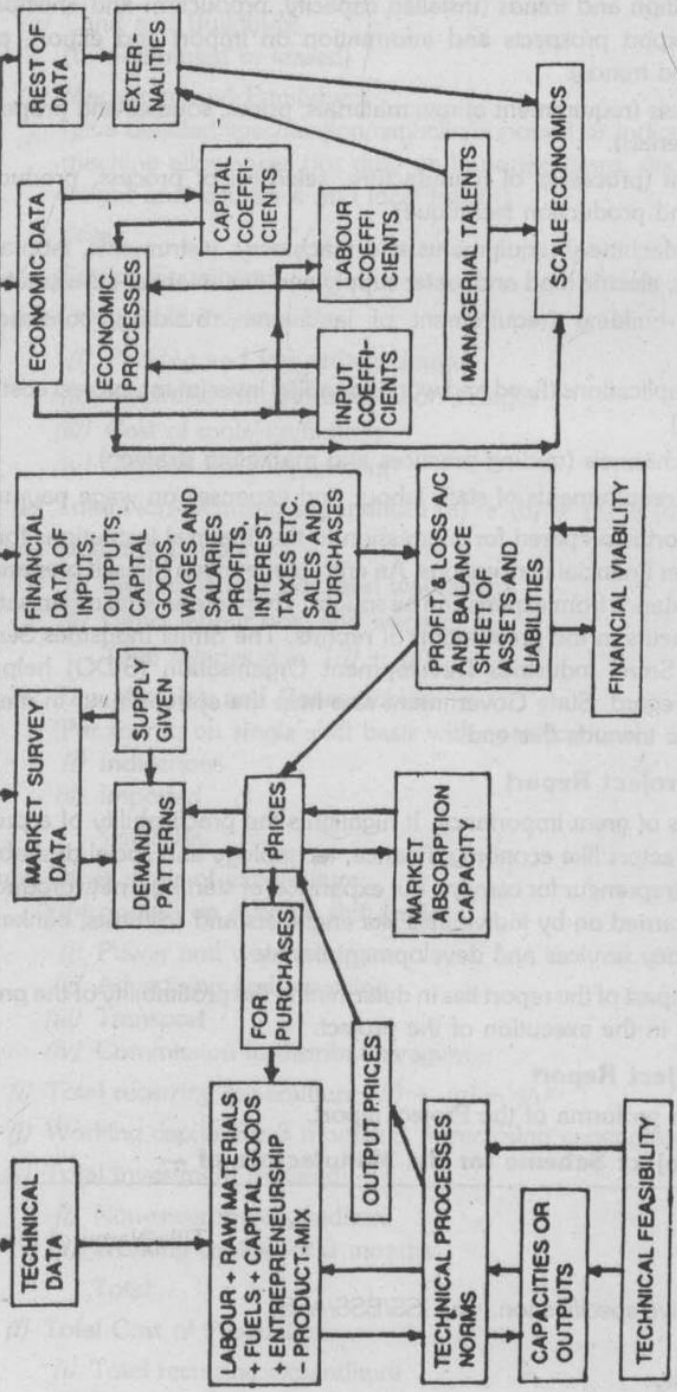


Fig. 21.1 Industry Profile and Feasibility Study Report

3. Market position and trends (installed capacity, production and anticipated demand, export prospects and information on import and export, price structure and trends).
4. Raw materials (requirement of raw materials, prices, sources and properties of raw materials).
5. Manufacture (processes of manufacture, selection of process, production schedule and production technique).
6. Plant and Machinery (equipments and machinery, instruments, laboratory equipments, electric load and water supply and the essential infrastructure).
7. Land and building (requirement of land area, building, construction schedule).
8. Financial implications (fixed and working capital investment, project cost and profitability).
9. Marketing channels (trading practices and marketing strategy).
10. Personnel (requirements of staff, labour and expenses on wage payment).

The project report is prepared for submission to the financial institutions for the grant of land and other financial concessions. An entrepreneur can himself prepare the report, otherwise assistance from experts can be sought. There are several organisations which help entrepreneurs in the preparation of reports. The Small Industries Service Institute (SISI) and Small Industries Development Organisation (SIDO) help the entrepreneur in this regard. State Government also help the entrepreneur in matters of financial assistance towards this end.

Importance of a Project Report

Project report is of great importance. It highlights the practicability of a project in terms of different factors like economy, finance, technology and social desirability. It is needed by the entrepreneur for carrying out expansion or starting a new production line. These may be carried on by individuals like engineers and scientists, bankers or institutions, consultancy services and development banks.

An important aspect of the report lies in determining the profitability of the project and minimising risks in the execution of the project.

Proforma of a Project Report

We give here a proforma of the Project report.

Proforma for a Project Scheme for the Manufacture of —

1. Introduction Title/Name of the firm

(a) Scope
(b) Product (give specification, viz., ISS/BSS/ASS)
(c) Process
(d) Marketability
(e) Location
(f) Sources of finance/repayment schedule.

2. Scheme

(a) Land and Buildings: Rs.
(owned/rented or leased)

(b) Machinery and Equipment Rs.
(give detailed specification/capacity/imported or indigenous). For imported machine allowances (for duty on imported items, dock clearance charges, freight and insurance and local freight) Rs.

Total: Rs.

(c) Testing Equipment Rs.

(d) Other fixed investments:

(i) Packing and forwarding charges Rs.
(ii) Electrification and installation charges Rs.
(iii) Cost of tools/jigs/fixtures Rs.
(iv) Cost of office equipment Rs.

(e) Total Non-recurring expenditure (a) + (b) + (c) + (d) Rs.

(f) Staff and Labour: Rs.
(i) Indirect labour nos. and wages/p.m. Rs.
(ii) Direct labour nos. and wages/p.m. Rs.
Total salaries p.m. [*(i)* + *(ii)*] Rs.

(g) Raw Materials and Consumables: Rs.
(Per month on single shift basis with specifications)
(i) Indigenous Rs.
(ii) Imported Rs.
Total: Rs.

(h) Other items of expenditure: Rs.
(Per month on a single shift basis)
(i) Power and water charges Rs.
(ii) Advertising and travelling Rs.
(iii) Transport Rs.
(iv) Commission to distributors/agents Rs.

(i) Total recurring expenditure: *(f)* + *(g)* + *(h)* Rs.

(j) Working capital for 3 months 3 × recurring expenditure Rs.

(k) Total Investment required:
(i) Non-recurring expenditure Rs.
(ii) Working capital for 3 months Rs.
Total: Rs.

(l) Total Cost of Production:
(i) Total recurring expenditure Rs.
(ii) Depreciation on machinery and equipment Rs.
(iii) Depreciation on building Rs.

(iv) Maintenance charges — Rs.
(v) Interest on total investment — Rs.
(vi) Welfare for staff — Rs.
(vii) Office stationery and postage, etc. — Rs.
Total: — Rs.

(m) Profit and Loss Account:
(i) By sale of... (qty.) of ... @ Rs. ex-factory exclusive of applicable taxes — Rs.
(ii) Cost of production (1) — Rs.
(iii) Profit *(i)* – *(ii)* Approx. percentage of the total capital employed — Rs.
Total: — Rs.

3. Profitability and Projections

(generally for about 5 to 10 years)
Phase of activity
Profitability of phases

4. Infrastructure

(i) Locational advantage
(ii) Availability of material/power/water/labour
(iii) Government policy — Rs.

Break-Even Point

(i) Fixed Costs: (Executive salaries/depreciation/rent/interest on investment and administration costs) — Rs.

(ii) Variable costs (direct labour/direct material/income-tax/commission and administration costs) — Rs.

Item of Cost	*Fixed* +	*Variable*	*Total*
Materials	Rs.	Rs.	Rs.
Labour	Rs.	Rs.	Rs.
Other Expenditure	Rs.	Rs.	Rs.

$$Q = \frac{F}{P - V}$$

Where Q = Break-Even Quantity
F = Fixed Cost
V = Variable Cost per unit
P = Sales Price per unit

5. Names and Addresses of Suppliers

(i) Raw Materials
(ii) Machinery and Equipment

6. Remarks

Seal and Date (Signature of the Consultant)

Project profile is a plan which enables a new entrepreneur to choose a suitable line of manufacture.

An entrepreneur usually finds it difficult to prepare this report due to heavy consultancy charges. In such circumstances, a project profile which is in the form of blueprints of different business ventures come to his rescue. It gives full information about the business opportunity of different projects.

Proforma of a Project Profile on a small printing press is given below:

Product Introduction

A printing press can be started as a small business. The demand for job printing is increasing rapidly as the publicity through advertisements in papers, cartoons, pamphlets and booklets is needed in marketing of almost of every product.

The various educational institutions and other establishments also require printing facilities.

Process of Printing

The following is the process of printing:

(i) The material to be printed is first of all composed by the compositor.

(ii) The composed material is then fed into the printing machine and impression are got on the paper by mechanical operation of the printing press.

Accommodation Required

Floor Space $65 \times 16 = 1040$ square feet

Machinery and Equipment

The following machinery and equipments are required for a printing press:

(i) Chandeller type printing press (17" × 22") Rs.

(ii) 2 H.P. Motor 3 Phase = 1 Rs.

(iii) Rubber Roller = 1 Rs.

(iv) Paper Cutting machine (42") = 1 Rs.

(v) Proof Press (Roller) = 1 Rs.

(vi) Types, spacing materials, stars, monograms, etc. Rs.

(vii) Wooden type cases, racks, galleys, etc. Rs.

(viii) Type = 100 Kgs. Rs.

Manpower Required

Supervisor 1 Rs.

Compositor 1 Rs.

Machinemen 1 Rs.

Helper 1 Rs.

Raw Materials

(i) Papers Rs.

(ii) Cards Rs.

(iii) Inks Rs.

(iv) Gums, etc. Rs.

Investment

(i) Machinery and Equipment Rs.

(ii) Working Capital for 3 months Rs.

(iii) Total cost of production per year Rs.

Total Production Per Year

(i) Value Rs.

(ii) Profit Rs.

(iii) Rate of return Rs.

A project profile specifies all the requirements such as raw materials, process of production, cost estimates, marketing facilities, expenditures which may be incurred if the industrial unit is to be established for operation. Project profiles can be prepared by different agencies. The Small Industries Development Organisation has been publishing model schemes on certain specific lines of production which provide immediate scope for development as small-scale industries as well as other enterprises.

Conclusion

The project report must contain the various detailed information which ultimately helps in the decision making process of whether or not to encourage the project conceived. The financial institutions insist upon such a project report in order to be sure about the feasibility of the project. Since the financial commitments would be huge in many cases, it is necessary that before they advance the money sufficient precaution should be taken or else it would result in a huge loss in case an unprofitable project is financed. Also they ascertain from the report the possibility of generation of funds by the project itself and whether or not it would be substantial enough to repay the amount advanced within the stipulated period also indicates the technical feasibility and on the proper verification of the information supplied, a conclusion can be drawn about the appropriateness of such feasibility. The report also indicates the economic and commercial viability of the project and whether or not adequate managerial competence required for successful running of the enterprise is available.



CHAPTER 22

PROJECT APPRAISAL

Introduction

Project appraisal an exercise whereby a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financing decision. Appraisal exercises are basically aimed at determining the viability of a project and sometimes, also in reshaping the project so as to upgrade its viability. This is done by allocating the term finance sought by a promoter.

The factors generally considered by institutions while appraising a project included technical, financial, commercial, economic, ecological, social and managerial aspects. This makes it necessary to recognise the inter-relationship underlying the various aspects of a project. For example, the size of the initial market and the estimates for demand build-up would determine the plant capacity and production phasing; these together would have a bearing on the profitability, which, in turn, would determine the means of financing. Location also has an important bearing on project cost and cost of production. Above all, the management behind the project has a decisive influence on most of these aspects. These considerations imply that project appraisal is viewed as a composite process as against the approach of viewing each aspect individually.

This chapter will focus on the appraiser's thinking process from the viewpoint of the lending financial institutions This will help ensure necessary preparation on the part of the borrowers-entrepreneurs/businessmen/businesswomen.

Meaning

The exercise of project appraisal simply means the assessment of a project in terms of its economic, social, and financial viability.

This exercise is critical as it calls for a multi-dimensional analysis of the project that is, a complete scanning of the project.

Financial institutions and banks make a critical appraisal of projects which are submitted to them by the entrepreneurs for getting loans. They have traditionally been accepting the data provided by the entrepreneur as valid while assessing the project. In fact, the emphasis has largely been on the cash-flow and financial viability of a project in assessing their suitability for extending the loans.

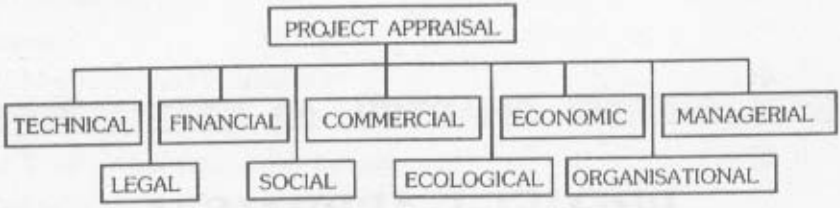


Fig. 22.1 Aspects of Project Appraisal

Definition

Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter person who is in no way involved in or connected with its preparation and who is as such able to take an independent, dispassionate and objective view of the project in its totality as also in respect of its various components. The person who carries out appraisal of a project is usually an official from the financial institutions or a team of institutional officials. Since all ending activities involve risk in a smaller or larger measure, project appraisal aims at sizing up the quality of projects and their long-term profitability aims at minimising the risk of lending by rectifying their weaknesses and improving their quality by incorporating into them features/ safeguards missed by the promoters either because of lack of knowledge or information.

Scope of Appraisal

The appraisal of a project is undertaken by the financial institutions with the twin objectives of determining the market potential of a project and selecting an optimal strategy. The methods of analysis vary from project to project. Nevertheless, certain common aspects of study from the angle of technology and engineering are with a mention:

- Choice of technical process and/or appropriate technology;
- Technical collaboration arrangements, if any;
- Size and scale of operations;
- Locational aspects of the project and availability of infrastructural facilities;
- Selection of plant, machinery and equipment together with background, competence and capability of machinery/equipment suppliers;
- Plant layout and factory buildings;
- Technical engineering services;
- Project design and network analysis for the assessment of project implementation schedule;

— Aspects relating to effluent disposal, management of entry, utilisation of by-products. etc.

— Project cost and its comparison with other similar projects, based on technology, equipment, product mix and time spread;

— Determination of project cost estimates, profitability projections, etc.

— Sensitivity analysis.

It must be remembered that the different aspects of a project are not independent entities but are highly inter-related; and a meaningful project appraisal depends upon the appreciation of this fundamental fact. For example, the size of the total market for a product as it exists now and the year to year estimates of the future progressive call for expansion of demand would determine planned capacity of the proposed unit and the phasing of production over the years. These in turn would influence the project cost and profitability which would determine the means of financing. The cost of the project and profitability are influenced to a significant extent by its location. Over and above this, the management behind the project, has a decisive role to play in almost all aspects of the project.

Steps Followed in Project Appraisal

Project appraisal is a scientific tool. It follows a specific pattern. First and foremost, an analysis of a region's economy provides a general framework within which the assessment of any project is made. This analysis indicates whether the project is in a potential environment which enjoys priority for economic development of the region/state concerned. This exercise itself usually involves the investigation of six different aspects: economic, technical, organisational, managerial, operational, and financial. The relative importance of these different aspects can vary considerably according to circumstances and type of project. The main stages of the system of project appraisal are:

Step 1	— Economic	Indicates priority use.
Step 2	— Technical	Involves scale of the project and the process adopted.
Step 3	— Organisational	Suitability is examined.
Step 4	— Managerial	Adequacy and competence are critically scrutinised.
Step 5	— Operational	Capability of the project.
Step 6	— Financial	Determines the financial viability for sound implementation and efficient operation.

PROJECT APPRAISAL FORMAT

Criteria	*Project-I*	*Project-II*	*Project-III*	*Project-IV*
1. Investment size				
2. Location				
3. Technology				
4. Equipment				
5. Marketing				
6. Power & Water				
7. Others' performance				
8. Working capital needs				
9. Labour component				
10. Economic viability				
Total				

Point Scale: A = 5 points; B=4 points; C=3 points; D=2 points; E=1 point.

Fig. 22.2 Steps of Project Appraisal

Economic Aspects

The economic aspects of appraisal are fundamental as they logically precede all other aspects — this is so because the bank will not finance a project unless it stands assured that the project represents a high-priority use of a region's resources. However, a purely financial analysis normally does not provide an adequate basis for judging a project's value to the economy, since the financial analysis looks at the project only from a limited viewpoint of the revenues entering the project's own accounts, So, an economic or social analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project costs to justify investment in it.

The economic benefits brought about by a successful project normally take the form of an increased output of goods or services, either directly of indirectly (as in a large class of cost-reducing projects). This increased production will also generate many different forms of additional income, such an increased wages or employment of labour, larger government revenues, higher earnings for the owners of capital, or most frequently, a combination of these income benefits.

In a large majority of cases, it is possible to quantify project costs and benefits, and to construct a rate if return or some other appropriate move. Future costs and benefits are calculated, using either market or shadow prices, as found appropriate. Further both costs and benefits are put under subsidence to initiate the projects' estimated rate of return.

The latter is then compared with the minimum earning power of capital judged appropriate for each country. While the rate of return is an important test that all projects with quantifiable cost and benefits must pass, importance and its significance is usually overestimated. The rate of return is a necessary confirming test of projects that have to be justified within a much wider frame of reference, in which basic project objectives

and the nature of project benefits (e.g., foreign-exchange savings, increased employment and improved income distribution) play major roles.

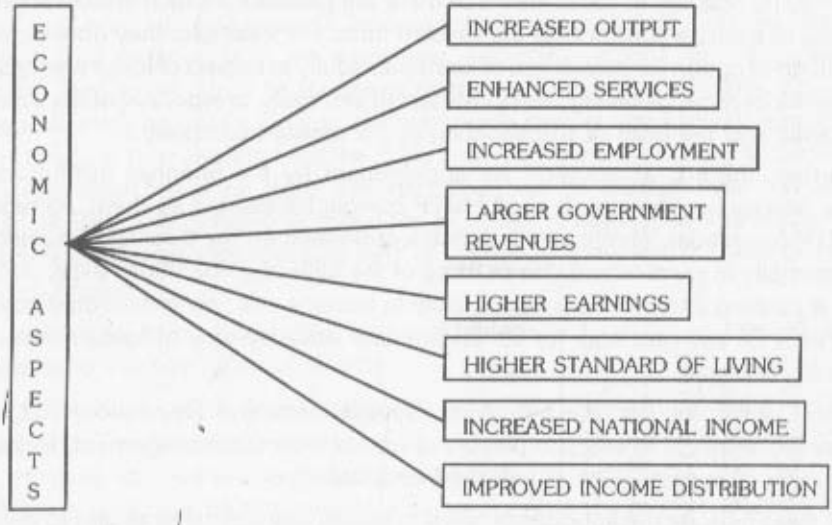


Fig. 22.3 Economic Aspects of a Project

Organisational Aspects

As a lender and a development institution, the bank places particular stress on the need for an efficient organisation and responsible management for the execution of the project. During appraisal, these two essential dimensions of a project are examined. If one or the other is found wanting, short-term remedial steps are recommended to the entrepreneur and the bank may make a clause for assistance — such as the recruitment of individuals or an organisation qualified to assist in running the enterprise, at least during the initial phase; or those for a longer term, such as a management study, reorganisation or creation of a new autonomous agency to operate the project. In either case, the need for training local staff to fill positions at all levels is examined, and training programmes may well be included as part of the project. The objective of this aspect of appraisal is to make sure that the project is adequately carried out and that a locally-staffed institution, capable of contributing effectively to the development of the sector in question, is created.



Fig. 22.4 Organisational Aspects

Managerial Aspects

If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is weak, it can be improved upon, but if the promoters are weak and lack in business acumen, it is difficult to reverse the situation. It is,

therefore, natural that financial institutions very carefully appraise the managerial aspects before sanctioning assistance for a project.

It may be relevant to recall here that there are provisions which enable financial institutions to exercise control over the assisted units. For example, they now stipulate the condition of option for conversion of loans into equity in respect of loans aggregating to Rs. 5 crore or more generally, and in respect of sick units, irrespective of the amount of assistance and the level of shareholding in the assisted company.

Further, there is a provision for appointment by the financial institutions of nominee directors on the boards of all MRTP companies assisted by them. As regards non-MRTP companies, nominee directors are appointed on the boards on a selective basis, especially in cases where one or more of the following conditions exist, viz., *(a)* the unit is running into problems and is likely to become sick, *(b)* institutional holding is more than 26 per cent and *(c)* the institutional stake by way of loans/investment exceeds Rs. 5 crores.

The Companies Act, the Industries (Development and Regulation) Act, etc., empower Government to exercise powers of control over the management, including the take-over of management of industrial undertakings.

All these indicate the importance given to proper managerial strategies to prevent mismanagement.

If a proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent. It is, therefore, necessary that the overall background of the promoters, their academic qualifications, business and industrial experience, their past performance, etc. are looked into in greater detail to assess their capabilities for implementing the project for which financial assistance has been sought.

Technical Aspects

The importance of technical appraisal in project evaluation needs no emphasis. Technical appraisal of a project broadly involves a critical study of the following:

Location and Site

An industrial feasibility study aspect refers to the appropriate and location selection of a geographical area where the project should be located the selection. Towards this end, the required site characteristics shall be kept in mind when selecting the location.

There are a number of important factors that influence industrial location because the site may significantly influence the cost of production and distribution, distribution efficiency, the operating environment, etc.

The problem of site selection gets complicated by the fact that at a particular location where one or a few factors are favourable, other factors may not be so. Selection of an optimum location, therefore, revolves round the combined consideration and evaluation of all the relevant factors.

The important factors that influence industrial location are the following:

1. *Raw Material Supplies:* Certain industries are located near the source of raw materials. This is particularly true of industries based on gross (weight-losing) localised material — industries with a high *Material Index* (the proportion of the localised material to the final product). For example, iron and steel mills are usually located near the ore deposits and sugar mills in the sugarcane cultivating regions. Similarly, the timber industry tend to be close to forests or riverways leading from forests. Kallayi (near Calicut, Kerala), one of the largest timber business centres of the world, is on the banks of the Chaliyar river leading from the richly endowed Nilambur forests. In certain cases, even industries based on pure materials prefer to be located near source of raw materials. The jute industry in India, for example, is developed in the jute growing region. Similarly, the early development of the cotton textile industry was in the cotton growing region.

Industries using perishable raw materials also tend to be located in closer proximity to the raw material sources.

2. *Proximity of Markets:* Certain categories of industries tend to be located near the market. This is particularly true of the industries with the manufacturing process that involves an increase in weight and/or bulk. In such cases, the transport and distribution costs can be minimised by being closer to the market. Bottling of drinks is a very good example. Industries with fragile and perishable output also have a tendency to be located closer to the market.

When there are large markets geographically spread, nationally or internationally, manufacturing units may be established in close proximity to the major markets.

3. *Transportation Facilities:* Transportation facilities including the cost of transport play an important role in industrial location. No wonder, centres connected with sea, air, rail and road transport facilities exert a strong pull on industries. It is not only the transportation of the materials and finished products that it is to be considered but also the transportation facilities for the personnel.

In a vast country like India, there may be significant variations in transportation costs between different locations.

Places with a high transport disadvantage are not likely to attract industries. It is due to this reason that the Government of India is providing transport subsidy to industrial units located in certain hill regions and islands with a view to encouraging the industrial development of these regions.

4. *Power and Fuel Supply:* Power and fuel supply conditions have an important bearing on industrial location. Cheap power or fuel and its uninterrupted supply is an important attraction for industries, especially in the era of energy crisis. In the past, certain industries tended to be located near coal deposits. But the advent of electricity has greatly changed the industrial location patterns. Now, it is not very difficult to take power supply to the location of raw material supply so that the weight-long materials may be processed at their location.

Electrification of various parts of the country, including the villages, is encouraging decentralisation of industries.

5. *Water:* Certain industries like the paper industry by their very nature require large quantities of water. The quality and properties of the available water is as important as the quantity of water available and the stability of its supply. A number of industries also use the water sources for effluent disposal. While selecting the location, the possibility of the pollution of water by other industries making the water unfit for industrial and domestic purposes should also be considered. The requirements of water by the employees and their families housed near the industrial unit for domestic purposes and its availability should also be considered.

6. *Manpower:* The economic, social and political aspects of labour supply have an important influence on industrial location. Not only the quantity but an assessment of skill levels of the available manpower are very important. In certain regions, abundant cheap labour may be available; but if the labour does not possess the required skill, the industry will have to incur expenditure on training the labour.

Cheap labour is particularly important for industries where labour accounts for a significant part of the total value added. On the important factors influencing the location of plants in the less developed countries by the multinationals (MNCs) is said to be the cheap labour supply.

For the assessment to be realistic, it is essential that the wage rates be compared with the level of productivity by the labour.

Certain socio-economic characteristics and political affiliations of labour are also important considerations. In certain localities and communities, labour turnover and absenteeism are high. These factors may not only tend to increase the expenses but also affect the smooth functioning of the enterprise.

Some regions may be characterised by the dominance of militant trade unions, widespread labour unrest, etc., seriously affecting the smooth functioning of industries. Industries prefer to consider other areas for their location.

It may be difficult to get professional, skilled manpower etc., if the location is very remote and deprived of civic amenities.

7. *Labour Laws and Government Policy:* Labour laws and the government's attitude and policy toward strikes and other labour problems and employee-employer relations, etc., may also influence location decision-making.

8. *Natural and Climatic Factors:* Natural and climatic factors also play an important role in the location of certain industries, as the absence of these conditions will necessitate additional expenditure to create favourable conditions artificially. For instance, humid climate is conducive to cotton textile industry. Favourable climatic conditions and other environmental factors played a major role in the location these industries.

9. *Strategic Considerations:* They also influence the location of industries. It is not likely that major industries will be located in strategically sensitive areas even if all economic factors favour such a location. Especially in the case of strategic industries, special care is taken to assure that the location chosen is not easily accessible to the military forces of other countries. For defence industries, strategic location may be the sole criterion.

10. *Taxes and Fees:* Variations in taxes, fees and charged may also influence industrial location.

11. *Incentives and Disincentives:* There are also certain incentives and disincentives which also may affect industrial location. For instance, in India, the Union and State Governments offer a number of fiscal, monetary and physical incentives for industries in the notified backward regions.

Certain disincentives like higher taxes may discourage industries in certain regions. Government may even ban new industrial units in congested areas large urban areas or developed regions.

12. *Site and Services:* Some industries require a large area of land which may not be available in a locality where all other factors are favourable. Availability of the required type and quantity of land at reasonable prices is, thus, an important factor.

With a view to developing industries in certain regions, Government has been providing developed sites and necessary facilities and services. Certain such locations like Hosur (Tamil Nadu) have been very successful in luring industries.

Similarly, industrial estates have been established in different parts of the country to encourage the development of industries.

13. *Socio-economic and Political Factors:* Socio-economic and political factors are also sometimes very important, especially in respect of location of public sector units. Some large-scale public sector units are located in backward regions on such considerations. Social and political considerations sometimes favour industrial location in certain sensitive regions.

14. *Miscellaneous Factors:* There are also a number of other factors that may influence industrial location — the attitude of the local community, proximity of complementary industries, prospects of development of the region, service facilities required by the industry, recreational and social facilities, proximity to important centres like metropolitan centres, personal factors, historical factors, etc.

Site

There are a number of important factors to be considered in the selection of the site. These include the load bearing capacity of the site, towards flood and earthquake hazards, access to transport facilities, facilities for water supply and effluent discharge, ecological factors, etc.

The nature of the industry has a bearing on the site selection. For example, some industries like the paper industry need abundant supply of water. For some industries, effluent discharge is a major problem. Environmental pollution is a serious problem that certain industries have to confront with. All these factors influence the selection of site.

As stated earlier, the Government provides 'site and service' in specified locations. However, some of the facilities needed for certain industries may not be available on these sites.

Size of the Plant/Scale of Operation

The size of the plant or scale of operations is an important factor that determines the economic and financial viability of a project.

In many industries, there are certain technological plant capacities which are economical. If the size is sub-optimal, there will be diseconomies of scale.

This is one of the important reasons for poor performance of many industrial units in India. Diseconomies of scale result in high cost and make survival in a competitive market, particularly in the international market, very difficult. The Government of India in this context, has emphasised that the plants or scale of operations should be of economic size.

An important aspect of technological size is that the available process technology and equipment are often standardised at specific capacities in production sectors. Operative capacities in such sectors are, therefore, available only in certain multiples.

There are, however, certain factors that may come in the way of optimal scale. For example, there may be demand constraints, i.e., the market demand may be too low that it cannot absorb the output of the large plant. In some cases there may be resource and input constraints. For example, the available raw material in a region may not be sufficient to feed a large plant. When there is important control, non-availability of economic size plants or equipments domestically makes the adoption of optimal scale impossible. Sometimes, there will also be scarcity of finance.

Another factor that may discourage the establishment of large-scale facilities is the risk of rapid obsolescence of technology or the product.

Technical Feasibility

Appraisal of ethnical aspects of a project involves scrutiny of such aspects of the project as:

- Manufacturing process/technology selected.
- Technical collaboration arrangements made, if any.
- Capacity/size of the project and the scale of operations.
- Location of the project.
- Availability of physical and social infrastructural facilities.
- Availability of various inputs covering raw materials as well as utilities.
- Selection of plant, machinery and equipment together with background, competence and capability of machinery/equipment suppliers.
- Plant layout/and factory building.
- Technical engineering services.
- Project design and network analysis for assessing the project's implementation schedules, etc.

The technical feasibility study should consider the adequacy and suitability of the plant, the equipments and their specifications, plant layout, balancing of different sections of the plant, proposed arrangements for procurement of the plant and equipments, reputation of the machinery suppliers, etc.

The feasibility study should also consider the technology required for a particular project, evaluate technological alternatives and select the most appropriate technology in terms of optimum combination of project components. The various implications of the acquisition of such technology should be assessed, including contractual aspects of technology licensing where applicable, etc.

Government of India's policy in this respect clearly states that while evaluating applications for industrial licensing, the following factors will be specifically considered:

(i) Whether the proposed capacity is of economic size.

(ii) Whether the processes proposed to be adopted are efficient from a techno-economic point of view.

(iii) The extent to which diversification and expansion proposals will result in fuller utilisation of capacity and economies of scale.

Besides, proper evolution of alternative technologies is essential for selection of the appropriate one. This evaluation should be related to plant capacity and should commence with a quantitative assessment of output, production build-up and gestation period and qualitative assessment of product quality and marketability.

The selection of technology has to be related to the nature of the principal inputs that may be available for a project and to an appropriate combination of factor resources for both short and long periods.

Financial Aspects

The purpose of the appraisal of financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation. The scope of this aspect of appraisal varies, of course, considerably with

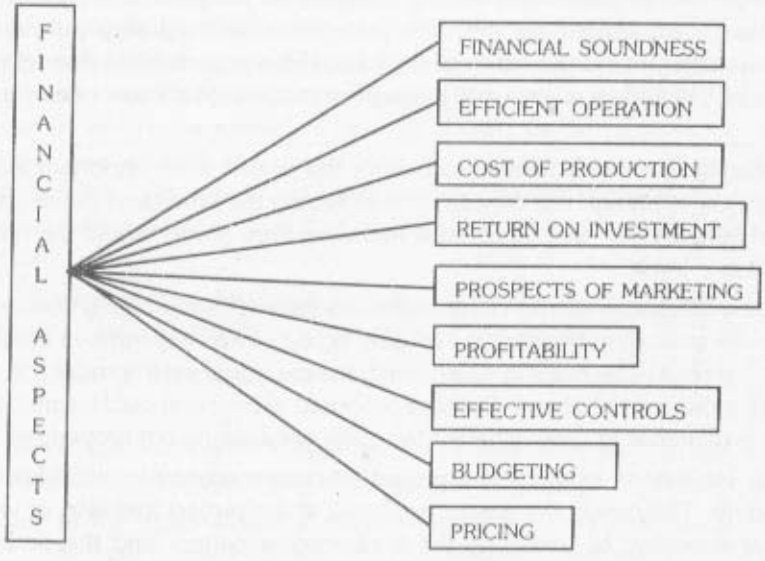


Fig. 22.5 Financial Aspects of Project Appraisal

the nature of the project and whether it is revenue-producing (e.g., industry, utilities, agriculture) or not (e.g., education, most highway projects).

For projects which involve the marketing of a product or service by an entity, the appraisal includes in investigation of the availability and cost of raw materials power, labour, and services needed for production, and the prospects for marketing the product or service profitably.

In every case, it is necessary to ensure that satisfactory accounts are maintained for effective control over expenditure and revenue, and to disclose the project and entity carrying it out. Also, since the banks finance only a part of the investment cost of a project, it is necessary to ensure that funds from other sources are available on acceptable terms to meet the balance of the cost. This may be relatively simple where the government is able, without difficulty, to provide the rest of the necessary funds from budgetary sources; or it may be complicated, as in a project to expand or modernise a revenue-earning concern, where all the financial requirements of the concern during the construction of the project must be considered.

Financial appraisal also evaluates capacity of revenue-producing investments from the standpoint of the entity. industrial sponsor or other investor who would make them, in order to ascertain whether it is sufficiently attractive to warrant their participation. Establishing that the entity carrying out the project is in a position to manage its business in a cost-effective fashion, is another important aspect.

The financial aspect of project appraisal covers the following areas:

(i) *Cost analysis:* In the case of cost analysis it is to be decided or to be worked out what would be the cost of production. There are different methods of finding out cost.

(ii) *Pricing:* This strategy concerns the fixing up of the product's price. Price fixation is a very tedious job. The price must be fixed very judiciously, because the price is the cause of demand. If the price is high, the demand may be low and *vice versa* and a low price may mean a lower rate of profit also.

(iii) *Financing:* The funds needed to finance the project is an important aspect of project appraisal. It is concerned with raising the funds and making their most efficient use. The funds must be raised from places where the rate of interest is lower.

(iv) *Income and Expenditure:* The income and expenditure profile is concerned with the estimates regarding the income expected and expenditure involved in the project. This helps in ascertaining the cost involved in production and profit expected therefrom. Detailed proposed accounts should be made for future reference to know whether the plans are working out properly or not.

Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analysing the consumption pattern and the potential demand for the project.

Market/Commercial Aspects

In setting up an industrial project, estimation of demand for the product/group of products proposed to be manufactured by a promoter is the first important step. Ideally, the market analysis should give a comprehensive account of the market opportunity, as well as of the marketing strategy appropriate for converting the opportunity into a reality. Marketing strategy in this context could be defined as an ever-evolving design or blueprint consisting of a set of inputs like product quality, price, design, dealer/agency discounts, distribution network/channels, packaging, etc.

To be of maximum benefit to a promoter, whether new or already established, market analysis should cover the following major aspects:

(i) Analysis of market opportunity and specifying marketing objectives. This involves a scientific assessment of *(a)* total size of the market for a product; and *(b)* the share that could be secured by a firm, existing or new.

(ii) Planning the process of marketing the product.

(iii) Organisation of the marketing process.

(iv) Control of the implementation of the marketing plan which facilitates taking corrective action when the actual results deviate from the estimates or expectations.

An intensive scanning and analysis of the proposed environment in which the industrial unit has to function should form the basis for analysing market opportunities as well as for specifying the marketing strategy. This is because the ever-changing environment in which the industry sector functions, restricts or expands the opportunities available to and the threats to be faced by an industrial unit.

Market opportunities expressed in terms of demand forecasts and market shares are based on a host of factors outside the control of the promoter, whereas marketing strategy and marketing process are largely under his control. Hence, the formulation of a detailed marketing plan, specification of a proper marketing strategy, and the manner in which the marketing process should be undertaken would enable the promoter to cope with the uncertainties in the market place more effectively than otherwise. It is also a fact that the estimated market share of a promoter and his marketing strategy influence and reinforce each other and should never be viewed in isolation.

Answers to the following questions would indicate the safeguards that may be necessary to take in the likely weak areas in the project:

(i) What is the management culture in which the entrepreneur has been brought up?

(ii) Is the entreprenur's approach to project planning scientific and consistent with the requirements of the proposed project?

(iii) In the initial stages of project planning, is the entrepreneur enlisting the support of mere helpers or of professional managers?

(iv) How has the entrepreneur drawn the organisational structure of the unit? Does it show *ad hocism* or indicate that he has tried to merely fulfil certain

legal/other obligations or is it purposeful and does it indicate a good deal of foresight on his part?

The difference between an entrepreneur and manager has been dealt with earlier.

Political and Labour Considerations

Financial institutions also pay attention to political environment and labour conditions of the area where the project is to be located. Strikes, lockouts, industrial peace and communal harmony in the area play a decisive role in examining success or failure of the project.

The lending institutions examine the project to study its soundness on technical, economic, commercial and managerial grounds. If the appraisal report is found satisfactory, the loan application will be favourably considered. The manager then communicates his decision to the borrower and terms and conditions will be negotiated. The most important areas for the borrower and lender to negotiate are: timing in relation to negotiations method of financing based on certificates of work done, repayment schedule, rates of interest, commitment fees, security options, and monitoring and control requirements.

Technical Collaboration Arrangements

The Government of India has issued an illustrative list of industries where no foreign collaboration, financial or technical, is to be allowed in view of indigenous technology base having been well-established. However, looking to the need for constant upgradation of production technology in line with that of developed countries, the Administrative Ministries and Foreign Investment Promotion Board (FIPB) may permit import of technology in those field where:

- indigenous technology developed for items in the list is too closely held and is not available for use by new entrepreneurs on competitive terms;
- technology is required for updating of existing technology in India to meet domestic requirements efficiently or to be competitive in the export market; and
- such import is required for the manufacture of items with substantial exports, backed by buy-back guarantees.

The terms in the collaboration agreement are examined in detail by the appraising institutions with reference to the technical know-how, engineering services, procurement of imported equipment, price comparison with indigenously available equipment, performance guarantee by the collaborators, penalties for non-performance specified in the agreement, deputation of foreign exports during construction, initial and post-operation period, provision for training of Indian technicians etc. The reputation of the collaborators and past experience concerning tie-up arrangements with them, the competitiveness of the terms of collaboration in relation to the requirements of the project, the reasonability of financial collaborations and other costs by way of down-payment and royalties as also restrictive clauses in regard to marketing areas etc., are also looked into and worked upon by the appraiser.

In the case of financial collaborations, the terms relating to the right of participation of foreign collaborator in management and future issues of share capital are also critically examined and considered. The financial standing and reputation of collaborators, where necessary, are checked through the Indian Consulates/Missions abroad as also through the India Investment Centre.

Research and development is also studied in depth and it is ensured that during the validity of the collaboration period, the borrower is allowed free access to the latest developments that may take place at the collaborators' end. The collaborators are also required to agree for providing facilities to the borrower in establishing his own uptodate R & D organisation, both in terms of equipment and manpower.

Conclusion

To sum up, project appraisal is a science as well as an art. While the basic principles of appraisal could be mastered in a short time span, the successful practice of the art of carrying out appraisal requires keen observation, a knack for details, objectivity, decision-making. It is also necessary to took ahead of the project. Project appraisal is a key to broad-based, balanced industrial growth of the country. In a way, it calls for a judicious judgement and perspective outlook. It is, therefore, amply viewed as a composite process of development.

ANNEXURE I

TECHNICAL APPRAISAL REPORT OF A SMALL-SCALE UNIT

A technical appraisal report prepared by the Technical and Consultancy Department of a bank is given below for the study of the readers.

Name of Unit: K.C. Industries, Mumbai

Background of Proponent, Product & Technical Know-how

Proponent is a proprietary SSI concern engaged in the manufacture of "Drawn Copper Conductors" utilised by electrical equipment manufacturers since the past two decades. It is learnt that the proponent was enjoying working capital facility with the... Bank in the past. It is essential to verify the proponent's report from... Bank to its own satisfaction. The proponent has approached us for financial assistance towards working capital requirements.

Proprietor is Shri... and he is also interested in a similar units as partner in the firm XYZ... Corporation. It is learnt that this unit has been recently floated.

Technical know-how involved in 'Copper Wire/Strip-drawing activity' is available with the proprietor and the employed technicians.

Location

Proponent's factory is situated at ownership in ... Mumbai. Aggregate built-up area of both the galas is 120 sq. mt. (app.) and is sufficient for the manufacturing activity. Branch to verify the title of factory premises/gala to its own satisfaction.

Proponent is registered as SSU and has received the necessary permissions from the municipal authorities along with sufficient power connection of 80 kw. The proponent has employed 25 persons on a single-shift basis and is expected to employ an additional 20 persons for working on a double-shift basis. Sufficient water supply is expected at the factory premises.

Infrastructural facilities are satisfactory in general.

Raw Materials

The required raw materials are electrolytic Grade Copper Rods which are available from the local market and M.M.T.C. Raw material prices are susceptible to change.

Marketing

The proponent's product is being manufactured and sold directly to ... against firm and repeat orders.

The proponent has registered annual sales of Rs. 28.36 lakhs (appr.) and Rs. 93 lakhs (appr.) during year SY 2043 and 2044 respectively.

The present position of orders on hand aggregates to Rs. 22.70 lakhs.

The proponent is expected to register a projected annual sales of Rs. 135.25 lakhs during the SY 2045 under normal conditions.

Plant & Machinery

The proponent's machinery and equipment is as per attached annexure and annual production capacity is estimated at 60 MT on a double shift basis.

The initial hot drawing operation is being done by a third on job basis.

Working Capital

The proponent's working capital requirements or inventory level for estimated annual sales of Rs. 135.25 lakhs during the current year SY 2045 are given below:

	Period	*Total Rs. in lakhs*
1. Raw material paid stock	30 days	7.25
2. Work in process & finished goods	negligible	N.A.
3. Sales receivable from first-class party	75 days	27.75
		35.00

Note:

(1) Normal margins to be stipulated.

(2) Transactions with sister concerns to be viewed with care.

Profitability

Estimates towards cost of production are satisfactory in general.

The proponent is expected to register a pre-tax profit of Rs. 5.40 lakhs for the estimated annual sale of Rs. 135.25 lakhs during the current year SY 2045 under normal conditions. Variable cost is estimated at 86% of the sales prices.

Comments

(1) The proponent's operations are technically feasible and economically viable.

(2) Working capital facility may be considered in the light of observations made hereinabove and as per usual banking norms.

TECHNICAL OFFICER
TECHNICAL & INDUSTRIAL
CONSULTANCY DIVISION
HEAD OFFICE

CHAPTER 23

FACTORY DESIGN AND LAYOUT

Introduction

In creating a factory, an entrepreneur creates something which is attractive, useful and ingenious from material resources which lack the dimension of targeted benefits. For this, the entrepreneur uses his skills, abilities and strategies to combine a variety of material and human resources. These potential resources manifest themselves in the selection of the factory location, in planning and constructing the factory building, in procuring and installing machinery and equipment, in putting up other production facilities and auxiliary services, and in recruiting and selecting men of competence to use the physical resources for the purpose of producing goods.

In this Chapter, emphasis is being laid on the aspects of factory design, planning and layout.

This makes it imperative for ensuring smooth working of the small industrial activity be it in its administrative work or shop floor activity or even stores management.

Dr. Nau Nihal Singh has aptly observed: "The planning and control of the supply and movement of materials and components and the utilisation of plant and labour ensures that the necessary resources are available at every stage of manufacture to ensure the economic completion of a predetermined delivery programme, and constitute the management techniques of production planning and control."

Concept of Factory Design

The term factory design refers to the plan for a particular type of building, arrangement of machinery and equipment, and provision of service facilities, lighting, heating, ventilation, etc. in the building.

Importance of Factory Design

Factory design and layout of the factory are significant aspects of the factory organisations. They have direct relationship with the process of manufacturing, productively and value of the product. It also influences the operational costs of the enterprise. It also boosts the morale of workers and ensures maximum supervision.

Factors Affecting Factory Design

The following factors influence the design of a factory:

1. Location
2. Nature of the manufacturing process
3. Plant Layout
4. Functional Smoothness
5. Material Handling and movement
6. Cost of Building
7. Lighting, Ventilation and Service Facilities
8. Nature of Product
9. Future expansion, modernisation etc.
10. Projecting the image of a factory.

The factory design and layout should be flexible so that it may be adapted easily to technological change, modernisation, diversification and expansion with minimum cost and time.

Determinants of Factory Planning

In preparing a factory plan, the small entrepreneur has —

(i) To determine the optimal size of the factory in accordance with the manufacturing plan, which includes a consideration of its envisaged future growth;

(ii) To select a proper location for the plant on the basis of the availability of infrastructure and market centres;

(iii) To prepare equipment layout on the basis of the class of work;

(iv) To prepare production methods when materials move continuously through a series of machine operations;

(v) To determine the type of structure required on the basis of the type of product with full safety measures;

(vi) To provide service facilities for workers and machines;

(vii) To schedule the construction and installation of machinery.

Any planning exercise requires of the planner a good knowledge of what is involved in the activity concerned, such as the nature of the materials to be handled, their quality and the quantity, the processes they have to be subjected to, inspection and quality control at various stages, assembly procedures, packing, etc. He should also know the sequence of operations. He should look ahead beyond the immediate future and anticipate changes, modifications, additions, deletions, etc., which may be forced upon his organisation as a result of expansion, obsolescence, diversification or any other reasons. Having anticipated these, provision should be made to accommodate such changes.

While working on a factory layout plan, a very important aspect to be kept in mind is the fact that the movement of materials from one stage of manufacture to the

next should be minimal. For this, this movement has to be streamlined. If this is not initiated, it will result in the wastage of human effort and time, both of which have a telling effect on the efficiency of an organisation and the cost of production. In industrial life, the economic and efficient usage of all the factors of production is the key to profitability and the ability to compete in the market.

Selection of Plant and Equipment

The adequacy and suitability of the plant and machinery is examined in the context of the selected process, basis of selection, reasonability of cost, reputation and ability of machinery suppliers, reliability of performance and proper balancing in various sections so that no section has under or over capacity. The arrangements/ agreements with the machinery suppliers are examined with special reference to the price quoted, guarantees of workmanship and performance, provisions for spare parts and efficient after-sales service.

The plant and machinery might have been selected by the applicant on the advice of its collaborates, turn-key contractors or technical advisers. Similarly, the suppliers of the plant and machinery might have been suggested by the collaborators or consultants or selected through competitive bids. Full details, including the degree of sophistication in the selection of machinery and equipment as also the criteria in the selection of suppliers are obtained by the appraisers and examined. In the case of machinery and equipment proposed to be imported, unless the same is against a "tied-credit", it is ensured that the practice of calling competitive tenders is followed. Further, the institutions also ensure that the promoters are not in any way interested directly or indirectly with the parties supplying machinery to the project.

Project based on secondhand plant and machinery are generally not encouraged by the financial institutions. The borrower should not make any commitments or incur capital expenditure without specific section of financial assistance. Proposals involving acquisition of secondhand machinery for setting up new units where cost capacity exceeds 25 per cent of the total cost/capacity of machinery/proposed scheme are not normally entertained. In respect of schemes for expansion and diversification, this limit would, however, depend upon the actual need and other relevant factors. Likewise, the use of secondhand plant and equipment is specifically not encouraged for the production of sophisticated items or where the dimensional accuracy of the product is of paramount importance. However, the use of second-hand machinery and equipment is considered as an exception in those cases where the delivery period of new machinery is unduly long and the cost of new machinery is likely to be far in excess of secondhand machinery, thereby affecting the profitability and economics of the project.

In respect of machinery supply agreement for secondhand plant and equipment, it ensured that the agreement provides for the following:

* Responsibility should be undertaken by the suppliers for doing or getting done the required reconditioning/renovation and processing and a warranty/ guarantee thereof.
* Undertaking that each and every equipment to be supplied with or without reconditioning will be covered by a guarantee/warranty for free replacement

of parts, components, materials, or spares, if proved defective in design, materials workmanship, reconditioning, fatigue, etc. after erection at the factory site during such of the initial years of operation as may be mutually agreed upon.

* Provisions for performance guarantee to the rated capacity.
* Provision for providing adequate technical personnel for control and supervision during erection of the equipment with a view to ensuring proper performance and commissioning as visualised.
* Provision for penalty, damages, indemnity, etc., if equipment is not found satisfactory.

Plant Layout and Factory Building

The subject of plant layout not only covers the initial layout of machines and other facilities but encompasses improvement in, or revisions of, the existing layout in the light of subsequent developments in the methods of production. In other words, a plant layout is "a floor plan for determining and arranging the desired machinery and equipment of a plant, whether established or contemplated, in the one best place to permit the quickest flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of the raw materials to the shipment of the finished products."

A more simple, clear and comprehensive definition is given by Knowels and Thomson. They say that a plant layout involves:

"(*i*) Planning and arranging manufacturing machinery, equipment and services for the first time in completely new plants;

"(*ii*) The improvements in layouts already in use in order to introduce new methods and improvements in manufacturing procedures.

During the course of appraisal, considerable emphasis is laid on a proper and scientific plant layout as once the plant and equipment are erected, it becomes difficult and costly to change at a later stage. The following aspects are kept in view while evaluating the plant layout:

— Production technology and product-mix;
— Efficient, economic and uninterrupted flow of human and materials resources;
— Proper space for maintenance;
— Future expansion/diversification of the project;
— Safety precautions particularly when explosive or bulky material is required to be handled;
— Proper lighting and ventilation;
— Proper layout of utilities and services and provisions for effluent disposal, where necessary;
— Effective supervision of work; and
— Proper storage and stacking space, where required.

The building designs are to be kept in conformity with the plant layout and construction of the building is to be carried out by experienced architects and contractors unconnected with the promoters/management group. In case where process requirement envisages special conditions like air-conditioning, aircooling, dust control, humidity control, etc., it is ensured that due care be taken in the design of the buildings.

Importance of Layout

The importance of a layout lies in enhancing manufacturing function and supervision and control. Some of the advantages are:

1. Economies in handling,
2. Effective use of available area,
3. Minimisation of production delays,
4. Improved quality control,
5. Minimum Equipment investment,
6. Avoidance of bottlenecks,
7. Better production control,
8. Better supervision,
9. Improved utilisation of labour,
10. Improved employee morale,
11. Maximisation of production,
12. Avoidance of unnecessary and costly changes,
13. Increased revenues and profits, and
14. Success of the enterprise.

Considerations in Factory Layout

While choosing the layout for a factory, the following factors should be taken into consideration.

1. Nature of Product: The type of product to be manufactured affects plant layout in several ways. Small and light products can be moved easily to the machines whereas for heavy and bulky products the machines may have to be moved. Large and heavy equipment requires assembly bays. One or a few standardised products can better be produced through product layout while process layout is more useful for producing a large variety of non-standardised products. Quality and fragility of the product also influence the layout.

2. Volume of Production: Normally high volume manufacturing requires product layout and low volume job production needs process layout.

3. Materials Handling: The pattern of layout depends to a great extent on the nature of materials and materials handling plan. It is necessary to provide adequate space for storage and adequate aisles for free movement of materials.

4. Type of Equipment: Specifications of machinery and equipment are a prime consideration in factory layout. General purpose machines need a different layout than

specialised machines. Adequate space must be provided for the location and movement of all machines and equipment.

5. Factory Building: Ideally, a building should be built to suit the best factory layout. But in practice the layout might have to be modified to fit a given building. The covered area, the number of storeys, elevators and stairs, parking and storage area all affect the layout. The plant site should also be considered in choosing the layout for a factory.

6. System of Manufacture: The type of manufacturing process is single most important determinant of factory layout. Continuous manufacturing system requires a different sequence of machines than intermittent manufacturing.

7. Lighting and Ventilation: In laying out a factory adequate provision must be made for lighting, ventilation and heating. These are essential for the health, comfort and productivity of workers.

8. Service Facilities: The layout of a factory must include proper service facilities required for the comfort and welfare of workers. These include canteen, lockers, drinking water, toilets, first aid, fire escapes, etc.

Technical and Engineering Services

One of the important aspects in the appraisal of projects is the institutional evaluation of the technical and engineering services. This becomes all the more important in large-size projects. Technical and engineering services comprise preparation of detailed drawings/designs of the plant layout, detailed specifications of plant and equipment, arrangements for process know-how, engineering know-how and consultancy, design and layout of utilities and services like power, water, steam, air supply, off-site facilities, etc. These also include the services for preparing tender documents for complete civil works, selection and procurement of equipment and their erection.

All the above services are sometimes entrusted to process and engineering consultants and in some cases, part of the work including coordination at various levels is taken care of by the project management team of the concern. The process consultants generally supply the essential know-how and basic engineering requirements. The engineering consultants provide detailed information of the various facilities involved in the project, including design parameters, preparation of specifications, inviting quotations, and their analysis, recommendation for purchases and award of contracts, inspection of the equipment purchased, arrangements for shipping and handling of equipment, supervision during construction/installation/erection of the equipment, assistance/supervision during commissioning etc. Consultants are often involved in the preparation of detailed project reports and in the furnishing of the information/clarification required by the institutions during appraisal. The background of the consultants, their scale of operations, experience on other projects and plants based on similar technology is looked into in depth. The possibility of infringement of existing patents is also examined and an endeavour is made to obtain necessary indemnity from the consultants. Another important aspect examined while evaluating the adequacy of consultant is the provision for technical training of the

personnel in the plant of the collaborators. It is also necessary to make arrangements for in-plant training by the representatives of the consultants, deputation of consultant's personnel for supervision during erection and commissioning, administration of the performance guarantees, trial-runs and initial operation of the plant.

Materials Handling

It is the responsibility of production managers and industrial engineers to plan a good layout which places "the right equipment at the right position to be worked in the right manner for completing the manufacturing process in the shortest possible time." This *inter alia* means that the layout should be such that the new materials, stores, intermediate stores and work places should be interlinked so that the production may flow uninterruptedly.

The Report on Materials Handling in Industry say that handling adds nothing to the value of the product but only to the cost. The advantages of materials handling are: *(i)* Reduced labour cost; *(ii)* Increased capacity of existing building, especially stores; *(iii)* Better machine utilisation; *(iv)* Larger turn-over; *(v)* Less capital tied up in work-in-progress; *(vi)* Easier stock control; *(vii)* Less fatigue for operations; *(viii)* More efficient production control; *(ix)* Better inspection and control of quality; *(ix)* improved safety.

In Fig. 23.1 two layouts are shown to indicate how unnecessary material handling can be avoided. The new layout ensures a smooth functioning of the production channels at reduced cost. At the same time, more space is made available. A proper layout not only improves material handling operations but also increases the production and productivity per employee.

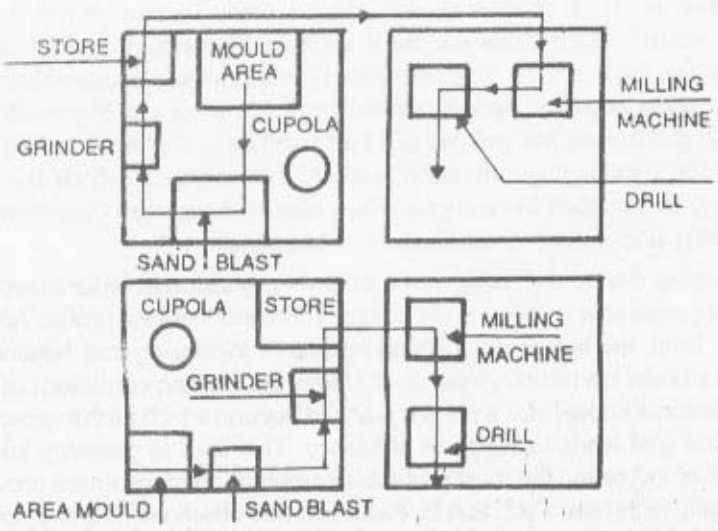


Fig. 23.1 Layout of a small-scale unit and scope for modernisation is shown in these two diagrams.

Optimum Size of the Plant

The scale and size of operations of the unit determine its efficiency and profitability. This is determined by the laws of returns. Accordingly, an industrial unit, with a capital investment of Rs. 10 lakh in plant and machinery, is a small unit. Earlier, even the number of workers employed was considered to be a factor determining the size of the plant.

In general, the following standards are employed to measure the size of a unit:

MEASURE OF SIZE

Input	Output
(a) Net worth	*(a)* Volume of output
(b) Size of assets	*(b)* Value of output
(c) Employment	
(d) Raw material required	
(e) Power needed	
(f) Number and capacity of plant	

Fig. 23.2

The flexibility of small-scale units create large-scale employment opportunities, bring about a balanced and diversified economic development, ensure a somewhat equitable distribution of wealth, and a proper growth of these units. They survive for the following reasons: *(i)* individual tastes, *(ii)* changing fashions, *(iii)* widely fluctuating demand, *(iv)* new power sources, *(v)* standardisation of components, *(vi)* short gestation period, *(vii)* greater motivation, *(viii)* nature and process of production.

In other words, a small-scale unit can be easily formed. It has flexibility and ownership control. Such units are most suitable because of limited demand and changing tastes, local market, limited capital needs, limited managerial ability, limited risk of loss, shorter gestation period, reduced production lag, etc. Steinwall, in his book, *Small and Big Business,* has pointed out that small firms are protected by their goodwill, customer loyalty, the individual markets they possess, which the large firms conquer only at considerable expense. They also enjoy special Government support and patronage and ensure diversification of industries.

A firm may start and steadily move towards expansion in order to secure internal economies of scale to a certain extent, reduce costs and increase profits. After reaching a particular level, the law of diminishing returns or increasing cost begins to operate and acts as a brake on further expansion. Under the existing conditions of techniques and organisational know-how, a point is reached beyond which further growth becomes uneconomical and leads to waste or efficiency. This level is probably known as the *optimum level,* indicating the most profitable combination of resources providing equi-marginal utility or return. Prof. E.A.B. Robinson has observed: "By the optimum firm we must mean a firm operating at that scale at which the conditions of technique and organising ability exist, and it has the lowest average cost of production per unit, when all these costs, which must be covered in the long run, are included."

The optimum size of the plant achieves equi-marginal returns from all resources or factors of production. It indicates a rational allocation of resources and a combination of inputs to secure maximum output under existing economic conditions and maximum profit due to the lowest average cost.

The optimum level of small industry organisations is influenced by *(a)* technical production economies, *(b)* managerial economies, *(c)* marketing economies and *(d)* nature, size and stability of demand.

Conclusion

The success of an enterprise to a greater extent depends upon the factory design and layout. The location, layout, amenities will influence productivity and facilitate better management. More importantly, the efficiency of the production flow depends largely on how well the various machines, production facilities and employee amenities are located in a plant. In a properly laid-out plant, the movement of materials, from the raw material stage to the end product stage, is smooth and rapid; the movement is generally in a forward direction; the materials do not criss-cross, or go backward and forward for further operations. Moreover, production bottlenecks and delays are few, materials handling costs are reduced.



UNIT 4

FINANCIAL ANALYSIS

Financial management is an integral part of business administration and ranks equally in importance with other key result areas such as production and marketing. The fundamental objectives of any venture are survival and growth, though there could be other social objectives too. It could, however, be said that all objectives centre around economic objectives which means maximisation of profits. Financial management plays a major role in fulfilling the above and includes functions like analysing and forecasting financial needs, managing working capital, planning the capital structure, etc.

Financial analysis refers to the process of obtaining relevant economic information about a project in order to establish its financial viability. It is undertaken as one of the feasibility analyses in project formulation. Most of the data required for financial analysis are obtained from market analysis, technical analysis and cost analysis. In order to develop adequate financial information, this strategy looks at the projected capital cost estimates including operating cost estimates and revenue estimates. The information collected for the purpose are printed in the form of proforma balance sheet, proforma operating statement and cash flow statement.

Financial analysis primarily deals with the interpretation of the financial data incorporated in the proforma financial statements and the presentation of the economic facts in such a form as to make a comparative evaluation/appraisal of projects. In other words, it is mainly concerned with the development of the project's financial profile. Financial analysis deals not only with the financial aspects of a project but also with its operational aspects. Its main purpose is to establish whether the project would enable to achieve the objectives for which it is undertaken. For easy and better comparison and explanation, ratio analysis is used. Through the ratios, the relationship between various financial factors of a project is explained and their trend forecasts are developed.

In order to complete the financial profile of a project, it is also necessary to evaluate the operational strategy and the investment strategy of the project. The break-even analysis is used to explain its operational characteristics.

Financial strategy is evaluated in terms of financial leverage, *i.e.*, debt-equity mix and its effect on financial returns from the project. Theoretically, different types of capital structure are available and the ultimate objective is to choose an ideal capital structure, *i.e., financing mix.* Investment strategy is evaluated in terms of investment criteria such as IRR, NRV, etc. These project selection criteria depict the net contribution of the project towards the improvement of the economic position of the project implementing body.

"Ratios are measurements of business operation results studied over the years. They indicate the trends of an enterprise's financial soundness, growth and intrinsic problems. They also reveal the inter-relationship between various aspects of enterprise operation. In this chapter, we discuss the use of financial analysis as a key to project appraisal as well as its implementation."

CHAPTER 24

FINANCIAL ANALYSIS — AN INPUT IN FINANCIAL APPRAISAL

Introduction

Financial analysis assumed an increasingly important role as a scientific tool for appraising the real worth of an enterprise, its performance during a period of time and its pitfalls. This strategy helps in drawing out the complications of what is contained in the financial statements.

Concept of Financial Analysis

Financial analysis is defined *as the process of discovering economic facts about an enterprise and/or a project on the basis of an interpretation of financial data.* Financial analysis also seeks to look at the capital cost, operations cost and operating revenue. The analysis decisively establishes a relationship between the various factors of a project and helps in maneuvering the project's activities. It also serves as a common measure of value for obtaining a clear-cut understanding about the project from the financial point of view.

An analysis of several financial tools provide an important basis for valuing securities and appraising managerial programmes. Financial analysis is vital in the interpretation of financial statements. It can provide an insight into two important areas of management — return on investment and soundness of the company's financial position. David Hawkins observes that the analyst evaluates results against the particular characteristics of the company and its industry. He seldom expects answers from this process; but he hopes that it would provide him with clues as to where he should focus his subsequent analysis.

Internal management accounts provide information which is valuable for the purpose of control. The information is made available in the form of accounting data, which may be manifested as financial and accounting statements. A financial analysis reveals where the company stands with respect to profitability, liquidity, leverage and an efficient use of its assets. Financial reports provide the framework within which

business planning takes place. They are the key through which an effective control of a business enterprise is exercised. It is the process of determining the significant financial characteristics of a firm. It may be external or internal. The external analysis is performed by creditors, stockholders and investment analysis. The internal analysis is performed by various departments of a firm.

Significance of Financial Analysis

Financial analysis primarily deals with the interpretation of the data incorporated in the proforma financial statements of a project and the presentation of the data in a form in which it can be utilised for a comparative appraisal of the projects. It is, in effect, concerned with the development of the financial profile of the project. Its purpose is to find out whether the project is attractive enough to secure funds needed for its various constituent activities and once having secured the funds, whether the project will be able to generate enough economic values to achieve the objectives for which it is sought to be implemented. It deals not only with the financial aspects of a project but also with its operational aspects. As such, it is necessary to undertake such an analysis not only in the case of industrial projects but also in the case of non-industrial projects.

Analysis of financial statements has become very significant due to the widespread interest of various parties in the financial results of a company. In recent years, the ownership of capital of most public companies has become broad-based. A number of parties and bodies, including creditors, potential suppliers, debenture-holders, credit institutions like banks, industrial finance corporations, potential investors, employees, trade unions, important customers, economists, investment analysts, taxation authorities and Government have a stake in the financial results of a company. Various people look at the financial statements from various angles. A number of techniques have been developed to undertake analysis of financial statements in order to reach conclusions about the financial health, profitability and efficiency of an enterprise and also to compare an enterprise with other similar undertakings. The technique of ratio analysis is the most important tool of financial analysis. It helps in comparing the performance of various companies and judge their financial soundness.

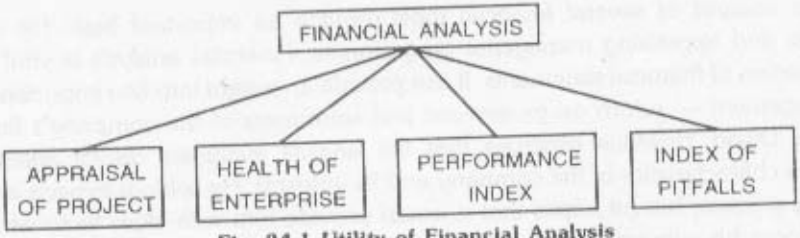


Fig. 24.1 Utility of Financial Analysis

Utility of Financial and Accounting Statements

Financial statements play a vital role in the internal financial control of an enterprise. These should, therefore, be properly constructed, analysed and interpreted by executives, bankers, creditors and investors. The following factors enhance the utility of financial statements:

1. *Large-Scale Production:* The ability to analyse financial reports is essential bridging the gap in personal relationships created by the size of business units.

2. *Regulatory Provisions:* Financial statements are often required by Government regulations. Accounting procedures are standardised to obtain correct and adequate data for the construction of financial statements.

3. *Income-Tax Accounting:* The income-tax authorities insist on the maintenance of proper and suitable accounting records.

4. *Executives:* Executives need information so that they may be in a position to plan for profits and ensure a sound financial condition for the firm. Financial statements serve the business executive as gauges and charts serve the engineer.

5. *Bankers:* The banker seeks liquidity, but looks upon his debtors not merely as clients but also as ordinary customers. His analysis has, therefore, to be thorough.

6. *Investors:* Whether buying an interest in a firm or purchasing the securities of a corporation, the investor's interest in the enterprise is continued for a number of years.

7. *Mercantile Credit:* Mercantile credit refers to the grant of credit by one merchant to another. The usual object of granting credit is to enable the customer to have some time in which he many realise his dues on he merchandise he has sold.

The entire future of a company hinges on the manager's ability to decide relevant financial data with a view to planning profit ability moves. Learning to read financial statements is the first essential element in any businessman's attempt to acquire financial management skills. The change in the elitism of stock ownership to broad public ownership has necessitated a concomitant change in the entire process of reporting corporate financial results. The role of management in the matter of preparation of financial statements is to add understanding to these statements, the fairness of which is to be viewed through the eye of the user, while that of the accountant is to close the communication gap and of the auditor to add credibility to them. For evolving a good economic information system, accounting innovations are of great economic information system, accounting innovations are of great importance. Without these, communication with the financial community would be difficult, the interest of present and future potential investors would not be served, the ability of the company to raise additional capital would be impaired and the government's regulatory measures and policies would not serve the best interests of society. Though a financial statement reveals less than it conceals, it provides the indicators of the enterprise's performance during the year.

Financial analysis seeks to spotlight the significant facts and relationships concerning manager al performance, viz., corporate efficiency, financial strengths and weaknesses and creditworthiness of the enterprise.

Financial Tools

Financial tools are of immense use to entrepreneurs in carrying out his planning and controlling functions. The financial tools are helpful to top management, creditors, investors, and labourers. The principal financial tools are:

(i) Trend Analysis

(ii) Variable Analysis

(iii) Ratio Analysis

(iv) Funds Flow Analysis

(v) Break-Even Analysis

(iii) Common size statements

(vii) Cash Budgetary and

(viii) Proforma statement

Conclusion

The financial analysis is a unique technique useful in the sphere of financial control, planning and review of financial condition of the business organisation. With the help of financial tools the entrepreneur can rationalise his decisions and reach the business goal easily.

The objective of financial analysis is to develop the project from the financial angle and to identify financial characteristics.

It is a tool in judging the performance of a project/enterprise. It helps the entrepreneur, banker and other concerned people to know about the health of an enterprise. It also indicates the direction in which it is progressing. It also gives the warning signals, if any, in its own way. Financial analysis gives a clearer picture of a project as far as its financial factors are concerned. Financial statements, particularly the ratios, require a detailed,critical examination to test their validity. This examination is possible by looking into the internal management of the concern. Briefly, financial analysis is a right step in financial management.

ANNEXURE I

VARIOUS INNOVATIVE INSTRUMENTS AS SOURCES OF FINANCE

Banks have traditionally been the main source of finance for the corporate sector. However, with liberalisation in the financial sector and the consequent disintermediation process which is slowly setting in, the financial market is being flooded with various innovative instruments as alternative source of finance for the corporate sector. Besides leasing, hire-purchase and venture capital which are dealt with in detail in separate articles in this issue, the salient features of some other innovative instruments of recent origin are explained below:

Commercial Paper

It is a short-term debt instrument meant for highly-rated corporate borrowers to diversify their source of finance. Companies with a minimum net worth of Rs. 10 crore and maximum permissible bank finance (MPBF) of at least Rs. 25 crore and having their shares listed on the stock exchange can enter the commercial paper market, with a credit rating from an approved agency (exempted for public sector companies). The companies can issue commercial paper in multiples of Rs. 25 lakh subject to a minimum and maximum size of an issue being Rs. 1 crore and 20 per cent of their MPBF. The maturity period of the commercial paper would be three to six months and this would be freely transferable. The issue of commercial paper requires RBI's prior approval.

Factoring

'Receivables' form a critical component in the working capital cycle of a growing concern, and if it gets choked, it generally leads to a health problem of the unit. Thus, collection of receivables and sales ledger administration acquires significance for a growing concern and to ensure timely availability of cash, the concern can appoint a factor, who is willing to undertake such jobs on its behalf. The job of a factor includes:

(i) Bills/invoice discounting and collection of receivables on behalf of clients; and

(ii) Total sales ledger administration.

Factoring is, therefore, a source of finance as well as service. Factoring has been accepted by the RBI and an institutional set-up for providing services used to commence shortly.

Forfeiting

Forfeiting is a method of export finance wherein the forfeiter purchases the claims from the exporter (seller) without recourse to him. The seller forfeits/surrenders his rights or claims to payments in preference for immediate cash. It differs from export factoring in that it is on a non-recourse basis and covers high value export transactions relating to export of capital goods and project exports. It is an alternative to buyer's/supplier's credit. It would enhance the competitive edge of Indian exports in international markets as and when introduced in the country.

Conclusion

Financial analysis is a tool in judging the performance of a project. It helps the entrepreneur, banker and other concerned people to know about the health of an enterprise. It also indicates the direction in which it is progressing. It also gives the warning signals, if any, in its own way. Financial analysis gives a clearer picture of a project as far as its financial factors are concerned. Financial statements, particularly the ratios, require a detailed and critical examination to test their validity.

This examination is possible by looking into the internal management of the concern. Briefly, financial analysis is a right step in financial management.



CHAPTER 25

RATIO ANALYSIS

Introduction

Ratio analysis is a key dimension of financial management, suggesting a relationship between profit and loss as mentioned in the balance sheet of an organisation. Its appropriate use will go towards giving a true picture of the financial health of the unit. Its benefits can be seen in areas of management, production, marketing, personnel management etc.

An enterprise keeps fit by ensuring that inter alia, its various financial proportions are feasible. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and the financial position of a firm. These figures convey effective meaning when it is related to some other relevant information.

In assessing the financial stability of a firm, a management should, apart from profitability, be interested in relative figures rather than in absolute figures. In fact, an analysis of financial statements is possible only when figures are expressed as percentages or ratios.

What is Ratio Analysis?

The latin word *'ratio'* stands for reason. In English 'ratio' stands for the relationship. Ratio analysis is defined to mean "the establishment of a reasoned relationship" of a fixed variable character between measurements of certain phenomenon having some kind of linkage.

A ratio shows the arithmetical relationship between two figures. Thus we can say that the ratio of gross profit to sale is 1:4 or 25% (stated as percentage) or 25. It is obvious that absolute figures do not convey much. Thus if we say that Co. A made a profit of Rs. 50,000 and Co. B a profit of Rs. 60,000 we cannot automatically conclude that Co. B is more profitable. If we say that Co. A has made a profit of Rs. 50,000 against Rs. 5,00,000 employed as capital, it can be concluded that Co. A is more profitable since its net profit to capital employed ratio is 10% as against 5% of B. Ratios show the relationship between the relevant figures. With their help, we can reach useful conclusions about the performance and financial health of a company.

It goes without saying that ratios should be worked out on the basis of figures which are significantly related to each other. For example, the relationship of total debtors to authorised capital will be meaningless but that of total debtors to credit sales definitely is. It will be no use establishing ratios between figures which do not influence one another. It has been suggested by some accounts that in the arrangement of ratios properly, the "more desirable" item should be divided by the one that is "less desirable" so that any favourable change reflects itself by an increase in the ratio. For example, it is more desirable to have more current assets than current liabilities; hence current assets should be divided by current liabilities. This suggestion, however, is not universally accepted. Consequently, there is lack of uniformity in the expression of results; while discussing the ratios, along with name of each ratio, the formula for the ratios also need to be stated.

Nature and Conditions of Applicability for Inter-firm and Intra-firm Comparison

Accounting ratios may be employed to analyse and for analysing and comparing the working results of a concern for a year with that of another and also determining the efficiency of the employment of capital by comparing amounts of its capital, assets, liabilities and sales with those of another concern in the same industry. Internal comparison provided the conditions of working remain substantially the same from one period to another, can be helpful in determining the trends of the business and analysing factors which may have contributed either to a rise or a fall in its sales or that of gross profit. Inter-firm comparison, i.e., between firms in the same industry, also can be very instructive to the management in as much as the examination of ratios in different industries may illustrate: (1) different methods of trading followed by them; (2) different uses or sources of capital; (3) different policies followed as regards management, etc. But it must be emphasised that inter-firm comparison is practicable only if the accounting practices followed by different concerns retain their uniformity, the definition of terms have been agreed upon beforehand and accounting statements drawn up in a manner that comparable figures comparison based on accounting ratios is to ascertain significant variation in the rate of earnings or the financial structure that may exist between one unit and another in the same industry, so that any weakness revealed thereby may be remedied. But such a comparison would be valid only if the firms are of a similar size, carrying on a similar business and situated in localities which afford almost identical facilities for carrying on the business. In the case of firms engaged in diverse activities, a purposive comparison is practicable only if their total figures are broken down to arrive at separate figures as regards the different activities of the firm.

These ratios are a very sensitive tool. As such, to get at a correct indication which may serve as a useful guide for the determination of future policies, there must exist a high degree of comparability between one firm and the other. In the case of an internal comparison, the conditions under which the firm was working during different periods of time should be identical.

To make the comparison as informative as possible, the firms within an industrial group should be classified as those showing the highest, lowest and average returns

on capital employed as compared to fixed assets and a similar policy should be followed in regard to quantities of stocks, stores and work-in-progress held.

An intra-firm comparison of financial results of different units in the same industry can be made even by establishing a standard ratio.

The method is based on the broad principle that for every industry, there are certain characteristic financial and operating ratios, and depending upon the nature of its activities, the standards whereof can be set up by averaging the ratios of several concerns in the industry.

For example, if the gross profit ratios and some of the expense ratios of several sugar mills in an area are averaged, the average ratios would provide the standards that each mill must approximate to enjoy an average measure of success.

Although some ratios may hold good only for a particular industry, a basic ratio, e.g., yield on capital, may enable one to compare even one industry with another though the economic conditions in which each industry operates must always be kept in mind. For instance, the rate of return in the case of electricity companies is circumscribed by legal restrictions. This fact must be kept in view when comparing electricity undertakings with firms in other industries. Still, it is a ratio which alone can afford such a comparison. They give a better basis for a comparison of the performance of a firm in one year with that in another; they are very useful in establishing trends and forecasting and are of immense use to bankers and investors in judging a firm's prospects. Ratios are indicators of the performance and the financial position of a company.

The classification of variables is an important step towards financial statement analysis. To properly evaluate financial items, ratios must be selected for each group in such a way as to best disclose the degree of association between the variables within each general relationship. The step-wise regression method is one technique for choosing such a group or list of ratios. The variable considered the most important is given the smallest weight. When the step-wise regression method is employed, the variables are automatically and objectively ranked by degree of their importance; thus, any possible bias of an individual is excluded from influencing the order of the variables. The variables are ranked by the reduction in the unexplained variation which may be attributed to each of the independent variables. The variable that is responsible for the greatest reduction is ranked first while that causing the least reduction is placed last.

Advantages of Ratio Analysis

1. The process of producing financial ratios as observed by Lee, is concerned with the identification of the significant accounting data relationships which give the decision-makers insights into the company being assessed.
2. A ratio analysis involves a study of the total financial picture. By basing conclusions upon a thorough understanding of the importance of each ratio, the analyst can recommend and indicate positive action with confidence.
3. One of the most fruitful areas for the use of traditional financial ratios seems to be that of predicting company failures.

4. Ratios enable the company's management to analyse business situations and to monitor their performance as well as that of their competitors.
5. Ratio analysis helps the management to diagnose the situations, monitor the performance and chalk out future plans of the company.
6. There are certain priority ratios for the chief executives in to key areas which are common to nearly all business and with which the top management is seriously concerned with. These priority ratios enable the chief executives to understand the relationship between his organisation, at one end, and the market, investors, suppliers and employees, at the other. He is also in a position to watch how well is the organisation using its assets and how well it is providing for the future.
7. There are ratios which help the marketing manager, the purchase manager, the financial manager and others representing the middle management to know what the positions are like and how to find a way out in typical situations from time to time.

Limitations

1. Erich Helfert has pointed out that it is essential for a person analysing business performance to have a clear awareness of the tests he should apply and the specific reasons for which he should apply them. Temptation arises in financial ratio analysis to run all numbers, yet select only a few relationships which would provide clues for judgement.

2. Industry ratios pose a more difficult problem to the financial analyst because of the following reasons:

(a) It is difficult to determine the industry to which a company belongs.

(b) The whole emphasis of the system of accounting is on consistency rather than profitability among different companies at a single point in time.

3. There is clearly some latitude for window-dressing. Within limits, a company may be able to arrange its current assets and liabilities so as to have the desired ratios at the time the balance sheet is presented to stockholders.

4. Financial standard data are not exact, and have, therefore, to be treated with great caution.

5. The valuation contained in the final statements does not represent the actual position because it is based on the assumption that the financial statement presents a reasonable picture of what is happening in the business. The information relates only to a particular period and cannot be relied upon excessively. The ratios refer to past events and may not represent the present or future events.

6. Financial statements are generally based on historical or original cost. The current economic conditions are ignored.

7. V.V.Desai points out that the advancing artistry of the technique of ratio analysis has miserably failed to accomplish the expected impeccability or immaculacy. Moreover, it has made the technique more complicated and complex far beyond the understanding of ordinary businessmen.

8. Not all ratios and percentages are significant and useful. One should beware of the temptation to calculate them for their own sake.

9. R.H.Parkar is of the opinion that the limitations of conventional accounting should always be kept in mind and that accounting figures should not be treated as more precise than they really are.

10. A ratio is of little value in isolation. It is necessary to have some standard with which to compare it. The standard may be a budgeted one. It may be set by a company. It may be a historical one. It may be based on the past performance of the company. It may be based on industry comparison.

11. In using ratios computed by others, one should realise that the computation of a particular ratio has not necessarily been standardised.

12. A frequent comparison of ratios between companies is questionable, particular when there are important differences between companies, such as industry, nature of operations etc.

13. Most ratios represent averages and, therefore, may tend to obscure large variations in the underlying causative factors above and below the average.

14. Ratios are based on financial statements and suffer from the limitations inherent in these statements.

15. Changes in many ratios are closely associated or connected with one another.

16. While comparing the size of a ratio during the current period with the corresponding ratio during a previous period, it is possible that the conditions, during the two periods may have changed; for example, product lines, markets, economic conditions, prices etc.

17. While comparing the ratios of a particular firm with those of similar firms, the differences between the firms should be recognised; for example, methods of accounting operations and financing.

18. Not many results of financial statement analysis can be used by themselves as direct indications of good or poor management. Such analysis merely indicates probabilities or matters which might be investigated further. Davidson, Schindler, Stickney and Weil have pointed out that ratios derived from financial statements should be combined with an investigation of facts before valid conclusions can be drawn.

19. Ratios are likely to be misused. There are some situations in which they may appear to be misleading.

20. Westwick observes that ratios need the upper and lower warning lines because in most cases they have an optimum level.

21. Ratios are mathematical but this does not ensure that they are useful because the mathematical process does not attest to the fundamental relationship between the two factors in the computation. Unfortunately, everyone does not understand this fundamental fact and some financial ratios which have been advocated may have little or no value.

22. A ratio analysis is a guide rather than a solution to the present problems and future plans. It is not possible to suggest absolute ratios for a firm, which makes it imperative to consider issues as competition financial resources and objectives of a company.

Quantitative Approach

Ratio analysis may be defined as "the establishment of a reasoned relationship" of a fixed or variable character between measurements of certain phenomena having some kind of linkage. It is not confined to the four walls of financial management. There are vast and fruitful opportunities for its application to production (operations), marketing, personnel and general management.

The quantitative approach to management has manifested itself mainly in three forms:

(i) the theory of probability and other branches of statistics;

(ii) operations research; and

(iii) applications of mathematics to economics, psychology, sociology and other behavioural studies having their bearing on decision-making, commercial viability or managerial efficacy of various types of entities.

Various factors have added to the significance of quantitative approach in management:

(i) tremendous increase in the quantum of activity;

(ii) technological change;

(iii) needed fineness in the process of comparison;

(iv) need for a computerised capsule approach;

(v) emphasis on objectivity in decision-making; and

(vi) call for greater conviction through the language of numbers.

Among the limitations of quantitative approach are:

(i) unreal assumptions;

(ii) an excuse for not existing common sense;

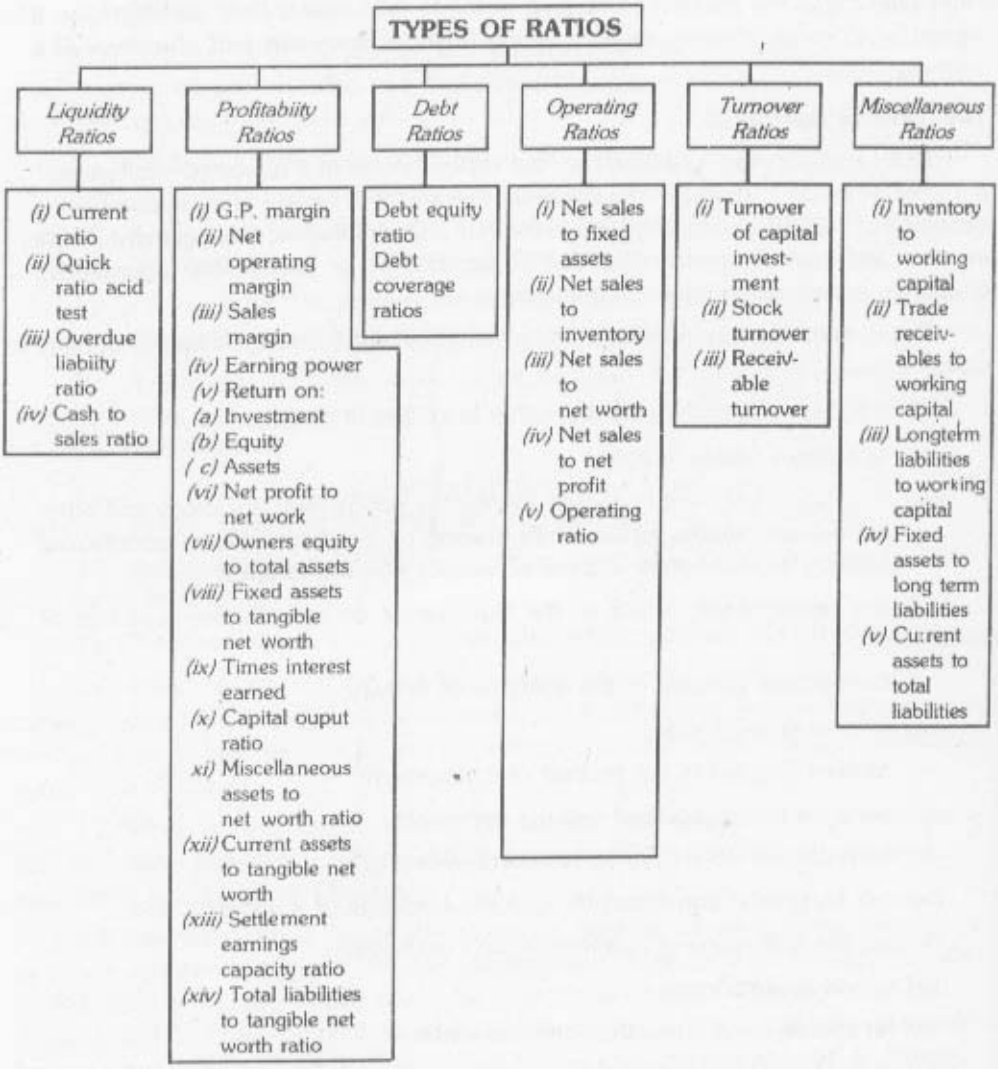
(iii) vast scope for window-dressing in accounting/manipulation of financial ratios; and

(iv) phoney relationships not based on any significant linkage.

Classification and Significance of Financial Ratios

Financial Ratio Analysis (FRA) is a quantitative technique for assessing the financial health of a unit from the accounting data. FRA helps to describe the significant relationship between two comparable figures in the financial statements.

Chart 25.1



Ratios need to be interpreted:

(i) to decide the perspective from the point of view of the shareholder, management, creditor, labour and the government.

(ii) to compare with norms/budget, previous year's figures, industry average, inter-firm comparison.

The ratios can be conveniently classified under five categories.

Classification of Ratios	*Significance*
(i) Liquidity ratios	Liquidity refers to the ability of the firm to meet its obligations in the short run, usually one year. These ratios help determine the solvency of the firm.
(ii) Leverage ratios	Financial leverage refers to the use of debt finance, which is cheaper but a riskier source. Leverage ratios help in assessing the risk arising from the use of debt capital.
(iii) Activity ratios	Activity ratios are also called turnover/asset management ratios. They measure how efficiently the assets are employed by the firm.
(iv) Profitability ratios	Profitability reflects the financial result of business operations. The highlights of business performance are exhibited through profitability ratios. They serve as indicators of effectiveness and efficiency.
(v) Valuation ratios	The solvency, leverage, turnover and profitability of business create a 'market perception' and value for a company, based on which quotations in the stock exchange fluctuate. Valuation ratios offer important tips to investors and creditors.

Important among the above five groups of ratios are briefly stated here under:

A. Liquidity Ratios

Ratio	*Formula*	*Significance*
(i) Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	*(a)* helps to determine the ability of the firm to meet current liabilities. *(b)* higher the current ratio, greater the short-term solvency. *(c)* Ratio of 1.33 and above indicates that the II method of lending is fulfilled and there is available sufficient NWC.
(ii) Acid test ratio	$\frac{\text{Quick assets}}{\text{Current liabilities}}$	*(a)* indicates a fair measure of liquidity. *(b)* measures the extent to which liquid resources are immediately available to meet current obligations.

B. Leverage Ratios		
(i) Debt-equity ratio	Debt Equity	*(a)* Lower the ratio, higher the protection to creditors. *(b)* General norm is 2:1. For highly capital-intensive projects, debt-equity ratio of up to 4:1 is allowed.
(ii) Asset coverage ratio	Net block / Term liabilities	*(a)* Indicates the extent to which the cost of fixed assets is met out of long-term borrowed funds.
(iii) Debt service coverage ratio	Profit after tax (PAT) + Depreciation + Interest on LTL + Loan repayments	*(a)* Indicates the debt servicing ability of the firm. *(b)* Ratio of 2 is considered as satisfactory.
C. Activity Ratios		
(i) Inventory turnover ratio	Net sales / Inventory	*(a)* Reflects the efficiency of inventory management.
(ii) Debtor-velocity ratio	Receivables x 360 days	*(b)* Higher the ratio, higher the efficiency. Indicates the time given to debtors to repay their dues; to be studied with reference to company's policies.
(iii) Creditor-velocity ratio	Sundry Creditors × 360 days / Purchases	If the ratio is increasing, it can be due to short-term liquidity problem or it may indicate the company's ability to get more credit from the market.
(iv) Fixed assets-turnover ratio	Net sales / Fixed Assets	Measures the efficiency of all assets.
D. Profitability Ratios		
(i) Gross profit ratio percent	Gross profit × 100 / Gross sales	*(a)* Ratio shows the margin left after meeting the manufacturing costs.

Liquidity Ratios

These are the favourite ratios of lending bankers. Current ratio and quick or acid test ratio are grouped under liquidity ratios.

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

give the current ratio. This ratio will indicate whether short-term assets are sufficient to meet short-term liabilities and hence it is a measure of the liquidity of the business. Before attempting to compute this ratio, the lending banker should know what constitutes current assets and current liabilities. Here the lending banker should follow the usually accepted approach of bankers and not the definitions in the Companies Act. A large list of current assets and current liabilities can be seen in the guidelines issued by the Reserve Bank of India as a part of the CAS discipline.

Broadly speaking, current liabilities would include items payable or expected to be turned over within one year from the date of balance sheet. The term is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing property classified as current assets or the creation of other current liabilities. The term "current assets" is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realised in cash or sold or consumed or turned over during the operating cycle of the business, usually not exceeding one year.

While it is not necessary that calculation of current ratio should be based exclusively on the list provided by the RBI, it would help the lending banker to verify the claim of the borrower that a particular item is a current asset or is not a current liability. Similarly, although book debts are considered as current assets, if the debts exceed three or six months' time period, they are considered as current assets. The ideal ratio is stated to be 2:1. This ideal is, however, more a goal or comfort figure than a minimally accepted standard. Again, a high ratio may not mean that the business is solvent as finished goods, which are a part of current assets, should be sold and book debts, another current asset, should be actually realised. Nevertheless, given the saleability of goods and realisability of debts, the importance of this ratio cannot be belittled for a short-term lender like a bank.

Obviously, a ratio less than one is unacceptable to a lending banker because it means there are no sufficient current assets to meet the current liabilities. While the ratio of 2:1 is a goal, what should be the acceptable ratio? Can there be an acceptable ratio for all businesses for all times? Even if a borrower is brought under the second method of lending suggested by the Tandon Committee, what could be achieved is a ratio of 1.33:1. The ratio of the borrower should be compared with other units in the same line of business and the trend in the ratio should be watched year after year, together with the composition of the asset make-up.

Quick or Acid Test Ratio

Since the current ratio does not speak much about the liquidity of a business, acid test ratio is calculated to know whether the borrowing unit can generate funds quickly to pay off its creditors. Hence stock and work-in-process are deducted from the current assets and the result is divided by current liabilities. Too much emphasis need not be placed on this ratio as in the normal circumstances, for a going concern, this ratio is not in touch with reality. Again, although sundry debtors are included, if the realisability of debts is doubtful, the ratio will give a misleading picture.

Profitability Ratios

While the number of ratios can be grouped under profitability ratios, here only three ratios are dealt with. These are: *gross profit ratio, net profit ratio* and *return on the equity.*

Gross Profit Ratio (GDR)

$$\frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

will give gross profit as a percentage of sales. This is one of the oldest and widely used financial ratios. It is of value for comparison between two similar business units or among different accounting periods. If the ratio compares favourably with the industry average year after year, it is a *prima facie* evidence of the soundness of the management. A steady and adequate rate of gross profit is a reliable evidence of efficient management. A lower ratio will indicate that the production expenses are on the high side.

Net Profit Ratio (NPR)

$$\frac{\text{Net profit}}{\text{Sales}} \times 100$$

will give net profit as a percentage of sales. Net profit is arrived at after deducting general, administrative and selling expenses and interest from gross profit. NPR used in conjunction with gross profit ratio will give certain worthwhile signals to the lending banker. If GPR remains steady and the net profit ratio falls, the lending banker should examine the expenses which have caused this fall and whether such expenses are extraordinary, non-recurring, etc.

Return on the Equity

$$\frac{\text{Net profit}}{\text{Shareholders' funds}} \times 100$$

will indicate the return available to the shareholders. Here net profit is taken after taxes. Only earnings attribute to ordinary shareholders are taken into account for calculation of the ratio. This is an important ratio for investors because it takes into account all the factors which affect the business. A lending banker may not be directly concerned with this ratio. Nevertheless, a fair return on the shareholder's funds indicates the health of the business and safety of the advance.

Debt-Equity Ratio (DER)

The long-term debt-equity ratio indicates the respective proportions of debt and equity capital in the total investment.

The DER is also a measure of investor leverage. The smaller the equity capital, the higher the income per unit share. Equity owners, therefore, favour high debt-equity ratio since such ratios give leverage to equity capital and allow equity owners to control projects even with a small amount of capital.

However, the financial institutions insist on a sound DER because higher the proportion of equity, higher the stake of the investors in the project and lower the risk for financiers. Financial institutions are usually very hesitant to finance projects if the equity component is less than 50 per cent of the total capital investment. There is, however, no single debt-equity ratio which is regarded as ideal or sound. This ratio depends on certain factors like the nature of the project, government policy, etc.

Financial institutions have to give due consideration to government policy in respect of debt-equity ratio. Government of India has been favouring different ratios for different projects. For example, according to the Industrial Policy Statement of 1977,

large industrial houses are expected to depend more on own funds for new projects and expansion schemes. The statement, read that, "while an appropriate debt equity ratio will be permitted in the case of industries like fertilizers, paper, cement, shipping, petro-chemicals, etc., which are relatively more capital-intensive in nature, the debt-equity ratio in the case of other less capital-intensive or less sophisticated industries will be so fixed as to reflect greater use of their own internally generated resources by the large houses."

Debt to Total Assets Ratio

The debt to total assets ratio is another leverage ratio which is of considerable significance to creditors because it highlights the long-run solvency of the company. Lower this ratio, the greater is the cushion against creditors' losses in the event of liquidation.

Debt service coverage ratio (DSCR) is calculated as under:

$$\frac{\text{Net profit + depreciation + interest on term loan}}{\text{Amount repayable on loan + interest on loan}}$$

Investment allowance and amortisation of expenses debited to the profit and loss account are added back to the net profit; and net profit is profit after tax. The ratio indicates the measure of safety available for payment of instalments of term loan and interest due. In other words, this ratio will indicate whether the business earns sufficiently to service its long-term debt with interest on it. This ratio is calculated by a bank when it has to consider a term loan application or when the working capital facility is to be converted into a long-term loan with repayment over a period of time. A ratio of 2:1 is satisfactory in as much as even if the earnings fall by 100 per cent, the borrower still will be able to repay the loan with interest. However, many a time a lower ratio is accepted provided it is not below 1.33:1.

Conclusion

A ratio is a mathematical relationship between two parameters. Ratio analysis is of major importance for financial analysis. Ratio is both a quantitative as well as qualitative index of measurement. Though it is primarily related to financial managment, there are vast and fruitful opportunities for its application to production, marketing, personnel and general management. Thus ratio analysis equips the entrepreneur with timely and correct status of varied activities of his/her enterprise its utility enhances with the deepening knowledge and involvement of the enterpreneurs in his project work.



CHAPTER 26

INVESTMENT PROCESS

Introduction

Information on the utility and importance of ratio analysis has been aptly presented earlier. In this chapter, the investment process will be dealt in all its aspects.

The investment process helps the entrepreneur to make a clear assessment of the rate of return on his investments in a short and long-term basis.

Characteristics of Investment

The entrepreneur has to weigh the alternative investment process in accordance with his preferences to achieve his business goal.

The principal charactristics of investment are:

(i) Risk
(ii) Return
(iii) Safety
(iv) Utility
(v) Liquidity
(vi) Benefits

Investment Profile of an Entrepreneur

The investment process of an entrepreneur are multi-dimensional.He invests in land and building, machinery and tools, procuring raw-material, marketing etc. The entrepreneur has toevaluate each process in an indepth manner to gain from the investment decision.

Classification

Investment proposals are broadly classfied as follows:

1. Replacement Investments
2. Modernisation Investments
3. Rationalisation Investments
4. Expansion Investments
5. New Product Investments
6. Research and Develoment Investments

7. Marketing and sales investments
8. Human resource development investments
9. Welfare investments
10. Obligatory investments

Utiliy of Investment

Investment play a vital role in the overall economic development. In fact, the quantum of investment decides the process and direction of growth. In case of manufacturing enterprises investment determines its performance.

Broadly, the utility of investment is directed towards development, profit, power, wealth, capital generation and social good.

The Investment Process

The investment process is generally described in four stages. These stages are investment policy, investment analysis, valuation of securities, and portfolio construction.

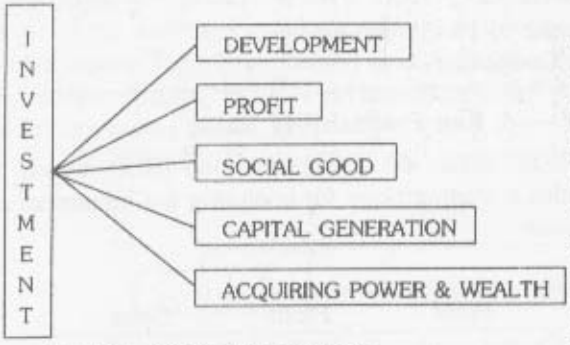


Fig. 26.1 Utility of Investment

Portfolio construction requires a knowledge of the different aspects of securities. These are briefly recapitulated here, consisting of safety and growth of principal, liquidity of assets after taking into account the stage involving investment timing, selection of investment, allocation of savings to different investments and feedback of portfolio as given in the table below:

The Process of Investing

I. Investment Policy

Determination of investible wealth
Determination of portfolio objectives
Identification of potential investment assets
Consideration of attributes of investment assets
Allocation of wealth to asset categories.

II. Investment Valuation

Valuation of stocks	Valuation of Debentures and bonds	Valuation of other assets

III. Investment Analysis

Analysis of the Economy

Equity Stock Analysis	*Debentures and Bond Analysis*	*Other Assets Analysis*
Screenings of industries	Analysis of yield structure	Qualitative analysis
Analysis of industries	Consideration of debentures	Qualitative analysis
Quantitative analysis of stocks	Quantitative analysis of debentures	

IV. Portfolio Construction

Determination of diversification level
Consideration of investment timing
Selection of investment assets
Allocation of investible wealth to investment assets
Evaluation of portfolio for feedback.

Return on Investment (ROI) — A Key Profitability Ratio

A Key Profitability Ratio is the return on investment ratio (ROI), which is a measure of efficiency and provides a starting point for analysing the influences and trends in a company's performance.

It is defined as

$$\text{Return on Investment} = \frac{\text{Profit}}{\text{Capital employed}} \times \frac{\text{Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Capital empoyed}}$$

In determining the capital employed, any of the following three definitions can be used:

(a) Gross Capital Employed = Fixed Assets + Current Assets

(b) Net Capital Employed = Fixed Assets + (Current Assets – Current Liabilities)

(c) Proprietors' Net Capital Employed = (Fixed Assets + Current Assets) – (Current Liabilities + Long-term borrowings)

The proprietors' capital employed can also be defined as Proprietors' net capital employed = Equity Capital + Preference Capital + Accumulated Reserves and Profits.

The definition of profit, used in calculating ROI, will change according to the meaning of capital employed.

Briefly:

(1) If some asset has been excluded from the calculation of amount of capital employed, its income must also be deducted from the profits. Usually, fictitious and intangible assets are not included in the capital employed.

(2) If "capital employed" is the gross capital, then interest paid on debentures/ long-term liabilities/preference shares dividends should also be included in profits, i.e., added back to profits.

(3) If capital employed is calculated in the sense of "net equity capital employed" then both debenture interest and preference dividends should be deducted from profits.

Generally, profits calculated for any type of capital employed must not include abnormal and non-recurring gains or losses, e.g., gains or loss on sale of fixed assets, gains on foreign exchange fluctutations, gains on insurance claims, etc.

A low ROI could be due to either low gross profit margins, a low rate of assets turnover or a combination of both. Therefore, if profit margins on sales cannot be improved due to strong domestic/international competition, then the only way to improve the return on investment is by increasing the rate of assets turnover, i.e., by increasing productivity. This could be further broken down, by working out the ratio of Sales: Fixed Assets and Sales: Working Capital, in order to find out whether these are satisfactory and whether there is room for improving the productivity of the fixed assets or of the working capital component of the capital employed. In other words, the Fixed Assets Turn-Over (Sales/Fixed Assets) or the Working Capital Turn-Over (Sales/Working Capital) must be separately assessed in order to find out which offers scope for improving productivity.

RETURN ON INVESTMENT

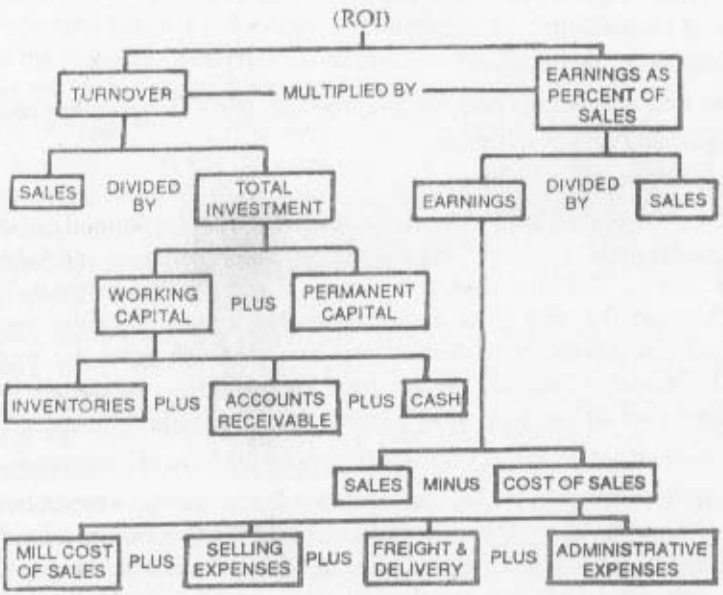


Fig. 26.2 Du Pont Chart

N.B.: Alternatively total investment can be analysed as Shareholders' equity plus Long-term borrowed fund plus Current Liabilities.

An important aspect of measuring the operating efficiency of management is to assess the Operating Ratio which is defined as:

Operating Ratio = Operating Costs/Sales

The higher the operating ratio, the lesser is the margin available for net profit to owners (and shareholders or proprietors) and for ploughing back into the company. A high operating ratio is indicative of inefficient management and must immediately be investigated.

Investment Ratio

Ratio analysis is defined to mean "*the establishment of a reasoned relationship*" of a fixed or variable character, between measurements of certain phenomena having some kind of linkage. They are the key tools of management. In this sense, investment variable ratios have acquired greater significance in financial management.

Deciding factors while starting a business

It is profitable for the entrepreneur of a new or proposed business to be familiar with the following factors in making a choice for a suitable form of ownership:

1. Type of business — service, trade, manufacturing.
2. Scope of operations — volume of business and the size of the market area served.
3. Degree of direct control and management desired by the owners.
4. Amount of capital funds required.
5. Size of the risk.
6. Continuity of the concern.
7. Costs and procedures and relative freedom from Government regulation.
8. Adaptability of administration.
9. Comparative tax advantage, etc.

Before the above-listed factors stand considered, it must be pointed out that these factors are inter-dependent. In reaching a decision, management is guided by some or all of these factors. The final choice, however, may be a compromise. Thus, the problem in choosing the best form is one of analysing and weighing the relative advantages and disadvantages to find to the one that will yield the highest net advantage. The obvious flexibility in the form of ownership suggested that most businesses operate under the type most suitable to their needs.

Let us now consider the impact of these factors on the form of business ownership.

1. *Type of business activity:* This is important factor having a direct bearing on the choice of ownership. In small trading businesses, professions and personal service trades, sole proprietorship is predominant. Examples are laundries, beauty parlours, repair shops, consulting agencies, small retail stores, medicine, dentist, accounting concerns, boarding house, restaurants, speciality shops, builders, painters, decorators, bakers, confectioners, tailoring shops, small-scale cobblers and shoe manufacturers, etc. The partnership is suitable in all those cases where a sole proprietorship is suitable, provided the business is to be carried on a slightly bigger scale. Manufacturing contains

the highest percentage of companies among all industries. Similarly, large chain stores, multiple shops, superbazaars, engineering companies are in the form of companies.

2. *Scope of operations:* If the scale of operations of business activities is small, sole proprietorship is suitable; if the scale of operations is modest — neither too small nor too large — partnership is preferable; whereas, in the case of large-scale operations, the company from is advantageous. The scale of business operations depends upon the size of the market area served, which in turn, depends upon the size of demand for goods and services. If the market area is small, local partnership is adopted. If the demand originates from a larger area, partnership or company may be adopted.

3. *Direct control and management:* In the sole proprietorship and partnership, the ownership and management and control are completely fused; in the case of a company, there is a divorce between ownership and management. If the entrepreneur is not ready or willing to part with control and management of the business, he will choose the sole proprietorship. If he is just not bothered about it, he will go in for partnership and company.

4. *Attraction of additional capital:* Every business may require additional funds from time to time to carry on its business operations. If it cannot obtain adequate capital, it may be headed for failure. In deciding on the legal form of ownership, the top executive must take into account the question of how new money is to be attracted and raised. In a proprietorship, the owner may raise additional capital by borrowing, by purchasing on credit or by investing additional amounts himself. Banks and suppliers, however, will look closely at the proprietor's individual financial resources before sanctioning loans or advances. Partnerships can often raise funds with greater ease, since the resources and credit of all partners are combined in a single enterprise. Companies are better equipped to attract capital from the market.

5. *Size of risk:* Size of risks vary from one organisation to another. The sole proprietor is liable for all the debts of business to the extent of his entire property. Likewise, partners are individually and jointly responsible for the firms liabilities.

6. *Continuity of the concern:* While continuity of a concern is not guaranteed under proprietary and partnership, companies have the most permanent legal structure. Continuity of the concern is most stable.

7. *Costs, procedure and government regulation:* While proprietary and partnership concerns could be simply initiated, the company form of ownership is more complicated to form. In the formation of a company, a large number of legal formalities have to be gone through which involve a substantial amount of expenditure.

8. *Adaptability of administration:* In the case of a proprietary concern, administration goes with their individual. In a partnership it is shared. In both the cases, adaptability of administration goes with their knowledge and capacity to work. In a company, the administration is centralised in a small group of executives with less involvement.

9. *Comparative tax advantage:* In the case of proprietary concern, the income of the business is taxed as an individual assessee. If the business is higher, partnership form of organisation will be a right choice. As far as companies are concerned, they are taxed at a flat rate.

An entrepreneur has to weigh these major factors, as well as others in deciding the form of organisation while starting a business. Many a times, an enterprise, like a river, may be started as a proprietary concern, converted into a partnership when like minded people come together, are promoted into a joint-stock company when it grows substantially big. This organisational evolution is an ongoing process through interaction with the socio, political and economic environment.

For example, J.C.Basu put in Rs 15 ,000 of his savings and his brother-in-law, Ranjan Banerjee contributed an equal amount and set up the Trinity Forge in 1974. The business rose from Rs. 5.5 lakh in 1974 to Rs. 42 crore in 1996. It has now become a leading company in the forging industry.

The best and the brightest always stand out as the most outstanding. The best invariably prosper which leads to growth. And growth ultimately shows up in increased size. So in a free market economy, the size of the business (enterprise) is a fair indicator of excellence. Managing a larger enterprise is without doubt more difficult than running a small one. And so it is likely that many small enterprises are more profitable than their larger counterparts. But this is in no way detracts from the achievements of the latter. Large enterprises are better, by way of its inherent strength, the capacity to bear shocks and stresses, and simply by the fact that it has grown so big in a world where roughly everyone has had the same opportunities.

Incentives to Investment

Fiscal measures play a major role in the process of economic development. In fact, state intervention is used to sustain the level of effective demand for investment through various incentives. And, incentives stem from different instruments of fiscal policy, monetary policy and commercial policy (Chart 26.1).

Develop Capabilities

Advanced economies have grown through the centuries with the development and diversification of the industry and the resultant commerce. Every country slowly, and many times unknowingly, develops a sense of economic proportion. This sense ultimately determines, along with the economies of scale, the scale of economies. This sense of economic proportion brings with it the consciousness of capabilities - technological, managerial, financial and organisational. The advanced economies in the developed countries are due to their developed capabilities. So long as such capabilities have not been developed, large projects and larger conglomerates would prove to be sterile, difficult to establish, and much more rigorous to manage. Any national industrial economy must develop, as far as possible, naturally. On its inception, it must be properly protected and nourished. Then, with the passage of time, it will grow into healthy proportions. It will outgrow the gestation stage and eventually become self-reliant, self-sustained and self-accelerating, with stout muscles and stronger nerves. The national enterprise, which is equivalent to the sum-total of the entrepreneurial, managerial, financial, and technological capabilities, is the growth of time. Therefore, small industries in underdeveloped countries when they are emerging out of the traditional agricultural economy provide a cradle for modern medium and larger industries.

Chart 26.1

Incentives for Investment

STEM FROM

Fiscal Policy	*Monetary Policy*	*Commercial Policy*
(A) Budget Proposals eventually enacted as an Act of the Parliament, viz., The Income Tax Act (and periodic amendements thereof).	(B) Interest Rate & Lending Policy as announced by the Financial Institutions in consultation & collaboration with the Financial Institutions	(C) Selective Adhoc announcements from the Central/State Governments. Industrial Policy announced by the Central Government/and published in the form of 'Guidelines for Industries! Also announcements of incentives by the State Government or concerned financial institution.
1. S 32 Normal Depreciation 2. S 32 *(i) (ii)* — Extra Depreciaton @ 50% of Normal Depreciation. 3. S 35A Amortisation of Patents and copy rights. 4. S 80J/80I Tax Holiday 5. S 32A Investment Allowance 6. S 35B Export market development allowance 7. S 35C Agricultural develoment allowance 8. S 35D Amortisation of Preliminary Expenses.	1. Concessional Interest Rates 2. Repayment Moratorium 3. Extended Amortizaion Period 4. Participation in Risk Capital 5. Concessions in Undertaking/Underwriting Commissions 6. Commitment Charges 7. Consultancy Services 8. Reduced Security Margins 9. Refinancing Facilities 10. Concession with respect to promoters Contribution.	**STATE INCENTIVES** 1. Octroi Exemptions 2. Concessional Rates for Acquiring Land/Consuming Power 3. Contribution towards Feasibility studies costs. 4. Purchase Price Preference. 5. Industrial Housing Subsidy. **CENTRAL INCENTIVES** Central outright subsidy not exceeding 15 per cent of the fixed capital or Rs. 15 lakhs. (In the north-eastern hill region, there has been a recent hike in the capital investment subsidy from 15 to 20 per cent from March 1983. Transport subsidy under the Transport subsidy Scheme of 1971.

The sense of economic proportion at any point of time determines the direction of economic development. There are several constraints which influence the process of industrialisation. The underdevelopment of a country is really the reflection of inadequate development of entrepreneurship in that country. When entrepreneurial growth is accelerated, modern industrial development automatically gains momentum. Narrow or non-existent entrepreneurial in various countries. How to broaden and strengthen the entrepreneurial base in the society is the real challenge facing the developing countries today.

Conclusion

Rapid industrial development would involve mobilisation of productive resources, investments and entrepreneurial energies. Investment is a continuous process of economic development. In particular, an enterprise's needs for investment is an ongoing business. The entrepreneur invests in enterprises and services after ascertaining adequate returns (Profit), Power and Wealth. Thus, investment is one of the basic foundation of development.

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CHAPTER 27

BREAK-EVEN ANALYSIS

Introduction

The determination of the break-even point of a firm is an important factor in assessing its profitability. It is a valuable control technique and a planning device in any business enterprise. It depicts the relation between total cost and total revenue at the level of a particular output. Ordinarily, the profit of an industrial unit depends upon the selling price of product (revenue), volume of business (it depends on price) and cost price of the product.

If an entrepreneur is aware of the product cost and its selling price, he can plan the volume of his sale in order to achieve a certain level of profit. The break even point is determined as that point of sales volume at which the total cost and total revenue are identical.

Break-even Point

Break-even point is an important measure being used by the proponents and banks in deciding the viability of a new project, especially in respect of manufacturing activities. This technique is useful dealing with a new project or a new activity of the existing unit.

The break-even point (BEP) establishes the level of output/production which evenly breaks the costs and revenues. It is the level of production at which the turnover just covers the fixed overheads and the unit starts making profits.

From the banker's point of view, the project should achieve a break-even position within a reasonable time from the start of production. The project which reaches a break-even point earlier is considered as a viable project by bankers. They cannot only expect earlier repayment of their advances in the case of such projects but can also be assured that the project can fairly adapt itself to the day-to-day developing technology. The projects which are unlikely to reach the break-even point in the third or fourth year of its commencement of production will not be a viable proposal for the bankers.

The break-even analysis also determines the margin of safety, i.e., excess of budgeted or actual sales over the break-even sales so that the bankers would know how sensitive a project is to recession. This is an important factor in determining the feasibility of the project and its ability to absorb the ups and downs in the economy. The bankers, as lenders of funds, insist upon a reasonable margin of safety so that fixed costs are met at a fairly earlier stage.

Algebraic Formulate of Break-Even Analysis

(A) Break-even point (BEP) in terms of sales:

$$\text{BEP} = \frac{\text{Fixed cost}}{\text{Total contribution}} \times \text{Total amount of sales}$$

(Total Sales – Total variable costs – Total contribution)

Example:

Sales	1000 units
Selling price per unit	Rs. 60
Variable cost per unit	Rs. 40
Fixed cost	Rs. 1500

$$\text{BEP (Unit volume)} = \frac{1{,}500}{60-40} = \frac{1{,}500}{20} = 75 \text{ units BEP in terms of units}$$

BEP in terms of sales = Rs. 75 × Rs. 60 = Rs. 4500

(B) BEP (in terms of capacity utilisation)

$$\frac{\text{Total fixed costs}}{\text{Total contribution}} \times \text{Production in terms of per cent to installed capacity}$$

In this method, BEP in terms of capacity utilisation is calculated with reference to capacity utilisation in the normal year of production. For instance, if the unit is expected to achieve a capacity utilisation of 40%, 45%, 60%, 80% and of the installed capacity in the first five years, the BEP computation will be with reference to 80%.

Calculation of BEP

The break-even point can be calculated in terms of physical units and in terms of sales turnover.

(i) In terms of physical units: The number of units required to be sold to achieve the break-even point can be calculated using the following formula:

$$\text{BEP} = \frac{\text{FC}}{\text{SP} - \text{VC}} \text{ or } \frac{\text{FC}}{\text{C}}$$

where

FC = fixed cost
VC = variable cost
SP = selling price
C = contribution per unit (C = SP – VC)

Example, if:

FC = Rs. 1,00,000
VC = Rs. 2 per unit
SP = Rs. 4 per unit, and

Maximum productive capacity = 1,00,000 units per year.

$$BEP = \frac{1,00,000}{4-2} = 50,000 \text{ units (i.e., 50\% of the capacity)}$$

(ii) In terms of sales volume: BEP in terms of sales volume can be calculated using the following formula:

$$BEP = SP \frac{FC}{SP - VC}$$

where

FC = fixed cost
SP = selling price per unit
VC = variable cost per unit

A different way of calculating BEP is

$$BEP = \frac{\text{Fixed Expenses} \times \text{Sales}}{\text{Total Contribution}}$$

where total contribution is the total sales minus the total variable expenses.

In this case, the EBP will be in Rupees. Graphically, BEP is represented as below:

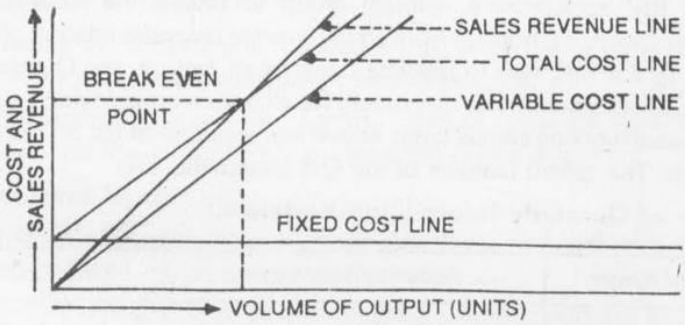


Fig. 27.1 Break-Even Analysis

Utility of the Break-Even Analysis

The utility of Break-Even Analysis is as follows:

- It serves as the most useful and important managerial tool to study Cost-Output-Profit relationship at varying level of output.
- It is useful in reviewing pricing policies.
- It aids in planning capitalisation of the enterprise.
- It provides the entrepreneur to decide whether to acquire or not assets involving additional fixed costs.

Shortcomings of the Break-Even Analysis

The BEP analysis is based on some assumptions, such as sales price, costs, production, sales, etc. The technique will be only of financial value unless all these assumptions are well-calculated. Besides, the technique is a preliminary and supplementary tool in the whole exercise of ratio analysis.

Another important factor in using the technique is to provide cost-escalation as a built-in safeguard against increase in prices.

The most important factor while using the technique, however is the proper analysis of various costs into fixed costs and variable cost as there are some types of costs which do not fall into either of the categories. These are the expenses which are partly fixed and partly variable. In a break-even analysis, these semi-fixed costs cannot be treated independently but have to be isolated into the usual categories of fixed and variable elements.

Break-Even analysis may not prove useful to rapidly growing enterprises and to enterprises which frequently change their product mix.

It has limited utility in the case of multiproducts.

It does not take due cognisance of factors like uncertainty and risk involved in estimates fo costs, volume and profits.

It is not a potent tool for long range planning.

Irrespective of these shortcomings inherent in the usage of this technique, it is an important tool for the profitability analysis of the new project.

Quarterly Information System: Statements and their Scrutiny

The RBI appointed a working group to review the system of cash credit (Chairman: Shri K.B.Chore) in April 1979. A major recommendation of this Committee accepted by the RBI, was to regulate bank credit through the Quarterly Information System (QIS) statements. It is mandatory for all borrowers enjoying bank credit by way of fund-based working capital limits above and inclusive of Rs. 50 lakh to submit such statements. The salient features of the QIS statements are:

Features of Quarterly Information Statement

Type of format	*Nature of statements*	*Time limit for submission*
Form I	Estimates for the ensuring quarter giving projected level of production, sales, current assets, current liabilities including bank borrowings (projected).	To be submitted in the week preceding/commencement of the quarter to which the statement relates.
Form II	Performance during the quarter giving estimates as originally projected in QIS and actual position of production, sales, current assets and current liabilities.	To be submitted within six weeks from the close of the quarter to which the statement relates.
Form III	Half-yearly operating and funds flow statement.	To be submitted within a month from the close of the half year.

Checklist for Scrutiny

From I: Projections for ensuring quarter

(i) Production/sales

(a) Whether quantity and value as a percentage of annual projection are reasonable, keeping in view orders on hand, past trends, seasonality, etc.

(b) Capacity utilisation/BEP/margin of safety.

(ii) Inventory

(a) Whether holding norms relevant to particular industry group are complied with and if not reasons for higher holding.

(b) Whether there is a mismatch in various types of raw materials held and whether with the projected raw material holding, production as per projection can be achieved.

(c) Abnormality, if any, in finished goods holding.

(d) Whether stores and spares projected are within limit.

(iii) Receivables

Whether there is any abnormality in holding period, quantum, debtor velocity, overdues.

(iv) Other current assets

Whether advances to suppliers projected are as per practice. Whether cash and bank balance projections are reasonable.

(v) Creditors

(a) Whether the actual credit received is truly projected — to be verified on the basis of past trends and current market practice.

(b) Whether materials received against letters of credit are included under this head, and if such materials are included under inventory.

(vi) Other current liabilities

(a) Whether advances received from customers and statutory liabilities are projected and are as per past trends.

(b) Whether repayment obligations payable within a year are included.

(c) Whether overall projections are comparable with the projections on the basis of which facilities were sanctioned.

(d) Whether bank borrowing projections are reasonable and are within the sanctioned limit, within MPEF, under method, commensurate with available fully-paid stocks and receivables.

(e) Whether sufficient net working capital and current ratio of over 1.33 is available.

Form II: Actuals for the past quarter

The actuals furnished are to be compared with the estimates given earlier as per Form I and variations if any, under individual components are to be analysed. Checks

applied for scrutiny of Form I can also be used for this purpose also with slight modifications.

Form III: Provisional half-yearly operational data with funds flow position

(i) Whether the operations of the borrower are broadly as per projections or nearer to projections is to be scrutinised under various heads such as:

(a) Sales

(b) Operating profit

(c) Closing stock

(d) Percentage of raw material consumed

(e) Percentage cost of production to sales.

Should the operative data indicate symptoms of slackness in the unit's activity, the borrower should be prepared to initiate corrective action to gear up and achieve projection so as to become eligible for drawal of facilities.

(ii) Funds flow statement, *inter alia,* should scrutinise:

(a) Whether short-term funds are used for short-term purposes or is there any diversion;

(b) Whether long-term sources are sufficient to sustain the provision of sufficient net working capital;

(c) How are the sources of funds deployed and whether they are proper.

With the abolition of CAS and introduction of CMA in its place, more responsibility devolves on banks to ensure the quality of credit. Therefore, banks have to be alert in checking the QIS statements. Imposition of penalty to ensure compliance of submission of statements by borrowers acts as a check on credit discipline.

Performance Analysis

Two types of ratio are very helpful in performance analysis — the profit and loss A/c ratios which show the relationship of various items of profit and loss A/c with sales and the turnover ratios which show how well a company is utilising its resources. The broadest measures of overall performance is, however, given by the ROI of return on investment. All these ratios have been discussed below:

Return on Investment: This ratio shows how much a company is earning on its capital employed. Thus, if a company has Rs. 5 lakh as equity capital and Rs. 3 lakh as loan, its total capital employed would be Rs. 8 lakh. Suppose it earns Rs. 80,000 in a year before interest and taxation, and ROI will be 10%. It is calculated thus:

$$\frac{\text{Net Profit before Interest before Interest and Income Tax}}{\text{Capital Employed}} \times 100$$

Net capital employed is the amount of funds invested in business. It can be calculated from the balance sheet in one of the following two ways:

(a) Equity Share Capital + Preference Share Capital + Reserves and surplus + short-term and long-term liabilities minus non-operating assets (e.g., investments) and

miscellaneous expenditure if any such item appears on the assets side of the balance sheet).

Or

(b) Fixed Assets + Current Assets – Current Liabilities

It is obvious that the amount of net capital employed would be the same whichever way it is calculated. The following points may be noted in this regard:

(c) It is not generally proper to include outside investments when calculating the net capital employed. The profit is also the profit before interest on such investments. The idea is that the return on investment for funds employed within the business should be calculated separately from the return on investment for funds employed outside a business. However, if the ROI for the total business is to be calculated, investments should be included in the figure of net capital employed, and the income from such investments should also be taken into credit when calculating net profit before interest and tax.

Intangible assets (assets which have no physical existence like good-will, patent and trade-marks) should be included in the figure of capital employed, specially if they have been paid for. Only if these are totally fictitious and represent no rights or benefits to the business, should they be excluded from the figure of 'net capital employed.'

ROI is a very significant measure for inter-firm comparison and for evaluating performances of various units within a firm. Actually, ROI combines in itself the net effect of all types of performance ratios. Ratios of the profit and loss account and turnover ratios indicate the performance of a company. All these ratios are ultimately reflected in ROI. A slight fall in turnover efficiency or a rise in costs would immediately affect the ROI. It is because of this that ROI is called the broadest measure of performance.

The impact of Net Profit ratio and Turnover ratio on ROI can be seen as given below:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit before interest and tax}}{\text{Sales}} \times 100$$

$$\text{Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net capital employed}} \times 100$$

If we multiply the two, i.e.,

$$\frac{\text{Net Profit before interest tax}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Net capital employed}} \times 100$$

We get ROI.

Example:

	Rs.		*Rate of Return*
Sales	5,00,000	5,00,000	50,00,000
Capital	20,00,000	———	× ——— × 100
Profit	5,00,000	50,00,000	20,00,000
		or 10% × 2.5	= 25%

Thus once ROI is worked out, a further analysis is undertaken by working out the Net Profit Ratio (and Profit and Loss A/c ratios which affect it) and the Turnover Ratios (with other ratios affecting it). The table given on the next page shows these relationships. The exact cause of a low ROI can be treated only after a complete analysis through Profit and Loss Account ratios and turnover ratio, mentioned in Fig. 27.2.

Sensitivity Analysis

Under the sensitivity analysis, instead of using one estimate of each variable, several estimates used under varying conditions.

The element of uncertainty can be reduced by applying sensitivity analysis at the project planning stage by finding the optimistic and pessimistic alternatives. For example, considering the pessimistic solutions, the project's viability in the worst of all possible situations can be determined. If the sensitivity analysis shows that the project will be commercially viable under pessimistic conditions, the project can be considered non-risky.

With the help of sensitivity analysis, it is easy to identify the most important factors in a project, such as raw materials, labour and energy and to determine any possibilities of input substitution.

The break-even analysis can be made more realistic by applying the sensitivity analysis. For example, alternative break-even calculations can be done with optimistic and pessimistic estimates of costs and selling prices. Similarly, alternative estimates of the business prospects can be made on the basis of optimistic and pessimistic estimates of demand or capacity utilisation.

Sensitivity analysis, thus, helps to understand the extent to which a project can face adverse conditions.

Probability Analysis

Probability as used here refers to the frequency of occurrence of an event, measured as a ratio of the number of different ways that the specific event can happen to the total number of possible outcomes.

The purpose of probability analysis is to eliminate the need for restricting to a single optimistic, pessimistic or realistic estimation by identifying the possible range of each variable and attaching a probability of occurrence to each possible value of the variables within this range. These judgments take the form of probability distribution of each possible value and each variable is associated with a number between 0 and 1, so that for each variable the sum of all these numbers (probabilities) is equal to one. This numerical description of the likelihood of an event's occurrence makes possible

on objective measure of many situations that could otherwise be gauged only intuitively. Therefore, from a mathematical point of view, probability analysis consists of aggregating probabilities.

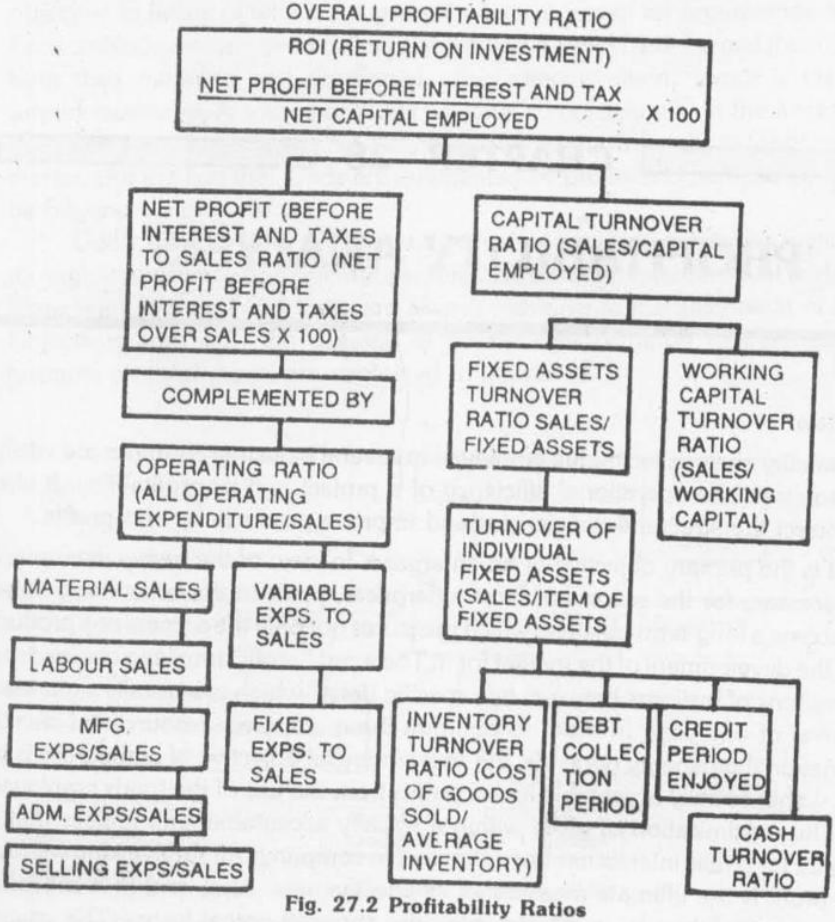


Fig. 27.2 Profitability Ratios

This analysis is carried out in the context of project preparation with the objective of improving the accuracy of cost estimates and, in turn, of probability forecasts.

The term investment is to be understood in its economic sense. Economical investment means to lay money for profit. In its broader sense, investment means utilising money for development.

Conclusion

The break-even analysis is an analytical technique for studying the cost-volume-profit relationship and operational leverage in an enterprise. A narrow interpretation of break-even analysis refers to a system determining the level of activity where total cost is equal to total sales, i.e., the point of zero profit and zero loss. It is a unique technique often used by the new enterprises and bankers in determining the viability of a new project. Its utility enhances with careful interpretations.

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CHAPTER 28

PROFITABILITY ANALYSIS

Introduction

Profitability analysis technique employed in several industrial countries are vitally important to assess the operational efficiency of a project and its profitability. It also seeks to correct the structural deficiencies and improve productivity and profits.

Profit is the primary objective of an enterprise. In view of the heavy investment which is necessary for the success of most enterprises, profit in the accounting sense tends to become a long-term objetive, which measures not only the success of a product but also of the development of the market for it. The word "profit" implies a comparison of the operations of business between two specific dates, which are usually separated by an interval of one year. In order to optimise these corporate resources of wealth on which national prosperity depends, the basic financial objective of companies is to maximise, within socially acceptable limits, profits from the use of the funds employed by them. The maximisation of profit within a socially acceptable limit implies that a proper regard for public interest has been shown. No company can survive long without profit, for profit is the ultimate measure of its effectiveness. Also, and in a capitalist society, there is no future for a private enterprise showing repeat losses. The crucial measure of the effective performance of a business is profit, which really is a measure of how well a business performs economically.

Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency. It is wrong to believe that the importance given to profit planning in the literature on business finance does not reflect its genuine importance in the financial activities of a modern business firm. In fact, it is the growth of profit which enables a firm to pay higher dividends to its ordinary shareholders.

Profit results from transactions which should satisfy both the parties to it. The vendor should be satisfied that the price is acceptable, and that it gives him an appropriate return for the work he has done and the risks he has taken. The purchaser should be satisfied that he has had a full value for his money. Irrespective of the way in which a company's profitability is expressed, its profit potential depends on its ability

to price its products so that they provide value not only to the customer, but also to the company itself. Good pricing results in good profits.

Profit is a dominant goal of a business, and profit-making should be the main objective in terms of which the general effectiveness of an organisation is measured. Economists have long been concerned with profits and have framed theories to explain both their meaning and distribution. According to them, *profit is the reward for entrepreneurship.* A source of funds which is completely within the internal system is that of profit-making. The exact contribution which profits make to funds is a disputable matter. But the fact that funds are augmented by profits and reduced by losses should be beyond controversy.

Goals or objectives are the ends which a business enterprise seeks to achieve through its existence and operations. A typical business establishment seeks to achieve more than one goal and there are always restraints to the attainment of some goals. Objectives vary with the passage of time. Goals common to most contemporary business establishments are explained in figures 28.1.

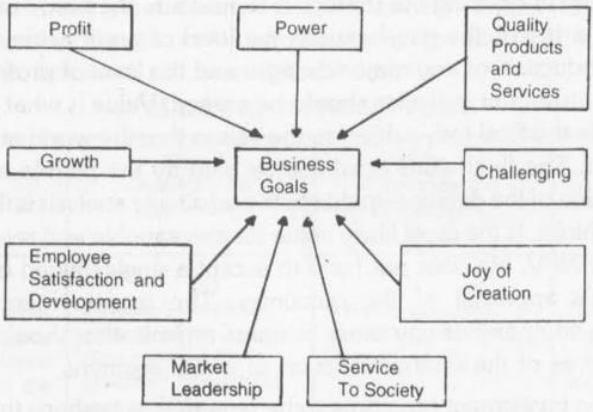


Fig. 28.1 Business Goals

Factors Affecting Profit

A number of factors influence profit variations. These are:

1. *Mix of product changes:* The effect of the mix of product changes upon profits is fairly easy to interpret and record, if a good system is in use.

2. *Volume of fluctuations:* The volume of sales plays a tremendous part in profit-making. So long as a sustained maximum volume continues at the top of capacity curve, break-even point would be far away. The profit path is wide and deep at the point.

3. *Performance changes on any Volume:* To attain real sophisticiation in profit calculation, the true profits at any given volume which should exist at a planned break-even point are separated from the profits created by the performance at one attained volume.

4. A change in fixed costs changes the break-even point, but not the marginal profit. The marginal point is the profit picked up above the break-even point.

5. A change in variable costs and selling prices changes both the break-even point and the marginal profit.

6. The rate of marginal profit is affected by a change in variable costs, selling price and operating performance as against planned performance.

7. When both the fixed and variable costs change and when they move in tandem, the effect of the break-even point is pronounced and definite. When they move in opposition to each other, the effect is very weak.

8. The marginal break-even point is that point of output at which out-of-pocket costs are recovered. Depreciation and amortisation costs are excluded from them.

If the fact that the central purpose of a business is to earn a profit is accepted, the first problem is to determine the factors which determine the level of profitability. Profitability should first measure the relationship between profits and the funds committed in the business to earn that profit.

The first step in devising the strategy is to measure the task. For private industry, the measure of a task is the gap between the level of profit achieved by a business without the introduction of any major changes and the level of profit which the target profitability meausrement indicates should be earned. Value is what people think it is. Any analysis is in the final test, subject to the values that the world at large is prepared to place upon it. The final word is, of course, said by the people who are prepared to buy it. The value of the decision-maker to the sensitivity analysis is that he can choose that which, he thinks, is the most likely value for any variable and read off the resulting rate of return or NPV. He does not have to accept a single-valued estimate based on somebody else's appraisal of the outcomes. The measurement and control of profitability in a company or any other business organisation should form one of the principal objectives of the finance function of a management.

A return on investment has come to be regarded as perhaps the most important measure of industrial and commercial efficiency. This is, as it should be, whether in the different activities of a capitalist economy or in the field of public investment. Even the communist regime of the USSR which eschewed the profit motive, had recognised return on investment as a proper measure of efficiency.

Indicators for Measuring Income

T. A. Lee has suggested following indicators for measuring income. He is of the opinion that income is:

1. A guide to dividend and retention policy.
2. A measure of management effectiveness.
3. A measure of a management's stewardship of the entity's resources.
4. A means of evaluating the result of past decisions and of working on future decisions.
5. A managerial aid in a variety of decision areas within and outside the business entity.

Profit Pool

A new theory argues that the value chain must actually be used to identify the deepest sources of profits. And that identification must be the starting point for formulating corporate strategy. Although the concept of profit zones generates maximum profits, Gadiesh and Gilbert have come up with another profit perspective that provides a starting point for devising a strategy: profit pools.

A profit pool is the total quantum of profits that can be earned at all points along an industry's value-chain. Expectedly, the depth of the pool varies between different points on the chain. And the extent of this variation is a function of the products a company makes, the markets in which it decides to sell them, the customer group it targets, and the distribution channel it uses. The shape of the profit pool is actually a manifestation of the industry structure, and it reflects the competitive dynamics of a particular business. Profit pools are deepest in areas where potential competitors face entry-barriers, or in those overlooked by competitors.

Profit pools are not stagnant. Any change in the external environment — competitive activity, change in customer preferences, and supplier initiatives — will alter its shape and size. As a strategic tool, it can help companies answer one basic question: where and how are profits being made in the industry? The versatility of the concept, though, lies in its use as a diagnostic tool.

MAPPING A PROFIT POOL

Step 1 *Define the pool*	*Step 2* *Determine the size of the pool*	*Step 3* *Determine the distribution of profits*	*Step 4* *Reconcile the estimates*
Task Determine which value-chain activities influence your ability to generate profits now and in the future	Develop a baseline estimate of the cumulative profits generated by all profit-pool activities	Develop estimates of profits generated by each activity	Compare the outputs of steps 2 and 3 and, if necessary, reconcile the numbers
Guidelines Take a broad view of the value-chain; look beyond traditional industry definitions	Seek a rough, but accurate, estimate	Shift between aggregation and disaggregation in your analysis	If the numbers don't add up, check all assumptions and calculations
Examine your industry from 3 perspectives: your own company's, other players; and the customer's	Take the easiest analytical routes available; go where the data are	Look at your own company's economics first, then look at large pure players, then look at large mixed players, then at a sample of smaller players	Collect additional data if necessary
Talk to industry players and analysts to uncover new or emerging business models	Try to take at least 2 different views of pool-size — for example, company-level and product-level	If relevant company data are unavailable, use proxies, such as product-level or channel-level sales	Resolve all inconsistencies; don't ignore them

Don't disaggregate activities more than is necessary	Focus on the largest components — for example, large companies, high-volume products; extrapolate smaller components from a sample	Think creatively	
Output List of all value-chain activities in your profit pool, in sequential order	Estimate of total pool profits, usually expressed as a range	Point estimates of profits for each value-chain activity	Final estimates of activity and total pool profits

Source: How to Map Your Industry's Profit Pool

A Starting Point for Strategy: The shape of a profit pool is a function of the market and competitive forces that influence a particular industry. Companies can use their understanding of profit pools to decide on the right strategies which will help:

- Identify new sources of profit in industries faced with shrinking margins.
- Regulate M & A decisions.
- Identify profitable customer segments to target them.
- Influence decisions related to the 4 Ps: Product, Price, Promotion and Place.
- Identify new business models that improve profitability.

Mapping Profit Pools: Gadiesh and Gilbert suggest a 4-step process to map a profit pool: definition of its boundaries; calculation of its size; estimation of the importance of each value-generating activity in the pool; and review of the calculations.

THE 22 PROFIT MODELS

	Profit Model	*Leading Practitioners*
1.	Customer Solutions Profit	GE, USAA, Nordstrom, ABB, Nalco, H-P
2.	Product Pyramid Profit	SMH, Mattel
3.	Multi Component Profit	Coca-Cola, Mirage Resorts
4.	Switchboard Profit	Schwab, USAA, Auto-by-Tel, CAA
5.	Time Profit	Intel, Bankers Trust, Sony
6.	Blockbuster Profit	Merck, Disney, NBC
7.	Profit-Mutiplier Model	Disney, Virgin, Honda
8.	Entrepreneurial Profit	Thermo-Electron, ABB, 3M
9.	Specialisation Profit	ABB, EDS, Wallance
10.	Installed Base Profit	Microsoft, Otis Elevator, Gillette, GE
11.	De Facto Standard Profit	Microsof, Oracle
12.	Brand Profit	Intel, Coca-Cola, Nike
13.	Speciality Product Profit	Hercules, Merck, 3M, Great Lakes Chem.

14.	Local Leadership Profit	Starbuck's, Wal-Mart
15.	Transaction Scale Profit	Morgan Stanley, British Airways
16.	Value Chain Position Profit	Intel, Blockbuster Video, Republic Inds
17.	Cycle Profit	Toyato, Dow Chemical
18.	After-Sale profit	GE, Sofbank
19.	New Product Profit	Compaq, Chrysler
20.	Relative Marketshare Profit	Procter & Gamble, Phillip Morris
21.	Experience Curve Profit	Miliken, Emerson Electric
22.	Low-Cast Business Design profit	Nuco, Southeast Air, Dell

Source: The Profit Zone

Profit Planning

It has already been pointed out that profits do not just happen. They must be produced. When a management plans its profit performance, projects its plans to possible multiples of volume, and then realises its profit plans, it may be said to have achieved profit control. Profit planning is a part of an overall planning process in which finance plays a major role.

This activity is now an important responsibility of the finance manager. While activities of this sort require an accounting background, they also rest heavily upon the knowledge of the business principles, economics, statistics and mathematics. Hence, from a company's viewpoint, any effort to confine profit planning activities within the framework of accounting procedures would be detrimental to the long-range interests of the firm.

Profit planning represents an overall plan of operations, covers a definite period of time, and formulates the planning decisions of management. It consists of the operating budget, the financial budget and the appropriation budget. The operating budget covers revenues and expenses. Its crucial elements are the sales budget and the various expense budgets. The financial budget contains the budgets, the balance sheet and supporting schedules. The appropriation budgets cover expenditure on advertising and research. The preparation of a profit plan begins several months before the end of the current year. The chief executive has the ultimate responsibility of profit planning and control programmes.

Effective profit planning cannot be carried out in a casual manner. It should emerge from a rigorously disciplined examination of all aspects of business aspects and alternative strategies which may become indispensable.

Long-term profit-planning implies a sacrifice of today's profit for tomorrow's. The sacrifice made in the immediate profit is taken by the management as an investment in the future on the basis of the philosophy that a management makes the future of a business today. In certain industries in India, competition has already become very keen. The doctrine of the *survival of the fittest* implies that managerial dynamism must be developed to cope with problems not only today but also in the foreseeable future.

Take the situation in Great Britain, where the switchover from insulated conditions to keen competition in the early fifties was so sudden that a large number of enterprises were in the red before they could realise what was happening. It is very likely that such a situation may eventually develop in India in the near future. Long-term profitability ensures sustenance and dynamic growth of enterprise. A myopic view of the question is a good riddance before it is too late. In this respect, Indian enterprises still have a long way to go.

Long-range profit planning is a systematic and formalised process for purposefully directing and controlling future operations with a view to achieving the desired objectives for periods extending beyond one year. Forward planning is vital in a competitive profit-and-loss economic system. The success of each enterprise in realising its optimum profit is determined by the extent to which it attains its objectives, develops co-ordinated plans to realise them and exercises control of all its activity so as to reach and even exceed expected results. The entire process constitutes a budgetary planning-and-control programme. It includes income, costs, profits, working capital, fixed capital, fixed assets, financing, and dividend distribution. It extends throughout the entire organisation, from the chief executive to the front-line supervisory staff.

Steps in the Preparation of Profit Plan

1. A sales budget is prepared first. It represents the revenue side of the profit plan, and involves a consideration of sales quantities and revenue.
2. A production budget mentions the number of units of each product which should be manufactured. It represents the conversion of projected sales into projected production as a basis for planning.
3. Direct materials budget deals with the number of units of each kind of raw material.
4. Purchase budget determines the number of units to be purchased and the timing of the purchases.
5. Direct labour budget is prepared on the basis of standard labour hours and average wage rates.
6. Manufacturing expenses or overhead budget is prepared for each department.
7. Inventory budgets indicate the budgeted value of final inventories.
8. The budgeted cost of goods sold is estimated.
9. Distribution and administrative expense budgets are prepared together with the sales budget.
10. All the above data are consolidated into the budgeted income statement.
11. The capital additions budget indicates the planned capital extensions, repairs to be capitalised, building and machinery acquisitions and other permanent capital additions.
12. The budgeted balance sheet indicates the effects of planned operations on the assets, liabilities and capital of the company.
13. The profit plan is put into operation.

Strategy making and profit planning are complementary exercises. Implicit in profit planning is the need for presenting analysis and choosing alternative actions and activities, leading to the achievement of desired company goals. Profit planning is largely a routine exercise and covers a definite span of time. Corporate strategy is often an *ad hoc* exercise with minor time span disciplines. In profit planning, attention is concentrated on the operational performance of the company. Corporate strategy is largely concerned with the staff at the overall policy level.

Intuition, flair, inherent skill, *ad hoc* decision-making — these may still ensure the profitability of a company but the odds are increasingly stacked against organisations which operate in this way. Brian Walley states that because of the increasing importance of technology, the future holds a promise of fewer successes for pragmatic approaches. A profit plan should be flexible enough to allow for the containment of likely counter-strategies of the competitors. The overall profit plan and approximate strategies should be acceptable in terms of profit and risk.

Characteristics of Profit Planning and Control

1. *Probe into the Future:* Profit planning is an indicator of what the future holds for a company.

2. *Flexibility:* This activity calls for an attitude of flexibility and a capacity to adjust to changes. Plans should contain strategies to advance or retreat, as the situation demands. Any programme of profit planning and control should provide some margin for adjustments. A budget should not dominate business but should help it. It is meant for the business and not vice versa. No straight-jacket should be imposed on profit planning and control.

3. *Sensitivity:* This activity requires sensitivity to change. It should be of real value in maintaining a company's competitive condition and ensure an excellent profit performance.

4. *Excellent Direction and Control:* Profit planning requires both centralised and decentralised direction and control. A businessman will have to decide this for himself in the light of the peculiar conditions of his own business.

5. *Support:* In order to make it a success, a meaningful support of the top management should be available. The top management must be effectively sold on the ideas of profit planning and control. Without this support, profit planning is bound to be a flop.

6. *Organisation:* Profit planning should rest on a sound organisational structure and clear-cut lines of authority and responsibility. The authority of different executives and supervisors should be properly spelled out.

7. *Confidence:* Management should ensure that its policies, plans, objectives and standards are all realistic. It should be confident that all the individuals responsible for profit planning and control put their heart and soul into making a success of the organisation.

8. *Performance:* In profit planning, programmes should be so developed as to ensure that the expectations of performance are justified. Fiscal values are estimated

for various accounting classifications. It is necessary to supplement fiscal expectations with the standards of performance.

9. *Participation:* This refers to the involvement of everyone in the organisation to the fullest extent in developing plans and in carrying out related responsibilities. Even lower levels of management should react favourably to participation in the process of profit planning and control.

10. *Individual Recognition:* The accomplishment of outstanding as well as sub-standard performances should be individually identified and recognised. The system of evalaution should be fair, understandable and reasonably accurate.

11. *Responsibility Reporting:* In responsibility reporting, costs are planned and adjusted in accordance with organisational responsibilities, and communicated to and from the individuals responsible for their incurrence. There should be effective responsibility accounting in terms of assigned responsibilities. A chart of accounts should be set up in terms of areas of managerial responsibilities.

12. *Management by Exception:* Executives should devote their time to unusual items rather than be concerned with paltry, routine matters. To make this principle effective, profit planning and control system must be designed in such a way that exceptions stand out.

13. *Standards:* Profit planning and control presume a system of goals, objectives and standards. These are in fact benchmarks of profit planning and control.

14. *Effective Communication:* To encourage participation, it is necessary to have effective communication among the individuals who are expected to participate in the programme of profit planning and control.

15. *Timeliness:* There should be a definite time schedule for planning performance reports, control action and follow-up. In other words, there should be a planner.

16. *Realism:* This activity should be realistic. Plans should be capable of being translated into actual practice. In profit planning, the management should avoid undue conservatism and irrational optimism. A most practical approach should be made to any programme of profit planning and control. Its uses should be properly understood and its limitations correctly visualised. The programme should not be too optimistic or too pessimistic, but should itself be a golden mean. Moreover, too many things should not be padded into a programme of profit planning and control.

17. *Significance:* Profit planning and control should neither be too precise, nor should it contain too little information. Such facts should only be included as would be essential for both these activities.

18. *Cost Consciousness:* Cost consciousness is more an attitude than anything else. Advantage should be taken to stimulate people from top to bottom and obtain their co-operation in the campaign for controlling expenditure.

19. *Follow-up:* The quality of performance should be checked as soon as possible. Poor performance should be subjected to corrective action. Outstanding performance should be recognised and persons who are responsible for it should be adequately and properly rewarded.

20. *Education:* Supervisory personnel should be educated in the objectives, potentials, fundamentals and techniques of profit planning and control. All budget problems should be made known to them.

Advantages of Profit Maximisation

Profit maximisation has been considered to be the most important business objective for the following reasons:

1. It is rational to accept profit for a business enterprise.
2. It is difficult to survive without profit maximisation.
3. Even for the attainment of social and economic welfare, profit maximisation has to be achieved.
4. A business with a high level of profitability will generate a high level of funds, out of which it can provide for expansion, in addition to a substantial and increasing return to its shareholders.
5. In the absence of profit, business activity would remain static. A firm cannot afford to do this because:
   (a) Price levels are not stable. Profits, therefore, have to be made to create additional resources.
   (b) Investors in business would expect a positive return on their investment. Profits are essential for ensuring this return.
   (c) It would not be possible to maintain the same level of activity because of the pressures for the expansion of business. The resources required for this purpose have to be provided through profits.

Limitations of Profit Maximisation

1. Profit is essential, but it would be wrong to assume that every action initiated by the Board of Directors is aimed at maximising profits, irrespective of its social consequences.
2. One of the difficulties in looking at the comparative profitability of a number of companies lies in their different standards of valuing business assets.

Conclusion

Profit motive is the prime mover of business activity. In fact, profitability is the most useful overall measure to the health of an enterprise. In other words, the profitability of an enterprise in any one year is the relationship between the profit made and the funds employed to earn the profit. Profitability analysis is a useful tool/technique to entrepreneurs to take right decisions in maximising profits and to bankers and financial institutions to arrive at the viability of the enterprise and its financial needs.

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CHAPTER 29

SOCIAL COST-BENEFIT ANALYSIS

Introduction

The Indian economy has been undergoing major structural changes since 1991. Wide-ranging reforms have been introduced in all the major sectors such as industry, trade, taxes and finance. The goal of the liberalization drive has been the dismantling of bureaucratic controls and infusion of private enterprise and competition.

In this emerging scenario of globalization, the Indian industrial sector requires considerable upgradation in many areas, as price competitiveness and quality have become the basis for survival. In a resource-scarce economy like India's, a yardstick is necessary to gauge the appropriateness of investments, as globalization accelerates.

One such measure is the use of social cost-benefit indicators, viz., the Economic Rate of Return (ERR), the Effective Rate of Protection (ERP) and the Domestic Resource Cost (DRC). These indicators explain comparative advantage and can assist in deciding whether a product should be manufactured domestically or imported. This kind of analysis is more relevant for a developing country like India, where there are many distortions, like inflation and unemployment, in the system.

The Concept

The term "social costs" refers to all those harmful consequences and damages which the community on the whole sustains as a result of productive processes, and for which private entrepreneurs are not held responsible manifested. The definition of the concept is comprehensive enough to include even certain "social opportunity costs", avoidable wastes and social inefficiencies of various kinds. Implicit in such an appraisal is the assumption that the principal objective of investment decision-making is to maximise the net present value of monetary flow or some variant of it.

The social cost-benefit analysis is a tool for evaluating the value of money, particularly of public investments, in many economies. It aids in making decisions with respect to the various aspects of a project and the design programmes of closely interrelated projects. Cost benefit analysis has become important among economists and consultants in recent years.

Need for Cost-Benefit Analysis

The essence of the theory of social cost/benefit analysis is that it does not accept that the actual receipts of a project adequately measure social benefits and actual expenditures measure social costs. The reason is that actual prices may be an inadequate indicator of economic benefits and costs. For example, in developing countries like India, the prices of necessities are set low, despite their economic importance, while the prices of less essential goods are set high (through a system of taxes and duties). As a result, some projects which appear very profitable when their outputs and inputs are valued at actual prices are, in fact, unattractive from the viewpoint of the national economy, while other apparently unprofitable projects have high economic returns. But the theory accepts that actual receipts and expenditures can be suitably adjusted so that the difference between them, closely analogous to ordinary profit, will properly reflect the social gain.

The Objectives

The objective of social cost-benefit analysis is, in its widest sense, to secure and achieve the value of money in economic life by simply evaluating the costs and benefits of alternative economic choices and selecting an alternative which offers the largest net benefit, i.e., the highest margin of benefit over cost.

Very broadly, social-cost benefit analysis involves the following steps:

1. Estimates of costs and benefits which will accrue to the project-implementing body.
2. Estimates of costs and benefits which will accrue to individual members of society as consumers or as suppliers of factor input.
3. Estimates of costs and benefits which will accrue to the community.
4. Estimates of costs and benefits which will accrue to the National Exchequer.
5. Discounting the costs and benefits which accrue over a period of time to determine the feasibility of the project.

Here again, the non-quantifiable benefits are stated only in descriptive terms. These strategies will work towards the appropriate calculation of the profitability Ratio (PR).

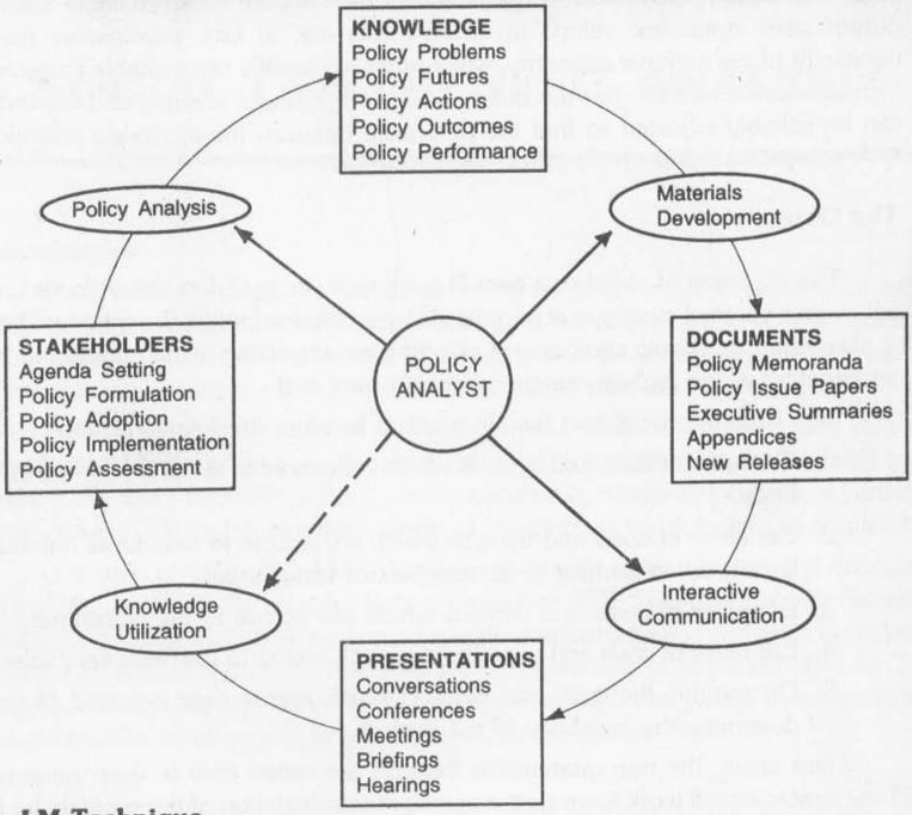
While this is the general approach to project formulation, implementation and evaluation, the same may be modified to suit the circumstances.

Main Features of Cost-Benefit Analysis

Prest and Turvey defined cost-benefit analysis as "a practical way of assessing the desirability of projects, where it is important to take a long view (in the sense of looking at repercussions in the future as well as the near future and a wide view in the sense of allowing side-effects of many decisions relating to industries, regions etc.), i.e., it implies the enumeration and evaluation of all the relevant cost and benefits." This definition focuses attention on the main features of cost-benefit analysis. It covers five distinct issues:

1. Assessing the desirability of projects in the public, as opposed to the private sector.
2. Identification of costs and benefits.
3. Measurement of costs and benefits.
4. The effect of (risk and uncertainty) time in investment appraisal.
5. Presentation of results — the investment criterion.

THE PROCESS OF POLICY COMMUNICATION



The LM Technique

One of the most widely used methods of social/cost benefit analysis is the LM technique. This technique involves the use of hypothetical rather than predicted actual prices when evaluating a project. These shadow prices are used, since they are a better reflection of the real costs of inputs to society and the real benefits of the output to society than actual prices. The term 'shadow price' suggests that an analysis based on these prices is remote from reality and, therefore, academic and highbrow. Of course, 'shadow prices' are unreal in that they are not the current prices of goods in the market. But then no price, in a project analysis, can ever be an actual price, as the analysis considers the future years of the project. A shadow price or an accounting price corresponds more closely to the realities of economic scarcity and needs. According to the World Bank: "To make a direct estimate of the contribution, of even one project

output or input to total national production, would require an enormous amount of information on the economic linkages between this project and other parts of the national amount of information on the economic linkages between this project and other parts of the national economy, and the use of advanced computational techniques. For this reason, and despite much theoretical work on shadow prices, no country has succeeded in calculating an ideal set of shadow prices for practical use. Instead, as a second-best method... economic evaluation in Western and East European countries has used world prices as the main basis for calculating shadow prices."

The LM technique assumes that a country can buy and sell any quantity of a particular good at a given world price. Hence, all traded inputs and outputs are valued at their international prices (CIF for importables and FOB for exportables) which is the opportunity cost/value of the particular good to the country. Every input is treated as a forex outgo and every output is treated as a forex inflow. All non-tradable inputs are valued at accounting prices. These costs are broken up into tradable goods and other non-traded goods. Following this chain of production, commodities that are either exported or imported are determined for application of accounting prices. The theory assumes that non-tradables form an insignificant part of operating costs.

Cost of Production

While discussing the planning of production in small-scale industries earlier, we have laid stress on minimum cost. Cost control in small-scale industries is now a well-recognised and most effective technique of managerial control. Cost, by and large, is the most important factor influencing sales in a competitive market. As a natural corollary, we shall now discuss three important features closely related to the cost of production, viz., product mix, full utilisation of production facilities and quality control.

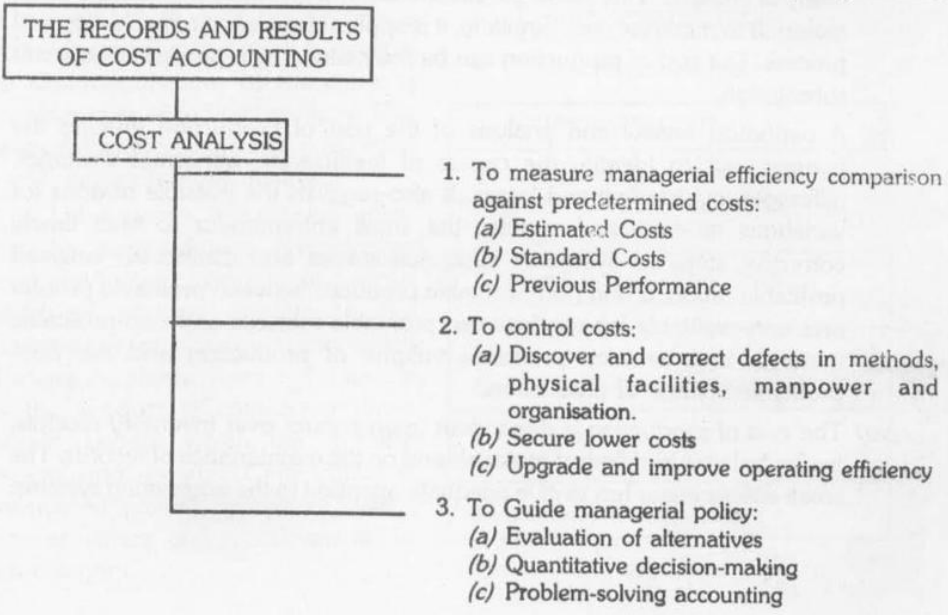


Fig. 29.1 Cost Analysis

Meaning

Costing is not merely a tool of control but also a device of management planning, organisation and direction. The technique of cost control involves the determination of standard in research of each item of cost, ascertainment of actual costs regarding those very items, detection of variations in actuals from the standard laid down, analysis of these variations so as to determine the responsibility and the cause, the cost of each variation and then taking the necessary action to ensure that actual costs conform to standard costs in future.

Usefulness

Accurate costs of production estimates and records are of immense use in managerial decisions. Costing provides a scientific base for several other management decisions. Some important features are given below:

(i) Cost of production records provide ample informative material for planning material budget, labour budget, factory budget.

(ii) Cost of production aids the management to fix competitive prices. It also enables small-scale industries to quote the most competitive prices in the tenders without incurring losses.

(iii) Cost of production determines the level of production activity.

(iv) It determines the minimum acceptable quality and, therefore, enables the entrepreneur to avoid fixing quality levels which are higher than those desired by customers.

(v) Cost figures reveal the cost per unit of material consumed, labour, machine or process, and help in determining which materials prove comparatively costly or cheaper. This assists the small-scale entrepreneur to substitute other materials to minimise cost. Similarly, it is applicable to labour, machinery and process. The cost of production can be maintained by a process of constant substitution.

(vi) A periodical review and analysis of the cost of production enables the entrepreneur to identify the causes of inefficiency, abnormal wastages, pilferages, overstaffing and losses. It also suggests the possible reasons for variations in costs and enables the small entrepreneur to take timely corrective steps to overcome such deficiencies and distinguish between profitable products and non-profitable products; between profitable process and non-profitable labour; between profitable material and non-profitable material; and between profitable volume of production and the non-profitable volume of production.

(vii) The cost of production is dependent upon control over inventory receipts, issues, balance and flow of materials and on the maintenance of records. The small entrepreneur has to give adequate attention to the accounting systems.

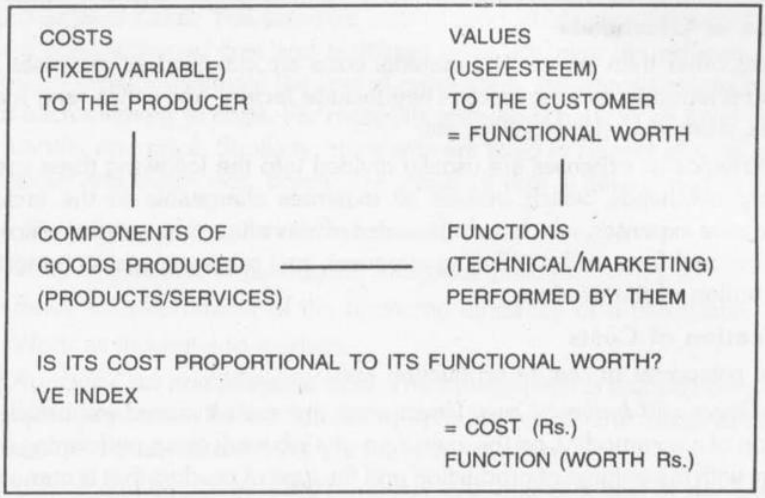


Fig. 29.2 Concept of Cost vs. Value

Elements of Cost

The cost of an industrial undertaking may be divided into three principal elements: *(i)* Materials; *(ii)* Labour, and *(iii)* Expenses.

The cost of materials may be divided into direct or indirect. If the material in question is used directly in the manufacture of product and becomes a part of the product, it is considered as a direct material charge. A material which does not become a part of the product but which is essential for the manufacture of the same is considered as an indirect material. This category includes such supplies as cotton waste, lubricating oils, fuel, etc.

Labour costs, like material costs, may be classified into direct labour costs and indirect labour costs. Labour which is applied directly to the manufacture of a product and which changes the shape, form or the nature of the product is considered direct labour. Labour which has a more general and less direct application is considered indirect. Salaries of sweepers, carpenters, and electricians fall in this category.

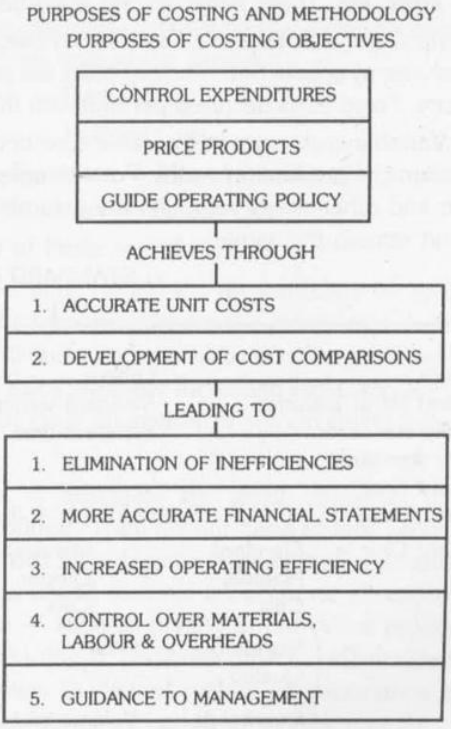


Fig. 29.3

Expenses or Overheads

Costs other than labour and material costs are classified as expenses and are frequently referred to as *overheads*. They include factory and office rent, local rates and taxes, insurance, depreciation, etc.

Overheads or expenses are usually divided into the following three categories: *(i)* Factory overheads, which include all expenses chargeable to the factory; *(ii)* Administrative expenses, which include such items as office rent, general office salaries and professional fees; and *(iii)* Selling expenses, and other expenses connected with the distribution of the product.

Classification of Costs

The categories of cost of production are:

(i) Direct and Indirect Costs: Direct costs are costs incurred exclusively on the production of a commodity, on the execution of a job work or on performing a service. They vary with the volume of production and the type of product that is manufactured, and include expenses incurred on materials, stores and the labour charges incurred on the manufacture or servicing of a product.

Indirect costs are those costs which are incurred on carrying on the business as a whole. These costs are not incurred directly on a unit of production. Generally, these costs include factory costs, i.e., rent, insurance, lighting, fuel or power, depreciation, office costs, etc. These expenses are apportioned on some reasonable basis.

(ii) Fixed and Variable Costs: Fixed costs are those which are not influenced by the volume of production. Factory costs are generally annual charges and fall in this category. Fixed costs decrease per unit with the increase in the volume of production.

Variable costs vary in the same direction and in the same production in which the volume of production varies. For example, expenses incurred on direct materials, labour and other stores vary with the volume of production. However, variable costs per unit remain the same.

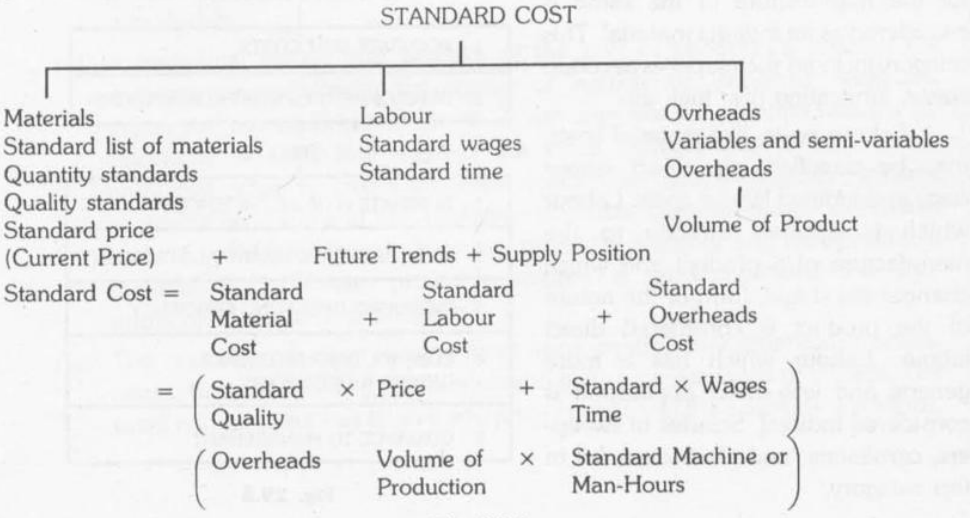


Fig. 29.4

(iii) Standard Costs: The standard cost of production per unit is the estimated cost. It is a predetermined cost and is utilised in ascertaining the estimated costs of production. In order to estimate the cost of production, standards have to be fixed in respect of each element of costs. For materials, standards have to be fixed in relation both to quantity and price. Similarly, standards are fixed in respect of time and wage rates of labour and overheads. Briefly, the standard cost is determined in Fig. 29.4.

The advantages of the standard costs are:

(1) They are helpful in production and price policies.

(2) Serve as a barometer of the operating efficiency of a plant; and

(3) Work as incentive to workers.

(iv) Average Cost and Marginal Cost: The average cost is calculated by dividing the total cost of production by the number of units produced. The marginal cost is the cost of marginal unit produced over the lot of production.

Example: A small-scale industry produces 100 units at a cost of Rs. 2,000. The average cost is 2,000 ÷ 100 = Rs. 20 per unit.

Now the cost of production of 99 units is Rs. 1,985, and the cost of the 100th (marginal) unit is Rs. 2,000 – 1985 = Rs. 15, i.e., marginal cost.

An analysis of average cost and marginal cost helps the small entrepreneur to determine the volume of production and the overall production.

Costs may be classified further under the following four heads, each representing a distinct step in the breakdown of the total cost of the product.

(i) Direct Material + Direct Labour = Prime Cost.

(ii) Prime Cost + Factory Expenses = Factory Cost.

(iii) Factory Cost + Administrative Expenses = Manufacturing Cost.

(iv) Manufacturing Cost + Selling Expenses = Selling Cost.

(v) Selling Cost + Desired Margin of Profit = Sales Price.

This classification has the merit of locating clearly the responsibility for each of these categories of costs. For example, the responsibility for the prime cost is clearly that of the foreman in each production department; the factory manager would be squarely responsible for factory costs, the sales manager for selling expenses, and the general manager for the sales price. Such clear allocation of responsibility helps in controlling a particular element of cost.

The four-fold classification of cost is adequate for small industries which manufacture a single product or a few products. They do not have to face problems of allocating various overhead expenses. But for a factory manufacturing a number of products or working on job orders, it is useful to have an accurate allocation of overheads before any marketing decisions — such as pricing of individual products, preparing quotations for tenders, discontinuing a particular line or increasing the production capacity of another line are taken. In view of such great importance, it is necessary to go into the details of the problem of allocation of overheads.

The Prime Cost

As has been stated earlier, the first stage in the determination of production cost is the prime cost. This includes the cost of direct material and direct labour which go into the making of a product. The determination of these charges for a product or for a specific order is relatively easy.

Direct Material Charges

These may be easily ascertained from the stores controller who has supplied the material on the strength of a requisition note containing the name, symbol, description, and the quantity of material requisitioned.

Direct Labour Charges

In order to ascertain the direct labour costs, it is necessary to get accurate reports of all the labour time that can be charged directly against a given product or order. A common means of obtaining this under a job-order production is to give the workman a ticket when he starts on a new job. On this ticket are entered his name and number, the order number to which his time is charged, the kind and quantity of the product, and any other information necessary for a proper control of production and costs. The tickets of all the workers working on a particular job-order are collected and their wages calculated. To this sum must be added the amounts of dearness allowance and other allowances, payments made on their behalf towards the employee's state insurance. The total amount so arrived at constitutes the direct labour cost of a particular batch or order.

The Factory Cost

In order to arrive at an accurate figure of the factory cost for which the factory manager can be held responsible, initial ascertain of indirect material charges, indirect labour charges and other expenses incurred is essential, subsequently allocating them to each product or order. The prime cost plus a share of indirect expenses will constitute the factory cost.

Indirect expenses are made up of *(i)* Indirect material and indirect labour charges; *(ii)* Miscellaneous controllable expenses; and *(iii)* Fixed charges of rent, depreciation and interest.

Of these, the first two tend to show substantial fluctuations with changes in the volume of production, and so they can be controlled to that extent. It is, however, necessary to set up an adequate, comprehensive classification of these expenses if they are to be effectively controlled. Indirect materials include cotton waste, lubricating and other oils, sandpaper, etc. Indirect labour charges include wages and salaries of the foreman, shop clerks, set-up men, inspectors, truckers, etc. Miscellaneous controllable expenses include departmental charges for power; light machine repair, scrap rework etc. Finally, fixed charges include ground rent, local rates, taxes, depreciation and interest.

Distribution on the Basis of Material Costs

In simple continuous processes, where the output consists of one uniform product as in a cement or salt works, expenses incurred in a particular period may be evenly

distributed over the output for the same period. If two or more products are manufactured in a factory, the total work expenses for a period should be allocated to these products in that proportion in which the total expenses bear to the total material cost.

Man-Hours as the Basis

Under this method, work expenses are allocated on the basis of the number of hours put in by direct wage-earners in different departments. The total number of direct man-hours of each department is ascertained and that percentage of work expenses is apportioned to each department which its man-hours bear to the total man-hours.

This method removes the defect of direct labour method and also gives more accurate results than that method. The reason is that the longer the man-hours are put in a department, the greater is the use of power, machinery, etc. Hence, it is fair that the department should bear a larger portion of these expenses.

Machine-Hours as the Basis

The theory on which this method is based is much more accurate than that which underlies any of the methods discussed earlier. Most of the items of expenses naturally gather round machines and processes rather than round wages or man-hours. The rate of wages and time consumed being equal, it costs a great deal more to do a piece of work on a larger machine than on a smaller one, since the larger machine and tools originally cost more and such items as repairs, power, light, depreciation, etc. are all greater in like proportion. It is, therefore. more accurate to go for this for the distribution of work expenses because it allocates the burden on the basis of the time during which and the place at which the work is performed.

JOB AND PRICES COSTS

JOB ORDER	PROCESS COSTING
COST CALCULATED FOR SPECIFIED ORDERS	DEPARTMENTAL COSTS DETERMINED OVER A PERIOD
INDIVIDUAL ORDER NUMBER SET UP FOR EACH JOB	WORK IN PROCESS INVENTORIES KEPT BY DEPARTMENTS
KEPT AS A SUBSIDIARY LEADER BEHIND WORK IN PROCESS INVENTORY	SUPPORTED BY DEPARTMENTAL COST RECORDS, NOT PRODUCTION ORDERS
COST THAT CANNOT BE ATTACHED TO JOB ARE IDENTIFIED BY DEPARTMENTS AND THEN ALLOCATED TO JOBS	ALL COSTS ARE IDENTIFIED BY DEPARTMENTS, EITHER DIRECTLY OR BY ALLOCATION AND THEN ASSIGNED TO PRODUCTS
CALCULATED WHEN JOB IS FINISHED	CALCULATED AT THE END OF COST PERIOD

Fig. 29.5

To determine the machine rate for the purpose of distributing the total expenses, all items of expenses are pooled together so that each machine or process would, as nearly as possible, bear its just share of expenses. The total of such allocated expenses assigned to any machine is then divided by the estimated number of hours that the

machine may be expected to be in operation during a particular period. This would give the hourly rate of the machine; and every job performed on that machine will be charged accordingly.

Though, this method is theoretically most accurate; in practice, difficulties crop up whenever any departure is made from the estimated time when machines are to be in operation. If a machine fails to run for that period, an undercharge will be made; and this will mean that a part of the expenses will remain undistributed and will not appear in the cost of production.

Analysis of Variances

The determination of cost of production is dependent upon a number of variances. Thus, the entrepreneur has constantly to analyse and investigate different variances for an effective control over the cost of production. The methods of analysing these variables into their different components are:

I. Material

(i) Material price Variance representing the excess = {Actual quantity Purchased × Actual price (X) (Y)} − {Actual Quantity (Q) × Standard Price (P)}

Cost of saving resulting from purchases of direct materials at prices above or below the set standards = XY − QP

(ii) Material usage variance indicating efficiency in the use of (P) materials {Actual Quantity (Q)} × {Standard Price (P)} {Standard Quantity (Q)} × {Standard Price (P)}

= QP − QP

II. Labour

(i) Labour wage variance showing higher or lower wage rates than contemplated = {Actual direct rate (R) − (W) Standard wage rate} × {Actual direct labour hours (L)}

(R − W) × L

(ii) Labour time variance. Revealing excess time taken or saving in time as compared to standard time = {Actual labour direct hours (L)} {Standard direct labour (S)} × {Standard wage rate (W)}

(L − S) × W

III. Overheads

(i) Overhead budget variance. Disclosing excess expenditure or saving in actual cost compared with the budget = {Actual overhead for the budget period} − {Standard overhead for the same period}

(ii) Overhead capacity variance — Highlighting the amount of overhead unabsorbed or overabsorbed = {Standard direct labour hours as per the production budget − Standard overhead rate} − {Actual direct labour hours as per payrolls for the above period}

(iii) Overhead efficiency variance showing the overhead cost of excess direct labour hours applied to the period's production or the saving resulting from the completion of the period's production in less than standard direct labour hours. = {Actual direct hours as per payrolls Standard overhead rate} − {Standard direct labour hours for the period of production}

In each case, the plus balance shows a loss and a minus balance indicates a profit. Variances are very important indicators of the cost of production.

Product Mix

The product mix is generally adopted in the case of multiple product. However, in a large number of cases, small-scale units manufacture a single product. With a view to maximising production, an entrepreneur has to produce ancillary by-products or components. In other words, the managerial cost of production of the by-product is lower; the profit of the entrepreneur, therefore, is higher. Besides, product mix can also be adopted in the production process without hampering the quality of the product. The entrepreneur should have analysed the strengths and weaknesses of all the materials, labour, etc. which can yield a higher production at a low cost.

Full Utilisation of Production Facilities

The small entrepreneur will increase his production by fully utilising his machinery and labour. Non-utilisation of these two important components result in an increase in the cost per unit. When all the necessary raw materials are available, there is maximum utilisation of machinery and labour resulting in higher production. And every increase in production reduces average cost per unit. This apart, the marginal cost is also considerably lower. A small entrepreneur has to plan in detail so that no bottleneck crops up in between. The cost overheads too will go down. Therefore, the aim of small-scale industries should always be to utilise production facilities fully.

Inventory or Stores Control

Inventory control is a potential strategy in controlling cost of production — one of the most complex and far-reaching problems faced by the management. A recent

survey has shown that capital amounting to about Rs. 800 crore is locked up in inventories as against an annual sales turnover of about Rs. 2,500 crore, giving an inventory-sales ratio of 1:3.40 as compared to 1:6 to 1:8 in some of the developed countries. These figures indicate tremendous scope for capital release through a control of inventories.

Inventories are stocks which are classified as:

(i) Raw materials (like oils, chemicals, cotton, steel, etc.);

(ii) Process stores;

(iii) Packing material, spare parts, ancillary goods, engineering stores, wrappers, bottles, bobbins; and

(iv) Finished goods.

The annual cost of carrying inventories adds to the cost of production. The objective of inventory control is to release working capital for more productive uses and minimise the overhead costs. Generally speaking, an inventory, either of finished goods or of raw materials or of ancillary materials should be adequate to achieve maximum production; at the same time, it should not be so excessive as to restrict the entrepreneur's ability to earn a high rate of return. As the inventory paradox has it, inventory control should "not be too much, not too little, and it should be practised at the lowest cost for the highest profit."

Inventory control also incorporates materials management. The main function of inventory control is to ensure a continuous flow of materials for production. This control will minimise the cost of production for a small-scale industry.

Life Cycle Phases and Savings Potential

The life cycle phases of a product and savings potential are shown in Fig. 29.6.

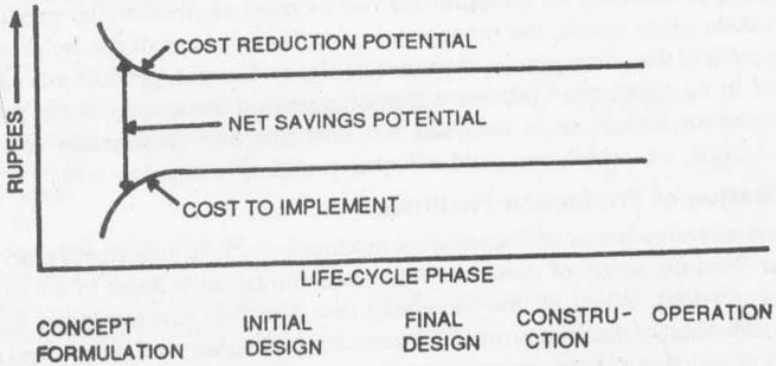


Fig. 29.6

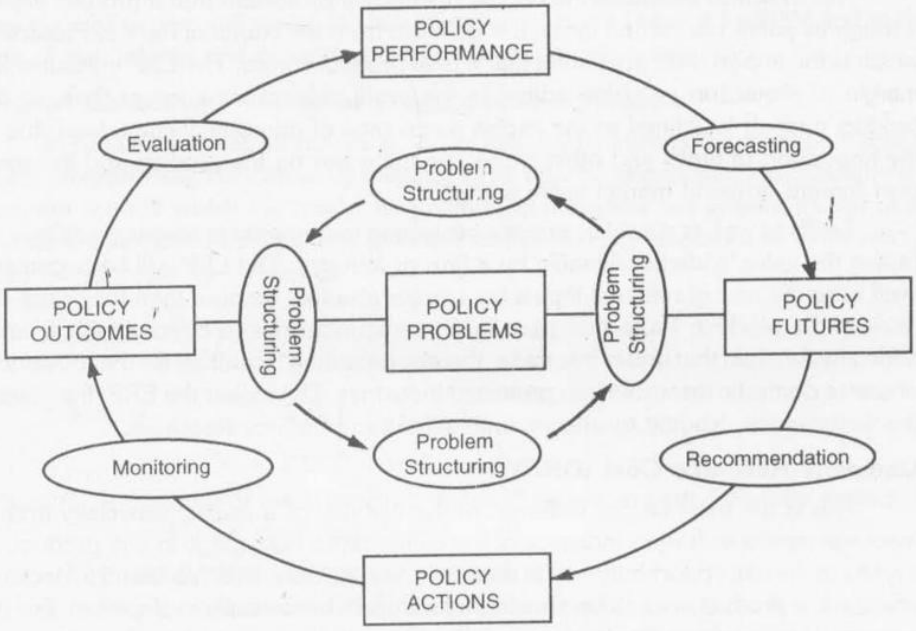
Selection of Items

The following can form the criteria for selection of items of value engineering study:

1. Items of high annual consumption, say A category items (of ABC analysis).
2. Items complex in design.

3. Items made from scarce materials.
4. Items involving too many machining operations and difficult to make.
5. Items where the chance of standardisation is bright.
6. Items with a high scrap rate or wastage and of repetitive use.
7. Items with possibilities of modification or incorporation into a related product component.
8. Items purchased in large quantities.
9. Vital items where dependence on imports is too much.
10. Critical items of single source supply.

PROBLEM-CENTERED POLICY ANALYSIS



THE ECONOMIC INDICATORS

Market Rate of Return (MRR)

This is a measure of the discounted value of the financial rate of return at the prevailing market costs and prices, including the distortions. The difference between the MRR and the Internal Rate of Return (IRR) is that the former does not include corporate tax in the cost of production. The cost items included are: capital cost, working capital and operating cost. The returns include sales and other income. The flows of these costs and returns for the life of the project are discounted to arrive at the rate of return where the net present value is zero. For comparison, an acceptable level of the MRR should, at least, be higher than the prevailing interest rate, i.e., the project should earn a rate of return that covers its interest cost, at least.

Economic Rate of Return (ERR)

This is the rate of return the project will earn if there are no distortions. For this indicator, the flow of costs and receipts is revalued at their opportunity costs. The tradable inputs and output are revalued at their international prices, the non-tradables are revalued at fixed conversion factors, while labour is revalued at the shadow wage rate. The flow of net receipts is, then, discounted to arrive at the ERR. Normally, the ERR should be higher than the prevailing rate of interest in the world market. According to a Planning Commission study, the ERR should be at least 12 per cent. The ERR should normally be higher than the MRR.

Effective Rate of Protection (ERP)

This indicator measures the degree of effective protection that a product enjoys through its entire production cycle. It is different from the Nominal Rate of Protection which is the import tariff protection that a final product enjoys. The ERP measures the margin of protection on value added in the production process rather than on the product price. It is defined as the excess percentage of domestic value added due to the imposition of tariffs and other protective measures on the product and its inputs over foreign or world market value added.

Tariffs as well as subsidies provide protection to domestic processing activities by raising the value added obtainable by a firm or industry. The ERP will be negative if tariff raise the cost of material inputs by a larger absolute amount than they raise the price of the product. Protection permits domestic industries to operate with a value added higher than that under free trade, thereby providing incentives for the movement of scarce domestic resources into protected industries. The higher the ERP, the greater this inducement, leading to uneconomic utilization of scarce resources.

Domestic Resource Cost (DRC)

This is the most crucial indicator of the viability of a project especially from a macro-perspective. It is an indicator of the comparative advantage in any product, as it refers to the real opportunity cost in terms of domestic resources. It is useful in deciding whether the product in question should be produced domestically or imported. For the purpose of calculations, the total cost of the project is divided into two categories, viz., rupee and foreign exchange expenditure. The cost components included are: the total operating costs of the normal year, an eight per cent depreciation on fixed capital and a 10 per cent return on capital employed. Taxes are excluded at all stages, as they are transfer payments and not real resource costs. Sales of the normal year are revalued at world prices. Total rupee expenditure and foreign exchange saved/earned of the project are calculated. The DRC, thus calculated, is compared with the exchange rate. A DRC lower than the exchange rate indicates that the product could be profitably manufactured domestically.

Internal Rate of Return (IRR)

IRR is a universally accepted criteria for judging the value and authenticity of investment proposals. It is based on time value of money.

IRR's working formula shows that the cash inflows of each individual project (having different IRRs) are reinvested at their respective IRRs. This seriously flouts the concept of uniformity in the capital market — after all each individual project cannot reinvest its cash inflows at different rates, because the reinvestment rate would have to be uniform at any given situation. Thus, while making a comparison between NPV and IRR — the one pertaining to NPV, i.e., reinvestment of cash inflows of all projects uniformly at the cost of the capital, does not suffer from much contradiction, from the purely theoretical standpoint of an ideal capital market, as regards its applicability in a real life capital market scenario, and has a distinct relative advantage over the concept of reinvestment of cash inflows at varying IRR of each individual project, as proposed under the technique. Therefore, NPV has a well-established edge over IRR. Some authors have, however, expressed their doubts as to the validity of assumption of the deployment of cash inflows at the rate of marginal cost of capital for NPV and at the rate of the internal rate of return of each individual project for IRR.

Capital Rationing — a Linear Programming Approach

In situations of capital rationing, either external or internal use may be made of linear programming techniques by building up an appropriate model. The fundamental theorem around which the model is woven is to maximise net present values of all investment proposals within the constraints of the availability of total funds. A frequently used model could be written as:

$$\text{Maximise } \sum_{i=1}^{n} P_i X_i$$

$$\text{Subject to } \sum_{i=1}^{n} C_{it} X_i \leq B_t \ (t = 1,..., T)$$

$$X_i = 1 \text{ or } 0 \ (i = 1, ... n)$$

where C_{it} = amount of funds required by the i^{th} project in period t where projects C = 1,..., n, time periods t=1, ...T.

P_i = net present value of the project i.

B_t is the absolute amount of funds to be invested in period 't'. X_i is an integer representing the proportion of project 'i' taken on — it can be either 0 or 1 (rejected or accepted).

In the constrained maximum form, NPV is maximised within the constraints of funds availability and mutual exclusiveness of project (acceptance of one project to the exclusion of another).

Another variant of the maximum could be:

$$\text{Maximize } Z = \sum_{i=1}^{n} a_t D_t$$

$$\text{Subject to } \sum_{t=0}^{T} C_{jt} x_j + D_t \leq M_t \ t = 0,1,....T$$

$$x_j D_t \geq 0$$

where a = time – value factors vector.

D = dividend vector.

C = matrix of cash flows (outlays are positive and inflows negative), the rows are cash flows of each period and the columns are the cash flows of each investment.

M = Column vector of cash available from outside sources.

x = Column vector indicating the number of units invested in each investment. Number of different investments = J.

T = Horizon of planning periods.

Through these linear programming models, based on the NPV method, although the firm may not be able to rank the investment opportunities, it would nevertheless be able to select the best set of investments from the criteria of maximising their net present values within the constraints of the availability of a pre-determined quantum of investible funds. However, the problems associated with such model building exercises steam from the enormous information inputs that would be needed to make use of them (present value of all investment opportunities and constraints, etc.) Besides, serious doubts have been raised in some quarters as to the theoretical soundness of the assumption underlying such model building. It has been held by them that the concept of NPV traces its origin to perfect capital market conditions with no capital rationing and making adjustments in its applicability by superimposing conditions of capital scarcity militates against the very concept of NPV. Besides, if in a market-dominated marginal cost of capital, the very basis of the principle of NPV exists, then the idea of capital rationing simply falls through. However, even within these limitations, these linear programming techniques may be made use of investment opportunities, using it as the basic theoretical frame work. To this extent, NPV does have an edge over IRR, as no such modelling could be woven around the concept of IRR. In a capital budgeting scenario for IRR technique, a threshold limit is fixed (more often than not on the basis of a subjective linking of the threshold limit to the availability of funds). Thus, IRR suffers from serious inadequacy vis-a-vis NPV in situations of capital rationing.

Some Observations

IRR as a capital budgeting technique has been claimed to have certain inherent advantages, a few of which are listed below:

(i) The internal rate of return is a relative measure of the worth of a project, as opposed to the absolute measure of the worth proposals in the NPV method, facilitating to some extent *inter se* ranking of projects having uniform scales of investment, timings of cash flow and project timings. For the same reasons, it has an appeal to entrepreneurs, since returns are measured in percentages, which make so much more of a sense to them, vis-a-vis the net present value, which is a measure in absolute terms of the increase in the firm's net wealth.

(ii) Some authors have held that IRR, not requiring the computation of the cost of capital (which is quite an involved exercise), has an edge over the NPV

method, which uses the cost of capital as a discounting factor. However, the assumption would not stand the test of a close scrutiny, since for deciding upon the acceptability or otherwise of a project under consideration, a knowledge of the cost of capital would be called for, as this would determine the threshold level as far as the acceptability of investment proposals is concerned. Only in NPV method, it enters into calculation at a much earlier stage, and in the IRR method it is only used for the purpose of comparison.

However, as opposed to these advantages, IRR suffers from the following drawbacks:

(a) The basic theoretical foundation for IRR as regards reinvestment of the surplus is seriously flawed as discussed above.

(b) Combination of IRR is much more difficult compared to NPV.

(c) The ranking of mutually exclusive projects under IRR is cumbersome as it involves computation of internal rate of return of the differentials of cash flows of the projects taken in pairs and arriving at the best solution. NPV method gives consistent results in all such cases.

(d) In non-conventional projects, involving more than one change in the sign of cash flows, there would be more than one valid solution for the value of IRR and that too, varying over a wide range rendering the decision-making process much more difficult. No such difficulty arises in applying NPV method in such cases.

(iii) In a capital rationing scenario, the IRR method does not lend itself amenable to any analytical treatment. The only solution in such cases would be to decide upon, somewhat arbitrarily, a cut-off IRR rate beyond which all proposals would be accepted. However, in the NPV method, linear programming solutions are available, which although having limitations from a purely theoretical angle, offer very good practical solutions.

It would thus be seen that on balance, the NPV method enjoys decided advantages over the IRR method as a capital budgeting technique.

Unit Cost of Production [UCP]

UCP helps in extrapolating the operating cost at the desired levels of production. The cost of production includes cost of raw materials, components, consumables and utilities comprising power, fuel, water etc. The initial theoretical calculations are adjusted taking into account actual consumption pattern in the industry. The consumption patterns are also indicated by the suppliers of plant/technical know-how based on their experience. Cost of inputs per unit is taken on the basis of cost at site which includes loading, transportation and unloading expenses. While arriving at the expenditure on raw materials, the cost of procurement from the expected source of supply is considered. Suitable provisions are also made for seasonal fluctuations in prices. The cost of power includes demand and energy charges. The requirements of power, steam, water, oil and fuel are calculated on the basis of actual need and on the experience of similar units in the industry. In case a project contemplates generation of power internally, then the cost of power generated is to be segregated from power

obtained from the State Electricity Board. Material balances, yields at various stages of process, rejections etc. are also to be calculated before computing the UCP.

The other items of cost forming a part of the overall cost of production are labour and supervision, plant overheads, repairs and maintenance, contingencies, administrative overheads, packing cost, sales expenses, financial charges, depreciation and taxation. Under "labour and supervision", total wage bill depends upon the size of labour force, skills required of them and the wage rate. Wage rate is taken either as per statutory provisions (including bonus etc.) or the rates prevailing nearby the location of the plant, whichever is higher. To the wage, a provision of around 50 per cent is added for allowances, provident fund, ESI and other benefits. All costs in the plant which are not chargeable to any specific operation are considered as "plant overheads" and are charged to the manufacturing cost of product.

Insofar as repairs and maintenance are concerned, unless the plant and machinery has some special characteristics for the purpose of projections, the repairs and maintenance costs can be taken at 2 to 3 per cent of the value of fixed assets and may be subsequently increased by 5 to 10 per cent every year. A higher provision might be necessary in the case of those industries where wear and tear is high. Under contingencies, it would be prudent to make a provision equivalent to the latest figure of the annual inflation rate or 5 per cent, whichever is higher, to take care of marginal increases in the cost of production. The administrative overheads and sales expenses can be taken for the purpose of projections at 3 to 5 per cent and 5 to 10 per cent of the sales respectively. The provisions for financial charges are to be made on the basis of actuals taking into account the applicable interest rates, guarantee commission, etc. Provision for depreciation and taxation are to be made as per provisions of the Income-Tax and other related Acts.

Sensitivity Analysis

Sensitivity analysis identifies the critical or sensitive elements affecting the viability of a project taking into account different assumptions. This helps in determining the performance of a project, its ability to survive the trade cycles and its ability to compete in the market. The use of sensitivity analysis in project appraisal eliminates the need for restricting one's judgement to a single set of parameters and provides the basis for a multiple value sensitivity analysis. This analysis is necessary, in the first instance, in respect of demand projections taking into account the degree of competitiveness, consumer response and the amount of the substitution that would be possible. In doing the sensitivity analysis, it is not sufficient to measure the effect by one single change (in a factor or a co-efficient) but often the changes are assessed on the basis of permutations and combinations. In the marketing area, the objective of this analysis is to determine the impact on the size of demand in aggregate or by segment. In the case of profitability projections, the sensitivity analysis can be combined with subjective profitabilities through a network of decisions to provide the most probable for a project. Though in a real situation, all factors are subject to fluctuations for the sake of simplicity in relation to profitability projections, the analysis is done taking into consideration the changes in the least sales revenue and prices of raw materials.

Promoters' Backgrounds

Apart from ensuring technical feasibility and financial viability of the project, the appraiser also has to look into the background of the promoters and their credibility.

In all project evaluations, the track record of the promoters is checked and verified from all possible knowledgeable sources. These sources may include other financial institutions, banks and government agencies with whom the promoters might already have had dealings. The income-tax and wealth-tax assessments of individual promoters are reviewed to establish their financial worth.

Applications for financial assistance from industrial groups who are tax defaulters, are not processed by the financial institutions until the defaults have been settled to the satisfaction of the government. This aspect is closely monitored by obtaining quarterly return from every borrower containing details of the statutory and government dues outstanding.

The working results of existing concerns of the promoters are looked into and their projected funds flows evaluated to establish the availability of surplus funds for investment in the new project towards promoter's contribution.

Project Cost Comparisons

Analysis of the project estimates start with an examination of the assumption on which these have been based in the project report. Every effort is made to ensure that all items of project cost have been adequately taken into account. In order to make a realistic assessment of the project cost, various items of cost are broken down into as many sub-heads as possible so that no item of cost is overlooked.

While assessing the project cost, escalation in cost on account of inflation during the implementation period is provided for. The yearly rate of inflation as available in the "Financial and Economic Review" appearing in the Reserve Bank of India (RBI).

The main aspects looked into while scrutinising the project cost, estimates are as under:

(i) Land: While assessing the expenditure on land, the total area and its cost, inclusive of conveyancing charges are taken into account. If the cost seems to be higher than the current prevailing price, the reasons for variations are looked into. While examining this cost, the cost of alternative arrangements such as taking land or buildings on lease are examined. The requirement of land is examined separately from the viewpoint of factory buildings, auxiliary buildings, open storage space, future expansion programmes and housing colony. If the land is acquired or proposed to be acquired from the promoters or their relatives, detailed scrutiny is made with regard to propriety of such a transaction. In respect of valuation of self-acquired land, the cost of acquisition plus simple interest at the current lending rate of financial institutions (12.5 per cent per annum for notified less developed districts and 14 per cent per annum for other places including metropolitan town) from the date of acquisition till the date of submission of complete application to the financial institutions is considered.

In case the land has been earlier used for agricultural purposes, permission of the State Government needs to be obtained for converting the land into non-agricultural

land. If the land is leasehold, the terms of the lease, particularly with reference to mortgage of leasehold rights, the lease, particularly with reference to mortgage of leasehold rights, provisions relating to its termination of lease etc., are examined and ensured that they do not come in conflict with the requirements of the financial institutions. The topography of the land, its elevation, suitability for the location of the project, likely exposure to natural calamities (like earthquakes, floods, cyclones, etc.) are also examined. Site development often poses many problems and thereby raises the total cost of land. The expenditure on site development, construction of approach roads, fences, drainage, culverts etc. are therefore scrutinised.

(ii) Building: The cost under this head includes the cost of construction of buildings for the main plant, auxiliary and administrative services, godowns, warehouses, canteen, time office, silos, tanks, wells, garages, sewers, drainage etc. as also the architect's fees. The cost of buildings would depend upon the type of construction envisaged as also the load-bearing capacity of the soil which determines the type of foundation required. It is also necessary that the construction rates are comparable with the rates in the recent past, preferably in the vicinity of the project site. If a project is to be located in a less developed area a suitable provision is desirable for housing the workers and other key staff. Such a provision is made up to 10 per cent of the project cost subject to manpower employment and projections.

Project cost overruns often arises due to understanding of building and foundation costs. At the appraisal stage itself, an architect's report is obtained giving the types and specifications of buildings to be constructed. Provision for escalation in the prices of building materials is also considered necessary. Current costs of building materials is also considered necessary. Current costs of building materials and construction charges are used for projects with a relatively shorter implementation period, say, of up to one year. In the case of projects with a longer implementation schedule, an allowance is added to the current cost estimates equal to the latest available annual inflation rate for civil works multiplied by the number of years of implementation period.

With regard to civil contracts, financial institutions insist upon obtaining competitive bids. In no case are the promoters, if they happen to be civil contractors, allowed to carry out the civil work of the project. Likewise, in-house execution of civil work is also not encouraged. The reputation and experience of architects and contractors in handling the proposed jobs and the procedure the proposed jobs and the procedures followed by the promoters in selecting them are carefully examined.

(iii) Plant and Machinery: While calculating the cost of plant and machinery, the entire infrastructure is segregated into imported and indigenous categories and also into those in respect of which firm orders have been placed and are yet to be placed. Machinery orders and suppliers' quotations are examined with a view to analyse erection expenses. In case the quotations of the machinery suppliers are old and latest quotations are not available, suitable escalation in the cost estimates, based on the validity period of quotations, is provided. In respect of projects with a relatively shorter implementation period, the latest available quotations are used for working out the cost of plant and machinery, taking into account any escalation clauses provided in the quotations. In other cases, provision for escalation is made by adding the latest figures

of annual inflation for machinery multiplied by the length of the delivery period. In the case of large chemical projects, besides provision for the inflation rate, a specific contingency margin of 20 per cent is provided towards equipment, piping and utilies for which estimates cannot be drawn until detailed examination has been carried out.

Where the institutions find that the plant and machinery proposed to be installed as capable of producing 125 per cent or more of the licensed capacity, this aspect is brought out in the appraisal report and also to the notice of the Government before any assistance is considered for the project.

(iv) Technical know-how and Engineering Fees: This aspect includes know-how fees, expenses on foreign technicians, training of Indian technicians within the country and abroad as also any royalty and compensation, if payable. A thorough scrutiny is done with regard to the precise scope and cost of know-how and consultancy services. These are examined in depth with reference to government guidelines, range of services to be rendered by the consultants and guarantees offered/risks shared by them. In the case of technical know-how and engineering fees payable to a foreign collaborator, the impact of income-tax is shown separately.

(v) Miscellaneous Fixed Assets: Miscellaneous fixed assets differ from project to project. Nevertheless, certain assets common to most projects are vehicles, furniture, fixtures, office equipment, workshop and laboratory equipment, erection and miscellaneous tools, fire fighting equipment, equipment for supply and distribution of power, steam, gas, water, etc. and effluent treatment and disposal plants. Special elements of miscellaneous fixed assets, particularly in respect of units located in backward areas, cover the infrastructure like water supply, power connection (including deposits to be kept with the State Electricity Boards), transportation, railway siding, etc. The provision for these facilities is determined depending upon their need and justification. Adequate provision is also necessary for standby power generating facility. Provision for escalation is made in the light of escalation clauses, if any, or by adding an allowance at the latest rate of annual inflation on various equipments multiplied by the delivery period.

Sometimes expenses are required to be incurred for patents, licences, payments in respect of trade marks, trade names, copyrights, etc. which are to be included in the cost of project under miscellaneous fixed assets.

With a view to conserving the use of furnace oil, the government desires that economies and feasibility of using coal or coal in substitution of oil should be examined. However, if the financial institutions come to the conclusion that on economic grounds, it would not be in the interest of a project to put up facilities for either gas or direct coal burning and that it would be preferable to use fuel oil, a specific reference to the DGTD and/or Licensing Committee for relaxing this condition is made by the institutions.

(vi) Pre-operative Expenses: Expenses not included under any other item of the project cost and which are to be incurred by the undertaking before starting commercial production are included under "pre-operative expenses." These include promotional, organisational and training costs, establishment expenses, interest on term loans and

instalments of interest and principal on deferred payments payable during construction period, guarantee commission, commitment charges on loans, legal charges as also insurance expenses during the construction period. All these expenses are directly dependent on project implementation schedule and as such if the schedule has not been worked out on a realistic basis, there is a high probability of an overrun under this head. The institutions allow for a delay of about 25 per cent in the project implementation schedule and accordingly allow a cushion of 25 per cent in the estimates of pre-operative expenses. An allowance, nevertheless, is added to the estimates equal to the latest available annual inflation rate based on the time schedule worked out for the project implementation.

(vii) Preliminary and Capital Issue Expenses: Preliminary and capital issue expenses include cost of preparation of feasibility report, project report, conducting market survey or any other survey necessary for the project, legal charges for drafting agreements, memorandum and articles of association, capital issue underwriting commission, brokerage, charges for drafting, printing and issue of prospectus, share certificates etc.

(viii) Contingencies: Over and above the escalation under various items of cost on the basis of latest available rate of inflation, contingency provision is made on the basis of the project implementation schedule. Wherever the construction period is of one year's duration, a contingency provision of 10 per cent on the overall estimates of capital cost including margin money for working capital is considered as adequate. For every additional period of one year, a 5 per cent increase in the contingency margin is made. This means, for example, that for a project with an estimated implementation period of two years, a 15 per cent contingency margin might be advisable.

(ix) Margin Money for Working Capital: The amount of working capital differs from project to project and is determined by having regard to the nature of business, manufacturing cycle, business fluctuations, purchase and sale policy, market conditions, availability and source of raw materials and availability of bank credit. The cost of raw materials (imported and indigenous) consumables, utilities, wages and salaries, repairs and maintenance, packing and sales expenses, stock of finished goods and work in process and outstanding debtors are required to be worked out on the basis of the operating cycle. From the total requirements of working capital, the bank finance as also the credit available from raw material suppliers is deducted to find out the amount of margin money for working capital which forms a component of the total project cost. The accepted practice for working out the margin money for working capital is based upon the requirement during the first year of operation of the project and under the second method of lending as suggested by the Tandon Committee.

Often, in the event of any overrun in the capital cost, the margin money provided for working capital is utilised towards capital cost with the result that no margin money is available when the project is ready for commissioning. With a view to avoiding such a situation, the financial institutions stipulate that the loan amount equivalent to the margin money for working capital be initially blocked and not be released to the borrower till such time as the project is complete and the build-up of inventory commences.

(x) Initial Cash Losses: Projects often incur cash losses during the initial years of operation. This cash loss, if not covered in the project cost, adversely affects the liquidity of the project and its working. It is, therefore, important to provide for the expected cash losses, if any, in the cost of the project at the initial stage itself.

However, as a matter of practice, the borrower does not disclose the initial cash losses in order to make the project look more attractive both to lending institutions and the investing public. This unhealthy practice leads to a severe financial crunch to operate economically viable projects.

Average and Marginal Cost Pricing

Achieving high sustained export growth is the major plank of the reform process. In this context, it would be important to know the products which have an export potential, if not on a total cost basis, at least, on a marginal cost basis. In a working paper titled 'India: Protection Structure and Competitiveness of Industry — Findings and Conclusions from a Sample of Projects', the World Bank had attempted to study the explanatory factors for the decision of a firm to export. Its analysis showed that it was the marginal profitability, at international prices, which explained the firms' behaviour *vis-a-vis* exports. In the analysis, the marginal cost refers to total operating costs less administration costs. The counter-argument is that companies do not export on a long-term basis to cover only their marginal costs (operating cost) per unit of output. They need to cover their fixed costs as well, whether in the domestic or export markets. Only when the companies are cost-efficient on a total cost (fixed + marginal cost) basis, can they continue to export on a long-term basis. *Ad hoc* exports can be based on the marginal cost principle, as they are a consequence of excess production or depressed domestic demand.

Case-studies

1. Company A

Product – Tungsten Filament

Operating Cost	= Rs. 112 lac
Sales Value (Domestic)	= Rs. 187 lac
Sales Value (World)	= Rs. 206 lac
WP/MP of Output	= 1.10
WP/MP of Inputs	= 0.41
Normal Year Output	= 31.7 tonnes
Operating Cost per Unit	= Rs. 3.5 lac
Sales Value per Unit (Domestic)	= Rs. 5.9 lac
Sales Value per Unit (World)	= 6.5 lac
Gross Profit (Domestic)	= Rs. 5.9 lac – Rs. 3.5 lac = Rs. 2.4 lac
Gross Profit (World)	= Rs. 6.5 lac – Rs. 3.5 lac = Rs. 3 lac
Gross Profit Margin (Domestic)	= 2.4/5.9 = 40.7%
Gross Profit Margin (World)	= 3/6.5 = 46.1%

This company had plans to export.

2. Company XYZ

Product — Cotton Yarn

Operating Cost	= Rs. 2009 lac
Sales Value (Domestic)	= Rs. 3162 lac
Sales Value (World Market)	= Rs. 3162 lac
WP/MP of Output	= 1.00
WP/MP of Inputs	= 1.05
Normal Year Output	= 2847 tonnes
Cost per Unit	= Rs. 0.71 lac
Sales Value per Unit (Domestic)	= Rs. 1.11 lac
Sales Value per Unit (World)	= Rs. 1.11 lac
Gross Profit (Domestic & World)	= Rs. 1.11 lac – Rs. 0.71 lac = Rs. 0.40 lac
Gross Profit Margin	= 0.40/1.11 = 36%

. In this case, since WP/MP of output is one, while operating cost is assumed to be the same in domestic as well as world markets, the gross profit margin in both markets is the same. This company had plans to export at the time of appraisal.

3. Company ABC

Product — Aluminium Fluoride

Operating Cost	= Rs. 772 lac
Sales Value (Domestic Market)	= Rs. 1418 lac
Sales Value (World Market)	= Rs. 1296 lac
WP/MP of Output	= 0.91
WP/MP of Inputs	= 0.67
Quantity Produced in Normal Year	= 4050 tonnes
Operating Cost per Unit	= Rs. 0.19 lac
Sales Value per Unit (Domestic)	= Rs. 0.35 lac
Sales Value per Unit (World)	= Rs. 0.32 lac
Gross Profit (Domestic)	= Rs. 0.35 lac – Rs. 0.19 lac = Rs. 0.16 lac
Gross Profit Margin (World)	= Rs. 0.32 lac – Rs. 0.19 lac = Rs. 0.13 lac
Gross Profit Margin (Domestic)	= 0.16/0.35 = 45.71%
Gross Profit Margin (World)	= 0.13/0.32 = 40.62%

According to this case-study, since the operating cost is assumed to be the same for both the domestic and world markets, there can be three variations of profitability.

- For products where the WP/MP output is greater than unity, profitability in the world market will be higher than the domestic market. Such products are: tungsten filaments, aniline, vat dyes, glass bottles (flint), glass shells, roses, HSS taps, Max/DRS, cobalt and nickel-based rods. These are products with export potential.

- Where the WP/MP of output is unity, profitability in both markets will be the same. According to our calculations, such products are: cotton yarn, welding electrodes, chlorinated rubber, polypropylene resin, woven labels, PVC foam sheets, diamonds (after cutting and polishing), acrylic yarn, halogen bulbs, bimetallic contacts, terry towels and granite tiles. These could also be products with export potential.
- For products where the WP/MP of output is less than unity, profitability in the world market will be negative. Such products were: agrochemicals, acrylonitrite, butadene rubber, monocrotophos, nonyl phenol, DMT, PFY, continuous copper rods and engineering plastics, to name a few. These products do not have the potential for exports.

Limitation of Social Cost-Benefit Analysis

The nature of social benefits and costs are such that there cannot be any standard method or technique applicable to all types of investment projects. A bridge, a road, a housing colony, or an industrial project will each require a different approach while identifying and measuring its social benefits and costs. For one thing, the nature of inputs and outputs of projects involving very large investment — and their impact on the ecology and people of the particular region and the country as a whole are bound to differ from case to case.

At another level too, the problems of qualification and measurement of social costs and benefits are formidable. This is because many of these costs and benefits are intangible and their evaluation in terms of money is bound to be subjective. Even with honesty of purpose, assessment of social good and social evil is likely to be tainted by the analyst's own ideas and subjective preferences and the resulting decision may not serve the socio-economic goals which might have been initially formulated.

Moreover, a successful application of the techniques of analysis depends upon the accuracy and reliability of forecasts. Even when evaluation of social costs and benefits has been completed for one project, it may be difficult to judge whether any other project would yield better results from the social point of view. If all possible alternative investments are sought to be socially assessed, the costs would be prohibitive.

However, the limitations of analysis should not deter one from applying the techniques so far evolved. The element of subjectivity can be reduced by cross-checks. Even economic assessments suffer from certain drawbacks due to distortions in the price-mechanism caused by imperfections in the labour market, government controls, tariffs and quotas, and price inflation. Finally, while the limitations should not be ignored, it would be a folly to disregard the gains of social evaluation of investments.

Conclusion

The social cost-benefit analysis is a very significant tool to assess the overall feasibility of a project, both in the private and public sectors by providing a useful framework for clarifying important issues and separating factors and judgements. Although the process is bound by limitation, its value is not diminished. Broadly, it is applicable to tactical decision-making within the broad planning framework that is

based on a wider range of considerations, which are usually socio-political and socio-cultural in nature. As for the entrepreneurs, an awareness of social cost-benefit will enhance their contribution to society. In the coming years, efforts will be made by social scientists to perfect this analytical process by removing or overcoming the limitations and universally accepting it in deciding on a project. As in all matters of social evaluation, we would be on safer grounds if we could rely on objective standards of social minima and measure social costs in terms of shortfalls or deficiencies from such minima. In short, economic science would then be said to deal with the problem of social economy and would finally prove its status as a system of knowledge concerned with the study of the nature and causes of wealth of nations. Thus, social costs, social returns and social values are important dimensions in project analysis.

ANNEXURE 1

Practical Policy Tools: A Guide to Cost-Benefit Analysis

Drawing on his diverse experience within academic, business and think tank environments, Richard Judy — Director of the Center for Central European and Eurasian Studies at the US-based Hudson Institute — has developed practical guidelines for applying cost-benefit analysis to the policymaking process.

Purpose: To formulate options, estimate their costs and benefits and recommend the options that maximize net benefits.

Phase I: Preparation

Policy analysts must begin by attempting to understand the problem they seek to solve. His approach avoids the common mistake of devising a solution for the wrong problem. Once the nature of the problem is clear, the policy analyst must explain why policy action is needed. As policy problems are often vague, it is important to first clarify the impact a policy may have on a particular socioeconomic group:

Phase 2: Strategy

Next, policy analysts must parameters to guide the selection of policy options, above all by defining the objectives of policy action. A list of potential objectives should be compiled and prioritized, paying special attention to trade-offs among objectives. The analytical focus can be further narrowed by defining the constraints of policy action, which helps determine what is and what is not possible. Once these constraints have been identified, strategies for avoiding them or minimising their impact can be developed.

Phase 3: Options and Analysis

At this juncture the policy analyst can elaborate a list of policy options. An explanation of the costs and benefits for each group likely to be affected should be provided for each alternative policy. It is important to explain how these costs and benefits will be distributed among the people involved. In other words, who wins and who loses?

Phase 4: Fine-tuning

Finally, analysts should utilize a rigorous process for determining the efficacy of each option. One common practice is to strive for pareto-optimality (i.e., a scenario in which no further changes can be made which would benefit one group without harming another). Another way of increasing the value of a policy recommendation is to explain the level of uncertainty involved in implementing a particular policy. Experiments and simulations can be conducted to determine how sensitive a particular policy would be to sudden changes in the external environment. Policies that are resistant to outside forces are considered to be "robust" and generally preferable to more sensitive alternatives.

ANNEXURE 2
Standard Costs in a Small-scale Industry

Progressive Conditions	*Average Conditions*	*Weak Conditions*
1. Cost systems designed to reflect all variances between standard and actual costs.	1. Cost accounting fairly accurate but not organized to provide standard cost information promptly.	1. No standard costs. Job costs inaccurate and uncontrolled.
2. Variances from standard performances supplied currently to management for corrective action — (Daily or weekly as needed).	2. Records and report not best suited to control cost and expenses.	2. Cost information mostly estimated. Monthly profit and loss statements inaccurate.
3. Unnecessary accounting records eliminated — management control reports furnished as needed.	3. Many records, reports and statistics maintained that are not useful as a tool of management.	3. Some records and reports prepared have no practical advantage.
4. All control records and costs integrated with standard costs.	4. Records unrelated to control; therefore of little assistance.	4. Production records required for suitable cost control not maintained.
5. All estimates for product pricing based on standard costs; guess-work is eliminated; loss of volume or profit is indicated.	5. Estimates not checked against actual cost.	5. Estimates determined by past performance and competition.
6. The effect that sales mixture and product selling prices have on the total company profits picture at varying operating levels is known at all times.	6. No knowledge of the effect on total business profits of individual product or order pricing.	6. Profit or loss estimated monthly; verified and adjusted annually to inventory; no profit or loss known by product breakdown.
7. Effect of additional volume on cost and profit is easily determined. Break-even points determined.	7. Effect of additional volume on cost & profit not easily determined. Break-even points not determined and their value underestimated.	7. Additional volume usually authorized to keep plant busy without knowledge of effect on cost and profit. No knowledge of sales mixtures or break-even point.

ANNEXURE 3

Industry-wise Economic Indicators 1998

Product	*No. of Projects*	*MRR (%)*	*ERR (%)*	*ERP(B) (%)*	*ERP(C) (%)*	*DRC (Rs. per US$)*	*Exchange Rate of Rs.*
Agro-based Products	5	22.55	44.19	–15.78	–13.52	18.44	31.50
Cement	2	13.85	32.10	–36.00	–25.00	20.00	31.00
Chemicals & Petrochemicals	17	21.76	30.18	28.01	18.41	23.73	32.00
Organic Chemicals	2	19.91	43.65	18.41	1.56	22.28	32.00
Drugs & Pharmaceuticals	1	26.90	125.30	–55.50	–44.70	11.60	32.00
Petrochemicals	8	21.80	27.59	29.70	–21.61	23.72	32.00
Dyestuffs & Intermediates	1	17.60	38.40	–12.90	–8.00	24.00	32.00
Plastic Products	1	30.20	51.00	36.30	19.60	24.10	32.00
Electric Lamps	1	18.90	18.80	–32.20	–29.30	21.00	31.00
Ceramics & Glass	2	24.31	64.47	–28.34	–27.73	13.06	32.00
General Purpose Machinery	1	28.00	46.10	190.70	53.40	30.60	25.90
Ferrous Metal Products	3	19.47	39.26	245.52	75.27	37.44	31.00
Iron & Steel Products	2	19.27	38.93	279.15	86.41	39.64	31.00
Rolled Products	1	19.20	42.70	312.20	90.70	41.10	31.00
Paper	1	19.80	15.30	132.60	69.80	39.00	31.50
Sugar	2	17.24	21.95	32.21	25.28	31.35	31.00
Textiles	9	22.13	24.78	34.79	24.17	23.88	31.50
Cotton Textiles	3	21.65	32.79	2.95	2.42	21.81	31.50
Man-made Fibres	4	22.02	22.88	40.99	28.47	24.37	31.50
Others	4	20.49	38.90	–23.70	–18.79	16.96	31.00
Total Sample	47	20.15	29.90	54.18	22.94	26.17	

Source: ICICI Projects.

CHAPTER 30

BUDGET AND PLANNING PROCESS

Introduction

Budgetary control is a tool of management used to plan,carry out and control the operations of the business. The entrepreneur finds it quite handy in planning the growth of his business or enterprise.

Over the years many have associated the word *'budget'* with restrictions, pressure devices and limitations. This is entirely due to misunderstanding of the performance and misuse of budgets. As such the current trend is to drop the word 'budget' and use in it place the term "profit plan," as more descriptive of the characteristics and objectives of the budget planning process and control.

The concepts and procedures under budget plan and control have wide application not only in profit-oriented enterprises but in every enterprise where the resources are limited and have to be properly applied. This, in a sense is *'managerial budgeting.'* It applies to public and private enterprises, government departments and charitable organisations.

The modern approach is towards a comprehensive budget plan and control. The other terms used in this regard is 'profit planning and control.' The steps involved in this include specifying enterprise goals, developing a long-range budget, carving out of it a short-range budget, periodic review of performance and follow up. This forms the basis for all the modern management approaches like management by objectives, participative management, dynamic control, continuous feedback responsibility accounting and management by exception.

More than mere Accounting

Though budget plan and control is closely related to accounting. It is not confined to it. It is a total management system with intimate relationship to the accounting system. Accounting provides historical data as a means to quantify the goals and supplies the units in which to report achievement and a basis for review. It also supplies information for marginal costing, standard costing and flexible budgets.

Management objectives are operationalised through proper strategies, by budget plan and control. The latter is a financial and narrative expression flowing from the planning decisions. Budget plan and control gives a firm basis for participative management. It requires involvement of all management levels in the planning process and in the approaches for accomplishing the goals. It enlightens the members of the management team regarding the objectives of the enterprise and its approaches. Thus it creates involvement and commitment.

The mechanics of preparing the budget plan consists of finalising the functional objectives and then preparing the master budget. The techniques adopted comprise among other measures forecasting of future targets, resolving sales-production, inventory problems, resources determination and cash flow determination. To increase the effectiveness of budget control, all enterprises should be divided into organisational sub-units, as decision centres or responsibility centres. They could also be viewed as cost centres, profit centres, or investment centres depending on the main objective and responsibility, of the sub-unit.

Total Systems Approach

A comprehensive budget plan and control encompasses much more than a periodic financial budget. It covers all operations in the enterprise and involves a total systems approach.

Subsequent to the preparation of the comprehensive budget, supplemental analysis might have to be undertaken periodically for individual decisions. The usual techniques are planning model, simulation, break-even analysis, marginal cost, return on investment (ROI), preparation of flexible budgets and preparation of data base.

The positioning of a budget director with a direct responsibility for the preparation of the budget plan is found very useful. A recent trend is to have an executive committee instead of a single budget director. This committee receives and reviews budgets from sub-centres and helps in forging a master budget for the organisation. It is also responsible for revision of the budgets from time to time.

The financial budget is only a part of the overall budget plan. It is an attempt to quantify the financial results of the management objectives, strategies and overall budget.

In harmony with the overall comprehensive objectives of the enterprise, both strategic or long-term and tactical or short-term budgets should be evolved. The short-range, tactical budget should be dove-tailed with the long-range budget. As a practical approach, the long-range budget is first evolved and thereafter the tactical budget. Many factors like general forecasting for the economy and for the industry as a whole, enter into the evolution of the long-range budget. Its time span all covers more than one year whereas the short-range budget normally covers a period of one year only. It is also further subdivided for each month or quarter.

Budget Objectives

One of the major aims of a system of budgetary control is that of entrusting the individual planner at all levels in the acceptance of budget responsibilities. It is a way

of splitting up the business into natural divisions and departments, budgeting the performance and cost requirements of each section, and then using these budgets as both the targets at which to aim and the measures with which to control. There should be a clear structure and pattern of organisation where techniques of budgetary control are applied.

Unless something of this sort is in existence and there is knowledge in an organisation of the lines of authority, it will be impossible to get the full advantages from a system of budgetary control. An organisation operates various controls of the output, quality and cost of its departments and divisions. There should be supervisors in each department who should know their subordinates and to whom they should report. The supervisor has the responsibility for output, quality and cost. He is an important person in budgetary control. This applies whether he is in-charge of a production or service department.

Budgetary Control

Budgetary control is a plan of operation based on a forecast of sale, income and expenditure which deals with departmental budgets framed on the basis of policy requirements and the responsibilities of supervisors/executives. This activity also calls for a constant comparison of the actual with the budgeted results.

In the words of C.L. Van Sickle, "a budgetary control system is a carefully worked out financial plan, including the procedure involved in its operations for conducting the various divisions of a business for the ultimate purpose of earning a profit."

At present, budgetary control has become a means of effective management control. It is looked upon as a profit plan. The primary object of a budget is to ensure the optimum utilisation of available funds for the purpose of producing at minimum cost and selling in a competitive market at maximum profit.

Budgets are broadly classified into:

(a) Revenue and expense budgets;

(b) Time, space, materials and manpower budgets;

(c) Capital expenditure budgets;

(d) Cash budgets;

(e) Master operating budgets.

Budgetary control provides a basis for: administrative control, direction of the sales effort, production planning, control over stocks.

The budget co-ordinates production, sales and finance. It compels small entrepreneurs to think on a continuing basis to maximise profits.

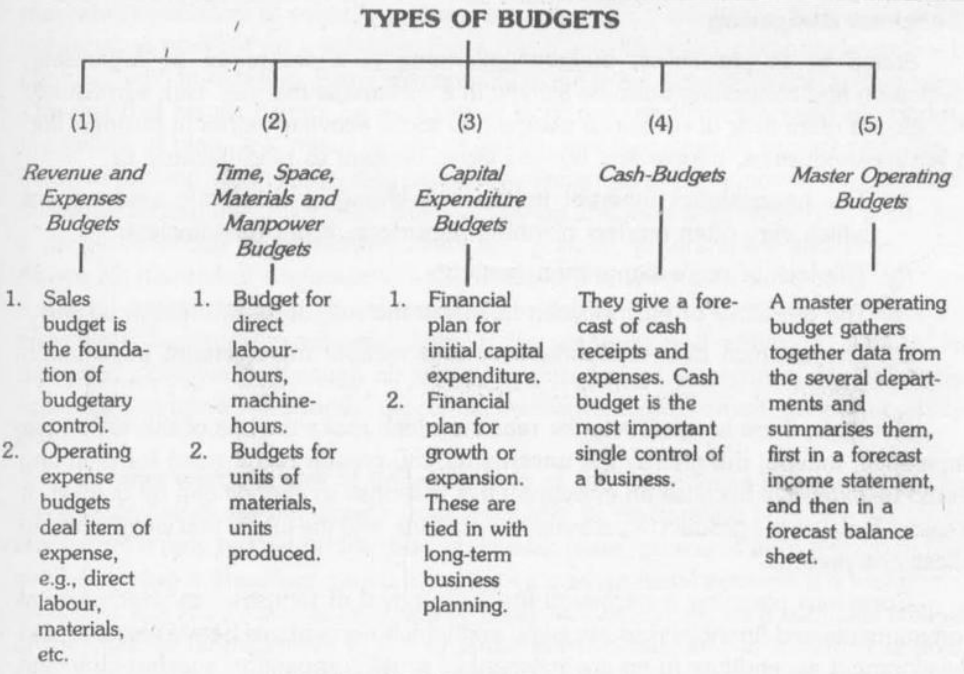


Fig. 30.1 Types of Budgets

Price fixing, financial requirements, expenses control, production control and profit maximisation.

Advantages of Budgetary Control

The important advantages of budgetary control are as follows:

(i) It helps the process of planning.

(ii) It provides an effective means by which, the entrepreneur can delegate authority without sacrificing his overall control.

(iii) It keeps expenditure in check.

(iv) It helps in coordinating activities of an enterprise.

(v) It helps in determining the policies of the enterprise.

(vi) It aids in measuring performance.

(vii) It promotes cooperation and enhances controls on business activities.

Steps in Budgetary Control

The following are the steps involved in budgetary control:

1. Preparation of the Budget
2. Publishing the Budget.
3. Measuring the Results.
4. Comparing the performance with the Budget.
5. Correcting the unfavourable variance for better growth.

Conscious Budgeting

Stated in simple terms, budgeting/planning is a technique of organising, developing and controlling business activity in a systematic manner. But, surprisingly enough, we often hear of conscious planning in social activities rather in business life. In business/industries, people are, by and large, hesitant to plan because of:

(a) The uncertainties inherent in the ever-changing economic environment which very often renders planning hazardous, if not meaningless;

(b) The lack of professional management;

(c) The tendency of businessmen to follow the rule-of-thumb methods; and

(d) The absence of a comprehensive and reliable management information system.

However, these are precisely the reasons which make the use of this technique imperative. Indeed, the greater the uncertainty, the greater is the need for planning would be extensive because an entrepreneur's response to change can be quicker. It is said: "Today is the product of yesterday's decisions; and the future that we plan today affects the present."

Conscious planning is necessary for the survival of industries in which capital commitments and financial risks are high, and which necessitates heavy research and development expenditure in an environment of acute competition and fast-changing market preferences and consumer tastes.

Planning — A Continuing Process

Planning is a continuing process and an extension of budgeting. Generally, there may not be sufficient segregation of the various functions, and the responsibility of each departmental head of the organisation may be too loosely defined to bring about real benefits from budgetary control. This does not, however, mean that small units should forgo the advantages of budgeting/planning because the benefits to be derived from it are numerous.

Techniques of Planning

The technique of planning was first introduced by multinational corporations as an instrument of management control and business development. As long as a business enterprise is small and manufactures only a few products for a limited and compact market with which it is familiar, it is possible for it to adapt itself to a change without much attention to planning, provided that the change is gradual. But when an institution grows into a multinational organisation, it is compelled to decentralise and delegate authority to branches and subsidiaries, and to operate on a system of remote control. With the rapid widening of the area of operations, sectorially and spatially in an ever-changing political, economic and social environment, intractable issues arise of coordination, control, decision-making and management.

What is Planning?

What, then, is planning? It is not an effort to predict results or eliminate uncertainty. Broadly speaking, it is an effort to develop and allocate financial and

manpower resources as soundly as possible under certain conditions, and to be as well prepared as possible for the future. From this it is evident that planning must not be confused with forecasting. Plans are certainly made in advance of an anticipated result. The fact that results cannot be guaranteed does not condemn planning or condone the failure of plan. It is much more comprehensive than specific project planning. It involves nothing less than the total resources — financial and manpower — of the small industries so that they may attain both short-term and long-term objectives. It involves a proper selection of objectives, strategies, policies, programmes and procedures. Above all, it entails a consideration of a detailed and specified course of action, after a careful examination of the alternatives, to achieve the desired results. And this endeavour becomes meaningful only if the planning and control processes are delegated downwards through all levels of management to secure not only greater accuracy but, more importantly, personnel involvement and commitment all down the line.

In other words, a lack of understanding of, and confidence in the plan among the line staff who are not closely associated with its preparation is bound to seal its fate in that it may not get off the ground. In such cases, pressures from top are of little avail. Planning is, therefore, much more than a mathematical exercise. It is a blueprint for action. It is known as *management by objectives* which calls for a complete change in the style of management in the organisation structure and in information flow, combined with a complete change of attitude to people to tasks, communication and control.

Phases of Planning

Corporate planning involves four main phases, viz.,

(i) Choice of definition of objectives and goals, which include the generation of alternative courses of action, and identification and measurement of consequences, and an assessment of the uncertainties which affect the consequences;

(ii) Preparation of operating plans or budgets to achieve these objectives, choice of a criterion that should be used for selecting a course of action in view of the significant, uncertain and multi-dimensional consequences;

(iii) Evolving strategies and taking strategic decisions in order to integrate these plans; and

(iv) Implementation.

The objectives should preferably be measurable in value and time and described in terms of output — such as expected rate of growth, profitability, return on investment, share of market and involvement in the socio-economic issues in accordance with public policy.

In arriving at a set of desired objectives, a small-scale industry has to take into account several internal and external factors. To begin with, it must first decide where it is going; for unless it knows this, it cannot very well decide how to get there and know or evaluate the difficulties it is likely to encounter in reaching its goal.

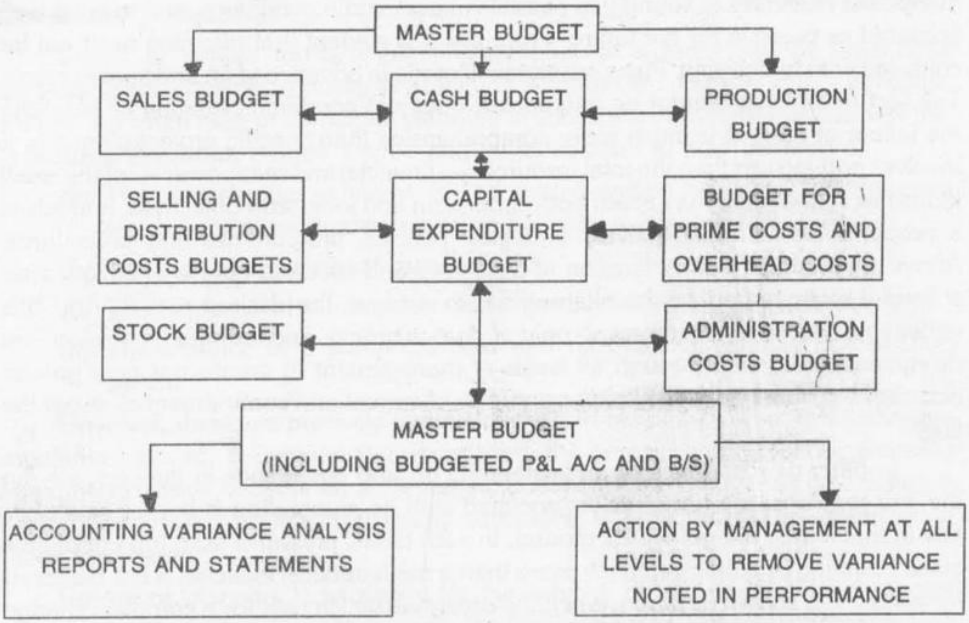


Fig. 30.2 Budgetary Control System

Situation Appraisal

A situation appraisal is concerned with an evaluation of the ability of a small-scale unit to perform the essential tasks of the business in which it wishes to specialise. It searches the whole spectrum of the SSI to identify its strength and weakness in terms of opportunities and threats indicated by environmental analysis. Some major areas to be examined include management, organisation, lines of service, production schedules, geographic presence, pricing strategy, sales promotion and management, human resources and systems support. Each of these areas can be examined for efficiency, effectiveness, integration within the organisation, and the external image it would project of the unit.

A second aspect of the situation appraisal is an examination of the current financial performance of small industries. Each department and division must determine where it stands and how its position has been achieved. Data should first be collected on major categories of assets and liabilities, such as loans, deposits, total assets, earning assets and equity. The collection of data then leads to simple and analytical measures, such as the rate of growth and stability to be achieved.

The next step is to develop a market share. For this purpose, it would be useful to build a comparative data base from a panel of small-scale industries considered to be competitive in various markets and products. The position of the small-scale industry in each major area for which financial objectives have been stated is then compared with that of the small-scale industries in the panel for compound growth rates over the past five years. Such comparisons will indicate whether others in similar circumstances have been able to achieve the desired results, and whether the objectives are realistic.

On the completion of the environmental analysis and situation appraisal, the results should be assembled into a set of statements which describe the current position of a small-scale industry. It is now possible to study today's objectives and strategies as a major step in the process of translating the objectives and strategies which will guide the future development of a small-scale industry.

Objectives and Strategies

The most critical and difficult task in planning is to establish objectives and strategies for the future. Strategic management, managing towards and by the objectives, and strategies of the organisation — these are the new and dramatic developments in management and planning.

The establishment of objectives begins with an examination of the organisation as it exists, a statement identifying each major business and major market served, and a statement of the current objectives and strategies of each unit. There is a natural tendency to follow organisational lines when working on this part of the task. Many a time, however, an entirely different and revealing view results from stepping back and asking: How does the user of our services view us?

The basic values of management — how it views its customers, the competition it faces, government regulations, how it deals with its employees, suppliers and others — determine the character and image of a small-scale industrial project. To the extent possible, the philosophy of management ought to be stated explicitly and incorporated in the internal planning literature at this point.

A capsule statement of existing corporate strategies for each of the major businesses should be prepared for the guidance of executive management. It is important that members of the management agree on major thrusts of policy. For example, if executive management has not agreed on a location strategy, every proposal for a new location must be examined and evaluated as an entirely new decisions.

An examination of its strengths and weaknesses, its opportunities and the threats it faces would probably uncover some core problems which need to be attacked by the management — for example, the need to establish a consistent pricing policy for all the customers, or the means of payment for services rendered.

The identification of these core problems and the assignment of responsibilities for their solution are important at this point in the planning process. The next step in establishing objectives and strategies is to formulate existing objectives into a concise and consistent set of statements covering at least the financial and market position, management, organisational development, innovation, personnel and public responsibility. These statements communicated to every executive in the organisation and applied to daily activities, become powerful guiding forces for the small-scale industrial unit.

The time has now come to assemble the statements of environmental analysis and situation appraisal as well as statements of current objectives, strategies and categories of corporate objectives for the future.

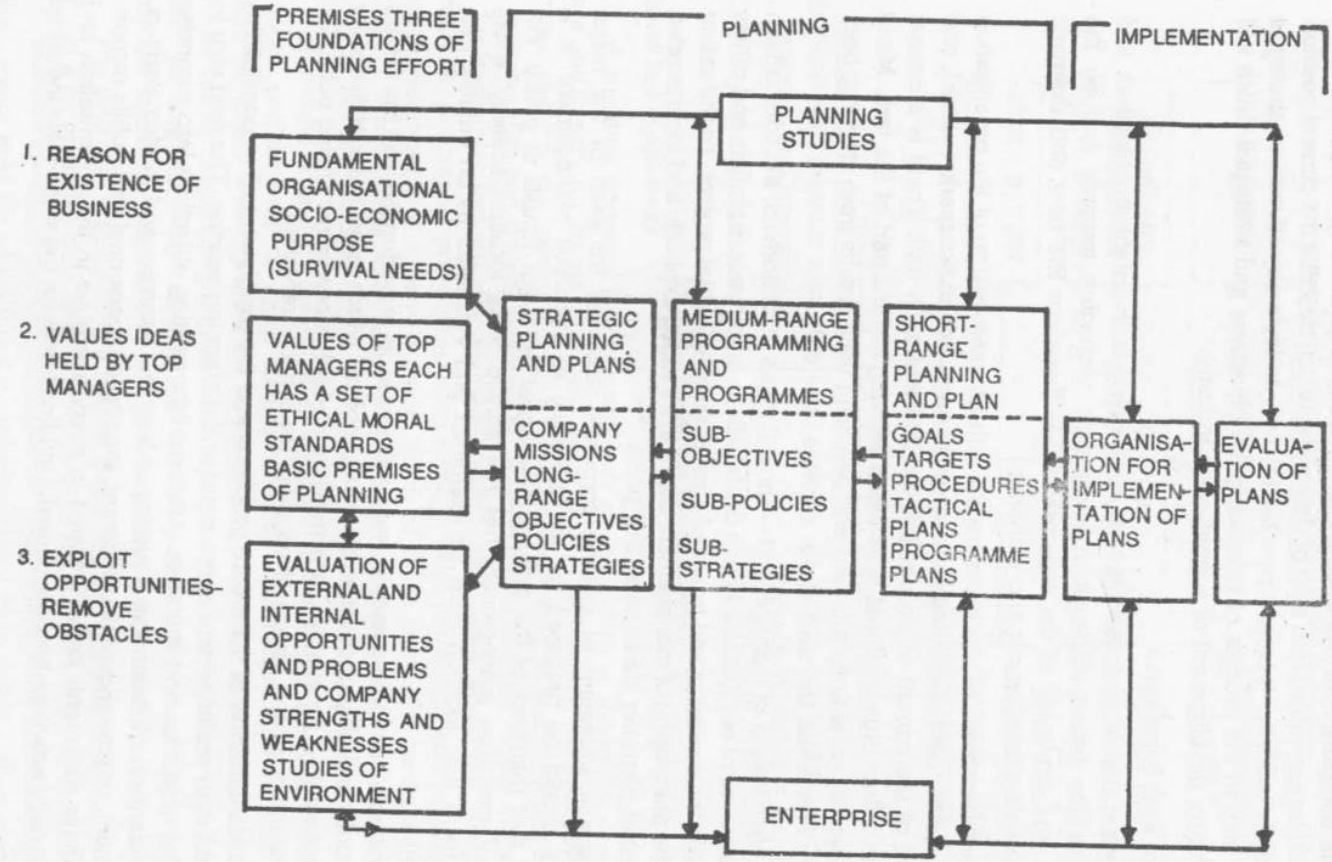


Fig. 30.3 Structure and Process of Business Planning.

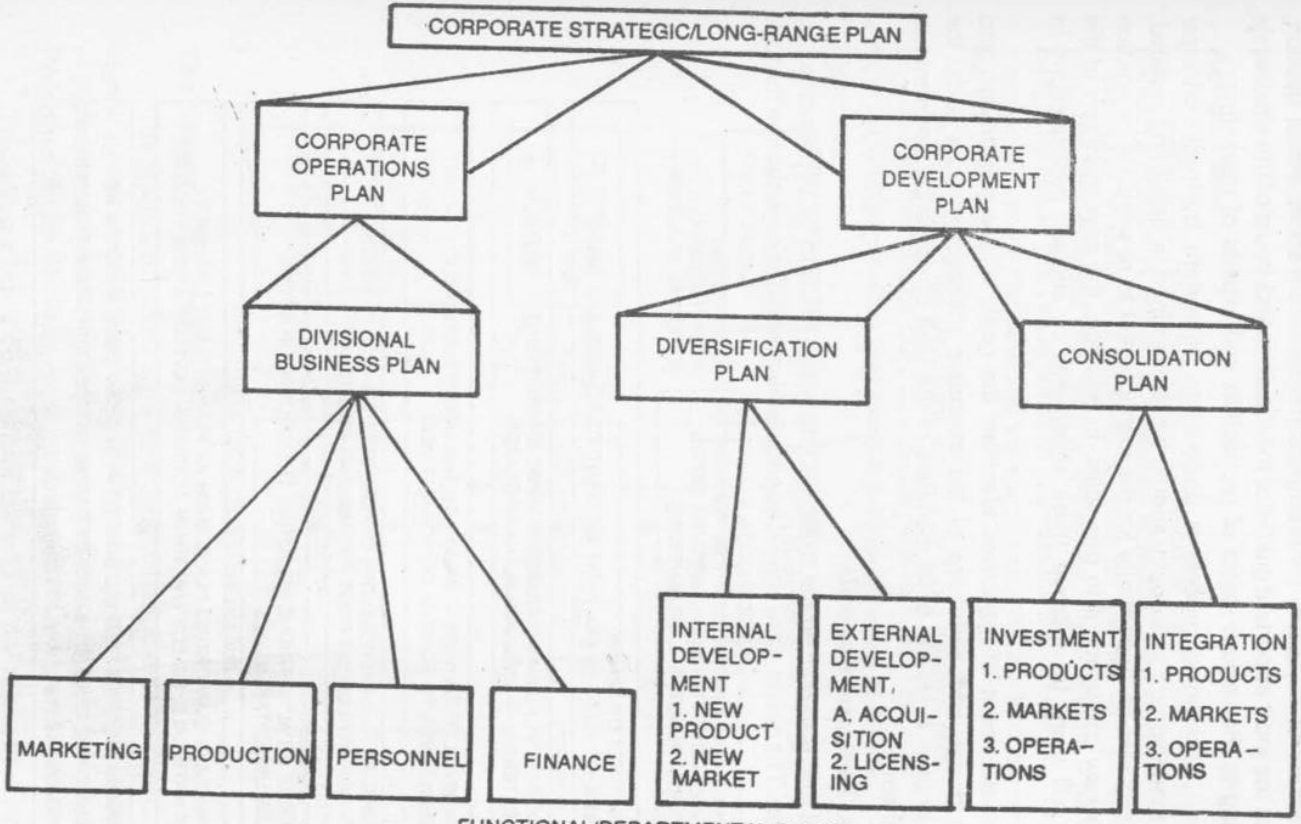


Fig. 30.4 Structure of Corporate Planning.

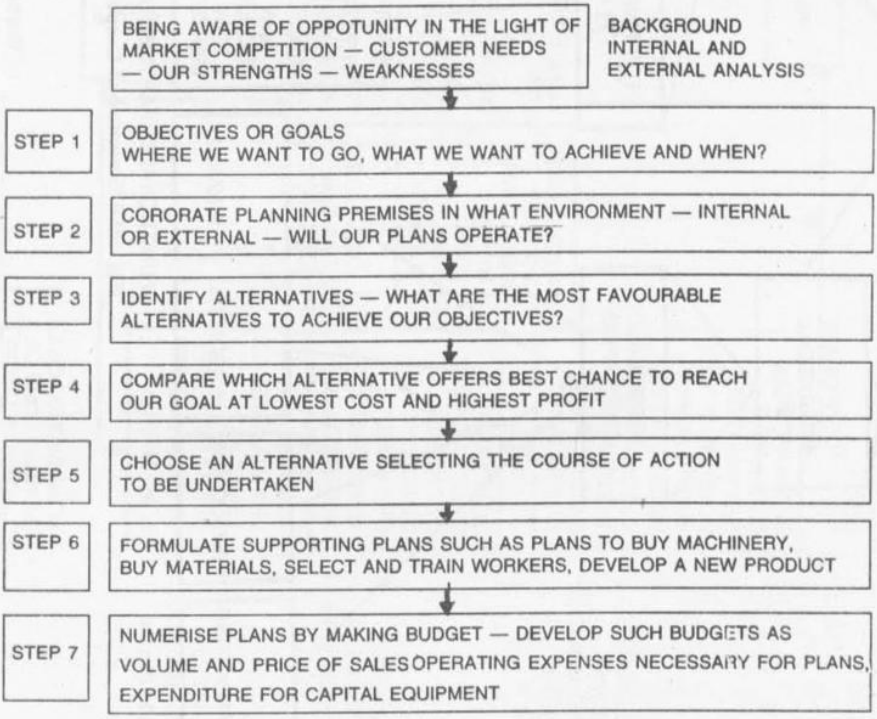
The statement of objectives for the future begins with a statement of mission, which provides the most important guidance mechanism, and thrust of the small-scale industry relating to the various stages of production and aspects of marketing.

Each time a planning process is undertaken, important business, principal markets, and management philosophy should be re-examined in detail and restated. This exercise provides an opportunity for the management to re-evaluate its position and achieve a new commitment to principles. In addition, the new members of the management will want to approve these statements or suggest modifications in emphasis.

The new statement of objectives identifies the goals of the corporation and embodies the design and ambitions of the executive management. As such, the management notifies everyone of its members of the kind of corporate performance it expects of them.

Programmes, Budgets, Controls

The final step is to convert the strategies into action plans to be implemented by the organisation. The action plans should be communicated to the organisation through



Note:

1. Planning is simply a rational approach to the accomplishment of an objective.
2. The planning process is similar to the procedure of decision-making through scientific analysis and investigation of problems and/or opportunities.
3. Planning is fundamentally choosing, and in this sense, is essentially decision-making.
4. Planning is deciding in advance what to do, how to do it, when to do it and who is to do it.
5. Planning bridges the gap between where we are and where we want to go.

assignments that identify specific projects, short-term goals, requirements and times or periods of their accomplishment.

Action Plans

Action plans result in very specific resource allocations, which may be quantified through a budget. A budget is a detailed schedule of expected income and expenses. It expresses financial and profitability goals for the first year of an action plan. It is prepared by profit and cost centres, the lowest organisational level in planning. The budget that flows from an action plan provides the link between the long-term strategic, managerial type of planning and the specific quantitative budgeting or profit planning for the year ahead.

In addition to management action plans and budgets provide specific emphasis on activities that can be used to monitor performance. The measurement of variance from the budget provides the basis for a periodic review of progress towards goals and objectives.

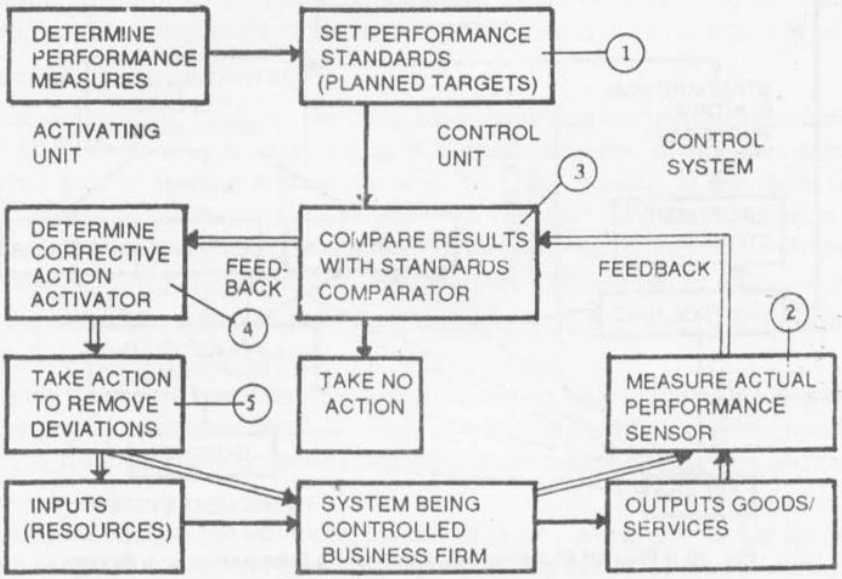


Fig. 30.5 Operating System

The Essence of Control

The essence of control is the ability to establish standards of performance for each organisational unit. Standards are developed from the sequential steps stated as a part of the action plan and from the quarterly and annual targets in budgets and strategies. Performance can be measured against these standards and corrective action taken.

Tracking performance is difficult because of the assumed condition underlying the action plan and budget changes, and because the manager adjusts himself to match current conditions. Sometimes, organisational changes cause difficulties, when new managers are assigned to problems or reaping benefits not of their planning. To track performance accurately, a sophisticated and flexible accounting system is needed to keep up with all the changes in plans.

First, control calls for the setting up of a plan, a budget, a target, a standard — an aim to be achieved. You can have a plan without having control; but you cannot have control without having a plan. That target may be the given level of sales or production, a cost standards, a defined level of quality, or any other measurable attribute. Control implies measurement.

The second essential feature is communicating the plan to those concerned with implementing it or initiating the necessary action on it. It is self-evident that if the members of the team do not know where the goal-posts are, they cannot be blamed for not scoring the goals. Yet this aspect of control is probably the most neglected in practice.

Third, there must be a means of monitoring the actual achievement, quantified in appropriate units, whether these are monetary values or physical quantities.

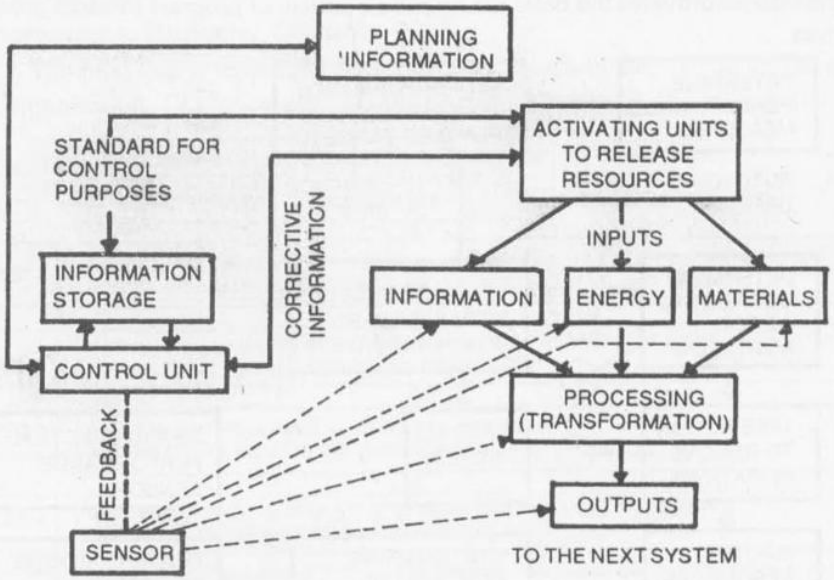


Fig. 30.6 Flow of Planning and Controlling Information in a System.

Note: Sensory devices to measure performance or output are placed at five strategic points in the system flow. The sensor gets data from these five points as shown by the five dotted lines. The control unit, on the basis of feedback, compares the actual performance with the standards laid down. Information to correct deviations is given to the activating units which make corrections.

In operation and control, inputs are inputs of information (for example, customer data, prices, discounts, delivery dates), inputs of energy (energy exerted by workers or energy used to operate machines), or inputs of materials (raw materials, invoice forms).

A computer is at present looking after the management information system. Management can now get a great deal of information very quickly.

There are five control points in the diagram, the final one measuring the output itself. Other control points measure resources and processing. A sensor is a unit for measuring performance or result.

The fourth essential stage of control consists in comparing the actual achievement with the target, uncovering any variances and identifying their cause or causes.

Finally, control implies that, in the light of the information uncovered, appropriate action is taken to rectify the situation or to adjust the standard, if necessary.

This simple, five-step procedure is widely accepted by many managers and has become almost second nature to the management of progressive firms. (There are many managers, however, particularly in small firms, who have no inkling of the nature and purpose of control.) In principle, there is much in common between management control and servocontrol mechanism in engineering, or a control device such as a thermostat. The function of a thermostat is to maintain the temperature at a predetermined level — the target. It monitors the temperature, compares this information with the standard taken, then takes an appropriate action by switching the source of heat on or off. However, a big difference between the thermostat and a management control system is that the latter is prone to human error at all stages. The target may be ill-defined; communication may be imperfect or even omitted; the measurement of actual achievement may be inaccurate; the cause of the variances may be wrongly identified; or the management may take inappropriate action or no action at all.

Profiteering

Profiteering, as an economic function, has to be understood as a concept distinct from profit. Profit, as enunciated by Pigou, is a particular species of monetary gain — a monetary gain secured in a particular way. To make a profit, in the sense here relevant, implies performing a middleman's or an entrepreneur's function, hiring the services of other men or buying goods from other men, and selling the products or the goods and obtaining, as a reward, the difference between outlay and receipt.

If the difference exceeds a socially acceptable limit, and that by questionable methods, it is a case of profiteering.

For the purpose of a realistic economic analysis, we have to shelve the principles governing perfect market competition, and have to reckon with forces of imperfect competition, duopoly, monopoly and obligopoly, monopolistic competition and black market.

Before we analyse the economic process of profit-making and in that context, the theory of maximisation, and finally of profiteering, it is necessary to appreciate that it would no longer suffice to assume merely that the demand-and-supply curves exist, and that some are elastic and some inelastic or that some rise and some fall. If we do not so appreciate it, we shall reduce the study of economic phenomena of today's market situation to the simplicity of the concept of bilateral trade.

The assumption of perfect competition, on which much of the supply-and-demand analysis is based, must also be scrutinised. Perfect competition is rare — and, in a real sense, does not exist anywhere outside the imagination of the economists. Over large areas of economic life, other systems of market relationships are of great importance.

Let us first indicate the principle of the profit-making process in a market of imperfect competition, as was done by the post-Chamberlin economists. Very briefly, the profit-making process in this situation is determined by what is called the *dynamics* of a marketer.

In the marketing of a product or a service, the larger the savings in a profitable succession of transformation of the product or the service (or in short, the investment), the greater the total profit.

But this is not all. The play of these savings is restricted, or even determined, by the nature and extent of market imperfections and the presence and delineation of risks and uncertainty.

According to the theory of profit optimisation, marginal conditions in the market will lead to optimisation of production in relation to its total marketable cost components, so that the maximum average revenue for minimum average cost is achieved. In any case, this will be one of the ends of the economic functions of a marketer under imperfect competition in his endeavour to optimise profit.

Black Market

It is evident from this that the theory of black market can take off from the point of profit optimisation. The change-over is vastly or only in relation to the change-over of the objective from profit optimisation to profit maximisation by any or all means.

Profit maximisation, or profiteering, is conditioned by the *"Principle of increasing risk and uncertainty,"* as Kalechi calls its. With an increase in the potential risks on the investment co-efficient profits will increase or decrease to the extent of the risk taken.

In the long run, a small industry can survive only if it can make enough profit to pay a return on the capital after making adequate and necessary provisions. Profit is the outcome of the operations of all small-scale industries and, in the ultimate analysis, of profit planning. Profit can be expressed as an earning per share, a return on the capital employed or a return on a shareholder's capital. There are difficulties in expressing all the three and in making comparisons with the competitors in the field.

It has now been recognised that the old theory of profit maximisation is not strictly valid in the present-day Indian context because of the developmental role which the small-scale industry is called upon to play in the context of its socio-economic obligations, although in the long run, it has to be a profitable proposition if it has to survive in the fiercely competitive world of today. The central objective, therefore, should be a judicious combination of profit with achievements on the socio-economic front. Some economists refer to this as profit with growth. For our purpose, we shall assume that what small-scale industries are primarily striving for is improved profitability rather than maximisation of profit as an end in itself.

Operational guidelines form the basis or the cornerstone of an operational plan to be formulated at the branch level, or what is known as the performance budget. The final operational plan that emerges from the aggregation of the performance budgets of the various branches should give a clear picture of what the small-scale industry is expected to become in terms of assets and liabilities, revenue and expenses, at the end of the period under review, supplemented by a statement of cash flow.

Implementation of Plans

Plans have no meaning if they are not implemented. Control, therefore, becomes an integral part of the planning process; and for control to be effective, the management

should constantly know in an organised and systematic manner, how closely the action follows the plan, and to do whatever is needed to bring the performance in line with the plan. It is the variance from the plan which signals the need for corrective action; and this ought to be achieved through an efficient system of management information and monitoring of feedback information.

In other words, corporate planning combines in a systematic, integrated and formal way, with strategic, tactical, operational and project planning. In financial terms, by which an organisation seeks to attain its short and long-term objectives within the limits of its available and, one might add *"attainable"* resources. Corporate planning is scientific because it defines and quantifies objectives, analyses facts, and sets performance standards to attain these objectives. The results are reviewed periodically, and timely remedial action is taken as and when called for.

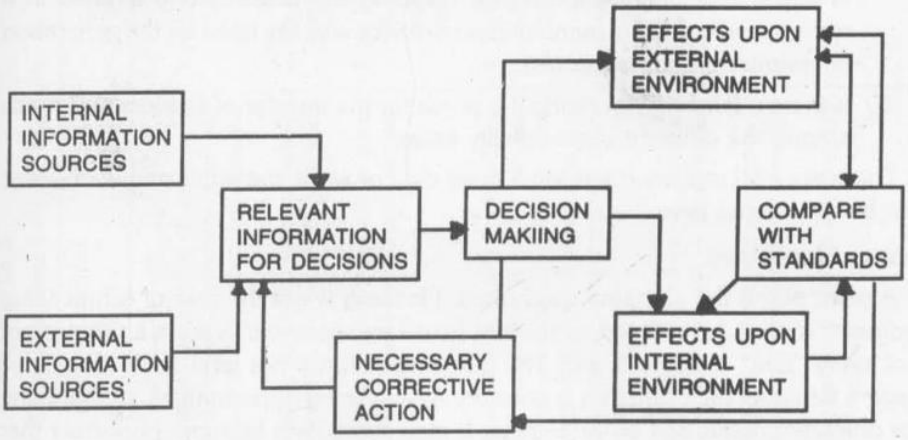


Fig. 30.7 Basic Components of a Management Information System

Notes:

1. Management Information System (MIS) is a federation of sub-systems based on functions performed in an organisation:
   (a) Marketing Information; *(b)* Production; *(c)* Logistics, i.e., buying, receiving, inventory and distribution; *(d)* Personnel; *(e)* Finance and Accounting; *(f)* Top Management Information; and (g) Information Processing.
2. A manager including the decision procedures for directing an activity is called *decision centre.*
3. A decision centre plus an activity is called *a functional unit.*
4. A number of functional units connected with a network of information flows is called an *organisation* in designing an information system.

Management Planning

Management planning, on the other hand, falls into three distinct types of planning activities:

(a) Strategic planning for deciding long-term objectives — to be done by the corporate management. In the case of a small-scale industry, it is done by the entrepreneur or the proprietor.

(b) Action planning for achieving a qualified level of performance during the strategic plan period — to be done by the executive management. In the case

of a small-scale industry, action plans are prepared for production, sales, finance and profitability.

(c) Operational planning for developing performance targets for a much shorter period, usually one year, in order to provide effective tools for management control — to be done in consultation with the operating management, i.e., the marketing department, the finance section, etc.

Here, some very valid questions arise.

(i) How much do we change our style of management to enable every level of management — indeed, every member of the staff — to contribute?

(ii) Is the organisational structure appropriate to the objectives? Will it stand the typical stresses and strains, and does it offer maximum freedom and flexibility in which one may perform? Are responsibility areas clearly defined in a realistic and workable manner in accordance with the need for the generation of revenue and/or expenses?

(iii) Is there a fair basis for fixing the prices for the transfer of services and funds among the different responsibility areas?

These are vital matters involving a great deal of work, the implications of which cannot be considered here.

Planning Machinery

A word about the planning machinery. Planning is not the task of a functional department; it must be initiated at the top (small entrepreneur) and is an important part of every "line" manager's job. The planning staff are not paid to do the "line" manager's thinking; their function is advisory — analysing opportunities, studying the effects of environment, and co-ordinating. It may sometimes be more important that they know a lot about planning than a lot about the technical aspects of a small-scale industry. They help to set up a decision-making process, but do not take the decisions. The planner is a kind of a pilot aboard a ship; he does not decide the destination; but he helps to set the course which the master of the vessel has decided upon.

Conclusion

The process of planning budgetary control helps the small-scale entrepreneur to regulate his production, sales and administrative cost, and to maximise his profits. The perspective outlook acts as a lever for efficient management and lays a strong foundation for accelerated growth. Further, it enables the entrepreneur to plan for the expansion of his unit. Budgetary control is an effective tool of accelerated growth. By introducing budgetary control, the entrepreneur imposes a rational pattern on the external statistics of his business, a process which provides him with a basis for further effective planning and control.



ANNEXURE I

Management Aids for a Small-Scale Industry

Progressive Condition (1)	*Average Condition* (2)	*Weak Condition* (3)
A. Budgetary Control		
1. Budgetary control of all expenditure based on flexible performance standards equitably established by operating levels.	1. Budget structure rigid; ratios of expense to sales based on past performance, not on predetermined, flexible performance standards.	1. No attempt made to budget or forecast performance.
2. Sales budget by products, salesmen, customers, territories based on market analyses.	2. Sales budget by products, salesmen, customers and territories — based on past sales performance only.	2. No sales budget. No "quotas" for salesmen. No programme.
3. Knowledge and control of the effect of all selling price changes on budgeted amount of total net profits.	3. No centralized control over selling prices within limits of predetermined profit requirements.	3. No established pricing policy; cost estimates ignored where a considerable volume is involved. Effect of cutting prices to meet competition not projected in terms of lost profits.
4. Daily, weekly or monthly reports on the performance of all departments controlled through: *(a)* Standard or budgeted performance; and *(b)* Variance from standard performance.	4. Divisional accounting, reports periodically exhibited: *(a)* Comparison of current with past periods; *(b)* No standards; therefore no comparison of actual results with what should have been accomplished, and no analysis of the causes of variations.	4. No budgets; no broad long-term planning. Policies vacillating because not founded on complete comparative information and thorough analysis.
B. Accounting		
1. Procedures, records, forms, reports designed with a view to producing required information at lowest cost.	1. Accounting fairly comprehensive, accurate, prompt and well-managed — some written procedures.	
2. Accounting data supplied promptly, in a form best adapted to its use by management.	2. Accounting data not adequate in comparison with most modern conceptions of control by standards.	
3. Modern accounting equipment used effectively in the preparation of necessary information and reports.	3. Accounting machines used but not adaptable to modern methods.	

CHAPTER 31

APPLICABILITY OF THE FACTOREIS ACTS

Introduction

In society, regulations are the basis of steady growth, the governing factors, ensuring that everything occurs in conformity with the plan and policy adopted, the instructions issued and the principles established. They pinpoint the weakness and errors so that they may be rectified and their recurrence may be prevented. They operate on everything — people, objects and actions. Thus, a regulation is a process by which we may check whether or not plans are being adhered to, whether the environment is saved from polution whether law and order is maintained or not, whether the interests of the workers are safeguarded or not, whether the small entrepreneurs are getting the raw materials or not, and whether there are any deviations for which a corrective action needs to be taken.

Objective

The basic objective behind the whole process of regulations is to ensure that the results of operation conform as closely as possible to established standards of goods, specified procedures, or instructions. The small-scale industry has to develop as an important segment of society; as such it has to adhere to the rules of the land, i.e., it has to be subjected to the various regulations. Regulations governing the small-scale industry are of two types: *Protective* and *Promotional.* Protective regulations are in the nature of various safeguards, while promotional regulations are in the nature of giving a push to the small-scale industry, i.e., they are growth-oriented.

Type of Controls

Government controls or regulations assumes several forms. The controls are grouped into formal and informal, direct and indirect, promotional and regulatory and inducive and coercive controls (Fig. 31.1).

Formal and Informal Controls: Formal controls are usually those emanating from legislation, as for example, the Industries (Development and Regulation) Act, 1951,

the Companies Act, 1956, and the Monopolies and Restrictive Trade Practices Act, 1969. Formal controls are very powerful and when we think of government control over business, we generally mean formal controls. Informal controls refer to the controls which various groups impose upon themselves out of need and custom. Business firms in various lines of activity develop conventions, informal agreements, and accepted ways of doing things that have important regulative implications.

Direct and Indirect Controls: When government fixes prices of certain products or services, it is an example of direct control. The administered price policy of the Government of India is a direct control measure. The variation of corporate income tax to influence economic activity is an indirect control measure. Businessmen prefer indirect controls to direct regulations.

(*a*) Government regulations designed to make competition work, the MRTP Act, for example;

(*b*) Government competition with business firms as a means of setting standards of competition; or

(*c*) Direct government ownership and operation to supplement competition.

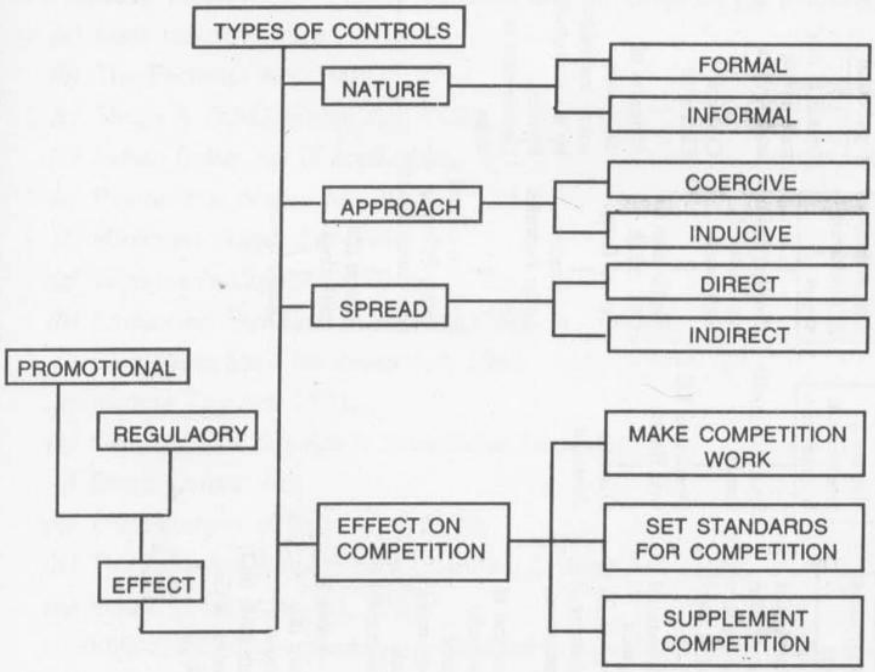


Fig. 31.1 Classification of Regulatory Measures

Promotional and Regulatory Controls: Promotional measures are of a positive nature, and include such activities as expansion of public sector establishment and operation of development banks, revival of sick units, encouragement to small-scale units, removal of regional imbalances, provision of incentives and subsidies and export promotion.

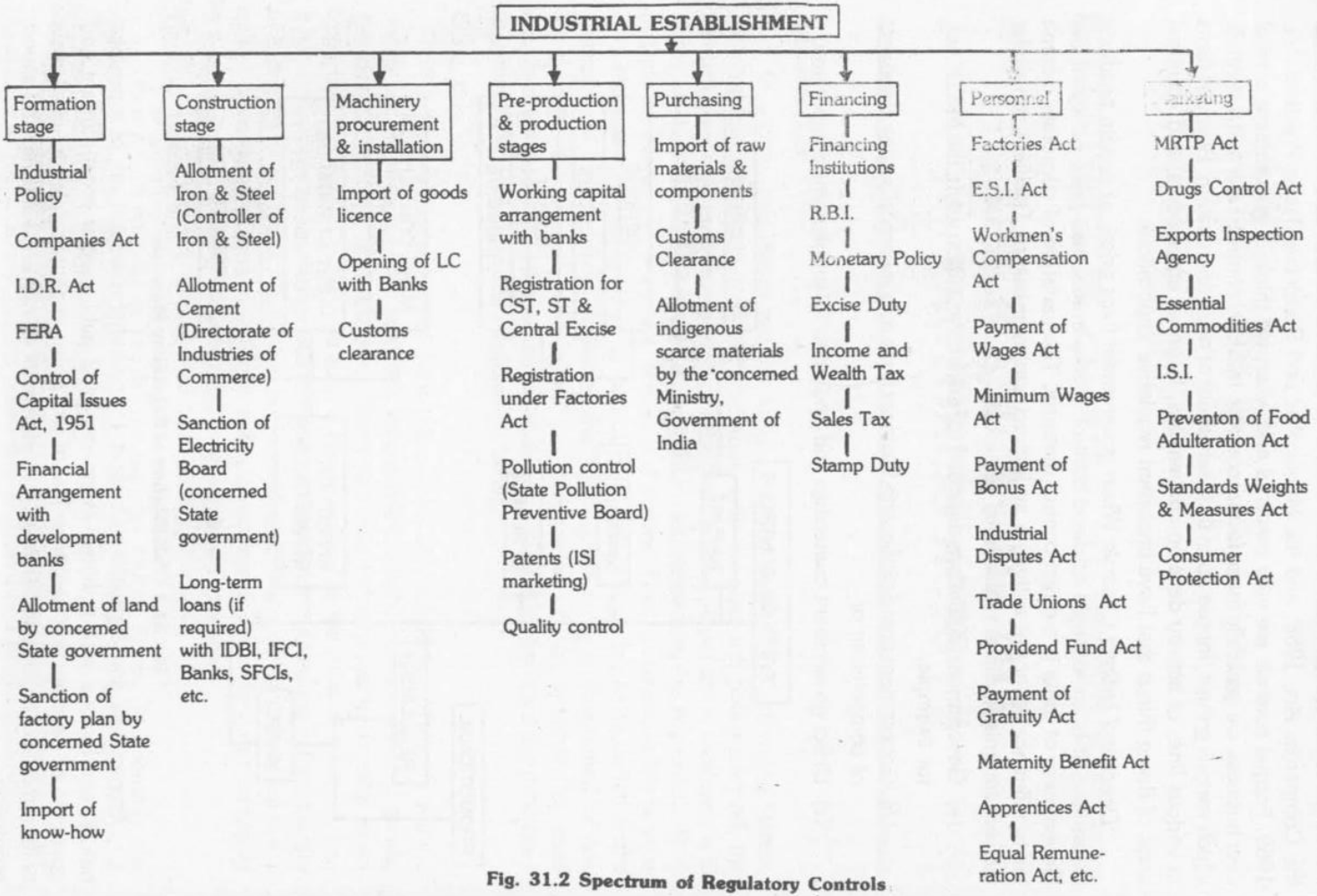


Fig. 31.2 Spectrum of Regulatory Controls

Regulatory measures ensure orderly development of industries with the least wastages of resources. Regulatory measures include direct controls like the Industries (Development and Regulation) Act, the Monopolies and Restrictive Trade Practices Act, the Companies Act, the Foreign Exchange Regulation Act, and price and distribution controls, labour laws, and indirect controls like monetary policy and fiscal policy.

Extent of Intervention

Ours being a regulatory economy, government intervention is enormous and all pervasive. State intervention is noticed in all aspects of a business establishment. In Figure 31.2 an attempt is made to bring out the spectrum of regulations operative at different stages of industrial activities.

Regulations

Over the years, Central and State Government have enacted various measures to regulate the industrial undertaking at various stages. Such regulatory enactments cover a very wide field from registration to pollution control. The controls embrace all activities of industrial activities, viz., layout, production, labour, marketing, profit, etc. The small-scale enterprises are being regulated and governed by the following Acts:

(a) State Industries Acts;

(b) The Factories Act, 1948;

(c) Shops & Estabishment Act, 1948;

(d) Indian Boiler Act (if applicable);

(e) Payment of Wages Act, 1936;

(f) Minimum Wages Act, 1948;

(g) Workmen's Compensation Act, 1923;

(h) Employees Povidend Fund Act, 1952;

(i) Employees State Insurance Act, 1948;

(j) Income Tax Act, 1981;

(k) Central Sales Tax Act & State Sales Tax Acts;

(l) Drugs Control Act;

(m) The Payment of Bonus Act, 1978;

(n) The Industrial Employment (Standing Orders) Act, 1956;

(o) Industrial Disputes Act, 1947.

In addition, the small-scale entrepreneur has to be well versed in excise, customs procedures and export and import regulations and procedures. He should always seek assistance from the following professionals:

(a) Inspecting Staff of Government;

(b) Labour Consultants;

(c) Financial Consultants.

The salient features of the regulations governing the SSIs industries are summarised below:

1. Industrial Development (Regulation) Act

The IDR Act is an instrument in the hands of the Government for the control and direction of private sector industrial investment through the mechanism of the industrial licensing system, which enables in to exert pressure on the applications in a variety of ways. Conceptually, the Government ought to direct further industrial investment in such product lines which would better serve the overall national interest and in such geographical areas which need it the most.

It is a complicated, time-consuming and costly exercise to acquire an industrial licence. Sometimes, it takes before it can be obtained. Obviously, it cannot be the intention of the Government to extend this procedure to the small-scale sector because it would be impossible to implement. A small unit needs the recommendations of an agency to prepare an application for an industrial licence.

The agency is responsible for checking the veracity of what the applicant says in his application.

In recent years, there has been quite a clamour from various associations of SSIs for their legislative protection. August 1971, the Small-Scale Industries Board, at its 29th meeting, had recommended to the Government to set up a committee to examine the feasibility of enacting suitable legislation for the development of SSIs. Always eager to form committees, the Government speedily acceded to the recommendation of the Board and constituted a committee in January 1972 under the chairmanship of Mr. A.R. Bhat to draft a legislation for this sector. It was, moreover, required to identify specific areas where legislation was considered necessary and to submit drafts for the purpose.

In its report submitted in August 1972, the Bhat Committee prepared a total of five draft legislations for the Government's approval. They were: The Small Industries Development Act, while included a definition of the small-scale industry; the Restricted Parternership Act; the Small Industries Reservation Act; the Small-Scale Ancillary Industries Act; and the Public Stores Purchase and Disposal Act for Small Industries.

The committee has quoted extensively from similar legislative enactments in the USA and Japan. However, though well over nine years have passed since the recommendations were submitted to it, the Government has not been able to take any decision on them, perhaps because it has reservations on the desirability of enacting such legislation. If this is so, it should come out in the open and share its viewpoint with others.

The small-scale sector in this country is an important sector, for it is capable of meeting the consumer goods needs of the community. It is, therefore, only fair that the Government should keep the interests of the community uppermost in time, the small-scale sector must fulfil social and moral obligations if it desires protection against large houses, it should, on its part, safeguard the interests of millions of those who depend on it for their livelihood.

2. Factories Act, 1948

(i) Definition of a Factory: Section 2 (m) of the Act defines a factory as any place wherein ten or more persons are working and in which manufacturing process

is carried on with the aid of the appropriate power machinery and infrastructure. Premises in which power is not used come under the term of a factory if twenty or more persons are working in them. This definition brings a greater number of places under the purview of this Act that was the case under the Act of 1934.

(ii) Employment of Children: The Act fixes the maximum age of persons who can enter a factory for work at 14 years. It prohibits the employment of children up to the age of 13.

The Act further lays down that a qualified surgeon must certify that a person has completed the age of 14. Such certificates must be obtained by a factory manager and must be available for inspection by a factory inspector.

(iii) Hours of Work for Children: The Act reduces the hours of work for children between the ages of 14-17 from 5 hours a day to 4½ hours a day. It also prohibits children from doing night shift.

(iv) Hours of Work for Adult Female and Male Workers: The Act prohibits employment of women in factories between 6 P.M. to 7 A.M. It reduces ten hours of work for adult men and women workers from 54 to 48 per week and from 9 hours to 8 hours a day.

The Act also lays down that the eight hours of work will be spread over a period of not more than 10½ hours. Further it provides that no worker shall work for more than 5 hours before he has had an interval or rest of at least half an hour. Lastly, the act lays down that those workers who are made to work for more than 8 hours a day or 48 hours a week shall be paid for the extra hours at the rate of twice their ordinary rates of wages.

(v) Cleanliness: The Act lays down that every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance. Accumulation of dirt and refuse shall be removed daily from the floor and the benches of work-rooms, from staircases and passages, and disposed of in a suitable manner.

The floor of every work-room in factory shall be cleaned once a week.

All inside walls, ceilings and partitions shall be white-washed at least once in fourteen months; if they are painted ar varnished, they shall be repainted or revarnished once in five years.

Effective arrangements shall be made in every factory for the disposal of wastes arising out of the manufacturing processes carried on therein.

(vi) Ventilation and Temperature: Effective and suitable provision shall be made in every factory for securing and maintaining in every work-room adequate ventilation by the circulation of fresh air and the maintenance of such temperature as will secure therein reasonable conditions of comfort for those working there. Where excessively high temperatures are necessary for technical reasons, adequate measures shall be taken by the management to protect the workers from such temperatures.

The State Government may prescribe a standard of adequate ventilation and reasonable temperature for any factory or class of factories and can suggest ways and means for reducing excessively high temperatures.

In any factory, where dust or fumes injurious to the health of workers arise in any manufacturing process, effective measures shall be taken to prevent their inhalation or accumulation in any work-room.

(vii) Artificial Humidification: In factories where humidity is artificially increased, the State Government may:

(a) Prescribe standards of humidification;

(b) Regulation methods used for humidification;

(c) Direct prescribed tests for determining humidity, and directing that such tests are carried out — their results recorded; and

(d) Prescribe methods to be adopted for securing adequate ventilation and cooling of the air in those rooms where artificial humidity is introduced.

Water used for the purpose of humidification shall be such as has been certified by the municipal authorities as fit for drinking.

(viii) Overcrowding: To prevent overcrowding in a factory, the Act lays down that, in factories built before the passing of this Act, there shall be a space of at least 350 cubic feet per worker and in factories built after the Act came into force, it shall be at least 500 cubic feet. To arrive at these figures, a height above 14 feet shall not be taken into consideration. In accordance with this rule, the Chief Inspector of Factories will communicate each factory manager the maximum number of workers that may be employed on any premises. He has, however, the power to exempt any factory or work-room from this rule, if he is satisfied that its observance of this rule is not necessary in the interest of the workers employed therein.

(ix) Lighting: It is the duty of the management of a factory to maintain sufficient suitable lighting, natural or artificial or both, in a factory and in all the work-rooms.

All glazed windows and sky-lights shall be kept clean on both the inner and outer surfaces, and effective measures shall be taken for the prevention of glare and formation of any shadows which may cause eye-strain or create a risk of accidents.

The State Government may make rules as to what is sufficient and suitable lighting, for a factory or a class of factories.

(x) Drinking Water: In every factory, effective arrangements shall be made to provide, at suitable points conveniently situated for all workers employed, therein, a sufficient supply of wholesome drinking water.

In every factory, where more than 253 workers are ordinarily employed, provision shall be made for cool drinking water during the hot weather.

(xi) Toilets: In every factory, sufficient toilets shall be provided at places which are conveniently situated and are easily accessible to workers at all times while they are at the factory.

The state Government may prescribe the number of toilets to be provided in any factory in proportion to the number of male and female workers employed therein.

(xii) Provision of Spittoons: In every factory, there shall be sufficient number of spittoons in convenient places and they shall be maintained in a clean and hygienic condition.

(xiii) Safety Provisions: According to the Act of 1934, a factory manager could afford to wait till an Inspector of Factories gave instructions as to what ought to be done to ensure the safety of workers. The Act of 1948 has placed the responsibility for safety matters on the shoulders of the owner or the manager of a factory. He must comply with all the safety provisions without waiting for the inspector's instructions.

Secondly, the Act places legal responsibility on the management for the maintenance and use of safety guards. It is its duty to supervise the use of these guards by the workers.

The specific provisions for safety are as follows: In every factory, all dangerous parts of all machines, such as the moving parts of prime movers, flywheels, electric generators, motors, rotary converters, etc., shall be securely fenced by safety guards of substantial construction which shall be kept in position while the parts of machines are in motion.

(xiv) Dangerous Fumes: Adequate provision shall be made in a factory where dangerous fumes are present in any chamber, tank, pipe, etc., for egress of such fumes.

(xv) Explosive Gases, Dust, Fume: If, in any factory, the manufacturing process raises dust, gas, fume or vapour which is likely to explode on ignition, all measures shall be taken to prevent any such explosion by —

(a) Providing an effective enclosure of the plant or machinery used in the process, or

(b) The removal or prevention of accumulation of such dust, gas or fumes.

(xvi) Safety of Factory Buildings and Machinery: If it appears to the Inspector that any building or part of factory is in such a condition that if it is dangerous to human life or safety, he may serve on the manager of the factory an order in writing specifying the measures that should be adopted and the specific date by which they should be carried out to ensure the safety of the building or factory. He may also serve an order to the manager, prohibiting its use until proper repairs or alternations have been carried out.

(xvii) Welfare Provisions:

(a) Facilities for Washing: In every factory, adequate and suitable facilities for washing shall be provided and maintained for the workers. Adequately screened facilities for washing shall be provided for male and female workers separately. Such facilities shall be conveniently accessible and shall be kept clean.

(b) Storing and Drying Clothes: The state Government may require any factory or class of factories to make provision therein of suitable places for keeping clothes not worn during working hours and for drying wet clothing.

(c) Facilities for Sitting: In every factory, suitable arrangement for sitting shall be provided and maintained for all workers obliged to work in a standing position in order that they may take advantage of rest in the course of their work.

(d) *First-Aid Appliances:* First-aid boxes, equipped with the prescribed contents, which will readily accessible during all working hours, shall be provided and maintained in every factory. The number of such boxes shall not be less than one for every one hundred and fifty workers.

(xviii) Penalties for Breach of Provisions of the Act: For any contravention of the Act, the occupier and the manager of a factory shall each be guilty of an offence and be punishable with imprisonment for a term not exceeding three months or with a fine up to Rs. 500 or with both.

If any person, who has been convicted of any offence punishable under the provisions of this Act, is again found to be guilty of an offence involving contravention of the same provision within a period of two years from the date of conviction will undergo imprisonment up to six months or with a fine up to Rs. 1,000 or with both. This Act, for the time, provides that if any worker contravenes any provision of this Act or any rules or orders, such as the use of safety guards, etc., he shall be punishable with fine up to Rs. 20.

India's ratification of International Labour Convention No. 90 prohibiting the employment of young persons in factories at night necessitated an amendment of the relevant sections of the Factories Act, 1948. This was achieved by passing an Amendment Act in April 1954. This Act added a new chapter on "Annual Leave with Wages" to the Factories Act, 1948. It lays down a period of 240 days as the minimum attendance necessary during a calendar year to qualify for leave with wages. It also prohibits employment of young persons on cleaning, lubricating or adjusting any prime mover or transmission machinery while is in motion, if such work exposes them to a risk of injury.

3. Income-Tax Act

The tax concessions provided in the Income-Tax Act for SSIs of minor significance. Under Section 80 HHA, which came into effect from the assessment year 1978-79, an assessee is entitled to a deduction in respect of profits and gains derived from a new small-scale industrial undertaking set up in any area at the rate of 20 per cent for the first ten assessment years. One of the conditions is that the unit should have commenced its manufacturing activity after September 30, 1977. This concession is discriminatory, for there is no justification for denying the benefit to those units which commenced manufacturing activity before September 30,1977. Moreover, the units in urban areas have been neglected. Unless we have correct statistics of the proportion of small-scale units in rural areas to those in urban areas and the proportion of the tax collected from rural units to the tax collected from urban ones, the significance of such a discriminatory tax concession cannot be evaluated.

Another incentive is the investment allowance under Section 32 A of the Act, under which a small-scale unit is entitled to a deduction at the rate of 25 per cent of the cost of plant and machinery installed after March 31, 1976. This allowance is capital-oriented whereas most of the small-scale units are capital saving and labour-oriented.

At present, there is no Central Government definition of the term *Small-Scale industrial undertaking* — a fact which indicates how unimportant these undertakings are in the eyes of the tax department. According to the definitions given under Section 32 A & 80 HHA, the term is used to mean an industrial undertaking whose aggregate value of machinery and plant — other than tools, jigs, dies and mould — installed on the last day of the previous year for the purpose of the business of the undertaking, does not exceed Rs. 10 lakh. In Section 58A of the Companies Act, however, the term is defined as any industrial undertaking registered with the Directorate of Industries or the Directorate of Small-Scale Industries.

4. The Industrial Employment (Standing Orders) Act, 1946

The absence of standing orders clearly defining the rights and obligations of the employer and the workers in respect of recruitment, discharge, disciplinary action, holidays, leave, etc. was one of the most frequent causes of friction between management and workers. On the recommendations of the Tripartite Labour Conference held in 1943, 1944, 1945 the Government of India passed the Industrial Employment (Standing Orders) Act in 1946. This Act provides for the farming of standing orders in all establishment employing 100 or more persons. It requires employers to submit within six months of enactment of the law standing orders covering the classification of workmen (permanent, temporary, etc.), the manner of intimating to them their hours of work, holidays, pay-days and wage rates, the procedure to be followed while applying for leave and holidays, the termination of employment of notice of discharge and for disciplinary action. In pursuance of this Act, the Central Government published the Central rules in 1946 which were applicable to Commissioner's provinces and to the undertakings under the Central Government. Its lead was promptly followed by all State Governments. In Maharashtra State, it has been made applicable to establishments in which fifty or more persons are employed.

5. The Indian Trade Unions Act, 1926

The experience of the working of the system of free enterprise in the industrial field revealed that though theoretically both the employers and workers were free to enter into a contract and to agree upon the wages to be paid and received, in point of fact, for various reasons, this freedom did not benefit the workers in any way. Firstly, the commodity that a worker has to sell is highly perishable in the sense that if he refuses to work on a particular day because the wages offered are low, he cannot store up his labour of that day to be used the next day. This compels him to accept work even if the wages offered are unsatisfactory. Secondly, as his income is very low, he is not able to accumulate any savings on which he can fall back if and when he refuses to work. The consequences can be quite drastic. These two factors compel a worker to accept low wages and so the theoretical freedom of contract is not of much use to him. Lastly, the fact that a worker is a small-scale seller and the employer is a large-scale buyer reduces his bargaining power to a very great extent. It is possible for the employer to refuse the wage which a worker demands because it is possible for him to engage somebody else who is willing to work on lower wage. It is, however, relatively difficult for a worker to find an alternative employer who would pay him the wage he demands.

His weak bargaining position thus compels him to accept whatever wages are offered to him.

Rules of a Trade Union: The rules of a union contain the following provisions:

(a) the name,

(b) the objectives for which it has been established,

(c) the purpose for which its general funds will be applicable,

(d) maintenance of the list of members for inspection by officers and members of the Units,

(e) the admission of ordinary members who shall be persons engaged in the industry with which the Union is connected and also the admission of honorary members to form the executive of the union,

(f) the conditions under which fines or forfeiture may be imposed on them,

(g) the manner in which any rule shall be amended, altered or rescinded,

(h) the manner in which the members of the executive and other officers of the Union shall be appointed and removed,

(i) the safe custody of the funds of the union, the audit of accounts and inspection of the account books by the officers and members, and lastly,

(j) the manner in which the Union will be dissolved.

Rights of Registered Trade Unions: A registered trade union has a right:

(a) To collect membership fees on the premises of the factory without interference from the management;

(b) To put up notices of the meetings of the union and of the other activities of the union on the premises of the factory;

(c) To use the general funds for specific purposes;

(d) To raise funds for political purposes at the option of the members;

(e) To conduct a strike if called for by peaceful methods;

(f) To be exempted from the provisions of Section 120B, subsection (2) of the Indian Penal Code if the members conduct a peaceful strike;

(g) To appoint outsiders in a number which is not more than one-half of the total number of office-bearers to the executive of the union; and

(h) To send to the Registrar, every year, an audited statement of receipts and expenditure.

6. The Payment of Wages Act, 1936

The payment of wages to factory workers in a particular form and at regular intervals without any unauthorised deductions is the objective of this Act.

Scope of the Act: The provisions of the Act are applicable to workers engaged in factories as defined by the Factories Act of 1948, and to persons employed on any railway by contractor or sub-contractor. The State Government may, after giving three months' notice of its intention of doing so by a notification in the official Gazette, extent

the provisions of this Act to any class of persons employed in any industrial establishment. The provisions of this Act are applicable to those persons whose wages do not exceed Rs. 400 per month.

The Date of Payment of Wages: The wages of every person employed in a factory, industrial establishment, or a railway, where less than 1,000 persons are employed, shall be paid before the expiry of the seventh day after the completion of wage period, generally a month; the wages for a month, for example, shall be paid before the seventh day of the next month. In the factories in which more than 1,000 persons are employed, the wages shall be paid before the expiry of the tenth day of the next month. The wages of a person whose services have been terminated shall be paid on the next working day after such termination. The payment of wages shall be made on a working day.

Authorised Deductions: The Act authorises the employer to make deductions from wages in the wake of:

(a) fines,

(b) absence from duty,

(c) damage to or loss of goods or money, where such damage or loss is due to the negligence or default on the part of the employee,

(d) housing accommodation supplier by the employer, and

(e) such amenities and services supplied by the employer as the State Government may authorise.

In the case of fines:

(i) It shall be imposed for those acts of commission and omission which the employer, with the approval of the State Government, may have specified by notice to his employees.

(ii) It shall be imposed on any employee unless he has been given an opportunity to show cause why the fine should not be imposed.

(iii) No fine shall be imposed on persons below the age of fifteen.

(iv) A fine imposed on any employee in any wage period should be according to the wages payable to him for the period.

(v) The fine so imposed shall be recovered in instalments or after the expiry of sixty days from the day on which it was imposed.

(vi) The fine and the actual amount recovered shall be recorded in a separate register in the prescribed form which will be utilised only for purposes beneficial to the employees and as are approved by the prescribed authority. Applications for the recovery of fines, or of deductions not authorised under the Act, for delay in payment of wages shall be presented within six months of the date on which such fines were imposed or deductions were made or wages were due.

7. The Workmen's Compensation Act, 1923

Within the installation of machinery operated by motive power, the number of accidents in factories have increased considerably. Many times, worker have met with

accidents, resulting in physical impairment and death working on machines in factories. This meant the loss of earnings for their immediate family. From a purely humanitarian point of view, it would be natural to expect that employers should give some compensation to such workers or their defendants. Further, even on economic grounds, it could be argued that the amount of compensation is a legitimate element of the cost of production under the factory system and, therefore, neither society nor employers should grudge to pay it in these critical situations. Some enlightened employers did pay compensation to their employees when they suffered accidents; but a large majority was not willing to accept this responsibility. The workers, however, could not claim compensation as a matter of right; and even when compensation was paid, there was bound to be an honest difference of opinion between an employer and an employee as regards the fairness of the amount paid. In order to provide some bases for a statutory claim for compensation to be paid to the disabled factory worker, Workmen's Compensation Acts have been passed in almost all the countries.

The following are the provisions of the Indian Workmen's Compensation Act:

Employer's liability for compensation: If a personal injury is caused to a worker by an accident arising out of and in the course of his employment, his employer shall be liable to any compensation in accordance with the provisions of this Act.

When employer is not liable: The employer, however, shall not be liable if:

(a) the injury results in a partial or total disablement of the worker for less than three days;

(b) if the injury can be directly attributed to the worker having been under the influence of drink or drugs; or

(c) if the injury can be directly attributed to the wilful disobedience by the worker of an order expressly given; or

(d) to the wilful removal or disregard by the worker of any safety guard or other device which he knew to have been provided for the purpose of securing his safety.

Occupational Diseases: If a worker engaged in any employment which involves the handling of wool, hair bristles or animal carcasses or loading or unloading of such merchandise, or in processes carried on in compressed air, or in processes which involve the use of lead or tetrayethyl or in processes involving exposure to nitrous fumes, contracts diseases like anthrax, compressed-air illness, lead poisoning, or poisoning by nitrous fumes respectively; or when engaged continuously for not less than six months in any employment specified in Part B of Schedule III, contracts any disease specified in this schedule as an occupational disease, the contracting of such a disease shall be regarded as an injury by accident and shall be deemed to have arisen out of and in the employment. The State Government in the case of employments specified in Part C of the schedule may make additions to the list of employments in Schedule III and specify the corresponding diseases after giving three months' notice in the Gazette.

Types of Injuries: Injuries under this Act have been classified into the following categories:

(1) Death,

(2) Permanent total disablement,

(3) Permanent partial disablement, and

(4) Temporary disablement, partial or total.

Amount of Compensation: The Act provides for compensation for these categories of injuries in Schedules I to IV.

Medical Examination: A worker who has given notice of an accident shall submit himself to a medical examination, if the employer insists on it by a qualified medical practitioner and free of charge. Similarly, a worker who is in receipt of half-monthly payments under this Act shall submit himself to such medical examination from time to time.

If a worker refuses to submit himself to such a medical examination without sufficient cause, his right to compensation shall be suspended.

8. The Employees State Insurance Act, 1948

Experience in the working of the Workmen's Compensation Act of 1923 revealed that the benefits conferred by it upon factory workers in many cases, did not reach them. This was due to various reasons. Firstly, a claim for compensation for injury had to be failed in an ordinary court of law and the lack of finance often made it impossible for a worker to file such a suit and fight it out. Secondly, armed with expert legal advice, it was often possible for an employer to prove that the accident either did not arise out of and in the course of employment or that it was due to the worker concerned being under the influence of drink or drug at the time of the accident, or that it was due to his negligence or his disobedience of safety rules. In such conditions, workers were generally unwilling to go to court of law, and preferred to accept whatever compensation employers chose to pay out of a sense of pity or charity. The Employees' State Insurance Act of 1948 was framed to prevent such victimisation of the worker by the employer.

Contributions: Every person, who is employed for wages in or in connection with the work of a factory or establishment to which this Act applies, shall be insured. All the insured workers, except those who earn wages applies shall be insured. All the insured workers, except those who earn wages of less than one rupee per day, shall pay their contributions to the Employees' State Insurance Corporation at the rates specified in the First Schedule to the Act. The employers shall pay their contributions at the rates specified in the above schedule.

Distribution of Benefits under the Act: The insured persons or as the case may be, their dependants shall be entitled to the following benefits, namely:

(a) Sickness benefits: Periodical payments to any insured person in case of his sickness certified by a duly appointed medical practitioner;

(b) Maternity benefits: Periodical payments in case of confinement to an insured woman certified to be eligible for such payments by an authority specified in this behalf by the regulations;

(c) Disablement benefits: Periodical payments to an insured person suffering from disablement as a result of an injury sustained in the course of his employment;

(d) Dependants' benefits: Periodical payments to such dependants of an insured person who dies as a result of an injury sustained in the course of his employment; and

(e) Medical benefits: Medical treatment for and attendance on an insured person.

The Corporation may at the request of Government of India, extend medical benefits to the family of the insured person. Accordingly, these benefits have been so executed from 1st January, 1962.

A person who is in receipt of sickness or disablement benefits, must observe the following conditions:

(a) He shall remain under medical treatment at dispensary, hospital, clinic or other institution provided under this Act and shall carry out the instructions of the medical officer or medical attendant in charge thereof;

(b) He shall not, while under treatment, do anything which might retard or prejudice his chances of recovery;

(c) He shall not leave the area in which medical treatment provided under this Act is being given without the permission of the medical officer or such other authority as may be specified in this behalf under the rules framed for this purposes; and

(d) He shall allow himself to be examined by any duly appointed medical officer or any other person authorised by Corporation in this behalf.

Penalties: If a person makes a false statement for the purpose of causing any increase in payment or benefit or for the purpose of causing any payment or benefit to be made where no payment or benefit is authorised, or for the purpose of avoiding any payment to be made by himself, he shall be punishable with imprisonment for a term up to three months or with fine up to Rs. 500 or with both.

If any person fails to pay any contribution which he is liable to pay, or deducts from the wages of an employee the whole or any part of the employee's contribution, or reduces the wages or any privileges or benefits admissible to an employee, dismisses, discharges, reduces or otherwise punishes an employee in contravention of Section 73, or files or refuses to submit any return required by the regulations or make a false return, or obstructs any inspector or other official of the Corporation in the discharge of his duties, or is guilty of contravention of, and non-compliance with, any of the requirements of this Act, he shall be punishable with imprisonment up to a period of three months or with fine up to Rs. 500 or with both.

9. The Industrial Disputes Act, 1947

Industrial disputes, strikes and lock-outs were not very common occurrences in India till 1914. It was, however, during the Great War of 1914-18 that the strike came to be regarded as an ordinary weapon of industrial warfare. During the war, while the cost of living went on rising, the wages did not keep pace with it. This gave rise to serious

discontent among industrial workers and led to a series of strikes, notably in the textile industry in Bombay, in the post-war period. In addition to low wages, there were many other causes which were partly responsible for the outbreak of strikes during this period. The more important of these were long hours of work, bad conditions, insanity housing conditions, absence of any provision till 1922 for compensation for injuries sustained in the course of employment, absence till 1925 of the right to form a trade union, ill-treatment of workmen by foremen or other mill officials etc.

The important provisions of the Industrial Disputes Act of 1947 are:

(i) If any industrial dispute exists or is apprehended, the appropriate Government may, by order in writing: *(a)* refer the dispute to a board of promoting a settlement thereof; or *(b)* refer any matter appearing to be connected with or relevant to the dispute to a court of inquiry; or *(c)* refer the dispute to a tribunal for arbitration.

(ii) If either of the parties to a dispute or both of them apply to the Government to refer a dispute to board, court or tribunal, the appropriate Government, if satisfied that the person applying represents majority of each party, shall make the reference accordingly.

(iii) If a dispute has been referred to a board or a tribunal the Government may prohibit the continuance of any strike or lock-out in connection with such a dispute.

(iv) A settlement arrived at in the course of conciliation under the Act, or an award which is declared by the Government as binding on all the parties for at least six months.

(v) An award declared by a Government shall come into operation on such date as may be specified by the Government and shall remain in operation for a period for one year, or a shorter period, if so fixed by the Government.

(vi) Workers employed in public utility industries shall not go on a strike and the employers in such industries shall not resort to lock-outs —

(a) without giving a fourteen days' notice and before the period of notice expires; or

(b) during the pendency of conciliation proceedings.

(vii) Workers employed in any industrial establishment shall not go on strike —

(a) During the pendency of conciliation proceeding; or

(b) During the pendency of proceeding before a labour court, tribunal or national tribunal; or

(c) During a period in which a settlement or award is in operation.

A strike or a lock-out in contravention of any these provisions, shall be illegal.

No person shall knowingly expend or apply any money in direct furtherance or support of any illegal strike or lock-out.

Penalties: Any worker who commences, continues or acts in furtherance of an illegal strike shall be punishable with imprisonment up to one month or with fine up to Rs. 50 or both.

10. The Employees Provident Fund Act, 1952

The Act provides for the institution of a contributory provident fund in establishment in which 20 or more persons are employed. The contribution, which shall be paid by the employer to the fund, shall be $8^1/_3$ per cent of the basic wage and the dearness allowance payable to each employee, while the employee's contribution shall be equal to the contribution payable by the employer.

11. The Indian Boilers Act, 1923

An owner of a boiler shall not use it or permit to be used.

(a) unless it has been registered in accordance with the provisions of this Act;

(b) in the case of a boiler transferred from one State to another, until the transfer has been reported in the prescribed manner;

(c) unless certificate or provisional order authorising the use of the boiler is obtained under this Act;

(d) at a pressure higher than the maximum pressure recorded in such certificate or provisional order;

(e) Unless the boiler is in charge of a person holding a certificate of competency.

Procedure: The owner of a boiler may apply to the inspector to have the boiler registered. Every such application shall be accompanied by the prescribed fee. He shall examine the boiler and submit a report to the Chief Inspector in the prescribed form.

The permit is a "must" for boilers.

12. The Indian Electricity Act, 1910

The Act relates to the supply and use of electricity energy.

Issue of Licence: A State Government may, on an application made in the prescribed form and on the payment of the prescribed fee, grant a licence to supply energy in any specified area and also to lay electric supply lines for the transmission of energy.

Conclusion

Rules and regulations governing Small-Scale Enterprises act as a governor ensuring steady growth of the industry as well as the environment (ecosystem) and the labour force. It ensures both healthy growth and rapid growth. The basic objective of these rules and regulations scale is to ensure that the results of operations confirm as closely as possible to established standards of goods, specified procedures or instruction. The need for rules and regulations are meant to put these SSIs small-scale industries on the successful track.

They are the directions for excellence, growth and development. And, regulation is a monitoring mechanism of rules. Since, small-scale enterprise is concerned with land, environment, goods, people and consumer, rules and regulations have been formulated to safeguard these varied interests. If there is greater awareness among the entrepreneurs, these rules and regulations have minimum effect and disturbance. Thus, ensure steady and rapid growth of SSIs, develop new products and markets, produce

quality goods, promote healthy development of human resources. More importantly, small industries are located nearer to the natural resources and human resources. They do not pollute or degrade the eco-system, intimidate and exploit labour and cheat the consumer on all counts. They are, therefore, the basic component of the SSIs. They are like the lamp post which direct the growth of this sector on a firm ground.

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ANNEXURE I

Applicability of Various Labour Acts

204. A table indicating the factories or establishments to which various Labour Acts are applicable is given below to enable the entrepreneur to know the Acts applicable to his enterprise:

Name of the Act	*Factories or establishments to which applicable*	*Remarks*
Apprenticeship Act, 1961	—	Apprenticeship Adviser shall give a notice in writing to the employer.
Contract Labour (Regulation and Abolition) Act, 1970	Where contract labour is permitted.	It is permitted if work is intermitent or of sporadic nature.
	Esablishment or contractors who employ or had employed 20 or more workers on any day in preceding 12 months.	Principal employer/contractor is required to seek registration/licence.
Employees Provident Fund and Family Pension Fund Act, 1952	Factories employing 20 or more persons and those industries which are specified in the Schedule.	Employer required to furnish particulars to Regional Commissioner within 15 days of the application of the Act to his establishment. Those employees are eligible to become members whose wages do not exceed Rs. 1,000 per month.
Employees State Insurance Act, 1948	Factories employing 20 or more persons, except specified seasonal factories.	
Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959	Establishments where ordinarily 25 or more persons are employed.	Vacancies are to be notified to local Employment Exchange one week before the date on which interviews/test is to take place.
Employment of Children Act, 1938	Workshops engaged in specified processes; these processes are 10 in number.	Employment of children in these processes is prohibited. Child is defined as one who has not completed his 14th year.
Equal Remuneration Act, 1976	—	Act enjoins every employer to pay equal remuneration to men and women workers.
Factories Act, 1948	Factories where 10 or more workers with the aid of power or 20 or more workers without aid of power are working or were working on any day in preceding twelve months and where manufacturing process is carried on.	Occupier is expected to obtain prior permission for construction of factory premises and seek licence for the factory.
		Act is applicable to other places wher manufacturing process is carried on, even though number of workers is less than 10 or 20, if so notified by the State Government.

Industrial Disputes Act, 1947	Any business, trade, undertaking, manufacture or calling of employer and includes any handicraft, or industrial occupation.	It deals with procedures for settlement of disputes and stipulates compensation for lay-off, retrenchment and closure of establishments.
Industrial Employment (Standing Order) Act, 1961	Industrial establishments employing one hundred or more workmen.	Standing Orders relating to classification of workmen, terms and conditions of service, etc. are to be got approved from certifying officers.
Maternity Benefit Act, 1961	Factories where 10 or more workers with aid of power or 20 or more workers without aid of power are/were workng; mines and plantations or other establishments notified by the State Government.	Act is not applicable to any factory or establishment to which Employees State Insurance Act applies. A woman is entitled to maternity benefit at the rate of average daily wages for 12 weeks (6 weeks before and 6 weeks after delivery) if she has worked for 160 days in 12 proceding months.
Minimum Wages Act, 1948	Certain specified employments or processes.	State Governments have fixed minimum wages for skilled, unskilled, manual and clerical workers, and have specified other conditions of service. Payment of Wages Act, 1936 is also applicable to these specified employments and processes.
Payment of Bonus Act, 1965	Factories where 10 more more workers with aid of power or 20 or more workers without aid of power are/were working; and establishments employing 20 or more persons.	A minimum bonus 8.33% of the salary or wages earned or Rs. 10, whichever is higher, is payable even if the establishment has made no profits. Maximum amount of bonus payable is 20 per cent of the salary or wage earned. Newly set up establishments are exempted from payment of bonus till they start deriving profit or for 5 years from their establishment, whichever is earlier.
Payment of Gratuity Act, 1972	Factories where 10 or more workers with aid of power or 20 or more workers without aid of power are/were working; and mines or plantations, and shops or establishments employing 10 or more persons.	An employer is required to furnish particulars to the controlling authority when Act becomes applicable, notify any change or closure of establishment. Gratuity is payable, after an employee has rendered five years of continuous service, at the rate of 15 days of wages for a year's service, subject to a maximum of 20 months' wages.

Payment of Wages Act, 1936	Factories where 10 or more workers with aid of power or 20 or more workers without aid of power are/were working; other industrial estabishments as are specified; specified employments included in the Schedule to Minimum Wages Act.	This Act seeks to regulate timely payment of wages in respect of persons, whose wages average less than Rs. 1,000 a month.
Sales Promotion (Conditions of Service) Act 1976	Establishments engaged in Pharmaceutical industry.	—
Shops and Establishments Act of State Governments	Shops, commercial establishments, residential hotels, restaurant, eating houses, etc.	Act is not applicable to such undertakings which are covered under Factories Act, 1948.
Workmen Compensation Act, 1923	Certain specified employments.	Compensation is payabl to workmen, whose monthly wages do not exceed Rs. 1,000, for injury by accident or occupational disease.

ANNEXURE 2

Applicability of various regulations to small-scale industries in India

A summary of the various Acts/Regulations that are applicable to small-scale indusries is given below to enable the entrepreneur to know the Acts at a glance.

Name of the Act	*Applicability*	*Remarks*
Central Sales Tax Act	Any dealer engaged in inter-state trade or commece during any year is liable to pay tax on all such sales effected by him. [Sec. 6(1), (A)]	Not liable to pay tax if the sale is for the purpose of export out of the territory of India [Sec. 6(1), (1A)]
Maharashtra Sales Tax Act	Every dealer who carries on business of buying and selling goods, except an agriculturist who sells agricultural produce grown on land cultivated by him personally, is liable to pay tax in respect fo sales as purchase made by him. [Sec. (34)]	Every registered dealer has to display the certificate of regisration or a copy thereof conspicously at each place of his business. [Rule 9] A dealer liable to pay tax shall get himself registered by making an application in the prescribed form to the sales tax officer and shall seek a certificate of registration. [Sec. 141)]
Delhi Sales Tax Act, 1975	Every dealer whose turnover from the commencement of any year exceeds the taxable quantum (Rs. 30,000 in relation to any dealer who manufactures goods for sale regardless of the value of gods manufactured) shall become liable to pay tax on all sales effected by him after the day immediately following that day on which the turnover exceeded the taxable quantum. [Sec. 3(2)(1)]	
Income tax Act, 1961	Income tax is leviable on profits and gains from business if it is carried on in the previous year. [Sec. 2(13) or (36)]	In computing the taxable income from business or profession, following deductions are admissible: 1. Rents, land revenue, municipal taxes, cost of repairs, insurance premium etc. [Sec. (32)] 2. *Depreciation* in respect of buildings, plant as machinery and furniture & fixture on the basis of its actual cost [Sec. 32(1)] 3. *Investment Alowance:* 35% of actual cost of machinery or plant installed fo the purposes of manufacturer or production

after 30.6.1977 but before 1.4.1982. [Sec. 32A(2B)]

4. Preliminary expenses, commission, etc.
   (a) Amortisation of preliminary expenses — restricted to 2½ percent of the cost [Sec. 35D)
   (b) Commission Bonus paid to employees [Sec. 36*(i)* & *(ii)*]
   (c) Contribution towards recognised Provident Fund & Gratuity [Sec. 36*(i) (iv)* & *(v)*]
   (d) Audit fee, commission, pension, compensation etc. [Sec. 37)
   (e) Expenditure on scientific research related to assessee's business is admissible [Sec. 35)
   (f) Expenditure on acquiring patent rights or copyrights is allowed in 14 equal yearly instalments [Sec. 35A)
5. *Donations:* 50 percent of qualifying amount of donation [Sec. 80G)
6. *New undertakings in Backward Aeas:* 20 percent deduction in respect of Profit and gains. [Sec. 80HH]
7. *Setting up small industrial undertakings in rural areas:* 20 percent of the profits are eligible for deduction. [Sec. 80HHA)
8. *Capital Allowance:* Deduction is allowed at 7.5 percent per annum on capital employed for companies which begins manufacturing after 31.3.1976 for five years (otherwise it is 6 percent)
9. *Publication of Books:* Publication of books (other than newspapers, journals & magazines etc.) are eligible for a deduction of 20 percent of such profits & gains [Sec. 80QQ)
10. *Intrest on borrowed capital* [Sec. 40A(8).
11. Amalgamation of sick units with health units effective from 1.4.1978. [Sec. 72A)

Maharashtra State Tax on Professions, Trade & Employment Act, 1975.	Individual, undivided Hindu family, firm, company, corporation, society, club or association. [Sec. 5(1) and 2(c)]	12. Rural Development The Employer has to deduct tax payable and furnish to the appropriate authority within 15 days of expiry of a month. [Sec. 4 and 6)

UNIT 5

SOURCES OF FINANCE

It is well known that resources are the key inputs of development. The development bank plays an important role in providing not only development finance needed at different stages of development, but also extending professional, and promotional assistance on an ongoing basis. In fact, the contributions of the various inputs to the productive transform into:

(i) Rapid growth in output,

(ii) Change in the structure of the economy, and

(iii) Accelerated over all socio-economic growth.

Economic development is achieved by increasing both the inputs of resources and the productivity of those inputs, i.e., resources. Productivity enhances the recycling of resources in an accelerated manner.

Among other things capital also plays a crucial role in the growth process. The process of economic development involves savings to create a surplus for capital formation and further boost savings and investments prudentially and productively.

Development Finance

Finance is one of the basic requirements of a project. The entrepreneur needs capital to start with and he needs financial assistance at every stage of the project. Project finance is both for short-term and long-term. The sources from which the entrepreneurs can meet their financial needs for their projects are: *internal source* and *external source.* Besides, the entrepreneur raises his finance by availing of available subsidies, state aid to industries, etc. Project finance, therefore, is very crucial for the success of a project. Here, the various facets of project financing will be discussed.

"One of the key problems of planning, therefore, is where to strike this balance between giving enough credit for the small man to develop and not giving him so much that there have to be large write-offs every year."

Finance is one of the constant problems, and if the economy has to develop in the way the Government policy hopes, various segments such as agriculture, industry, transport etc., must have adequate credit. Credit is available on the basis of the creditworthiness of the entrepreneur. In regard to capital structure and working capital management, substantial differences between large, medium and small-scale industries exist. However, finance is the catalytic agent for development.

Finance is the life-blood of any business. Its management is an art and merits special attention. The financial function of management is to:

(a) Ensure fair returns on investments;

(b) Generate and build-up surpluses and reserves for growth and expansion;

(c) Plan, direct, and control the utilisation of finances so as to ensure maximum efficiency of operations and build a proper relationship with suppliers, financiers, workers and members; and

(d) Co-ordinate the operations of the various departments through appropriate measures to ensure discipline in the use of financial resources.

Sources of Finance

A characteristic feature of manufacturing units/entrepreneurs is that the personal funds of entrepreneurs form a substantial proportion of the total assets. Most of the units are not corporate entities. The owners of small units, therefore, run a considerably higher risk than those of corporate units. The sources that usually provide the working capital requirements are commercial banks, special agencies like the State Industrial and Investment Corporation of Maharashtra (SICOM), and the Gujarat Industrial Investment Corporation (GIIC), and co-operative banks. Indigenous bankers and moneylenders also advance loans for working capital needs. The fixed capital needs are usually met by State Governments (under the State Aid to Industries Acts/Rules), State Financial Corporations (SFCs), National Small Industries Corporation (NSIC) which supplies machinery on hire-purchase basis, State Small Industries Corporations (SSICs), State Industrial Development Corporations (SIDCs) and Commercial banks and other financial institutions.

WORKING CAPITAL	FIXED CAPITAL		VENTURE CAPITAL
Commercial Banks	IDBI	SCICI	STATES
SFCs	SIDBI	UTI	Venture Companies
Cooperative Banks	IDCI	NABARD	Mutual Funds
Finance Companies	ICICI	IDBI	Comercial Banks
Indigenous Bankers	LIC		SFCs
Money Lenders	GIC		Finance Companies
	NSIC		SIDCs
REFINANCE	KVIC		RCTFC
	SFCs		SIDBI
IDBI	SIDCs		TDICI
SIDBI	Commercial Banks		TFCI
NABARD	EXIM Bank		
EXIM BANK	SSIDCS		

CHAPTER 32

SOURCES OF DEVELOPMENT FINANCE

Introduction

During the pre-independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the Government built up a network of specialised financial institutions with a fairly big capital base to provide financial assistance to all types to industries, including small-scale industries.

A growing economy needs the support of a financial structure which is responsive to the needs of development. In India, in the process of financial deepening, commercial banks had to shoulder special responsibilities for meeting the financial needs of diverse sectors of the economy, at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned various organisational innovations, moved away from traditional commercial banking and evolved into development banks, responsive to socioeconomic needs.

Finance is now made available to entrepreneurs on a totality basis by commercial banks, except in cases where the State Financial Corporations and other similar financing agencies step in to meet their medium-term requirements. An appropriate type of credit is granted for the construction of the factory building, the purchase of plant, machinery and equipment, and for working capital requirements. In deserving cases, loans are advanced for the expansion, renovation and modernisation of plant and machinery. Banks and financial institutions provide the export finance needed by small industries for letters of credit, issuance of guarantees and extension of pre-shipment and post-shipment credit facilities. The interest rate structure is generally graded on a slab basis, with a favourable bias towards the smaller loans. Institutional support and economic factors are stimulating entrepreneurial activity and thus generating more robust economic development.

Types of Industrial Finance

Depending upon the nature of the activity, the entrepreneurs require three types of finances, viz., *short-term, medium-term* and *long-term* finances. The distinctive features of these are emulated below:

Short-term Finance

Short-term finance usually refers to funds required for a period of less than one year. These funds are usually required to meet variable, seasonal or temporary working capital requirements.

Borrowing from banks is a very important source of short-term finance. Other important sources of short-term finance are trade credit, instalment credit and customer advances.

Medium-term Finance

The period of one year to five years may be regarded as a medium-term. Medium-term finance is usually required for permanent working capital, small expansions, replacements, modifications, etc.

Medium-term finance may be raised by (i) issue of shares; issue of debentures; borrowing from banks and other financial institutions; and ploughing back of profits (by existing concerns).

Long-term Finance

The period exceeding 5 years is regarded as long-term. Long-term finance is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernisation etc.

The important sources of long-term finance are similar to the medium-term finance to industry.

TYPES OF FINANCE

Short-Term	*Medium-Term*	*Long-Term*
(i) Bank credit	*(i)* Issue of shares	*(i)* Issue of shares
(ii) Trade credit	*(ii)* Issue of debentures	*(ii)* Issue of debentures
(iii) Instalment credit	*(iii)* Loans from banks and other financial institutions	*(iii)* Loans from financial institutions
(iv) Customer advances	*(iv)* Public deposits (for existing concerns)	*(iv)* Ploughing back of profits (for existing concerns)
	(v) Ploughing back of profits (for existing concerns)	

Fig. 32. 1 Types of Finance for Entrepreneurs

Sources of Finance

A characteristic feature of small-scale units is that the personal funds of entrepreneurs form a substantial proportion of the total assets. Most of the units are not corporate entities. The owners of small units, therefore, run a considerably higher risk than those of corporate units. The sources that usually provide the working capital requirements are commercial banks, special agencies like SIICOM, GIIC, and co-operative banks. Indigenous bankers, and moneylenders also advance loans for working capital needs. The fixed capital needs are usually met by State Governments (under the State Aid to Industries Acts/Rules), SFCs, NSI which machinery on hire-purchase basis, Corporations (SSICs), (SIDCs), the State Bank of India and subsidiaries, and other commercial banks.

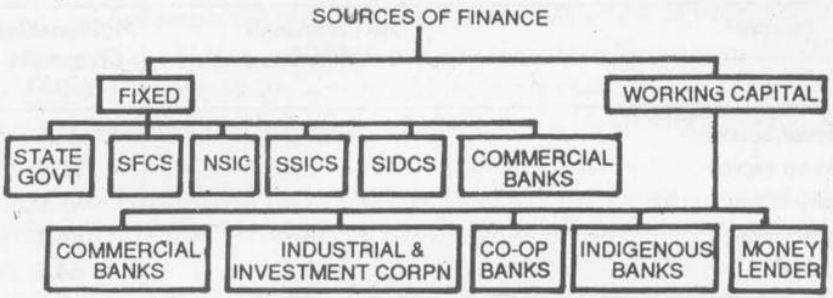


Fig. 32.2 Sources of Finance for Small-Scale Sector

Broadly speaking, the various sources from which an entrepreneur can raise funds are enumerated in its balance sheet. These sources may generally be grouped under the following heads:

I. Internal

A. Paid-up Capital

(i) Ordinary shares
(ii) Preference shares
(iii) Deferred shares
(iv) Forfeited shares

B. Reserve Surplus

(i) Capital reserve
(ii) Development rebate reserves
(iii) Others

C. Provisions

(i) Taxation (net on advance of income-tax)
(ii) Depreciation.

II. External

D. Borrowings

(i) From banks
(ii) From term-lending institutions like IDBI, IFCI, ICICI, Industrial Development Corporations, etc.
(iii) From government and semi-government agencies
(iv) Others

E. Trade Dues and Other Current Liabilities

(i) Sundry creditors
(ii) Others

The share distribution of source and of all companies and profit-making companies is as follows:

Table 32.1

Sources	*All Companies (505)%*	*Profit-making Companies (450%)*
A. *Internal Sources*	34.2	35.5
1. Paid-up capital	0.5	0.5
2. Reserves and surplus	17.2	18.9
3. Depreciation	16.5	16.1
B. *External*	65.8	64.5
4. Paid-up capital	2.1	1.8
5. Long-term Borrowings	31.0	31.1
(a) Debentures	9.6	9.8
(b) From Financial	14.8	14.6
(c) Banks	—	—
(d) Others	6.6	6.7
6. Bank borrowings for working capital	7.7	7.3
7. Trade dues and other current liabilities	21.3	20.4
8. Non-current liabilities	3.7	3.9
Total A & B	100.0	100.0

Table 32.1 indicates that the companies' dependence on financial institutions and banks is to the extent of 40 per cent of its total funds for development. Even to some extent companies depend heavily on banks to recover their trade does for development. Thus, financial institutions' involvement is nearly 60 per cent as far as finance alone is concerned. This apart, their promotional consultancy and other related services go a long way in the process of economic development. It is true that industrial development may or even the entire process of economic development is dependent on the financial institutions and their innovative assistance on an ongoing basis.

The funds which an industry can raise depend on its productive activity and the uses to which these funds are put:

(i) Gross Fixed Assets: Land, building, plant and machinery — these are by and large, met out of market borrowings or term loans from financial institutions, including banks.

(ii) Working Capital: This includes inventories — raw materials, components, finished goods, works in progress and operating expenses — wages, salaries, lighting and other running expenses. All these expenses are met out commercial bank loans in the form of hypothecation credit or pledge loans.

(iii) Funds are also required for *(a)* making loans and advances in the course of day-to-day purchase-and-sale operations; *(b)*sundry debtors — that is, for sale on credit basis; *(c)* investments; and *(d)* building up other assets.

F. Miscellaneous

All these sources of finance are not available to all the small units. Much would depend on the status, character and the period of time the units have been in operation.

For example, a new small unit has no reserves to provide for depreciation. These are built up in gradual stages out of the funds set apart in the course of current operations.

Moreover, the funds a small-scale industry can raise depends upon the character of the company, its productive activity and the substantial uses to which these funds are put — irrespective of it being a private limited or a proprietary concern. Some of the uses are:

(i) Gross Fixed Assets: Land, building, plant and machinery — these are by and large, met out of market borrowings or term loans from financial institutions, including banks.

(ii) Working Capital: This includes inventories — raw materials, components, finished goods, works in progress and operating expenses — wages, salaries, lighting and other running expenses. All these expenses are met out of commercial bank loans in the form of the hypothecation credit or pledge loans.

(iii) Funds are also required for *(a)* making loans and advances in the course of day-to-day purchase-and-sale operations; *(b)* sundry debtors — that is for sale on credit basis; *(c)* investments; and *(d)* building up other assets.

Analysis of Financial Ratios

The financial data of small units are usually worked out in terms of some of the important conventional ratios. Most of the ratios, however, do not indicate any definite relationship with credit facilities. A detailed discussion of this aspect has been undertaken in the technical volume. It will be sufficient to mention here that comparatively high inventory-to-sales ratios were recorded by units which received institutional credit facilities. The average net working capital needs of small units, which are also given, show that the units which received credit facilities need a comparatively high average working capital. A major proportion of the net working capital, however, was accounted for by inventories. The figures in the statement do not, by themselves, point to any firm conclusions regarding the place of inventories among the factors to be taken into account by banks while examining the credit proposals of small-scale units.

Balance Sheet of Institutional and Non-Institutional Borrowings

The survey also gives information on the balance sheet of both institutional and non-institutional borrowings of small units. It shows that institutional borrowings per unit varied from one unit to another, and were the highest in the case of the following categories of units:

(i) Units whose assets exceeded Rs. 10 lakh;

(ii) Units which manufactured electronic and electrical goods;

(iii) Units of 6 to 10 years standing;

(iv) Units which employed 101 and more persons;

(v) Public limited companies;

(vi) Units which were registered; and

(vii) Units located in industrial estates.

It may be pointed out here that those units which had high savings per unit institutional borrowings recorded high inventory ratios. The average non-institutional borrowings per unit in respect of respective classifications were the highest in the case of units which —

(a) Borrowed from banks/co-operatives;
(b) Whose assets were above Rs. 10 lakh and which employed 101 or more persons;
(c) Were private limited companies, registered units and located in industrial estates; and
(d) Belonged to the manufacturing group, including chemicals, dyes, etc.

It is also known that both large and small units borrow from institutional and non-institutional sources. However, the extent of reliance on non-institutional sources was lower in the case of large units than in that of small units. At the same time, even the smaller units obtained a major portion of their credit needs from institutional lenders. Further, the average non-institutional borrowings formed a major proportion of average borrowings (institutional and non-institutional) on the part of units which did not approach any commercial bank/co-operative for credit or which did not get any institutional credit even though they asked for it. It has been mentioned above. Clearly, the reliance on institutional sources was relatively high on the part of modern younger and larger small-scale industrial units.

Table 32.2

Sources and Uses of Funds of 1,125 selected small private limited companies

	(Rs. Crores)	*% share in the total*
(1)	*(2)*	*(3)*
Sources of Funds		
Internal Sources	468	22.52
A. 1. Paid-up capital	9	0.43
B. Reserves and surplus	13	0.58
2. Capital reserve	5	
3. Development rebate reserve	16	
4. Others	2	
C. Provisions	446	21.46
5. Depreciation	408	19.63
6. Taxation (net of advance of income-tax)	17	0.82
7. Other current	10	0.48
8. Non-current	11	0.53
External Sources	1,610	77.48
D. Paid-up capital	100	4.81
9. Net issues	100	4.81
10. Premium on shares	—	—
E. Borrowings	898	43.21
11. From banks	543	26.13
12. From Industrial Finance Corporation and State Financial Corporations	—	—

13. From other institutional agencies	27	1.30
14. From Government and semi-Government agencies	5	0.24
15. From others	323	15.54
F. Trade dues and other current liabilities	611	29.40
16. Sundry creditors	575	27.67
17. Others	36	1.73
G. 18. *Miscellaneous non-current liabilities*	—	—
19. Total	2,078	100.00
Uses of Funds		
H. Gross fixed assets	710	34.17
20. Land	31	1.49
21. Buildings	140	6.74
22. Plant and machinery	420	20.21
23. Capital works in progress	2	0.10
24. Others	116	5.58
I. Inventories	514	24.73
25. Raw materials, components, etc.	290	13.96
26. Finished goods	193	9.29
27. Works in progress	27	1.30
28. Others	59	2.84
J. Loans and other advances and other debtor balances	744	35.80
29. Sundry debtors	598	28.77
30. Others	146	7.02
K. 31. Investments	37	1.78
L. 32. Other assets	7	0.34
M. 33. Cash and bank Balances	80	3.85
34. Total	2,078	100.00

According to a study of small private limited companies, conducted by the Reserve Bank of India some time back, the small private limited companies relied on external sources for financing assets. Of the total resources of Rs. 2,078 crores, external sources contributed as much as Rs. 1,610 crore (77.5 per cent) to asset formation. Of this amount, borrowings constituted more than 55.8 per cent, while trade dues and other current liabilities contributed about 38.0 per cent. Bank borrowings, in particular, accounted for more than one-third of the total external resources. Among the internal resources, depreciation provision amounting to Rs. 408 crore constituted the main source. It represented 87.18% of total internal resources.

While assessing the resources of a concern, we have to bear in mind whether it is a new concern or a long-established concern; whether it is a private company or a proprietary concern; what is the nature of activity — is it manufacturing or trading; whether the purpose of raising resources is modernisation and expansion of business, or the establishment of a new concern, or increase in turnover.

The expansion or diversification of business involving an addition to plant and machinery should be met out of owned funds — that is, out of depreciation and provisions — or out of increase in capital, out of term loans. The ability of a concern to raise resources from all or some of these sources depends upon its strength, character and standing in the market. If the purpose is a mere increase in the turnover of the

business which involves a larger inventory and increased operating expenses, the additional funds should be raised by way of bank loans.

From a banker's point of view, there are well-established guidelines for assessing the credit requirements of a concern. A banker analyses the balance sheet and evaluates the turnover of funds, sales and other operating results in assessing the viability of a unit.

There are certain established ratios. For example:

(a) The debt equity ratio;
(b) Turnover to net worth;
(c) Return on capital employed;
(d) Net profit as a percentage of net worth;
(e) Dividend paid to shareholders;
(f) Ratio of current assets to current liabilities.

A banker has to go behind these figures and assess the technical and managerial competence of a management, and the integrity of the men running a concern, in order to decide whether credit should or should not be advanced.

Credit is a very important element in the process of economic development. It stimulates economic activity, particularly in countries which are short of capital and entrepreneurial talent. Because of the dearth of these two basic elements in the process of development, bankers who create credit have been assigned a vital role in stimulating the process of development.

Norms for Inventory and Receivables

For an efficient management of assets, the Tondon Committee suggested norms for raw materials, stack-in-process, finished goods and receivables. These norms represent the maximum levels of holding inventory and receivables in each industry.

Coverage: These norms are made applicable to all industrial borrowers, including small-scale industries, with aggregate limits from the banking system in excess of Rs. 10 lakhs and extended progressively to small borrowers.

Objective: The norms for the four kinds of current assets are related to consumption/cost of production/cost of sales/sales, respectively. If the carryover of any one kind of asset is higher than the relative norm level, the surplus is treated as "excess" carryover to be shed off, failing which an amount equivalent to the value thereof would be treated as excess borrowing. Again, such excess holding cannot be set off against any shortfall in the holding of other assets, for the norms represent the maximum permissible levels of holding; and they are not entitlements. Lending banks are expected to scrutinise the periodical stock and receive statements to determine whether the borrows comply with the aforesaid stipulation.

Experience shows that while norms are reckoned in sanctioning credit limits, these are not uniformly complied with subsequently through the medium of monthly stock statements. Although both Tandon Committee and the RBI had hoped, while introducing the report, that excess current asset holdings would be adjusted in two months, this has not happened. In fact, RBI itself has had to adopt a flexible approach

by permitting, *inter se,* adjustments of norm levels of different assets, raising norm levels, etc.

Given the manufacturing cycle of a borrower, starting with raw materials to stocks-in-process, and further to finished goods, it is only logical to think of a combined norm for all the three items in relation to the value of output. A lending bank ought to scrutinise the levels of each kind of current assets in the ordinary course of its vigil on the borrower's operations but to treat any of them as excess holding even as the overall level is considered reasonable and consistent with production is to make things unnecessarily complicated; and this serves no worthwhile purpose. It is said that combined norms may be developed for different industries from the RBI studies on company finances. These may be revised from time to time to meet the objectives of national economic policies and/or bring them in tune with the policy by individual industry groupings. Thus, the suggested modification of laying down a combined norm for inventories in relation to the value of output, and receivables to sales as at present, would make things pragmatic, without jeopardising the interests of lending bank and without hurting any macro economic objectives.

The suggested norms are as follows:

Suggested Norms for Inventory and Receivables

Industry	*Raw materials (including stores and other items used in the process of manufacture)*	*Stocks-in-process*	*Finished goods*	*Receivables* and bills purchased and discounted*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
(i)	Cotton and Synthetic Textiles	Cotton 2 (Bombay and Ahmedabad areas) 2 Eastern areas — Bihar, Orissa, West Bengal and Assam) 2½ (Other than the above areas) 2 Other raw materials	¾ (Composite textile mills) ½ (Other mills)	- 2¼ -	
(ii)	Man made Fibre	½	½	- 1¾ -	
(iii)	Jute Textiles	2½	¼	1 (For domestic sales) and 1½ (For exports)	1½

(iv)	Rubber Products	2	¼		- 1¾ -
(v)	Fertilisers				
	(a) For nitrogenous plants	¾ (Units near refinery) ½ (Units away from refinery)	Negligible	1 (where stocks are in plant site) ½ (Where stocks are also in upcountry centres)	1¼
	(b) For phosphatic plants	2 (Units in port areas) 3 (Units away from port areas)	Negligible	1 (Where stocks are in plant site) 1½ (Where stocks are also in upcountry centres)	1¼
(vi)	Pharmaceuticals	2¾	½	2	1¼
(vii)	Dyes and Dyestuffs	2¼	1	¾	2¼
(viii)	Basic Industrial Chemicals	2¾	¼	1	1¾
(ix)	Vegetable and Hydrogenated Oil	1	Negligible	¾	
(x)	Paper	2-6 Bamboo and Wood (to be built up in stages from November to May and thereafter to be brought drawn) 2¼ Chemicals		1 (For controlled sales) and 3/4 (for free sales)	¾
(xi)	Cement	2¼ Gypsum ¼ Limestone 3/4 Coal ½ packing material	½	- 1 -	
(xii)	Engineering Automobiles & ancillaries	2¼	¾	- 2½ -	
(xiii)	Engineering Consumer Durables	2	¾	- 2½ -	
(xix)	Engineering Ancillaries (other than Automobile ancillaries) and Component Suppliers	2	¼	- 2½ -	

(xv)	Engineering machinery manufactures Capital Equipment Suppliers (other than Heavy Engineering)**	2¾	1¼	- 3½ -

Notes:

(i) Raw materials are used in so many months.

(ii) *(a)* Stock-in-process are expressed as so many months' cost of production

(b) In individual cases, the bank may deviate from the norm for Stock-in-process if it is satisfied that the actual process time involved in any particular unit, say, in view of the nature of production, past experience and technology employed, is more than the suggested norm.

(iii) *(a)* Finished goods and receivables are expressed as so many months' cost of sales and sales respectively. These figures represent only the average levels. Individual items of finished goods and receivables may be for different periods, which may exceed the indicated norms so long as the overall average level of finished goods and receivables does not exceed the amounts as determined in terms of the norm.

**(b)* The norm prescribed for receivables relates only to inland sales on short-term basis (i.e., excluding receivables arising out of deferred payment sales and exports).

(iv) Stocks of spares are not included for norms, since in financial terms they are not significant in many industries. Banks will ascertain the requirements of spares for individual units. They should, however, keep a watchful eye to ensure that spares do not exceed 5% of the total inventories.

** *(vi)* Heavy Engineering will include the supply of whole or substantial plants involving a long manufacturing period, i.e., sugar, cement, steel and textile plants.

Source: Report of the Study Group, RBI, 1975, pp. 20 & 21.

Illustration

ABC Industry

Estd. 1969
Manufacturer of automobile spare parts & nuts & bolts

Investment in Plant & Machinery	Rs. 15 lakhs
Bankers	Bank of Bombay
Capital	Rs. 5 lakhs
Reserves	Rs. 3 lakhs
Net Worth	Rs. 8 lakhs

(Rs. in lakhs)

Current Liabilities		*Current Assets*	
Creditors for Purchase	55	Raw Materials	120
Other Current Liabilities	25	Stock-in-progress	20
	80	Receivables	30
		Finished goods	40
		Other current assets	10
Borrowings	120		
(i) Long-term	50		
(ii) Short-term	70		
	200		220

1st Method		*2nd Method*		*3rd Method*	
Total Current assets	220	Total Current assets	220	Total Current assets	220
Less: Current Liabilities other than bank borrowing	80	25% from long-term sources	55	*Less:* Core current assets	55
Working capital gap	140		165		165
25% of above form long-term sources	35	*Less:* current liabilities other than bank	80	25% of above from long-term sources	41
Maximum bank borrowing permissible	105	Working capital gap	85	*Less:* current liabilities	80
			140	Other than bank borrowing	44
		Maximum bank borrowing permissible	85	Working capital gap	140
				Maximum bank borrowing permissible	44
Excess Borrowings	15	Excess Borrowings	35	Excess Borrowings	96
Current ratio 1.19:1		Current ratio 1.33:1		Current ratio 2.12:1	

Scientific Approach to Working Capital

A scientific approach to working capital involves a study of the factors which affect the need for working capital — the terms offered by suppliers, the terms offered to customers, the average period of lead time for various inventory items, the seasonal fluctuations in sales, the production cycle, the level of stock and other influencing factors. These factors may be used to relate the balance sheet items to sales volumes. The relationships yield measures which may serve, among other things, as tools for the prediction of future working capital needs.

For a scientific study of the working capital problem, a mathematical model may be developed to state the important quantitative relationships among different variables. In order to construct such a model, it is necessary to make an objective study of the situation. In the case of working capital, the relevant factors which should be studied are the relationship that exist between the amounts of the current assets and current liabilities, and the volume of sales.

In developing the model, the first step is to analyse the relevant factors of a company's situation. This involves an examination of the records, a study of actual procedures and a consultation with company officials.

The suggested method of forecasting working capital needs is an improvement on the methods which are currently employed by companies. The use of the model would result in a more accurate forecast, allow for improvement through observation and experience, and act as a useful tool for the assessment of the size of the working capital.

The use of the working capital model is appropriate for many types of businesses. In companies which manufacture different types of products involving different materials or different processes, separate sub-models may be constructed, and these may be combined in the final analysis. Where conditions are changing rapidly, the effects of the changes can be estimated objectively.

As long as the general pattern of the production and financial process does not change substantially, the model will hold good. When any change occurs, a re-study of the pertinent items would be sufficient.

In most cases, this type of working capital model can be developed easily. It would enable managers to forecast the level for each working capital item and ensure that the necessary resources are available. In addition, the model could establish working capital standards. A comparison of the actual with the standards would provide a measure of the efficiency of financial management.

Management

Effective financial management is based on three factors: analysis of past performance; planning for future activities; and control of current activity. Control is achieved by implementing decisions in accordance with agreed plans. Accordingly, financial planning is of crucial importance in a small unit.

An effective working capital management calls for an understanding of cash requirements at varying stages of design, development, production and marketing. The overall efficiency of the working capital is judged by the annual result it produces.

The working capital management is an integral part of overall management of small-scale industries. There is need for greater co-ordination between small-scale industries and financial institutions. Towards this direction, the Small Industries Development Bank of India (SIDBI) is shaped to provide a strong support to small-scale industries.

It is essential that financial institutions should safeguard their interests with adequate security. At the same time, small industrial concerns should not, as far as possible, be denied the assistance they deserve or need. Lack of finance is often not the cause but the result of difficulties in other areas. In such cases, what is needed are measures to set right those factors which would render financial assistance, good returns. It is common knowledge that the small-scale sector needs non-financial assistance — marketing assistance, technical guidance and training in management, etc. It has also arranged training programmes for small entrepreneurs; but the scope of operation of these need to be expanded. Above all, there is need for greater co-ordination at all levels between the financial and non-financial institutions and agencies engaged in the promotion of small-scale industries.

In the present Indian context, the socio-economic obligations of a banker include identification of project ideas, project formulation, managerial talent and provision of technical and managerial guidance to new ventures with a view to broad-basing entrepreneurial talent and assisting in the creation of more employment opportunities in the country. The banker who controls credit is a "supply leader" as opposed to his erstwhile role of a "demand follower." He is no longer a "wholesale" banker sitting

in an ivory tower. His new role as an agent of economic development is to assist in the development and growth of economic activities.

Planning and control of working capital centres round sound cash planning which includes setting of cash policies and procedures and the control over cash and credit. Cash is of course a very sensitive component of working capital. The working capital has, therefore, to be managed properly, especially by the SSIs, because over or under circulation may create volatile problems.

Financing of Industrial Estates

Financial institutions have commenced extending estimated direct assistance for financing of industrial estates. Such ventures estimated at Rs. 300 lakh are covered under the IDBI's re-finance scheme where primary lending is effected through the SFCs, SIDCs and commercial banks. Industrial estates costing beyond Rs. 300 lakh are extended direct financial assistance by the all-India financial institutions.

The main aspects considered in proposals for setting up of industrial estates are the suitability of the location, availability of power, water, raw materials, skilled and unskilled labour, transport and communication facilities, market for the products of industries to be set up in the estate and the potential for overall economic growth. Significant emphasis initially is, therefore laid on physical survey of the site and its proper designing.

Size of Industrial Estate

The size of the estate should preferably be not less than 15 acres of land where the cost is up to Rs. 300 lakhs and not less than 25 acres of land where the cost is more than Rs. 300 lakhs. This size results in individual units deriving the advantage of some economy in overhead expenses and sharing of some common facilities. However, it may not always be practical to insist on the minimum size of land and the financial institutions may, under such circumstances, relax the minimum area where the estate is in urban areas or if the estate is proposed in a multi-storeyed building.

The institutions also desire that the project acquires adequate reserve land at the beginning itself as the cost of acquiring adjacent land at a later date might become prohibitive. Twice the estimated initial capacity for sheds booked/expected to be booked is considered a fair reserve area over the present requirements. This is not, however, taken as an inflexible norm and for large estates, particularly in urban and semi-urban areas, the reserve may be less, say, equal to the area initially required.

Conclusion

To make finance available for a project there is need for prudent financial management. All along, there is need for planning the flow of funds for the smooth functioning of a project. A successful project is one which generates its own finances to a greater extent and finances its diversified activities. Internal resources will serve as a backbone of a project.

The generation of internal resources not only benefits the enterprise, but also the entrepreneur, shareholders and the society. Above all, a prudent management of internal resources may also assist the natural growth of the capital market.

Finance, which has been aptly described as the "life-blood" of industry is a pre-requisite for the mobilisation of real resources to organise production and marketing. Depending upon the nature of the activity to be financed, business requires short-term, medium-term and long-term finance.

A new chapter for business finance is being hammered out. And with it, the flexibility for the entrepreneur to design the financing mix to suit every need. To use an assortment of financial products that both lowers financing costs and minimises risks. In short, to evolve a financing strategy that dovetails with the enterprise's competitive strategy tomorrow.

With deregulation, entrepreneurs will find it cheaper to access the markets directly. The phenomenon of disintermediation is interwined with securitisation, or the tendency of enterprises to raise capital by issuing securities rather than on relying on direct loans. While short-term working capital needs can be met by the issue of commercial paper, long-term project finance requirements can be partially serviced through debenture offerings. In fact, in the more developed capital markets, funds are raised by even scrutinising the regular cash-flows generated by receivables.

Fierce competition among the lenders will transform once standard working capital or term-loans for the entrepreneurs. The lenders will be forced to assume higher credit risk. Project financing will, increasingly, be of the non-recourse variety while a rising proportion of working capital finance may be extended on an unsecured basis. Since credit risk will be transferred in full to the financial intermediary, that intermediary will be much involved in monitoring the loan. So, while securitisation moves towards more impersonal forms of financing, lending will become more intimate.

Financial management is an integral part of industry and ranks equally in importance with other key components like production and marketing. Capital and finance form the bed rock foundation of industrial development. They are provided by a number of financial institutions. The saga of industrial development in the post-independence period is the story of these core institutions as well as market participation.

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CHAPTER 33

PROJECT FINANCING

Introduction

Finance is one of the basic requirements of a project which entrepreneur needs to start within every stage of the project. Project finance is both for short-term and long-term. The sources from which the entrepreneurs can meet their financial needs for their projects are: *internal source* and *external source*. Besides, the entrepreneur raises his finance by availing of available subsidies, state aid to industries, etc. Project finance, therefore, is very crucial to the success of a project. In this chapter, the various facets of project financing are discussed.

Project Financing

Project financing, as a concept is very old. But it has gained prominence during the last two decades. There was a time when project finance was a fairly simple banking exercise. That time is now past. Of late, many changes in the economic environment have taken place. The figures for total investment in almost any major capital plant development have, by the joint action of inflation and technical innovation, reached dimensions which have become too large for an individual company to accommodate. Again high rates of inflation have made cost escalation provisions assume very large proportions, particularly in relation to the basic price of any capital plant where a long period of manufacture is required before it can be erected and start functioning on site. That brings forth the importance of a national approach to project financing.

The gamut of *'feasibility'* covers the following areas:

(a) To the idea technologically sound — Technical feasibility.

(b) Would it be commercially viable — Commercial viability.

(c) What would be its economic dimensions — Economic viability.

(d) What financial demand would it make on the promoters, the company and outside creditors. To put it differently, what is the size of funds required — Cost of the Project.

(e) What would be the probable sources that can be tapped? What sources should be selected — Financial Plan.

(f) Would the project be a paying proposition — Financial viability.

(g) How much would be the manpower requirement and what type of managerial and organisational structure will it require? — Organisational and management structure.

The *technical feasibility analysis* is an attempt to study the project basically from a technician's angle. The promoters of the project can approach the problem of preparation of technical feasibility studies in the following order:

(i) Undertaking a preliminary study of technical requirements to have a quick evaluation.

(ii) If preliminary investigations indicate favourable prospects, working out further details of the project becomes imperative. The exercise begins with engineering and technical specifications, and covers the requirement of the proposed project as to quality, quantity specifications of each type of components of plant and machinery, accessories, raw materials, labour, fuel, power, water, effluent disposal, transportation, etc.

The concept of economic and commercial feasibility of a project concerns itself with the process of sharing the total market in an efficient manner as evidenced by profits. The commercial and economic viability of a project comprises analyses of the following aspects:

(i) Getting a feel of market.

(ii) Assessment of aggregate demand — existing and future.

(iii) Determining the extent of supply to meet the expected demand and arriving at the gap.

(iv) Deciding in what way the project under consideration will have a reasonable chance to share the market.

(v) Converting the projected demand into monetary units, i.e., estimating revenues on the basis of prices assumed.

(vi) Arriving at the physical requirements of production inputs such as raw materials, power, labour, etc. at various levels of output and converting them into costs. In other words, deciding costing pattern.

(vi) Matching costs with revenues with a view to estimating the profitability of the project and the break-even point.

Financial appraisal is probably the most import aspect of project financing. It seeks to cover the following aspects:

(i) The total capital cost of the project.

(ii) The means of finance to meet the projected cost.

(iii) The projected operating costs, and revenues and prospectives.

"One of the key problems of planning, therefore, is where to strike this balance between giving enough credit for the small man to develop and not giving him so much that there have to be large write-offs every year."

Finance is one of the constant problems, and if small-scale industries are to develop according to the Government policy, they must have adequate credit. Credit is available on the basis of the creditworthiness of the entrepreneur. In regard to capital structure and working capital management, there are many differences between large, medium and small-scale industries.

Finance is the life-blood of any business. Its management is an art and merits special attention. The financial function of management is to:

(a) Ensure fair return on investment;

(b) Generate and build up surpluses and reserves for growth and expansion;

(c) Plan, direct and control the utilisation of finances so as to ensure maximum efficiency of operations and build a proper relationship with suppliers, financiers, workers and members; and

(d) Co-ordinate operations of the various departments through appropriate measures to ensure discipline in the use of financial resources.

The Paradigm Shift in Project Finance

	The Old	*The New*
Equity	■ Ordinary Shares	■ Ordinary Shares, Preference Shares, Non-Voting Shares, Deferred Shares, Global Depository Receipts, American Depository Receipts
Debt	■ Term Loans, Debentures, Eurobonds	■ Term Loans, Debentures, Non-Recourse Finance, Zero Coupon/Deep Discount Bonds, Step-Up/Step-Down Structures, Variable Rate Bonds, Eurobonds, Yankee Bonds, Samurai Bonds
Convertibles	■ Convertible Debentures	■ Convertible Debentures, Redeemable Cumulative Convertible Preference Shares, Secured Premium Convertible Bonds, Optionally-Convertible Discounted Debentures, Euro-Convertible Bonds
Leasing	■ Financial Leases	■ Financial Leases, Operating Leases, Vendor Leases, Big-Ticket Leasing, Leveraged Leases

Capital

The term *"capital"* refers to total investment of money, tangible assets like buildings, and intangible assets like goodwill. It is, in a way aggregate wealth of a unit or a company. The *"net capital"* refers to the excess of total assets over total liabilities.

Capitalisation

Capitalisation is the sum-total of all long-term securities issued by a company and the surpluses not meant for distribution; it includes only term loans and retained profits.

If a company raises more capital than is warranted by the figure of capitalisation or its earning power, it is said to be over-capitalised, but if its capital is lower than its earning power, it is said to be under-capitalised.

Evils of Over-capitalisation

As a result of over-capitalisation,

(i) There is considerable reduction in the rate of dividend on equity shares;

(ii) The market value of shares declines and investors lose confidence in the company;

(iii) The company resorts to window-dressing; and

(iv) There is loss of goodwill.

From the social angle, over-capitalisation,

(i) Is an indication of reduced efficiency;

(ii) Results in a misappropriation of society's resources;

(iii) Leads to a cut in the wages of workers with a view to raising profits; and

(iv) Makes it difficult for a company to withstand competition. The shareholders of an over-capitalised company, therefore, receive low dividends; and the depreciated shares are subject to gambling on the stock exchange, which calls for remedial measures, i.e., reorganisation.

Under-capitalisation

A company is *under-capitalised* when its capital is lower than is warranted by its earning capacity. The management should capitalise its earnings by issuing fully-paid bonus shares. Keeping the company fairly capitalised is a continuing process. Flexibility in financial planning is, therefore, quite essential if the capital structure is to be adjusted to the varying needs of a company.

Overcapitalisation vs. Undercapitalisation

Overcapitalisation	*Undercapitalisation*
1. A comany is said to be overcapitalised when it is consistently unable to earn the prevailing rate of return on the capital invested.	1. A company is said to be undercapitalised when the rate of return is exceptionaly high as compared to the rate earned by similar companies in the same industry.
2. The earning capacity of an overcapitalised company is low in comparison with the capital invested.	2. The earning capacity of an undercapitalised company is exceptionally high in comparison to the capital invested.
3. It means that capital is utilised inefficiently.	3. It suggests that capital is utilised most efficiently.
4. It indicates a weak financial position and unhealthy state of affairs of the company.	4. It indicates a strong financial position and healthy state of affairs of the company.
5. The market value of the company's shares is less than the book value.	5. The market value of the company's shares is more than the book value.
6. Overcapitalisation is undesirable and dangerous to the company, investor, and society at large.	6. Undercapitalisation is undesirable but not dangerous to the company and investors.

Capital Structure

According to Gerstenberg, the capital structure of a company is defined as the make-up of its capitalisation. Capitalisation comprises a corporation's owned capital and borrowed capital, as represented by its long-term indebtedness. "Capital structure" refers to the kind of securities that make up the capitalisation. Decisions about the amount of securities are reflected in the capitalisation; decisions as to the kind of securities are reflected in the capital structure.

The *capital structure* of a company involves a decision regarding the ratio of ownership capital to credit capital, between short-term and long-term capital, and the ratio among different sources of finance for capital, which includes loans, bonds, share issues and reserves. The various components of the capital structure of a company are indicated in Fig. 33.1.

The maintenance of proper ratios between the different types of securities is known as *"capital gearing."* The following factors generally govern the capital gearing of a company:

(a) Trading in equity;
(b) Retaining control of a company;
(c) Nature of enterprise;
(d) Elasticity of the financial plan;
(e) Legal requirements;
(f) Market sentiment; and
(g) Requirements of investors.

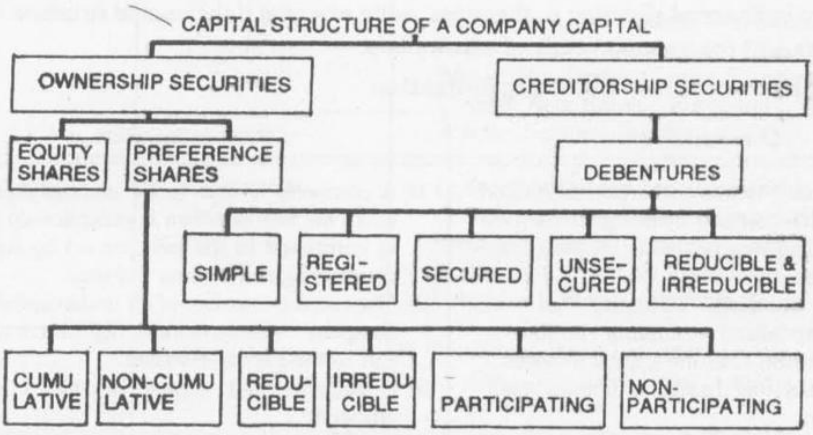


Fig. 33.1 Capital Structure of a Company

The size and pattern of a company determine its capital structure. The basic pattern of any capital structure may be broadly classified as follows:

(i) Equity shares, i.e., one type of shares;
(ii) Equity shares and preference shares, i.e., two-tier stock;
(iii) Equity shares, preference shares and debentures, three-tier stock.

The financial pattern of large-scale and medium-scale industries is quite different from that of small-scale industries. With a view to getting a proper perspective on the capital structure and working capital management of a small-scale industry, let us first briefly discuss the financial structure of large-scale industries.

Finance for Large-Scale Industries

As already mentioned, large-scale industries require long-term loans or funds to meet their fixed or block capital expenses — on the purchases of a factory site, the construction of the factory building, the purchase of machinery and equipments, and so on. Short-term loans or funds are needed to meet working expenses — payment for raw materials, wages, minor maintenance charges, and so on.

Funds needed for block or fixed capital are generally raised:

(i) By the issue of shares of different types and debentures;

(ii) By ploughing back a part of the profits made by an industry;

(iii) By inviting long-term deposits from the public — a practice which has assumed increasing importance in recent years;

(iv) By raising long-term loans from public financial institutions, which have been playing an increasingly important role in providing long-term finance to large-scale industries since 1960.

The usual methods of raising working capital are: loans from commercial banks, loans from managing agents, short-term deposits from the public, loans from indigenous bankers, and so on.

The different sources of finance for large-scale industries are analysed below.

Share and Debentures

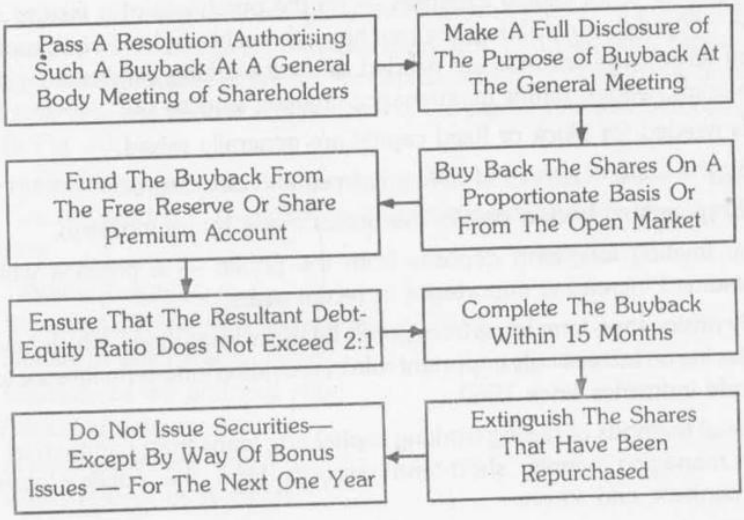
Large and well-known industries generally raise a major portion of their funds to meet their capital demands by selling shares of different types, namely, equity or ordinary shares, cumulative and non-cumulative preference shares. The trend in recent times has been to issue shares of Rs. 10, Rs. 50 and Rs. 100 to enable persons in the middle income group to subscribe to the share capital. Because of substantial money with the public, well-known industrial concerns find it quite easy to raise funds by selling equity shares, which are often oversubscribed. Restrictions on the rates of dividend had, for some time, depressed the share market. Most of these restrictions don't exist.

Another way of raising funds to meet the needs of block capital is to sell debentures to, and borrow money from the public. Since commercial banks started giving interest every month on deposits of 61 months and above, middle class people prefer fixed deposits to the purchase of debentures of large-scale industries.

SHARE BUYBACKS

THE DEFINITION

Repurchase of shares by the issuing company.
Shares bought back must be extinguished,
which will reduce the equity base.



The Advantages

- Returns surplus cash to the shareholder
- Increases underlying share value
- Supports share price during bearish periods
- Maintains a target debt-equity structure
- Inhibits unwelcome takeover bids

The Disadvantages

- Could enable promoters to use company money to raise their personal stakes
- Opens up possibilities for share price manipulation
- Could divert fnds away from productive investments

Deposits from the Public

The practice of the managing agents of textile mills in Ahmedabad to accept deposits from the public for a period of 6 months or 1 year was later adopted by the textile mills in Mumbai and Solapur. The tea-gardners of Assam also adopted this mode of raising funds, which became very popular with the public during the 1960s and the 1970s, when the Government followed a dear money policy and introduced a credit squeeze. Big industries began to raise funds from the public by paying between 10% and 15% interest instead of 18% and 20% to commercial banks. The public, too, began to deposit their money with well-known large-scale industries to get higher rates of nterest instead of investing their savings in fixed deposits in commercial banks at

comparatively lower rates of interest. Later, when many industrial houses defaulted on the payment of interest and principal, the Reserve Bank placed some restrictions on the acceptance of deposits by industries in order to protect the public from some unscrupulous industrial houses.

In this connection, attention may be drawn to the latest amendment to the Companies (Acceptance of Deposits) Rules 1978, which has been effective since 1st April, 1979. According to the latest amendment, non-banking companies could accept unsecured deposits from the public only upto 10% of their aggregate paid-up capital and free reserves as compared to the original limit of 15%. If deposits of this category exceed the limit of 10%, they will have to be brought down to the specified limit on or before 1st April, 1980.

The amendment also fixed the maximum period for which companies can raise loans from the public at 3 years only.

Also, with effect from 1st April 1980, the limit of aggregate deposits of all categories covered by the amendment was brought down to 25% from the present limit of 40%. It should be noted that inter-company deposits, which were originally excluded from the overall ceiling of 40%, have now been brought within the purview of the Rules. It may also be noted that, to reduce the risk element for depositors, the amendment states that industrial companies must deposit in scheduled banks or invest in specified securities not less than 10% of the amount of their deposits maturing during the year. In order to enable the public to know the financial position of the companies which call for deposits, the form of advertisement has been enlarged.

One of the results of the amendment has been that many big and reputed companies have stopped accepting fresh deposits from the public. The investor who wants to maximise returns on his savings now had to deposit them in small companies at greater risk, or invest them in the Unit Trust of India or deposit them in commercial banks and accept lower returns. The amendment that deposits cannot be held for more than three years will also adversely affect the depositors because they have been deprived of the benefits of cumulative deposit schemes.

Government Justification

The Government on its part had several good reasons for enacting this amendment in regard to the acceptance of public deposits by companies. Company deposits are reported to be of the order of Rs. 2,000 crores which is a fairly big leakage from the monetary system under the direct control of the Reserve Bank of India.

A small-scale industrial unit requires funds before it can come into being; and it needs them for expansion, modernisation and working capital. It requires long-term finance to acquire fixed assets like land and buildings, plant and machinery, etc., and short-term working capital for the purchase of raw materials and stores and for the payment of wages. While long-term finance is given by the government and the development banks, short-term finance is provided by commercial banks. Various Government finance schemes are discussed briefly in the following pages.

Foreign Currency Term Loan Assistance

It is provided for incurring foreign currency expenditure towards import of plant, machinery and equipment as also payment of foreign technical know-how fees. The periodical liability towards interest and principal is calculated in the currency of the loan and converted into rupees at the then prevailing rate of exchange for effecting payment to the lending institution. The foreign currency term loans do not attract the convertibility stipulations.

Deferred Payment Guarantee assistance is provided in rupee and foreign currencies. Guarantee is issued on behalf of the purchaser in favour of machinery suppliers offering the facility of deferred credits. A nominal guarantee commission fee is levied by the financial institution on the assisted concern. In case of default in payment of deferred instalment, the financial institution makes the payment to the machinery supplier and later recovers the amount from the assisted concern.

Guarantee assistance is provided for foreign currency loans raised by industrial concerns from institutions and banks abroad. A nominal guarantee fee is levied on the assisted concern for the foreign currency loan guaranteed.

Underwriting assistance for issue of shares and debentures is provided as a part of the overall financial package by the participating financial institutions. In respect of non-convertible debentures, the underwriting assistance is restricted to 50 % of the issue in respect of MRTP companies and 60% of the issue in respect of non-MRTP companies.

Assistance by way of *direct subscription to shares* is extended to small issues which are not feasible for issue to the general public through prospectus. In respect of joint sector companies, capital is subscribed by the State level financial institutions as a part of the promoter's contribution.

Soft Loan assistance is a special scheme operated by the Industrial Development Bank of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India Ltd. for modernisation and rehabilitation of industrial undertakings. The loans are extended on concessional terms in regard to the rate of interest, promoter's contribution, debt-equity ratio, initial moratorium and the repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulations.

Assistance through the *Technical Development Fund* was introduced in March 1976 for the import of small value balancing equipment, technical know-how, foreign consultancy services and drawings and designs by industrial units to enable them to achieve fuller capacity utilisation, technological upgradation and higher exports. The limit for total imports under the scheme is restricted to the equivalent of Rs. 100 lakh per undertaking per year. The Industrial Development Bank of India provides rupee loans up to a maximum of Rs. 125 lakh at interest of 12.5% per annum to enable the utilisation of import licences issued under the TDF scheme. The scheme covers all industries and permits import of any inputs needed for improving the export capabilities.

Bills Rediscounting Scheme is designed to promote the sale of indigenous machinery on deferred payment basis. Under this scheme, the seller realises the sale proceeds through discount of the relative bills of exchange or promissory notes with a commercial bank which in turn rediscounts the bills or notes with the Industrial Development Bank of India (IDBI). The buyer can thus acquire machinery on deferred payment terms without going through the long procedures involved in obtaining term loans. The deferred payment spread is normally restricted to five years. In respect of sugar, jute, cotton textiles, cement and engineering industries and also certain other deserving industries, the period is extended up to seven years. The scheme is particularly helpful in respect of modernisation by existing units or for purchase of balancing equipment for expansion. An important advantage of the scheme is that it does not attract the convertibility stipulations.

Assistance through *refinance of industrial loans* is intended to strengthen the efforts of State level financial institutions and commercial banks for providing assistance to small and medium-sized industrial projects. The IDBI grants refinance facilities to these State level institutions and banks against their loans to such units. The maximum amount eligible for refinance per unit is restricted to Rs. 80 lakh from commercial banks, Rs. 90 lakh from state industrial development corporations and Rs. 60 lakh from state financial corporations. The purpose of the loan to be refinanced is limited to the acquisition of fixed assets. The credit risk is fully assumed by the primary financial institution which directly lends to the industrial concern. The IDBI refinances 60% of the original loan, depending on the nature of assistance, location of project, its cost and the status of the primary lending institution.

Assistance in the form of *suppliers line of credit* is provided to manufacturers for promoting sale of industrial equipment on deferred payment terms. This credit facility can be availed of by actual users for balancing equipment, replacement or modernisation purposes only. Under this scheme, a non-revolving line of credit is extended to a seller to be utilised within a stipulated period. This facility is very much similar to the Bills Rediscounting Scheme except that in this case, the payment is directly received by the supplier from the financial institution as compared to an intermediary commercial bank in the earlier case.

Seed Capital assistance is provided to encourage a new class of entrepreneurs so as to bring about wider dispersal of ownership and control of industrial undertakings. This special scheme has been introduced for the purposes of supplementing the resources of the entrepreneur. Assistance is provided as interest-free loans to the extent of the deficit in the required promoters' contribution. Such assistance is restricted from Rs. 15 lakh to Rs. 40 lakh per project depending on the number of applicant promoters.

Equity and Preference Capital funds can be procured from the following sources:

Promoter's Quota:

- Inter-corporate investments
- Promoters, directors, friends and relatives (including non-resident Indians)
- Foreign collaborators
- Oil exporting developing countries

— State industrial development corporations
— Shareholders of promoter companies
— Internal accruals
— Rights issue to existing shareholders.

Non-promoter's Quota:

— Public issue to Indian residents
— Public issue to non-residents of Indian origin on repatriable and non-repatriable basis.

Debenture Capital funds in the form of secured convertible or non-convertible debentures can be raised by listed public companies and public sector corporations with the objective of financing any expansion or diversification project or to augment the long-term resources of the company for working capital requirements.

The issue of debentures for financing working capital requirements cannot exceed 20% of the gross current assets, loans and advances. The issue of debentures for project financing is considered on the basis of the approval of the scheme of finance by the financial institutions and the MRTP Commission (where applicable).

The debt-equity ratio after including the proposed debenture issue should not generally exceed 2:1. This norm is relaxed for capital-intensive projects.

The shares of the company proposing to issue debentures must, however, have been listed in one or more stock exchanges and the market quotation of its equity shares must have been above par for at least six months prior to the date of application to the Controller of Capital Issues for permission to issue debentures.

Government Subsidies are extended by the Central and State Governments to projects being established in industrially low profile areas.

For purposes of capital subsidy from Central Government, areas have been divided into three categories by the Ministry of Industries. Category 'A' comprising of 134 no-industry districts and special regions are eligible for subsidy at the rate of 25% of the investment subject to a maximum of Rs 25 lakh. Category 'B' comprising of 54 districts are eligible for subsidy at the rate of 15% of the investment subject to a maximum of Rs. 15 lakh. Category 'C' comprising of 113 districts are eligible for subsidy at the rate of 10% of the investment subject to a maximum of Rs. 10 lakh. Subsidy under Category 'C' is, however, not granted to MRTP/FERA companies.

In addition to the subsidy by the Central Government, State Governments operate the state subsidy scheme in order to achieve a wide dispersal of industrialisation within the state. The rate and amount of subsidy varies from state to state, with the upper ceiling generally remaining within a maximum of Rs. 25 lakh.

The State Governments also operate the sales tax exemption and the sales tax deferment schemes. Under these schemes, industries being located in industrially backward areas get exemption/deferment of sales tax on purchases and sales for a period ranging between five to seven years. The quantum of benefit under these schemes is, however, restricted to a percentage of the fixed capital investment, subject

to a maximum upper limit. These funds can be well used for augmenting margin money requirements for working capital or for phased capital expenditure.

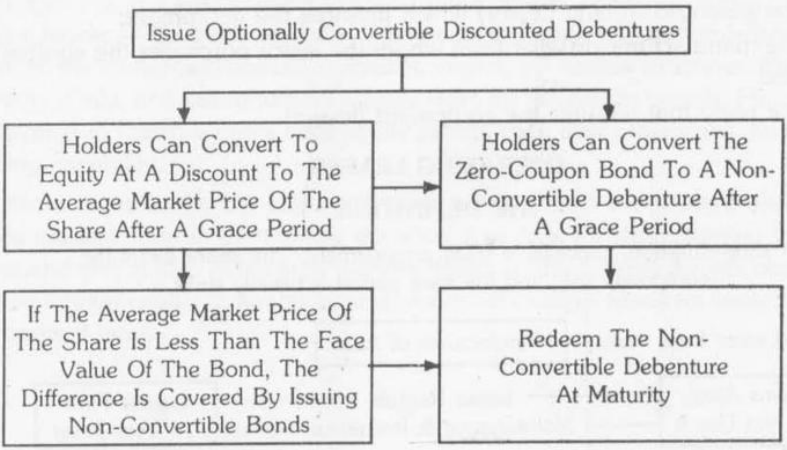
Programme for the Advancement of Commercial Technology (PACT) is the outcome of an agreement between the Governments of India and U.S.A. signed in August 1985 under which the United States Agency for International Development is providing funds for promotion and financing of Indo-US joint ventures in research and development. The Industrial Credit and Investment Corporation of India Ltd. is managing and administering the entire operations of PACT.

PACT will support selected Indo-US joint ventures in research and development by offering need-based promotional assistance and conditional grants towards meeting part of the research cost which in turn, will provide an in-built protection against risks associated with market-oriented research and development. The assistance from PACT will normally be limited to US $ 500,000 or 50% of the total estimated cost, whichever is lower.

OPTIONALLY CONVERTIBLE DISCOUNTED DEBENTURES

THE DEFINITION

A zero-coupon bond which offers the investor the option of conversion to either equity or debt after a stipulated period.



The Advantages

- Reduces the cost of debt
- Offers the investor the option of conversion
- Limits cash outflow during the gestation period
- Structuring can be tailored to the project profile

The Disadvantages

- Requires rapid profit growth
- Failure to convert may result in large outflows
- Low share prices could increase gearing ratios
- Conversion may result in an expensive dilution

Public Subscription to Capital

Equity capital, after deducting the amount to be statutorily subscribed by the promoters, may be offered to the public for subscription in cash. The public may represent resident Indians or non-resident Indians or both depending on the quantum and percentage of equity funds to be raised.

Assuming a representative project having a debt-equity ratio of 2:1 with promoters' contribution of 20%, promoters would be required to subscribe to 60% the equity capital and balance of 40% would be issued to public for subscription. Generally, to become eligible for listing on a recognised stock exchange, companies are required to issue 60% of their capital to public for subscription through a prospectus. The public issue may, however, be reduced to a minimum of 20% of the capital in certain cases depending on the specific scheme of finance and its approval by the Government of India.

Lease Financing

Lease financing is the easiest way of financing capital expenditure without going through the time-consuming process of obtaining term-loan assistance from financial institutions and banks.

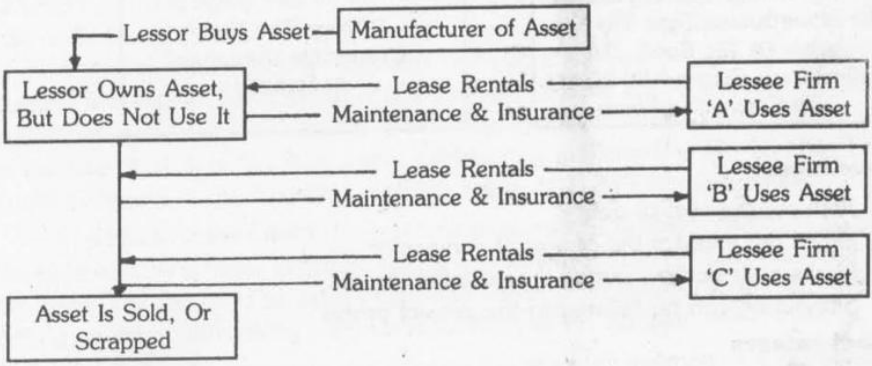
In any typical leasing transaction, there are three parties involved:

- the leasing company (lessor) which finances the equipment;
- the manufacturer or seller from whom the lessor purchases the equipment; and
- the party that requires the equipment (lessee).

OPERATING LEASES

THE DEFINITION

A short-duration, cancellable lease arrangement. The lessor bears the equipment risk, and the ease period is usually short.



The Advantages

- Transfers equipment risk to the lessor
- Minimises investment in equipment
- Reduce expenditure on maintenance
- Rentals can be tailored to project profile

The Disadvantages

- Rentals can be high
- Depreciation tax-shield is transferred to the lessor
- Requires specialised knowledge by lessors
- Scope for lessee misuse of asset

The equipment is purchased by the lessor from the manufacturer or seller and leased to the lessee. The lessee pays the lessor the predetermined rent over a specified period which usually extends between three to five years. The rent paid by the lessee represents the payment towards cost of equipment and interest thereon.

In the absence of income tax liabilities (specially for new companies), leasing is a very expensive means of financing. The built-in rate of interest varies between 20% and 22%. Further, a lease transaction allows no moratorium and the rentals immediately after its purchase.

Conclusion

More finance is needed for projects because the industrial base is getting bigger and bigger. For the entrepreneur chalking out a project financing strategy, the basic building blocks — debt and equity — will remain the same with deregulation, one can rearrange the multiplying options to create complex, yet flexible structures. The options are many. Only, one has to judiciously use them for maximum benefit. Financing will be designed to match a firm's debt-equity profile, cash flow projections, and its debt-servicing capability.

More importantly, the stress will have to be placed on prudent and efficient finance management in the coming decades. This calls for strengthening the capital market and giving fillip to savings and investment in the country as well opening her doors to foreign capital to enable a larger inflow of external funds for faster economic development here.

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"Industrialisation is a process which accelerates economic growth; affects structural changes in the economy, particularly in respect of resource utilisation, production functions, income generation, occupational pattern, population distribution, and foreign trade; and induces social change."

CHAPTER 34

INSTITUTIONAL FINANCE TO ENTREPRENEURS

Introduction

With the quickened pace of economic development under the impetus of the Five-Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolution and the reemergence of small-scale industries. Further, during the past decade, there has been a depending as well as a widening of the entrepreneurial structure as well as the small-scale industrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries have also come into being. During the last two decades, a boom has been seen activities in the country. Thus, in the field of capital and product goods industries, small units manufacturing such items as machine tools, electrical and engineering equipment, chemicals, etc., which provide the foundation for a self-sustained growth of the economy have been set up; amongst the consumer goods industries, small units producing such items as bicycles, swing machines, plastic products, etc. are gorging ahead.

Institutional Finance

These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance of provision of administrative and institutional assistance at various levels.

Over the years financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as modernise, diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operations of various development corporations, which have been rendering financial assistance, directly or indirectly, to entrepreneurs and their ventures.

Development being the function of capital, as the tempo of development grows, so does the requirement for capital. The need for capital is continuous and also boundless. However, capital is not only necessary for development which also

generated by development. Economic progress creates its surpluses with which further development is achieved, often at an accelerated rate. India's five Five Year Plans are a proof in themselves that substantially larger resources used in each successive plans came from the economic growth resulting from investment in the preceding plans. Only a relatively small part of the resources came from external sources though they were crucial to development.

Credit facilities granted by commercial banks and State Financial Corporations are covered under the Credit Guarantee Scheme for Small-Scale Industries, which offers protection to credit institutions against possible losses on their lending to this sector.

Institutional agencies grant financial assistance to small-scale industrial units for:

1. participation in equity capital;
2. acquisition of fixed assets by way of term loans; and
3. working capital.

Institutions that Help Entrepreneurs and Enterprises

(a) National Small Industries Corporation (NSIC), Small Industries Development Organisation (SIDO), Khadi and Village Industries Commission (KVIC), Handloom Board, Silk Board, Commodity Boards etc., have schemes to help SSI units in marketing their products. Some of them also help in promoting exports of goods manufactured by SSI units/Entrepreneurs.

(b) SIDO is one of the important agencies that help SSI units in marketing their products through consultancy, testing and marketing facilities. The SIDO functions as a model agency for formulating, coordinating and monitoring policies and programmes for promotion and development of small-scale industries in the country.

(c) SIDO also promotes ancillary units to public sector enterprises. Besides, many large industrial houses actively pursue the policy of promoting ancillary units for their purchases of stores. SSI units can take advantage of this facility and secure a regular market for their products.

(d) District Industries Centres (DICs) provide marketing and other assistance to SSI units under a single roof.

(e) State-level Small Industries Corporations (SICs) participate in tender programmes of government purchases and then sub-contract these tenders to SSI units.

(f) The Government of India has established trade centres at various places which disseminate information on market potentials and conditions. These centres also organise fairs and exhibitions where SSI units can exhibit and sell their products.

(g) Twenty-seven Small Industry Service Institutes (SISIs) have been set up by SIDO at various places for disseminating market information. Thirty-eight Exchange Centres have also been set up within some SISIs to help units in securing sub-contract jobs.

(h) The small-scale industrial sector raises term credit and working capital required by it from commercial banks, cooperative banks and State financial corporations.

(i) The SIDO has already set up 31 branch Small Industries Service Institutes, 4 Regional Testing Centres, 3 Process-cum-Product Development Centres and 20 Field Testing Stations to provide a comprehensive range of facilities to small-scale units.

(j) The specialised institutes like Central Institute of Tool Design, Hyderabad, Central Tool Room and Training Centres at Ludhiana and Calcutta, Central Institute of Hand Tools, Jalandhar, Institute of Design of Electrical Measuring Instruments (IDEMI), Mumbai, Integrated Trading Centre, Nilokheri, National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi conduct specialised courses/programmes/job-oriented training programmes for the benefit of small-scale industries.

Although such development corporations like the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India Ltd. (ICICI), and the Industrial Reconstruction Bank of India (IRBI), Small Industrial Development Bank of India (SIDBI), State Industrial Development Corporations (SIDCs) and State Financial Corporations are basically constituted to provide industrial finance, particularly to medium and large units, their role in assistance is by no means less important. These institutions, together with the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and the Unit Trust of India (UTI), play a significant role in the rapid growth of small-scale industry. The emergence of small-scale units on a sizeable scale in the last decade has given a real impetus to the industrialisation of underdeveloped areas.

Among the term-lending institutions, financial assistance to small-scale industries is mainly provided by SFCs, SSIDCs, SIDCs/SIICs and by the IDBI under its refinance of industrial loans and bills rediscounting schemes. Assistance sanctioned and disbursed by these institutions to projects ventured by entrepreneurs are discussed further.

The network of commercial banks, co-operative banks and regional rural banks, SFCs, State Industries Development Corporations (SIDCOs) and National Small Industries Corporation (NSIC) provide the framework for financial assistance to small-scale and medium-scale industries. The Industrial Development Bank of India (IDBI) provides funds to commercial banks and SFCs through its scheme of refinance of industrial loans and rediscounting of machinery bills. The commercial banks are the main source of short-term loans/advances while SFCs provide long-term loan advances to entrepreneurs. A National Bank for Agriculture and Rural Development (NABARD) has been set up for the supply of credit to entrepreneurs in Agriculture and for Small Village and Cottage Industry sector in rural areas.

State Industrial Development Corporations (SIDCs) were set up in the 1960s and 1970s to act as catalytic agents in the industrialisation of states. The SIDCs are established as wholly-owned undertakings of the State Governments under the Companies Act, 1956 or as autonomous corporations under specific State Acts. In addition to providing term assistance to industrial projects by way of loans, underwriting and guarantees, the activities of SIDCs also covered promotional functions such as formulation of project ideas through industrial potential surveys, preparation of feasibility reports and selection and training of potential entrepreneurs. Further,

activities of SIDCs extended to setting up of industrial project in the medium and large sectors either in the joint sector, i.e., in partnership with private entrepreneurs or as wholly owned subsidiaries, administering incentive schemes of Central/State Governments and providing risk capital to new generation entrepreneurs.

Designed to assist in the development of small and medium industries (SFCs) constitute an integral part of the national institutional network engaged in extending long-term finance to industrial sectors. SFCs have been playing an effective role for more than three decades in the rapid growth of small and medium scale units and through them have contributed significantly in creating employment opportunities and in achieving wider regional dispersal of industrial development.

Extension of Operation

Assistance sanctioned by financial institutions rose many fold from one plan to another. While it was Rs. 37.47 crores in the First Plan, assistance rose to Rs. 2,19,333 crore in the Eighth Plan. As against this, during the year 1997-98, financial institutions

Table 34.1

Financial Assistance Sanctioned and Disbursed by the Financial Institution

(Amount in Crores of Rs.)

Period	*Assistance Sanctioned*	*Assistance Disbursed*	*Proportion Disbursement to Sanction (%)*
Pre-plan Period (1948-1951)	8.13	5.79	71.1
First Five-Year Plan (1951-56)	37.47	15.22	40.6
Second Five-Year Plan (1956-61)	212.24	142.02	66.9
Third Five-Year Plan (1961-66)	471.91	422.84	89.6
Three Annual Plans (1966-69)	374.78	335.93	89.6
Fourth Five-Year Plan (1969-74)	1,452.61	984.20	67.7
Fifth Five-Year Plan (1974-79)	437.90	3,092.10	65.3
Sixth Five-Year Plan (1979-84)	18,153.80	12,476.40	68.7
Seventh Five-Year Plan (1985-90)	53,608.50	36,405.30	67.9
(1990-91)	19,184.50	12,684.20	66.1
Eighth Five-Year Plan (1991-96)	2,19,933.10	1,38,267.30	62.9
Ninth Five-Year Plan 1996-97	54,641.20	42,656.50	78.1
1997-98	81,589.40	53,832.00	53.8
Cumulative	4,44,874.00	3,05,520.20	69.1

sanctioned Rs. 81,589 crore and disbursed Rs. 53,832 crore. Cumulatively, upto end-March, 1998, sanctioned by AFIs aggregated to Rs. 4,44,874 crore, while disbursement amounted to Rs. 3,05,520 crore (Table 34.1). Over the years, the institutions have developed and introduced a variety of products and services to meet the growing needs of the corporate sector. Besides expanding the scope of their financing activity, the institutions have diversified into newer fee-based services offering an array of services such as banking, debenture trusteeship and forex services, etc.

The promotional activities of the bank cover a wide range of functions including identification and training of new entrepreneurs through Institutes of Entrepreneurship Development and other accredited agencies, self-employment/wage employment in industrial sector for weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs' Parks, energy conservaton, provision of consultancy services, etc. Besides providing support to specific schemes and programmes in these areas, it has been the endeavour of the bank to strengthen and upgrade institutional infrastructure for undertaking promotional activities.

Componentwise Break-up of Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Rupee loans	65.7%	63.7%
• Underwriting/direct subscriptions	19.6%	19.2%
• Foreign currency loans	10.6%	11.2%
• Guarantees	4.1%	5.9%

Share of Major Industries in Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Chemicals & chemical products	13.9%	13.1%
• Textiles	11.9%	10.0%
• Services	10.9%	11.0%
• Basic metals	9.8%	8.3%
• Machinery	5%	4.0%
• Electrical & electronic equipment	5%	5.1%
• Food products	4.3%	3.9%
• Infrastructure	12.2%	13.5 %

Sector-wise Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Private	81.2%	81.8%
• Public	12.7%	12.1%
• Joint	4.7%	4.8%
• Co-operative	1.4%	1.3%

Cumulative Sanctions Backward Areas, IDBI, IFCI, ICICI, SIDBI, ISI, SFCs and SIDCs

	(upto end-March 1995)	*(upto end-March 1998)*
• Backward areas	35.8%	32.7%
• Non-backward areas	64.2%	67.3%

Resources and Uses of Funds

(1997-98)

(Data relate to IDBI, IFCI, ICICI, SIDBI, IIBI, RCTC, TFCI, 17 SFCs and 18 SIDCs)

- Internal generation : 58.2 per cent
- Borrowings by way of bonds : 14.5 per cent
- Deposits etc. : 11.4 per cent
- Borrowings from Government, RBI, others : 7.8 per cent
- Increase in share capital : 0.9 per cent
- Borrowings in foreign currency : 4.2 per cent
- Others : 3.0 per cent
- Financial institutions provide financial assistance, undertake promotional and developmental activities, provide risk capital, venture capital, technology finance, and set up institution to train entrepreneurs.
- Commercial banks provide development finance, venture capital, extension work, working capital entrepreneurship development and management consultancy.
- Mutual Funds provide easy accessibility to the investing public.
- Merchant banks provide professional advice and services to industry for raising resources from the market, acquisition of assets on lease and mergers/take-overs of existing units.
- Finance companies offer the entire range of financial services to individuals and corporates.
- Leasing companies operate four types of leases: *(i)* operating lease, *(ii)* financial lease, *(iii)* sale and leaseback transaction and *(iv)* the leveraged lease.
- Technical Consultancy Organisations (TCOs) cater to the consultancy needs of small and medium industry and also for the new entrepreneur.
- Management institutes sponsored by development financial institutions are engaged in developing and upgrading the managerial ability and managerial talents of the practising managers.
- STEPS interface between Science & Technology institutes and industry.
- Entrepreneurial development institutes sponsored by financial institutions are engaged in the crucial task of entrepreneurship development and research.

Venture Capital Funds

The guidelines on 'venture capital' issued by the Reserve Bank of India towards the end of 1988, were a recognition of their role in the Indian market conditions. As the situation depicted at the end of 1989, venture capital funds still have a long way to go. The Technology Development and Investment Corporation of India, a subsidiary of ICICI, Technology Development Fund set up by IDBI, the Equity Development Scheme set by SBI Capital Markets Ltd. and Canfina which have been joined by India Investment Fund promoted by Grindlays Bank are some of the venture capital institutions set up in India at that time. The Credit Capital Venture Fund is the first private sector venture capital company to go public. More companies are exerting the field soon, with the International Finance Corporation, Washington, and the World Bank both planning venture capital joint ventures in India.

What is Venture Capital?

By definition, venture capital is thought of as a creative capital which is expected to perform economic functions different from other investment vehicles which primarily serve as expansion capital. This is something several entrepreneurs in India were ignoring over the years.

Venture capital is "equity support to fund new concepts that involves a high risk and at the same time has high growth and profit potential."

Of course, there is more to venture capital financing than just nursing start-ups. It encompasses a whole gamut of activities: from providing seed capital, and supplying funds for product development and marketing expenditure, to extending bridge finance prior to an Initial Public Offering (IPO). But, almost always, the term venture capital conjures up images of funding risky and unproven, but sophisticated, technologies.

In the US, venture capital propelled new ideas to major commercial successes. The objective of venture capital is to help professionals and small and medium entrepreneurs to launch enterprises with a specific promise. Venture capital is thus closely linked with innovation, high growth and profit. It provides the necessary dimension to convert your business idea into a commercial venture.

For instance, investments that help existing companies in expansion projects are linked to the book value of the underlying assets and rewarded primarily out of the income produced by these assets. But risk capital, according to one definition, "is the cutting edge with which entrepreneurs exploit opportunities to put together apparently neutral or sterile resources to create firms with capitalised earning power or market value well in excess of the cost of the invested funds."

The fact remains that if venture capital has been the harbinger of entrepreneurship in the West, it is because it enjoys a great deal of flexibility. In the US, for example, this form of financing enjoys considerable tax incentives. But, by and large, the industry rose to the occasion when some industrialists such as Jock Whitney and Laurence Rockefeller set aside funds to see whether a financing industry could be developed out of giving entrepreneurs an opportunity to start business.

Table 34.2
The Venture Capital Guide

	IDBI	*TDICI*	*RCTC*	*SBI Caps*	*Grindlays*	Canfina
Size of funds (Rs. crore)	NA	*(a)* Rs. 20 *(b)* Rs. 100	NA	NA	12	NA
Assistance per project (Rs. crore)	Rs. 2.50	Rs. 2	Needbase-depending on merits of each case	upto 3	—	—
Nature of assistance	Conditional loan/ Equity	Conditional loan/ Equity	Loan/Equity	Equity	Equity	Equity/ Conditional loan
Promoter's contribution		*(i)* 10% of project cost if it is < 50 *(ii)* 15% of cost if it is > 50 lakhs	To be decided on likely risk, technology & resource capability	—	—	NA
Terms of assistance	*(a)* Initially @ 6% during development period and thereafter 17% pa. Royalty on sales in some cases	*(a)* If equity subscribed when disinvestment made,option given to promoters to buy back at negotiated price	Initially @ 6% pa during development period and on commercialisation @ 14%.	Disinvestment after commercialisation of the project.	NA	NA
	(b) Equity subscription in exceptional cases	*(b)* No int; only a change on commercial implementation of the project	Royalty in some cases. Repayment within 10/12 yrs. In case of equity participation buy back facility			
No. of projects assisted	41	46	168 (Dec. 1988)	21	16	2
Amount sanctioned (Rs. cr.)	31.44	23.17	2	10	9.6	0.34
Key industries	—	Medical applied research, polio vaccines, electronic equipment for defence applications, auto components, chemicals	Foodfeed tech, chemicals tech, chemicals & application software, biotech, diagnostics & vaccines, drug & plasma	Watches, seamless metal, ceramics, cement	MEG, colour picture tubes, drydock	NA

Note: Credit capital Venture Funds, the other private sector fund is not operational yet.

Over the years, venture capital has given birth to what are today mega corporations. Venture capital in most cases came in at the idea stage. Examples are many — Tandem Computers (non-stop computers), Genentech (bio-medical products), Apple Computers, Qume Corporation (computer printers) etc.

Creative financial engineering can find a way around this problem. To provide the lenders with an additional degree of security, a Special Purpose Vehicle (SPV) can be created, which would hold the shares bought back from the venture capital firm in trust until the firm achieves a certain targeted rate of return. Meanwhile a certain proportion of the firm's sale proceeds can be funnelled directly to the SPV to amortise the debt.

An exit via the capital market is certainly less expensive, but this option is open only to the more established firms. A listing on a stock exchange, which would enable the venture capitalist to easily offload his stake, is obviously a far more feasible proposition for a firm already in existence for a few years than for a new venture.

Package Scheme of Assistance

Financial institutions offer a package of assistance to entrepreneurs to enable them to translate their project idea into a raising operation. This package may be broadly classified into developmental and financial services. In addition, some institutions also implement a scheme of incentives to motivate and encourage entrepreneurs to set up potential revenue earning enterprises.

The Financial/Development Institutions

Their package of assistance extends:

1. Equity participation in joint ventures.
2. Equity participation in private and public limited companies to the extent of shortfall in promoters' contributions.
3. Essential loans to private and public limited companies for promotion of the industry.
4. Setting up units in the public sector for optimum utilisation of the State's resources where private capital is non-existent — a pace-setter for future private investment.
5. Project identification/technical consultancy for new projects — guidance; investigation; feasibility and other studies.
6. Plant location: guidance on incentives, raw materials etc., specialised help for NRIs.
7. Industrial escort, free liaison with related government agencies; upgradation of infrastructure.
8. Merchant banking, company formation, and public issues.
9. Equipment finance.
10. Equipment leasing.
11. Priority assistance to NRIs.
12. Seed capital for technocrats.
13. Term lending.

A few institutional finances to entrepreneurs are:

Technicians Scheme: Technically qualified or experienced professionals — up to Rs. 7.50 lakhs.

Special Capital Scheme: Assistance towards equity on soft terms up to Rs. 15 lakh along with term loan for technically qualified or experienced persons.

Composite Loan Scheme: Both equipment finance and working capital upto Rs. 50,000 for artisans and rural industries.

Disabled Entrepreneurs: 100% finance upto Rs. 50,000 to disabled entrepreneurs.

Modernisation: For replacement/renovation of equipment for successful units which are in existence since 5 years — assistance up to Rs. 90 lakh.

Electro-Medical Equipment: For qualified Doctors/private nursing homes — up to Rs. 90 lakh.

Nursing Homes/Hospitals: Assistance for full-fledged nursing homes and hospitals — up to Rs. 90 lakh.

Equipment Finance: For procurement of new machinery/equipment by existing industrial units — upto Rs. 90 lakh.

Quality Control Equipment: 100% assistance for setting up quality control facility by existing and new SSI units — up to Rs. 7.50 lakh.

Assistance to Ex-Servicemen: Term loan up to Rs. 9 lakh and seed capital up to Rs. 1.80 lakh towards self-employment.

Single Window Scheme: Provision of term loan and working capital together to upcoming small-scale industrial units, upto Rs. 7.50 lakh towards term loan and upto Rs. 3.75 lakh towards working capital.

Tourism Related Facilities: Upto Rs. 9 lakh available for tourism related business ventures.

Mahila Udyam Nidhi Scheme: To set up new industrial projects in SSI sector by women entrepreneurs.

National Equity Fund Scheme: Assistance towards equity for new projects in the small-scale sector — upto Rs. 75,000.

Assistance for Marketing

(a) Maximum assistance upto Rs. 3 lakh per sales van, not exceeding six vehicles per borrower.

(b) Assistance upto Rs. 7.50 lakh for setting up new sales outlets.

This institutional assistance has helped in catalysing substantial production capacities in a large number of new industries — not merely in the traditional ones such as textiles and food processing but also in modern industries such as chemicals, fertilizers, cement, industrial machinery, transport, equipment, food products and services.

The structural transformation that is taking place in the Indian industry is mainly on account of the policy of conscious diversification adopted by the institutions. The policies and strategies of DFIs have been directed towards fulfilling the national goals

of rapid growth and diversification. Since a major part of investment in new projects is contributed by the institutions and hardly any substantial expansion/diversification project is implemented without institutional support, institutions stand assured that investment in the private sector is in line with the national priorities. Data on industrywise distribution of institutional assistance indicate that bulk of the sanctions during the Seventh Plan were for chemicals and chemical products. Industries such as textiles, electricity generation, basic metals, machinery, electrical and electronic equipment, food products, fertilizers, cement and services were incorporated for substantial assistance.

Backward Area/Development

The DFIs have also been vigorously pursuing the policy of encouraging industrial growth in backward areas in order to achieve the national objective of industrial dispersal and balanced regional development and have responded positively by formulating suitable schemes for stimulating industrial investment in backward regions.

There is considerable logic and benefits in encouraging commercial banks to float mutual funds. Mutual funds are more attractive to such among the bank depositors who are seeking either high yield or capital gains, but at the same time, want to play safe because of the low margin of their savings. Most such persons are accessible to banks, and a banker who is respected for his knowledge of the financial world and is trusted for his wisdom and integrity, can respectfully guide the depositor to invest his savings in various instruments including those issued by mutual funds. If the mutual funds are floated by banks, the branch manager of the bank need not worry much about the diversion of funds from his branch to such mutual funds, because, in the ultimate analysis, his bank would be booking the profits. Besides, there is a growing preference among savers in urban and metropolitan areas, to diversify their savings which will offer them higher yield than are available on bank deposits, as also some opportunities for making capital gains. Unless a bank taps the market for diversified savings instruments, these savings may go past them. Besides, in order to protect equity participation it is necessary to safeguard the interest of the middle-class investor against undue risks following wrong investment decisions. This role can be best played by banks as the savings and portfolio advisors to their clients. Through their wide network, serving the rural, urban and metropolitan areas, the banks can reach out to the household savers all over the country as no other institution can.

Factoring

Informal discussions with entrepreneurs reveal that relations with customers rarely end with material supply. For government and public sector unit purchases in particular, the bill may have to be closely pursued to ensure payment — a task that certainly cannot be expected of a factor. It has, however, been pointed out that the seller may still pursue the bill as before to forestall the factor from removing the buyer from his approved list.

> *"Many producers today are unable to sell their products without 'packaging' them with credit. But credit is a scarce commodity for both the seller and buyer. A factor, equipped to provide this critical input, buys receivables from the seller at low discount and waits for the buyer to pay him."*

The rising proportion of "other current liabilities", lack of bill culture, a progressively strict credit discipline imposed by commercial banks, an increasingly 'buyer dominated' market and increasing pressure on the liquidity of the smaller and newer firms, offer near-ideal conditions for factoring to take root. Our discussion with industrialists, bankers and management consultants, have confirmed this view. However, factoring is a rather generic term used for services varying from the bill discounting facilities offered by commercial banks, to a total takeover of administration of the sales ledger and credit control functions, from credit approval to collecting cash, credit insurance and provision of finance.

A study initiated recently examined the feasibility and mechanics of starting factoring organisations in the country and subsequent recommendations regarding their constitution, organisational set-up, scope of activities and related matters, as also to look into the feasibility of export factoring were given. Its recommendations have been accepted, by and large, by the Reserve Bank of India and a few public sector commercial banks are in the process of setting up factoring organisations in the respective regions allotted to them by the RBI.

Debt-collection Service

Factoring is a debt-collection service where the factor — usually a financial institution — buys out a client's (supplier's) book debts (accounts receivables). At present, only a part of the receivables are financed by banks and other financial institutions, through bill discounting. Full service factoring also involves the factor taking over the administration of a client's sales ledger, chasing debtors and evaluating credit risk.

This service has many similarities with bill discounting wherein both make available to the supplier finance against invoices. Both discount (purchase at a price lower than the face value) involves which the buyer would have otherwise paid to the supplier at the end of the credit period. It is here, however that the similarities end.

The discounted bills may be rediscounted several times before they mature for payment. The last holder of the bill receives the full bill amount. Debt purchased under factoring cannot be rediscounted, at least as of now. It can only be refinanced.

The factor buys the book debt of the client at a discount, normally 20% giving 8% of the invoice value to the client. The factor pays back the discounted 20% to the client when the latter's customer makes payment.

The commission and fees received in the course of providing his service is what the factor earns. These earnings are higher than the earnings from bill discounting. With the discounting rate at a minimum of 16.5% (bank rate), the minimum cost of factoring works out to about 19%. The responsibility for collecting debts rests with the factor who must ensure that customers pay on time, unlike in bills finance.

Factoring is also likely to help in systematising trade credit in India. During the past two decades and over, the Reserve Bank of India has been trying to systematically develop a bill market in this country. Reluctance of the trade and industry to accept the rigorous discipline of the bill culture has been one of the reasons why the bill market scheme did not strike roots here. Stamp duty on bills and the reluctance of the

Government departments and public sector industrial units to abide by the bill discipline also contributed to the indifferent success of the bill market scheme. Factoring would relieve the businesses, particularly the small industry and trade of the burden of collecting their dues from their trade debtors. In fact inability to recover the receivables in time is one of the major factors responsible for the cash-flow problems of a large number of manufacturing units, particularly in the small and medium-scale sectors. If a factoring institution takes over this responsibility and computerises its operations, it can generate enough data on the payment behaviour of a large number of domestic firms and companies. If this information can be supplied to the rating agencies, it can make or mar the business reputation of firms, who are said to be lax in honouring their commitments on trade dues. As the economy becomes diversifed and the number of units increases, manual control over trade dues will become progressively difficult and factoring, with the support of computerised accounting, can be a great help.

The commercial banks including the RRBs have played a pioneering role in providing developmental finance to SSIs. Towards this end, banks have shouldered the responsibilities of development provision of venture capital, extension work, etc., which, it could be argued, do not fall strictly within the ambit of the role of commercial banks. There are, however, a few points to be borne in mind in this behalf. First, after the nationalisation of major banks in 1969, the banks in India endeavoured to completely identify themselves with policies of the Government in the matter of promotion of these SSIs. Secondly, their developmental role has been evolving and getting enlarged over the years, in close consultation with the concerned promotional authorities. The banks provide individual unit-oriented services, as against infrastructural and generalised services provided by other governmental agencies. Thirdly, the banks have been able to cross-subsidise the "priority" sectors because of the substantial profits it has been making on its commercial and industrial advances. The developmental roles played by the banks have been financed out of the profits made on large advances, foreign exchange business and overseas operations.

The State Bank of India's experience shows that banks are able to cross-subsidise the financing of weaker sections, particularly where the commercial banks are owned by the government. When the subsidy is provided by a public sector commercial bank from its profits, the quantum of profits which would ultimately go to the exchequer gets reduced to that extent, whereas if the commercial bank does not provide any subsidy or participate in the developmental or promotional work, the later becomes the exclusive responsibility of government.

The crux of the matter is whether there are areas in which the banks can play the promotional role more effectively than the Government. Since banks' concern with the problems faced by the sectors financed by them are better, because of their close association with the day-to-day working of their borrowers, they are in a much better position to assist these sectors effectively than the government machinery. Besides there can be nothing wrong in public sector banks playing a promotional role, supplementing the services provided by government agencies.

The increase in cost as a result of the promotional role should not be used as a cover for inefficiency. On the contrary, subsidisation should not serve as a camouflage

for administrative inefficiency. As far as the cost and benefit of the various services rendered to SSIs and other priority sectors are concerned, the banks have been making a conscious effort to quantify the subsidy-element in developmental lending. This helps the banks to keep the costs and losses arising from financing these sectors under manageable proportions through a conscious process of strategic planning so that these losses can be made good from the profits generated in other business. In fact, the subsidy element, when duly quantified, can be met from the government exchequer also, if the government so decides.

The banks have over the years made a very significant contribution not only in meeting the financial needs of this vital segment of the Indian economy, but also to its quickening development by providing management consultancy, developing new skills and creating the much-needed entrepreneurial awareness. In recent years, banks have introduced innovative schemes with the support of the government and other financial institutions to foster the rapid growth of SSIs in India. The government's decision to establish a special apex bank long way in helping to plan their growth strategy has gone a SSIs.

Schemes of Assistance

Within the broad framework, the following financial assistance is offered by the SFCs, SIDCs and commercial banks:

* Financing of new projects in the small and medim size category.
* Financing of modernisation of these industries.
* Financing of rehabilitation of these industries.
* Financing of import of capital equipment.

In view of the financial constraints being faced by SFCs, SIDCs and commercial banks, it is of interest to the borrowers to know the extent of refinancing assistance being extended by IDBI for the aforesaid purposes. In terms of the currently prevailing guidelines, the following refinance assistance is extended:

Category	*% of Refinance*
* Small-scale Units	
— SFCs and SIDCs	85
— Commercial Banks	60
* Medium-size Units	
— SFCs and SIDCs	75
— Commercial Banks	60
* Foreign currency loans by SIDCs	100

Financial Assistance to Small-scale Units

Financial loans to small-scale units are granted at a concessional rate of interest. The interest charged to these units in backward areas is at the rate of 12.50 per annum. In respect of units located in non-backward areas, the interest is charged at 13.50 per cent per annum on loans upto Rs. 25 lakh and at the rate of 14 on loans in excess of Rs. 25 lakh.

No commitment charge is levied on loans up to Rs. 5 lakh to units in the small-scale sector. Commitment charge at the rate of 1% is levied on all other loans after an initial grace period of 12 months from the date of sanction. However, units located in category 'A' backward areas are totally exempted from commitment charges on these loans, and the units located in category 'B' and 'C' backward areas are eligible for 50% concession on commitment charges.

The small industrial undertakings are considered favourably and allowed a debt-equity ratio extending up to 2.5. The promoter's contribution norm varies between 12.5% to 22.50%, depending on the project site and the status of the entrepreneur.

Repayment schedule is fixed by primary lending institutions after taking into consideration the profitability and debt-servicing capacity of the assisted units. The maximum repayment period shall, however, not exceed 10 years from the date of sanction.

Financial Assistance to Medium-scale Units

The medium-scale units are also eligible for concessional interest of 12.50 per annum for units located in any industrially backward area. However, in respect of units located in non-backward areas, the applicable rate of interest shall be 14% per annum.

No commitment charge shall be levied on medium-scale units located in category 'A' backward areas. In respect of loans to units in backward areas, of the other two categories the concessional commitment charge at the rate of 0.50% per annum shall be levied after allowing the normal grace period of six months from the date of sanction. Other units located in non-backward areas shall pay commitment charges at the rate of 1%.

Similar to the repayment schedule of these units, the repayment schedule of medium-scale units shall also be determined after considering their profitability and debt servicing capacity, subject to the condition that the maximum repayment period does not exceed 10 years from the date of sanction.

Modernisation Assistance to Small and Medium-scale Units

The primary objective of this scheme is to encourage industrial units overcome the backlog of modernisation and to adopt improved and latest technology and methods of production and prevent mechanical and technological obsolescence. Modernisation may include replacement or renovation of the plant and machinery or acquisition of balancing equipment for fuller and more effective utilisation of installed capacity.

Units to be eligible for modernisation assistance should have been operational for at least 5 years. In the case of replacement or renovation, the machinery should have been in use at the unit for a period of at least 5 years.

Proposals for modernisation assistance should establish the benefits that would accrue by way of reduction in unit cost of production, technology improvement, improved productivity, both in quality and quantity, better profitability etc. The cost acquisition of technical know-how would also be eligible. The project proposals should clearly bring out these aspects. Other things being equal, export-oriented and import-substitution schemes will be accorded higher priority.

The modernisation programmes should primarily aim at:

* upgradation of process, technology and product;
* export-orientation;
* import-substitution;
* energy-saving and financial feasibility;
* anti-pollution measures;
* conservation/substitution of scarce raw materials and other inputs, including recycling/recovery of wastes and by-products;
* improvement in capacity utilisation within the existing capacity, through increase in productivity and debottlenecking; and
* improvements in materials handling.

Irrespective of the location of the unit, interest at the rate of 11.5% per annum shall be charged on all loans for their modernisatioı.. A commitment charge at the rate of 0.5% per annum shall be levied on the undisbursed rupee loans after an initial grace period of six months from the date of sanction.

In regard to debt-equity ratio, a more flexible approach is adopted by the primary lending institutions. A reasonable equity base will, however, be required to be maintained to ensure servicing of the loans. Similarly, no fixed guidelines have been stipulated for the promoter's contribution norm. This assistance being financial assistance to existing units, internal accruals would also form a part of promoters' contribution. The exact contribution would be decided on a case-to-case basis depending on the financial status of the unit and the ability of its promoters to mobilise and induct additional resources.

Rehabilitation Assistance to Small and Medium-scale Units

This scheme covers all small and medium-sale industrial units, including ancillary units and units in cottage and village industries assisted by SFCs or SIDCs or are self-financed and which are classified as sick. It is not necessary that the past loans extended by SFCs or SIDCs should have been refinanced by IDBI. Rehabilitation loans extended by commercial banks to such units will also be eligible for refinance under the scheme. The objective is to rehabilitate sick industrial units in the portfolio of SFCs and SIDCs.

Eligibility Criteria

Under this scheme, a unit will be classified as sick if it has incurred cash losses during the previous fiscal and is likely to incur cash losses in the current year besides an erosion in its net worth to the extent of 50% or more. The unit should be capable of being revived with reasonable financial support and reliefs within a reasonable period of time. Usual norms of debt-equity ratio and promoter's contribution would not be insisted upon and would depend on merits of each case.

Rehabilitation assistance would be for the following purposes:

* margin money for additional term loan and working capital requirements under the rehabitation programme;
* working capital term loans, if any, granted by banks to meet irregularities in the unit's working capital account;

* payment of statutory liabilities, payment of pressing creditors, etc. (to the extent possible such dues should be liquidated over a period of time, in instalments);
* cash loss, if any, incurred during the implementation of the programme;
* overdue instalments not recovered from the unit, but agreed to be funded into a separate term loan account; and minimum capital expenditure required for restarting the unit on a viable level.

In order to encourage the rehabilitation of sick units, the rate of interest on rehabilitation assistance has been fixed at 11.55% per annum, irrespective of the location of the unit. Such units have also been totally exempted from any liability on account of commitment charges on undisbursed financial assistance.

Expenditure Eligible for Assistance

The cost of industrial estate for financing purposes is confined to the cost of site development, laying of roads, water supply, power transmission and electrification, construction of sheds and construction of blocks for essential amenities such as sanitation, watch and ward, canteen, compound walls, administrative building, etc.

Expenditure on housing and power generation are not included in financing of industrial estates since assistance is separately available to units from various State and Central Government Schemes for captive generation plants and housing.

Cost of improving land, laying of roads, arrangement for water supply, electrification, etc.	15%
Cost of construction of sheds	75%
Cost of essential amenities like sanitary blocks, watch and ward, compound walls, canteen, etc.	5%
Cost of administrative building	3%
Cost of stamp duty, registration charges, preliminary expenses, etc.	2%

Eligibility Criteria for Assistance

Financial assistance is given to establish both private/public industrial estates either in the corporate sector or the co-operative sector, be partnership, joint Hindu family concern, sole proprietorship or even a local body.

However, industrial estates established by State/Central Governments and financed budgetary allocations are not eligible for this assistance under this scheme.

Financing Norms

The all-India financial institutions have stipulated a promoter's contribution norm of 20% (of the total project cost) for industrial estates set up in notified less developed districts/areas and a 22.5% (of the total project cost) in other cases. In respect of estates costing less than Rs. 300 lakh, the following margins have been stipulated by IDBI to make them eligible for refinance:

(a) 15% margin for estates set up by technician entrepreneurs or unemployed engineers where the sheds are to be acquired by them on rental/hire basis.

(b) 20% to 30% margin for co-operative estates where the sheds are entirely looked by small-scale units.

(c) 30% to 35% margin for estates set up by joint-stock companies whose shareholders occupy a majority of the sheds.

(d) 40% to 50% margin for estates set up by proprietary and partnership concerns.

The prescribed debt-equity ratio for financing of industrial estates is 2:1. This is, however, relaxed up to a maximum debt equity ratio of 3:1 in respect of comparatively small estates in private sector where the total investment does not exceed Rs. 10 lakh and for estates in the co-operative sector.

Interest and commitment charges are levied on industrial estates on the same lines as applicable to other industrial projects, being dependent on the project site.

Repayment Schedule

In respect of loans being refinanced by the IDBI, a repayment period of 7 to 10 years including an initial moratorium of 2 to 3 years is prescribed. The period may be extended up to 12 years in exceptional cases. Where assistance is directly rendered by all-India financial institutions, the repayment period may extend up to 15 years, including an initial moratorium of 2 to 3 years.

Security

In determining the repayment scheme, a debt-service coverage ratio of 2:1 is generally adopted. This ratio is, however, relaxed up to 1.25:1 in respect of loans to industrial estates promoted by government assistance provided that payment of dues to these institutions by way of principal and interest will have precedence over the dues to the government against loans received from it. Government's acceptance of this condition has to be obtained in writing.

The financial institutions stipulate that the sheds constructed in the industrial estate should be allotted only on a rental basis. No hire-purchase or outright sale is permitted in order to enable mortgage of sheds with the lending institutions towards the security for the loans. Where for any reason the mortgage of land and sheds constructed in the industrial estate is not possible, an unconditional guarantee of the government/bank for repayment of loan and payment of interest is insisted upon.

Conclusion

The most important development in the post-independence period has been the growth of a number of key institutions to promote, assist and develop entrepreneurs to initiate industrial growth in the country. The financial assets of banks and financial institutions as at end March 1998 aggregated to Rs. 6,54,406 crore (64%) and Rs. 3,67,713 crore (36%). The total resources available for investment in productive enterprises aggregate to over Rs. 12,00,000 crore. A judicious use of these resources goes a long way in accelerating the pace of economic growth. These institutions have

been striving to mould new entrepreneurs to accelerate the process of the industrial economy. The country has not repaid the changes it envisaged, but it has laid a strong foundation, broad-based its infrastructure and provided the much-needed support and assistance. One may consider that there are a number of institutions to cater to the numerous needs of entrepreneurs. The need of the hour is nucleus centre in each industrial pocket/area where all these services are provided through one centre. Effective linkages will provide the necessary impetus to entrepreneurs to embark upon innovative ventures to become the prime mover of industrial development.

The accent ought to be on institutional innovation and efficiency. It is on the foundation of a strong and efficient institutional infrastructure that we can build a vibrant and dynamic industrial economy.

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CHAPTER 35

FINANCIAL INSTITUTIONS

Introduction

With the quickened pace of economic development under the impetus of the Five-Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolution and the reemergence of small-scale industries. Further, during the past decade, there has been a deepening as well as widening of the entrepreneurial structure as well as the small scale industrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries have also come into being. During the last two decades, there is a boom of entrepreneurial activities in the country. Thus, in the field of capital and product goods industries, enterprises manufacturing such items as machine tools, electrical and engineering equipment, chemicals etc., which provide the foundation for a self-sustained growth of the economy have been set-up. Amongst the consumer goods industries, small units producing such items as bicycles, sewing machines, plastic products, etc. are forgoing ahead.

These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance of provision of administrative and institutional assistance at various levels.

Over the years, financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as modernise, diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operation of various development banks (institutions) which have been rendering financial assistance, directly or indirectly, to entrepreneurs and their various ventures.

Development Function

Development being the function of capital, as the tempo of development grows, so does the requirement for capital. The need for capital is continuous and also boundless. However, capitals is not only necessary for development but capital, also generated by development. Economic progress creates its surpluses with which further

development is achieved, often at an accelerated rate. India's Five-Year Plans are a proof in themselves that substantially larger resources used in each successive plan came from the economic growth resulting from investment in the preceding plans. Only a relatively small part of the resources came from external sources though they were crucial to development. Similarly, in consonance with the development activities in the country, the development banks activities are on higher scale as well as diversified in multi-directional way.

Institutional Finance

With the launching of the Five Year Plans, in the absence of a sufficiently broad domestic capital market, there was need for adopting and enlarging the institutional structure to meet the medium and long-term credit requirements of the industrial sector. It was in this context that the RBI took the initiative in setting-up statutory corporations at the all-India and regional levels to function as specialised financial agencies purveying term credit.

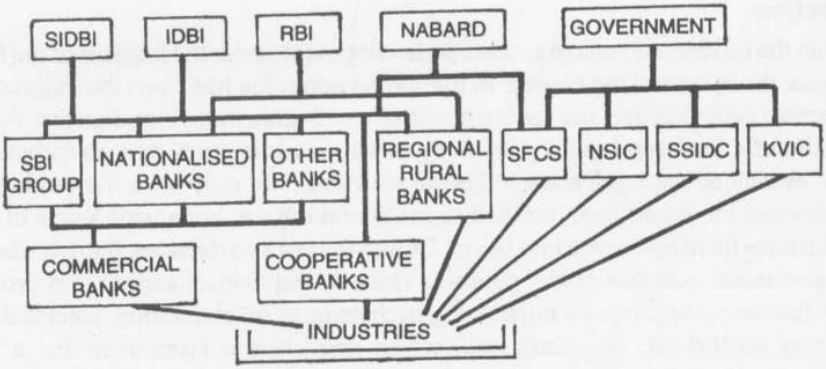


Fig. 35.1 Institutional Framework for Industry

Institutional finance for — large, medium, small and tiny industries by commercial banks — the State Bank of India group, nationalised banks, private sector banks and development corporations which have been especially established to provide industrial finance. In addition, the Reserve Bank of India gives credit guarantees and the ECGC gives export guarantees to the small-scale sector. By its refinance operations, the Industrial Development Bank of India, too, plays a significant role in the promotion of the small scale-sector, for it has enabled the SFCs SSIDC/SSIACS and commercial banks to extend a large quantum of financial assistance to this sector. The National Small Industries Corporation offers financial assistance in the form of its hire-purchase schemes.

This apart, a host of newly cropped up institutions such as mutual funds, lease companies, financial service institutions, investment companies, merchant banks, asset management companies etc. provide financial assistance and financial services to industries. Some of them go to the extent of conceiving a project and see through its progress till the end.

In India, long-term loans are provided for a host of financial institutions of the five all-India developments IDBI and SIDBI are apex banks providing refinance facilities to other institutions. Like-wise, NABARD is an apex bank for agricultural finance and Exim Bank of Export-Import trade. Then industrial development banks, special institutions, saving and investment institutions, financial service institutions and regulatory institutions. RBI, SEBI, and NSEIL are three regulatory bodies.

In the cumulative sanctions by AFIs up to end-March 1998, IDBI (including resource support to other FIs) claimed the largest share (33.6%), followed by ICICI (25.7%), IFCI (11.1%), SIDBI (8.2%) and IIBI (1.4%). UTI and LIC (including resource support to other FIs) accounted for 11.6% and 4.8% respectively, followed by GIC (1.7%). Of the state-level institutions, SFCs and SIDCs claimed 6.5% and 3.5% respectively.

Table 35.1

Institution-wise Cumulative Assistance Provided by AFIs

(upto end-March 1998)

(Rs. crore)

	Institution	*Sanctions*	*Share% in the Total*	*Disbursements*	*Share % in the Total*	*Percentage Share of Disbursement to Sanctions*
1.	IDBI	149345.2	33.6	103268.7	33.8	69.15
2.	IFCI	49226.2	11.1	30756.8	10.1	62.48
3.	ICICI	114519.5	25.7	68400.0	22.4	59.72
4.	SIDBI	36263.9	8.2	26701.8	8.7	73.63
5.	IIBI	6266.7	1.4	4106.7	1.3	65.53
6.	RCTC	149.3	—	125.3	—	83.92
7.	TDICI	299.7	0.1	278.1	0.1	92.79
8.	TFCI	1649.9	0.4	912.2	0.3	55.29
9.	LIC	21363.4	4.8	19267.9	6.3	90.19
10.	UTI	51554.5	11.6	39009.6	12.3	75.67
11.	GIC (4)	7479.8	1.7	5315.8	1.7	70.88
12.	SFCS(18)	29138.8	6.5	23258.6	7.6	73.82
13.	SIDC (28)	15565.8	3.5	11730.0	3.8	75.36
Grand Total		444874.0	100.0	305520.2	100.0	68.68

The area of operation of development almost covers all key sectors of the economy, i.e., agriculture, small industries, rural industries medium and large industries, infrastructure, housing, export and import trade, shipping, capital market stock exchange, saving, investment, insurance, credit guarantee, financial service etc. Special institutions have cropped up to foster development a special area of activities. The financial institutions have even set-up institution to rehabilitate sick enterprises.

By and large, a greater slice of domestic savings are mopped up by commercial banks (Rs. 4,75,000 crores), Unit Trusts of India (Rs. 65,000 crores), Life Insurance Corporation (Rs. 90,000 crores), General Insurance (Rs. 20,000 crores), and mutual

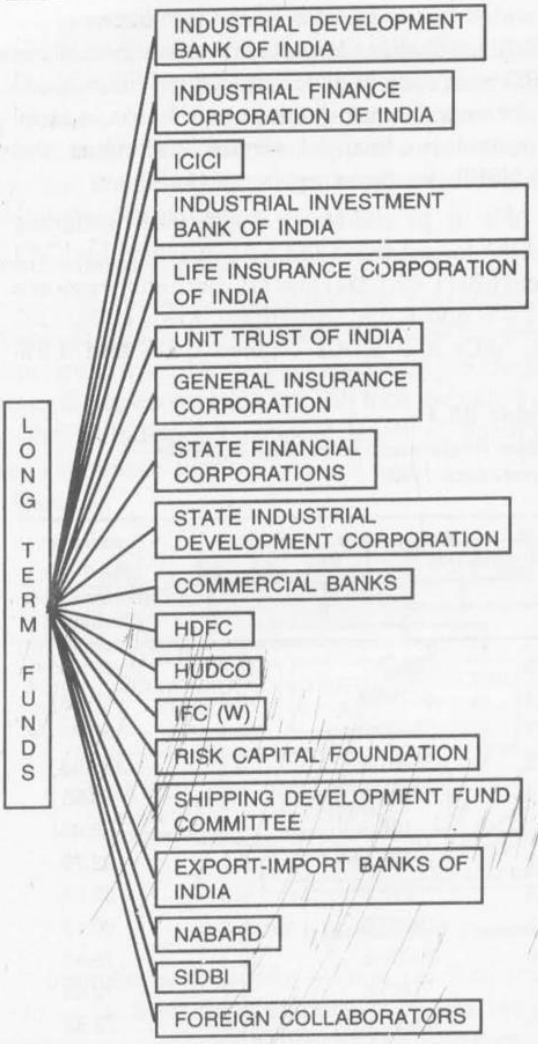


Fig. 35.2 Sources of Funds for Development

funds and other financial companies (Rs. 1,00,000 crores). Even IDBI, ICICI, SIDBI have commenced mopping up deposits from the public. The aggregate resources available for investment with financial institutions adds up to over Rs. 7,50,000 crores. Sources of funds (long-term funds) for development are given in Fig. 35.2.

Financial assistance to entrepreneurs is granted by commercial banks, State Financial Corporations, State Directorate of Industries, National Small Industries Corporation, State Small Industries Corporations, and all-India development banks.

Credit facilities granted, by commercial banks and State Financial Corporations are covered under the Credit Guarantee Scheme for Industries, which offers protection to credit institutions against possible loss on their lending to this sector.

Institutional agencies grant financial assistance to small-scale industrial units for:

(1) Participation in equity capital;

(2) Acquisition of fixed assets by way of term loans; and

(3) Working capital.



Technical Scheme: Technically qualified or experienced professionals — upto Rs. 7.50 lakh.



Equipment Financé: For procurement of new machinery/equipment by existing industrial units — up to Rs. 90 lakh.



Special Capital Scheme: Soft loan assistance up to Rs. 4 lakh is available on soft terms along with term loan for technically qualified or experienced persons.



Quality Control Equipment: 100% assistance for setting up quality control faqility by existing and new SSI units — up to Rs. 7.50 lakh.



Seed Capital Scheme: Assistance towards equity on soft terms up to Rs. 15 lakh along with term loan for technically qualified or experienced persons.



Assistance to Ex-Servicemen: Term loan up to Rs. 9 lakh and seed capital up to Rs. 1.80 lakh for gaining self-employment.



Composite Loan Scheme: Both equipment finance and working capital up to Rs. 50,000 for artisans and rural industries.



Single Window Scheme: Both term loan and working capital together to new tiny and small-scale industrial units — up to Rs. 7.50 lakh towards term loan and up to Rs. 3.75 lakh towards working capital.



Disabled Entrepreneurs: 100% finance up to Rs. 50,000 to disabled entrepreneurs.



Tourism Related Facilities: Up to Rs. 90 lakhs available for tourism related business ventures.



Modernisation: For replacement/renovation of equipment for successful units which are in existence since 5 years assistance up to Rs. 90 lakh.



Mahila Udyam Nidhi Scheme: To set up new industrial projects in SSI sector by women entrepreneurs.



Electro-Medical Equipment: For qualified Doctors/ private nursing homes — up to Rs. 90 lakh.



National Equity Fund Scheme: Assistance towards equity for new projects tiny and small-scale sector — up to Rs. 75,000.



Nursing Homes/Hospitals: Assistance for full fledged nursing homes and hospitals — up to Rs. 90 lakh.



Assistance for Marketing: *(a)* Maximum assistance up to Rs. 3 lakhs per sales van, not exceeding six vehicles per borrower. *(b)* Assistance up to Rs. 7.50 lakh for setting up new sales outlets.

Fig. 35.3 Schemes of Assistance to Industry.

1. INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

Incorporation and Purpose

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. 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 up to 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. 300 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 authorised to undertake. These are indicated below with the year in which it was authorised 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 (1960)

(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 India by Industrial concerns in foreign currency (1960)

(f) Acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development (IBRD) in respect of loans granted or debentures subscribed by either of them (1952)

(g) Subscribing to the stock or shares of any industrial concern (1960)

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 Government and 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 Kreditarnstalt fur Wideraufbau 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 organisations continues 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 liberalised.

The present positions 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 o 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.

Entrepreneurship 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 Rationalisation in a Sick Industrial Unit in the Organised Sector Undergoing 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 Organisations (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.

2. THE INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The Industrial Development Bank of India (IDBI) was established on 1st July, 1964 under the Industrial Development Bank of India Act, as a wholly owned subsidiary of the Reserve Bank of India. In terms of the Public Financial Institutions Laws (Amendment) Act, 1975, the ownership of the IDBI has been transferred to the Central Government with effect from 16th February 1976. The most distinguishing feature of the IDBI is that it has been assigned the role of the principal financial institution for co-ordinating, in conformity with national priorities, the activities of the institutions engaged in financing, promotion or developing industry. The IDBI has been assigned a special role to play in regard to industrial development.

Objectives and Functions

(i) To serve as an apex institution for term finance for industry, to co-ordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions.

(ii) To plan, promote and develop industries to fill gaps in the industrial structure in the country.

(iii) To provide technical and administrative assistance for promotion, management or expansion of industry.

(iv) To undertake market and investment research and surveys as also technical and economics studies in connection with development of industry.

(v) To act as lender of last resort and to finance all types of industrial concerns which are engaged, or which propose to be engaged, in the manufacture, processing or preservation of goods, or in mining, shipping, transport, hotel industries, or in the generation or distribution of power, in fishing or in providing shore fishing, or in the maintenance, repairs, testing or servicing of machinery or vehicles, vessels, etc., or for the setting-up of industrial estates. The Bank may also assist industrial concerns engaged in the research and development of any process or product or in providing special or technical knowledge or other services for the promotion of industrial growth. Besides, it provides finance or the export of engineering goods and service on deferred payment basis.

The IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channelled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscounting Scheme. Since its inception, the IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channelled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscounting Scheme. Since its inception, the IDBI has been operating a special scheme of concessional assistance to the small-scale sector. The procedure in respect of loans to the small-scale sector has been put on a semi-automatic basis under the Liberalised Refinance Scheme (LRS). As a result of the progressive liberalisation and simplification of its refinance operations, its assistance to the small-scale sector has increased substantially since 1971-72. Its assistance to small and medium industrial units flows through 18 SFCs and 28 SIDCs, commercial banks and regional rural banks.

IDBI's Schemes

IDBI is having the following schemes for the benefit of enterprises and entrepreneurs in the small and medium scale sector:

Direct Assistance

Project Finance Scheme (loans, underwriting, direct subscription and guarantees);

- Modernisation Assistance Scheme for all industries;
- Textile Modernisation Fund Scheme;
- Technical Development Fund Scheme;
- Venture Capital Fund Scheme;
- Energy Audit Subsidy Scheme;
- Equipment Finance for Energy Conservation Scheme;
- Equipment Finance Scheme;
- Foreign Currency Assistance Scheme.

Indirect Assistance

- Refinance Scheme for Industrial Loans for Small and Medium Industries;
- Refinance Schemes for Modernisation and Rehabilitation of Small and Medium Industries;

— Equipment Refinance Scheme;
— Bills Discounting/Rediscounting Scheme;
— Seed Capital Scheme;
— Scheme for Concessional Assistance for Development of No-Industry Districts and Other Backward Areas;
— Scheme for Concessional Assistance for Manufacture & Industrialisation of Renewable Energy Systems;
— Scheme for Investment Shares and Bonds of Other Financial Institutions.

Sources of Funds

— Capital Contribution from Government;
— Loan Capital from Government;
— Loan Capital from RBI out of National Industrial Credit (Long Term Operation) Fund created out of its annual profits;
— Borrowings by way of Government — guaranteed bonds from domestic market;
— Borrowings in foreign currency from international capital market;
— Deposits under Investment Deposit Account Scheme in lieu of investment allowance under Section 32-AB of Income-tax Act;
— 3-year IDBI Capital Bond Scheme.

Own generation by way of repayment of past borrowings and plough-back of profits.

Soft Loan Scheme

The IDBI extends soft loans to units in selected industry groups, namely, cotton textiles, jute, cement, sugar and specified engineering industries to enable them to overcome the backlog in modernisation, replacement and renovation of plant and machinery so that they may achieve higher and more economic levels of production and improve their competitiveness. The scheme is operated in participation with the IFCI and the ICICI, with the overall responsibility vesting in the IDBI. The IFCI is the lead institution for jute and sugar industries, the ICICI for engineering and the IDBI for cotton textiles and cement industries.

The loans under the Soft Loan Scheme are extended on concessional terms not only in regard to the interest but also in regard to the promoter's contribution, debt-equity ratio, initial moratorium and repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulation.

3. ICICI

(The Industrial Credit and Investment Corporation of India)

The ICICI (Industrial Credit and Investment Corporation of India) was conceived as a private sector development bank in 1955 with the primary function of providing development finance to the private sector. Its objectives now include:

— assisting in the creation, expansion and modernisation of such enterprises;

— encouraging and promoting the participation of private capital, both internal and external, in ownership of industrial investment and the expansion of investment markets.

Apart from its head office at Mumbai, the ICICI has four regional offices located at Mumbai, Calcutta, Chennai and New Delhi.

Financial assistance is being provided by ICICI in the following forms:

— Rupee and foreign currency term loans

— Underwriting of share and debenture issues

— Direct subscription to equity

— Guarantees

— Soft loans

— Suppliers line of credit for promoting sale of industrial equipment on deferred payment terms

— Lease financing

— Financial Indo-US joint ventures in research and development.

In practice only such projects costing in excess of Rs. 300 lakhs are considered for financial assistance by the ICICI. However, for purpose of foreign currency loans, no minimum project cost restriction is imposed.

Finance for Industry

Over the past thirty years, the ICICI, in pursuit of its objective of promoting industrial development, has provided financial assistance in various forms, such as:

(a) Underwriting of public and private issues and offers of sale of industrial securities — ordinary shares, preference shares, bonds and debenture stock;

(b) Direct subscription to such securities;

(c) Securing loans in rupees, repayable over periods up to 15 years;

(d) Providing similar loans in foreign currencies for the payment for imported capital equipment and technical services;

(e) Guaranteeing payments for credits made by others;

(f) Providing credit facilities to manufacturers for the promotion of the sale of industrial equipment on deferred payment terms.

The primary purposes for which assistance is extended is the purchase of capital assets in the form of land, buildings and machinery. Of the alternative types of assistance provided by the ICICI, the one best calculated to assure the success of enterprises is chosen in each case.

Any company with a limited liability (or the promoter of such a company), any sole proprietary concern, partnership firm or any cooperative society may approach the ICICI for assistance in financing a sound proposal for the establishment, expansion or modernisation of an industrial enterprise.

The applicant may be an Indian or foreigner; his plans may provide for investment in any part of India; he may require assistance in any form. He must, however, be prepared to make a reasonable contribution to the resources required for the implentation of his proposal. The enterprise should have, or should undertake to obtain, experienced management and expert technical personnel and advice. Special consideration is given to projects promoted by new entrepreneurs and those who desire to set up industries in backward areas.

There are neither firm limits to the size of the enterprise the ICICI is prepared to assist, nor is there a maximum or a minimum limit to the assistance that it may offer. In practice, the lower limit of the finance provided by the ICICI is set at Rs. 5 lakh because there are other institutions which provide assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance below this limit. At the upper end, prudence requires that it limit the proportion of its resources which it can safely invest in a single enterprise. However, no proposal is too large for the ICICI to handle; it is prepared to enlist the co-operation of other financial institutions, in India and abroad, to share in the investment.

In promoting industrial investment, the ICICI is anxious not only to invest, but also to encourage others to invest. Accordingly, it seeks to encourage other financial institutions and individuals, both Indian and foreign, to co-operate with it in its investment and lending operations.

In order to promote new industries, to assist in the expansion and modernisation of existing industries, and to furnish technical and managerial assistance, the ICICI grants long-term and medium-term loans, subscribes to shares, underwrites new shares and debentures, guarantees loans from other private investment sources, and provides managerial and technical advice. ICICI also provides assistance by way of supplier's credit, equipment, leasing, instalment sale and venture capital and renders merchant banking services. Technology, Development and Information Company of India Ltd. (TDICI), established by ICICI in 1988, provides technological information and finances technology-intensive development activities including comercial R&D schemes. It also manages the venture capital fund of Rs. 20 crores that ICICI had established along with UTI in 1988.

4. THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

The Preamble to the National Bank for Agriculture and Rural Development Act 1981, sets out the objectives for establishing the new institution. To quote, 'An Act to establish a bank to be known as the National Bank of Agriculture and Rural Development for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto.'

Establishment of the National Bank

The establishment of the National Bank for Agriculture and Rural Development (commonly known as 'NABARD' and referred as the National Bank in this book) was the outcome of the acceptance of the recommendation in this behalf contained in the Interim Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development constituted by the Bank in consultation with the Central Government in 1979. The Bill for setting up the institution was passed by the Parliament in December 1981 and the National Bank came into existence on July 12, 1982.

The Committee envisaged that the new apex bank would be an organisational service for providing undivided attention, forceful direction and pointed focus to the credit problem arising out of the integrated approach to rural development. The committee recommended that the new bank take over from the Reserve Bank the overseeing of the entire rural credit system, including credit for rural artisans and village industries, and the statutory inspection of co-operative banks and Regional Rural Banks on an agency basis, the Bank continuing to retain its essential controls. The new bank was to have organic links with the Reserve Bank by virtue of the latter contributing half of its share capital (the other half being contributed by the Central Government), and three members of the Central Board of Directors of the Reserve Bank being appointed on its board, besides a Deputy Governor of the Reserve Bank being appointed as its chairman. The Committee envisaged the role of the Reserve Bank as one of spawning, fostering and nurturing the new bank, in much the same way as it did earlier in the case of the Agricultural Refinance and Development Corporation.

On its establishment, the National Bank has taken over the entire undertaking of the Agricultural Refinance and Development Corporation and has taken over from the Reserve Bank its refinancing functions in relation to the State Co-operative Rural Banks. This Bank is now the coordinating agency in relation to the Central Government, Planning Commission, State Governments and institutions at all-India level and State-level engaged in the development of small-scale industries, village and cottage industries, rural crafts, etc., for giving effect to the various policies and programmes relating to rural credit.

Capital and Management

The capital of the National Bank is Rs. 500 crores, subscribed by the Central Government and the Reserve Bank in equal proportions. In terms of the Act, the Board of Directors will consist of fifteen members to be appointed by the Central Government in consultations with the Reserve Bank may maintain and will comprise, besides the chairman and the managing director, three directors from the Central Board of the Reserve Bank, three officials of the Central Government, two officials of the State Governments and five directors from among experts in rural economics, rural development, handicrafts and village and cottage industries, etc., and persons with experience in the working of co-operative banks and commercial banks. The Act provides for constitution by the Board of an Advisory Council consisting of the directors of the National Bank and other persons having special knowledge of subjects which

is considered useful to the bank, to tender advice and discharge many functions allotted to it. In effect, the Advisory Council will perform functions similar to those entrusted to the Agricultural Credit Board set up by the Reserve Bank.

Operations

The National Bank is empowered to provide short-term refinance assistance for periods not exceeding 18 months to State co-operative banks, Regional Rural Banks and any financial institutions approved by the Reserve Bank in this behalf, for a wide range of purposes, including marketing and trading, relating to rural economy. These short-term loans granted to State co-operative banks and Regional Rural Banks, in so far as they relate to the financing of agricultural operations or marketing of crops, can be converted by the National Bank into medium term loans for periods not exceeding seven years under conditions of drought, famine or other financing of agricultural operations or marketing of crops, can be converted by the National Bank into medium-term loans for periods not exceeding seven years under conditions of drought, famine or other natural clamities, military operations or enemy action. Likewise, the National Bank may also provide assistance by way of loans and advances up to seven years to the financing institutions where it is satisfied that owing to unforeseen circumstances the rescheduling of any short-term loans and advances made to artisans, small-scale industries, village and cottage industries etc., by the financing institutions is necessary. The National Bank can grant medium-term loans to the State co-operative banks and Regional Rural Banks for periods extending from 18 months to 7 years for agriculture and rural development and such other purposes as may be determined by it from time to time subject, in the case of loans to State co-operative banks, to their being fully guaranteed by the State Governments as to the repayment of principal and payment of interest. Such guarantees can, however, be waived by the National Bank in certain circumstances.

The National Bank is empowered to provide by way of refinance assistance, long-term loans extending up to a maximum period of 25 years including the period of rescheduling of such loans, to the State land development banks, Regional Rural Banks, scheduled commercial banks, State co-operative banks or any other financial institutions approved by the Reserve Banks, for the purpose of making investment loans, as well as for giving loans to artisans, small-scale industries, village and cottage industries, etc. It may also give short-term loans along with long-term loans where such composite loans are considered necessary. Loans for periods not exceeding 20 years can be made to the State Governments to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies. Moreover, the new bank can contribute to the share capital or invest in the securities of any institution concerned with agriculture and rural development.

The outstanding amounts, as on the date of transfer of business to the National Bank, in respect of loans and advances granted by the Reserve Bank to the State co-operative banks and Regional Rural Banks under Section 17 of the Reserve Bank of India Act [except under sub-Section (4) (a) thereof] have been transferred to that bank. Consequently, these loans and advances are repayable by the National Bank to the Reserve Bank (see also Chapter 9). The outstanding loans and advances granted by

the Reserve Bank out of the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund to the State Governments, State co-operative banks and the Agricultural Refinance and Development Corporation have been transferred to the National Bank.

Resources

For its short-term operations, the National Bank will borrow funds from the Reserve Bank in the form of a line of credit under Section 17 (4E) of the Reserve bank of India Act which permitted the Reserve Bank to grant short-term loans to the Agricultural Refinance and Development Corporation earlier, and which has now been amended suitably by the National Bank for Agriculture and Rural Development Act. For its term loan operations, the National Bank will draw funds, as the Corporation was doing earlier, from the Central Government, the World Bank/IDA and other multilateral and bilateral aid agencies, the market and the National Rural Credit (Long Term Operations) Fund that it has established. To this Fund has been transferred the balance in the National Agricultural Credit (Long Term Operations). Fund maintained by the Reserve Bank. Further contributions would be made annually to the new Fund by the Reserve Bank, in addition to the contributions by the National Bank itself. Provision has been made also for the Central Government and the State Governments to contribute to this Fund from time to time. The balance in the National Agriculture Credit (Stabilisation) Fund has been similarly transferred by the Reserve Bank to the National Bank for credit to the newly established National Rural Credit (Stabilisation). Fund which will be maintained by annual contributions by both the Reserve Bank and the National Bank as well as by contributions from the Central and State Governments from time to time.

The methods of raising funds include sale of bonds and debentures, direct borrowing, acceptance of deposits, and receipt of gifts, grants, etc. The National Bank may borrow foreign currency from any bank or financial institution in India or abroad with the approval of the Central Government which will guarantee such loans.

5. THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

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 outstanding portfolio of the order of Rs. 4200 crore from IDBI was transferred to SIDBI in March 1990. SIDBI started off from a strong base: percentage of IDBI, backing of a special statute — the Small Industries Development Bank of India Act of 1989, a large capital base of Rs. 450 crore, availability of experienced manpower endowed with development banking skills carved out of IDBI's professional staff and ready availability of a vast network of institutional infrastructure and enduring financial linkages with State Financial Corporations (SFCs), commercial banks and other

institutions; all these augured well for the growth of the nascent institution. SIDBI became operational on April 2, 1990.

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 liberalisation. 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 liberalisation 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 the 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.

Operational Strategy

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.

Table 35.2
SHIFT IN BUSINESS MIX

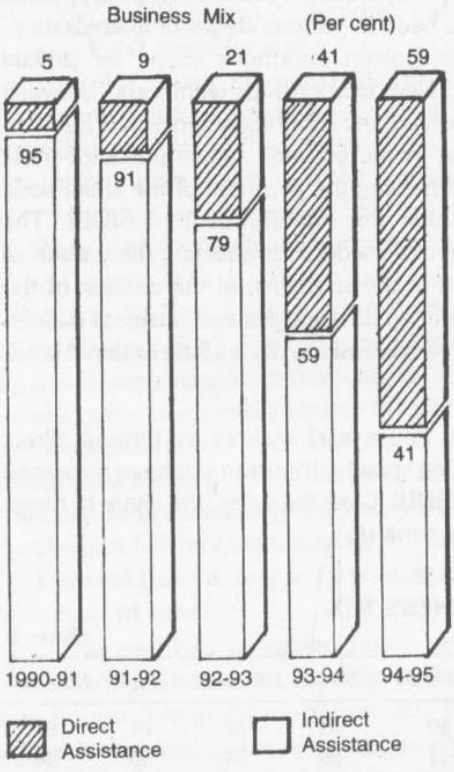
Share: %

	1990-91	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*
Indirect Assistance	95	91	79	59	41	66	64	64
Direct Assistance	5	9	21	41	59	34	36	36

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 realisation of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalised based on an ongoing review process. The procedures have been simplified with gradual decentralisation 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 the 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 to 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 and 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 sector by way of leasing, hire-purchase and bought-out deals.



The operational priorities of SIDBI, therefore, were to build up a financial portfolio reflecting a high order of health and strength based on quality of assets. SIDBI maintains an organisational structure which is lean, functional and capable of adapting to the state-of-the-art technology to remain efficient and competitive. The strength of SIDBI is reflected in the quality of its portfolio; over 97% of its portfolio consists of standard assets. SIDBI has obtained a high investment grade rating 'AAA' by The Credit Rating Information Services of India Ltd. for its unsecured bonds. There has been consistent growth in the gross income and profits of SIDBI in the last five years. Though of a modest scale, SIDBI has been transferring to IDBI surplus of its profits after appropriations as return on capital. SIDBI is one of the development financial insitutions in the country with a high capital adequacy ratio. It is a matter of satisfaction that in respect of resource mobilisation efforts during the last 5 years, leading international aid giving and lending agencies have lent considerable resource support to SIDBI. There has been a significant shift in approach with regard to the working relationship with commercial banks. Besides using the branch network of banks to reach ultimate beneficiaries, SIDBI now focuses on a collaborative effort so as to facilitate timely flow of credit both by way of term loans and working capital to the small scale units. To reinforce such a relationship on a lasting basis. Memoranda of Understanding have been signed by SIDBI with many leading banks.

Growing Operations

From a predominantly refinancing and bills rediscounting institution, SIDBI has emerged as a major purveyor of a wide variety of financial services to the small scale sector. At present, financial assistance being provided by SIDBI covers direct equity participation, equity type loan on soft terms, term loan, working capital — both rupee finance and foreign currencies, bills discounting, venture capital support and different forms of resource support to banks and other institutions. The proportion of direct assistance in the total portfolio of SIDBI has increased significantly. Cumulative

financial assistance has aggregated to Rs. 36,264 crore by way of sanctions and Rs. 26,702 crore by way of disbursements during its 8 years operations.

Table 35.3

ASSISTANCE SANCTIONED AND DISBURSED BY SIDBI

(Rs. crore)

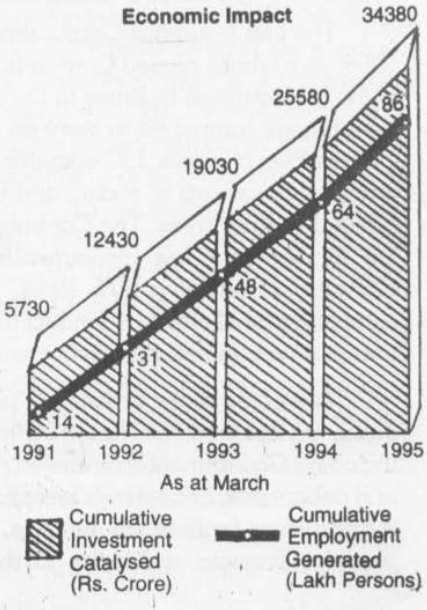
Year	*Sanctions*	*Growth rate %*	*Disburse-ments %*	*Growth rate*
1990-91	2408.7		1838.5	
1991-92	2846.0	18.2	2027.4	10.3
1992-93	2909.2	2.2	2146.3	5.9
1993-94	3356.3	15.4	2672.7	24.5
1994-95	4706.3	40.2	3389.8	26.8
1995-96	6065.6	28.9	4800.8	41.6
1996-97	6485.3	6.9	4584.7	(-) 4.5
1997-98	7484.2	15.4	5240.7	14.3
Cumulative up to end-March 1998	36263.9		26701.8	

Support Services

Over the years, the scope of promotional and developmental activities has been enlarged to encompass several new activities. Technology adoption, technology exchange, transfer and upgradation, quality promotion, enlarging marketing capabilities — both domestic and international, entrepreneurship development, management development, environment management, rural industrialisation, support to self-help groups, information dissemination through publication of project profiles for tiny and hi-tech small industrial units are now covered under promotional and developmental services. In such activities, SIDBI operates in collaboration with voluntary organisations, non-government organisations, technology firms, consultancy organisations and multilateral/ international agencies to enhance the level of overall impact of such activities on the sector.

The Impact

The overall economic impact of SIDBI's operations during the last 5 years has been in terms of cumulative investment catalysed of the order of Rs. 34,380 crore and fresh employment opportunities for about 86 lakh persons. The visible impact of promotional and developmental activities of SIDBI in select clusters of SSIs such as lock, leather, glass, brass and readymade garments has been noticeable with commensurate improvement in



overall productivity, product quality levels and process standards in such clusters. Significant achievements made in these spheres will be buttressed with new initiatives in the years to come.

6. INDUSTRIAL INVESTMENT BANK OF INDIA

The Industrial Investment Bank of India (IIBI) was established in 1985 under the IRBI Act, 1984 on reconstitution of the erstwhile Industrial Reconstruction Corporation of India as the principal credit and reconstruction agency to undertake reconstruction and rehabilitation of sick and closed industrial units in the country. IRBI was converted into a full-fledged all-purpose development institution as IIBI on 17.03.97. The scope of IIBI's financing activities has widened with the withdrawal of the Government stipulation that 60% of its portfolio should consist of sick companies; IIBI now finances all industrial projects like any other financial institution.

IIBI extends loans and advances to industrial concerns, underwrites stocks, shares, bonds, debentures and provides guarantees for loans/deferred payments. It provides finance for acquisition of equipment and makes available machinery and other equipment on lease or hire purchase basis. It also provide infrastructure facilities, consultancy, managerial and merchant banking services. During 1993-94, as a part of its merchant banking services, IRBI ventured into issue management activities for the first time. It also took several steps to re-orient its business strategy in response to the emerging environment and ongoing changes in the financial sector by introducing newer products for financing. IIBI has envisaged the setting up of a Special Fund, viz., Reconstruction Assistance Fund to meet special financial needs of assisted medium and large-scale units for their revival and rehabilitation which cannot be met from banks and financial institutions under normal conditions.

7. LIFE INSURANCE CORPORATION OF INDIA

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 nationalisation 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 schemes 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-guaranteed 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

underwriting/direct subscription to shares and debentures. LIC also extends resource support to other financial institutions by way of subscription to their shares and bonds and also by way of term loans.

8. GENERAL INSURANCE CORPORATION OF INDIA

The General Insurance Corporation of India (GIC) was established in January 1973 on nationalisation of general insurance companies in the country. GIC has four subsidiaries, viz., National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Fire & General Insurance Co. Ltd. and United India Insurance Co. Ltd. GIC and its subsidiaries operate a number of insurance schemes to meet the diverse and emerging needs of various segments of society. In the recent past, GIC and its subsidiaries devised several need-based covers to keep pace with the new liberalised economic environment. The investment policies of GIC and its subsidiaries have been evolved within the ambit of the provision 27(B) of the Insurance Act 1938 and guidelines issued by the Government from time to time. According to Government guidelines, 70% of the annual accretions to their investible funds are required to be invested in socially-oriented sectors of the economy. Since April 1976, GIC has been participating with other financial institutions in extending term loans to industrial undertakings and providing facilities for underwriting/direct subscription to their shares and debentures.

9. EXPORT-IMPORT BANK OF INDIA

The Export Import Bank of India (Exim Bank) was set up on January 1, 1982 by an Act of Parliament as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institutions engaged in financing export and import of goods and services, finances export-oriented units and undertakes promotional activities necessary for international trade. It has a menu of 23 major programmes to meet the needs of different customer groups, viz., Indian exporters, overseas entities and commercial banks. Exporters can avail of pre-shipment credit, supplier's credit, overseas investment finance, export product development loans, loans for export marketing, bulk import finance and investment vendors development finance. Foreign Governments and agencies are offered buyers' credit and lines of credit. To commercial banks in India, Exim Bank offers export bills rediscounting facility, refinance of suppliers' credit and refinance of term loans in respect of export-oriented units. It also participates in guarantees issued by commercial banks on behalf of Indian project exporters.

Besides providing finance, EXIM Bank promotes exports through advisory and information services to exporters on procurement practices and bidding procedures of multilateral institutions, country risk analysis, merchant banking and marketing focussed on catalysing exports of non-traditional products to developed countries.

10. KHADI & VILLAGE INDUSTRIES COMMISSION

The Khadi and Village Industries Commission (KVIC), established by an Act of Parliament in 1956, is engaged in the development of khadi and village industries in rural areas. It has under its purview 26 village industries besides khadi. After

amendment to the KVIC Act in July 1987, the scope for coverage of activities was widened and as a consequence 70 more new village industries were identified and brought under its fold for implementation. The main objectives of the KVIC are providing employment in rural areas, skill improvement, transfer of technology, building up of strong rural community base and rural industrialisation. The significant characteristics of khadi and village industries under the purview of KVIC lie in their ability to use locally available raw materials, local skills, local markets, low per capita investment, simple techniques of production, which can be easily adopted by the rural people, short gestation period and above all production of consumer goods. KVI activities serve the poorest of the poor comprising scheduled castes, scheduled tribes, women, physically handicapped and minority communities in difficult, inaccessible hill and border areas.

The development programmes of khadi and villages industries are implemented through 30 State Khadi and Village Industries Boards which are statutory organisations set-up under State legislation, 2,320 institutions registered under Societies Registration Act, 1860 and 29,813 Cooperative Societies registered under State Co-operative Societies Act. KVIC also assists individuals through State KVI Boards. KVI programmes now cover more than 2.1 lakh villages in the country.

Some of the notable developments in KVI activities during 1991-92 are — extension of special programme aimed at intensive development of KVI through area approach under tie up with District Rural Development Authority (DRDA) to more number of districts, improvement and upgradation of KVI technology and quality of products, establishment of linkage with an export company for exporting KVI technology on hand-made paper and gur khandsari on turn-key basis, initiation of steps for tapping distribution network of big business houses for marketing KVI products, introduction of fabric-painted khadi ready-made garments, development of modified version of new model charkha by replacing all its metal parts with high quality nylon and reinforced fibre material and development of mini honey processing unit.

11. NATIONAL SMALL INDUSTRIES CORPORATION LTD.

The National Small Industries Corporation Ltd. (NSIC) was set-up by the Government of India in 1955 with the objective of promoting and developing small-scale industries in the country. Various activities undertaken by NSIC include supply of indigenous and imported machines on easy hire-purchase and lease terms, marketing of the products of small industries on consortia basis, export marketing of small industries products, developing export worthiness of small-scale units, enlistment of small-scale units for participation in Government stores purchase programme, development and modernisation of prototypes of machines, equipment and tools, supply and distribution of indigenous and imported raw materials, training in various technical trades and co-operation with other developing countries in setting-up of small-scale projects on turn-key basis.



Fig. 35.4 Activities of National Small Industries Corporation (NSIC)

Formerly, the Corporation had four subsidiary corporations at Delhi, Mumbai, Calcutta and Chennai. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set-up at Mumbai, Calcutta and Chennai. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a separate Delhi Cell set-up in it. The National Small Industries Corporation provides a complete package of financial assistance and support in the following areas:

- Supply of both indigenous and imported machines on easy hire-purchase terms. Special concessional terms have been introduced for units promoted by entrepreneurs from weaker sections of the society, women entrepreneurs, ex-servicemen and those units located in the backward areas.
- Marketing of Small Industries products within the country.
- Export of Small Industries products and developing export worthiness of Small-Scale Units.
- Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
- Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production.
- Technical training in several industrial trades, with a view to create technical culture in the young entrepreneurs.
- Development and upgradation of technology and implementation of modernisation programmes.
- Supply and distribution of indigenous and improved raw materials.
- Supply of both indigenous and imported machines on easy lease terms to existing units for diversification and modernisation.
- Providing of Common Facilities through Prototype Development & Training Centres.
- Setting-up Small-Scale Industries in other developing countries on turnkey basis.

With a view to giving a fillip to development efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Institutes, the NSIC has opened its offices in some of the States in which the (NSIC) Corporation has been hitherto under-represented. In the central region, offices have been opened in Bhopal and Raipur in Madhya Pradesh. Four development executives and six field inspectors have been recently posted in the backward areas of the western region to serve as "contact points" and to work in close co-operation with DICs and other developmental agencies in the area. Of these, three field inspectors have been posted in Raigad, Ratnagiri, Satara, Yeotmal, Chandrapur, Bhandara, Buldhana, Aurangabad, Nanded, Beed, Osmanabad, etc. — all backward districts in Maharashtra.

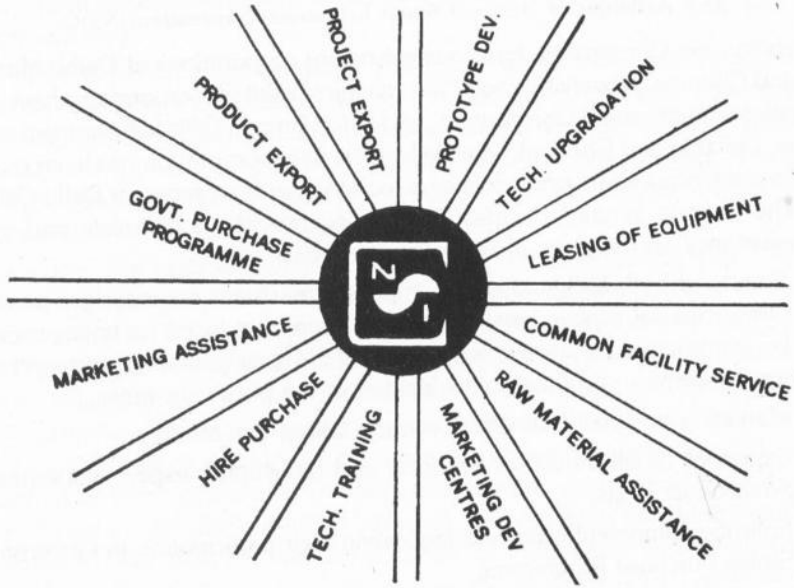


Fig. 35.5 A Unique Package of Assistance for Small Entrepreneurs.

The NSIC has taken up the challenging task of promoting and developing small industries almost from the scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. It has created a proper "industrial" atmosphere and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernisation and/or diversification. The small unit, because it is small, is always short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units. And so the seedling comes up as a "factory" which provides jobs for the unemployed or underemployed.

Over the years and particularly during this decade, the NSIC, with its deliberate and concentrated efforts, has developed an unsurpassed reputation of an effective and efficient nodal agency for providing assistance to the vibrant Small-Scale sector. All these years, through its dynamic approach and the package of assistance, it has been

significantly contributing to the development of entrepreneurs, building up of strong industrial base, spreading of technical culture, promoting balanced regional growth, development of rural and backward areas, etc. as well as in employment generation, in all parts of the country.

12. STATE INDUSTRIAL DEVELOPMENT CORPORATIONS

The State Industrial Development Corporations (SIDCs) were established under the Company Act, 1956 in the sixties and early seventies as wholly-owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription to shares/debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. SIDCs' are also involved in setting up of medium an large industrial projects in the joint sector in collaboration with private entrepreneurs or as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of developmental services such as technical guidance, assistance in plant location and coordination with other agencies.

Of the 28 SIDCs operating in the country, nine are twin-function SDICs functioning also as SFCs to provide assistance to small scale units as well as act as promotional agencies. The twin-function SIDCs are in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pondicherry and Sikkim. Seven SIDCs are also involved in infrastructure development and other extensions services for the small sector.

The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme. Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

The major functions of these Corporations include:

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance;
- Grant of financial assistance to industrial units by way of loans, guarantees and of late, lease finance by some Corporations;
- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrusted by the respective State/Union Territory, there is considerable diversity in activities among the different SIDCs.



Fig. 35.6 Functions of SIDCs

13. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS

The State Small Industries Development Corporations (SSIDCs) established under the Companies Act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the State/Union Territories under their justification. SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of the small sector. As at present, 18 SSIDCs are in operation.

Some of the important activities undertaken by SSIDCs includes: *(i)* procurement and distribution of scarce raw materials, *(ii)* supply of machinery on hire-purchase basis, *(iii)* providing assistance for marketing of the products of small scale units, *(iv)* construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance, *(v)* extending seed capital assistance on behalf of the State Governments, and *(vi)* providing management assistance to production units.

A change in the role of SSIDCs has been prompted by the new Industrial Policy. SSIDCs are gearing up to change themselves from raw material distributors to organisations that will take care of various aspects of small industry development, especially marketing. SSIDCs would, thus, help the tiny and small industries increase their market share. The new policy calls for establishment of counselling and common testing facilities and provision of a mechanism to allow corporation of the latest technology in the small sector. SSIDCs are also planning to set-up centres for display of/and information dissemination on SSI products, and for providing small office spaces for SSIs in need.

Information for the analysis/discussion that follows, pertains to 11 SSIDCs located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Jammu & Kashmir, Himachal Pradesh, Kerala, Punjab, Rajasthan and Tamil Nadu.

14. STATE FINANCIAL CORPORATIONS

State Financial Corporations (SFCs), operating at the State-level, form an integral part of the development financing system in the country. They function with the

objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, catalysing higher investment, generating greater employment opportunities and widening the ownership base of industry.

At present, there are 18 SFCs in the country, 17 of which were set up under the SFCs Act, 1951. Tamil Nadu Industrial Investment Corporation Ltd., set up in 1949 under the Companies Act as Madras Industrial Investment Corporation also functions as a full-fledged SFC. SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees, and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, special target groups like SC/ST, women, ex-servicemen, physical handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc. Over the years, the SFCs have extended their activities and coverage of assistance.

Concerns Eligible for Assistance

Industrial concerns eligible for financial accommodation under the State Financial Corporation Act, 1951 are those which are engaged in the following activities: *(a)* Manufacture of goods; *(b)* preservation of goods; *(c)* processing of goods; *(d)* mining; *(e)* generation of distribution of electricity or any other form of power; *(f)* hotel industry; *(g)* transport of passenger or goods by road or by water or by air; *(h)* maintenance, repair, testing or servicing of machinery of any description of vehicles or vessels or motor boats or, trawlers or tractors; *(i)* assembling, repairing or packing any article with the aid of machinery or power; *(j)* the development of any contiguous area of land as an industrial estate; *(k)* fishing or providing shore facilities for fishing or maintenance thereof; *(l)* providing special or technical knowledge or other services for the promotion of industrial growth.

SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, social target groups like SC/ST, women, ex-servicemen, physically handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc.

Objectives and Functions

- The main function is to provide term loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- Promotion of self-employment.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial projects.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.

Table 35.4
ASSISTANCE SANCTIONED AND DISBURSED TO SMALL SECTOR BY SFCS

(Rs. crore)

Year	Sanctions					Disbursements				
	Total assistance	SSIs	SRTOs	Sub-total (3) + (4)	Percentage (5) to (2)	Total assistance	SSIs	SRTOs	Sub total (8) + (9)	Percentage (10) to (7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1990-91	1863.9 (49186)	1281.5 (3,3582)	210.3 (11510)	1491.8 (45092)	80.0 (91.7)	1270.8	924.3	163.1	1087.4	85.6
1991-92	2190.3 (43981)	1634.6 (30224)	237.3 (12330)	1871.9 (42554)	85.5 (96.8)	1536.8	1107.9	211.3	1319.2	85.8
1992-93	2015.3 (38040)	1509.9 (27567)	175.8 (9146)	1685.7 (36713)	83.6 (96.5)	1557.4	1163.9	167.3	1331.2	85.5
1993-94	1908.8 (29641)	1419.4 (18852)	141.7 (9427)	1561.1 (28279)	81.8 (95.4)	1563.4	1175.2	129.2	1304.4	83.4
1994-95	2702.4	1742.8	177.6	1920.4	71.1	1880.9	1314.5	122.5	1437.0	76.4
1995-96	4188.5	2280.4	232.9	2513.3	60.0	2961.1	1675.4	212.1	1887.5	63.7
1996-97	3544.8	1873.9	241.1	2115.0	59.7	2782.7	1529.6	221.3	1750.9	62.9
1997-98	2628.6	1604.9	163.0	1767.9	67.3	2117.6	1220.0	142.1	1362.1	64.3
Cumulative up to end-March 1998	29138.8	18216.2	2329.5	20545.7	70.5	23258.6	15536.3	2044.8	1758.1	75.6

Note: Figures in brackets in columns 2, 3, 4 & 5 indicate number of assistance and under column 6 percentage share in respect of number of units.

- To assist for the promotion or expansion of industry by the rural and urban artisans.
- To provide financial assistance for transport vehicles strictly for captive use, depending on the requirement of the projects.
- Providing seed capital assistance under the scheme of Industrial Development Bank of India.
- Providing soft-term loan to cover the equity gap to help small-scale industrial units.
- Undertaking the various promotional activities, including the organisation of entrepreneurial development programmes and seminars etc.
- Interest subsidy for self-development, self-employment of young persons, adoption of indigenous technology in small and medium sector and encouraging quality control measures in small-scale industry is also admissible to the extent of Rs. 5 lakhs.
- To promote development institutions in the state/region which will accelerate the process of socio-economic growth.

Assistance

The state financial institutions offer a package of assistance to entrepreneurs to enable them to translate their project idea into a reality. The package of assistance may be broadly classified into two types of services, developmental and financial. In addition, some SFCs also implement package schemes of incentives to motivate and encourage entrepreneurs.

Commercial Banks

The Scheduled Commercial Banks (SCBs) in the country (299) comprise State Bank of India and its associate banks (8), nationalised banks (19), private sector banks (34), regional rural banks (196) and foreign banks (42). During 1994-95, ten more banks were given the status of SCBs and one, viz., Bank of Karad which was taken over by Bank of India was excluded. The SCB status entitles the banks to avail of certain facilities from RBI such as refinance, loans and advances as also grant of authorised dealers licence to handle foreign exchange business. Correspondingly, banks also have certain obligations such as maintenance of Cash Reserve Ratio, Statutory Liquidity Ratio and follow various banking regulations. As on March 31, 1998, the total number of branches of SCBs stood at 64,267; of these 32,890 (51.1%) of the total) were in rural areas.

Total outstanding gross bank credit (food and non-food) at Rs. 3,24,079 crore on March 31, 1998 was higher by 16.4% over the outstanding credit of Rs. 2,78,402 crore as on March 18, 1997 mainly due to marked expansion in non-food credit which rose by 15.1% to Rs. 3,11,594 crore forming 96.1% of total outstanding gross bank credit as against 93.4% on March 18, 1994. Outstanding investments of banks in Government and other approved securities stood at Rs. 2,18,705 crore as on March 31, 1998.

The outstanding gross bank credit to industrial sector at Rs. 1,61,038 crore as on March 31, 1998 was higher by 16.2% over Rs. 1,38,548 crore on March 18, 1997.

The outstanding bank credit to small-scale industries increased by 22.0% to Rs. 43,508 crore on March 31, 1998, whereas credit to medium and large industries increased by 14.5% to Rs. 1,17,530 crore. The medium and large industries claimed 73.0% of the total outstanding credit to industrial sector as on March 31, 1998. Industries which accounted for bulk of the outstanding credit as on March 31, 1998 were engineering (14.2%), textiles (13.1%) and chemicals, dyes, paints, etc. (11.3%).

Table 35.5
INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rs. crore)

Industry	*Outstanding as on*		
	March 18, 1994	*March 29, 1996*	*March 27, 1998*
Engineering	17,127	25,621	22,833
Chemicals, dyes, paints, etc.	10,034	16,450	18,120
Textiles	10,128	15,999	21,071
Iron & Steel	4,528	8,482	15,767
Other metals & metal products	3,199	3,977	5,193
Gems & jewellery	1,975	2,785	3,530
Total (including others)	80,482	1,24,937	1,61,038

Conclusion

Over the years, a well-knit structure of development financial institutions (DFIs) has evolved in the country providing financial underwritings/direct subscription to shares/debentures and guarantees. These institutions have developed and introduced a variety of new products and services. DFIs and commercial banks have provided assistance of over Rs. 6 lakh crore to entrepreneurs. Over 82 per cent of their assistance was for fostering private enterprise.

DFIs face competition from commercial banks, leasing companies, and other sources of long-term and equity finance. The procedures of other institutions are often speedier and less bureaucratic. Moreover, commercial banks offer much more than just long-term loans. If DFIs were to charge market rates for their services, many would soon lose their customers. Where other institutions offer competing services and the existing DFIs are financially and institutionally weak, the best course is to close the DFIs or merge them with sounder institutions. There is no reason to close DFIs that can mobilize their own funds and are profitable at market interest rates — although it might be sensible to merge them with commercial banks, which thereby would gain expertise in long-term financing.

Monitoring and control of borrowers has posed particular problems for DFIs. because they provide mostly long-term loans, they do not have the same day-to-day contact with customers as commercial banks. And the narrow specialization for DFIs has made it difficult for them to diversify their risks; they have been particularly vulnerable to fluctuations in the business cycle. Merger with commercial banks would help to solve both problems. Alternatively, DFIs might expand their range of services within the constraints of their institutional capabilities and professional skills. Activities potentially suitable for DFIs include consulting and easing; the skills involved are similar to those required by DFIs' existing activities. The operations of DFIs and commercial banks need to be strengthened to remain financially viable.

ANNEXURE

Main Functions of Development Banks Abroad

Country *Name of the Bank*	*Established in*	*Main functions*
I. Advanced Countries		
United Kingdom		
Industrial and Commercial Finance Corporation	1945	Providing financial assistance for development and expansion of small & medium enterprises.
Finance Corporation for Industry (FCI)	1945	Providing long-term finance for big industrial concerns.
Commercial Development Corporation	1948	Providing financial assistance for economic development.
Finance Company (CDFC)	1953	Financing sound industrial development in commonwealth countries on commercial basis.
United States of America		
Reconstruction Finance Corporation (RFC)	1932	To help the growth of agriculture, commerce and indusry and to induce the small units to maintain economic stability and accelerate output and employment in the U.S.A. (This was dissolved in 1954).
Small Business Administration (SBA)	1954	Providing financial and developmental assistance to small units.
Development Credit Corporations (DCC)		Channelising small-savings into the small enterprises.
Canada		
Industrial Development Bank (IDB)	1944	Providing financial assistance to small and medium-scale industrial concerns.
Australia		
Commonwealth Development Bank of Australia (CDBA)	1959	Providing financial assistance for the development of small and medium-scale industries.
Development Refinance Corporation (DRC)	1967	Providing refinance facilities to trading banks.
Japan		
The Industrial Bank of Japan	1951	Providing long-term finance to industry
The Long-term Credit Bank of Japan	1952	The long-term credit bank system was created to substitute the underdeveloped capital market in Japan.
The Nippon Credit Bank		
Germany		
The Kreditanstalt fur Widerefban (K.W.) (Reconstruction Loan Corpn.)	1948	Taking care of the financial requirements of German credit institution and of German capital aid to underdeveloped countries.
Industrikredibank AG	1949	Providing medium and long-term finance to small and medium-size enterprise in Germany.

German Development Company (GDC)	1962	Providing financial assistance to private enterprises, especially those which are floated/run with German collaboration.
II. Developing Countries		
Burma		
The Industrial Development Corporation (IDC) The Industrial Development Bank (IDB) of Burma	1952	Setting up and encouraging the growth of industries. Promotion of private enterprises in Burma, mobilisation of internal/external capital for private industrial development and stimulation of investment, share and security markets.
Sri Lanka		
The Agricultural & Industrial Credit Corporation (AICC)	1943	Providing term loans for the development of agricultural and industrial ventures.
Development Finance Corporation of Sri Lanka	1952	Assist the growth of private enterprise in Sri Lanka.
Taiwan		
China Development Corporation	1959	Providing development finance in the form of term loans, equity, underwriting, guarantees, etc. to industries.
Iran		
The Industrial and Mining Development Bank of Iran (IMDBI)	1959	To accelerate the investment of local and foreign capital in industry, mining, transportation etc.
Iraq		
The Industrial Bank of Iraq (IBI)	1946	Providing loans, equity capital and developmental services to industry.
Indonesia		
Bank Pambangunan Indonesia (Development Bank of Indonesia)	1960	To promote and finance such projects in Indonesia as would lead to overall economic growth. It provides finance for agriculture, industry & mining.
Korea		
The Korean Reconstruction Bank (KRB)	1954	Providing financial as well as managerial/technical assistance to industry.
Laos		
Credit National Lao (CNL)	1956	To accelerate social and economic growth of Laos through the development of private/public industries, agriculture, crafts, etc.
Malaysia		
Malaysian Industrial Development Finance Ltd. (MIDFL)	1960	To induce the growth of the Malaysian economy's private industrial sector through the provision of loans, underwriting facilities, guarantees, equity participation and developmental services.

Nepal		
The Nepal Industrial Development Bank (NIDB)	1959	Providing financial assistance for the growth of Nepalese Industry.
Pakistan		
The Industrial Development Bank of Pakistan (IDBP)	1961	To cater to the credit requirements of medium and creation of a class of entrepreneurs.
Pakistan Industrial Credit & Investment Corpn. Ltd. (PICIC)	1957	To accelerate the growth of the industrial sector through the provision of financial assistance to new and existing industries in the private sector.
Pakistan Industrial Development Corporation (PIDC)	1952	To ensure planned and proper growth of large and medium-sized industrial enterprises.
Small Industries Corporation (SIC)	1955	To provide financial and developmental services to small industries in Pakistan.
Philippines		
The Development Bank of the Philippines (DBP)	1958	To provide financial and developmental services to enterprises in the public and private sectors. It assists, agricultural, industrial, mining, public utilities, fisheries enterprises.
National Investment and Development Corporation (NIDC)	1963	To extend assistance to industrial, agricultural and commercial projects.
Private Development Corporation of the Philippines (PDCP)	1963	To assist the growth of private industry through its financial and developmental services. It plays a significant role in the metamorphosis of Philippines economy.
Singapore		
Economic Development Board of Singapore (EDB)	1961	To assist the economic and industrial growth of Singapore through the financing, management and setting up of industries. EDB has played a major role in providing the industrial infrastructure for industries and in the establishment of heavy industries. Light Industries Services section of EDB has been instrumental in the growth of small industries in Singapore.
Thailand		
The Industrial Finance Corporation of Thailand (IFCT)	1959	To help the growth of private industry in Thailand.
Vietnam		
Societe Financiere Pour Le Development De'L Industries Au Vietnam (SOFIDIV)	1961	Providing long-term finance to big and medium-sized private industries.

Ryukyu The Ryukyu Development Loan Corporation (RDCC)	1959	It is a loan corporation. It provides long-term loan only to private sector covering industry, agriculture, fisheries, housing, tourism, small industry, etc. It also grants "Disaster Loans" on humanitarian grounds.
Cyprus The Cryprus Development Corporation Ltd. (CDC)	1959	Developing, encouraging and stimulating productive enterprises in Cyprus, particularly in the fields of manufacturing and industrial processing, mining and tourism.
Ethiopia The Development Bank of Ethiopia (DBE)	1951	Providing finance to industry and agriculture.
Ghana The National Investment Bank (NIB)	1959	Designed for the growth of Ghanian industry, agriculture, commerce, etc. It caters to the needs of the both the two sectors.
Nigeria The Nigerian Industrial Development Bank Ltd. (NIDB)	1959	Is an instrument for the growth of private sector industry and mining in Nigeria. It provides financial and developmental services to sectors.
Uganda The Uganda Development Corpn. Ltd. (UDC)	1952	Providing financial and developmental assistance to industry, mining, agriculture, tourism, etc. except transport & power.
Mexico The National Financier of Mexico (NF)	1934	It has created and financed enterprises, stimulated domestic and foreign capital, regulated the stock market and has acted as an agent of the government.

CHAPTER 36

ROLE OF CONSULTANCY ORGANISATIONS

Introduction

In competitive and constantly changing marketing conditions, the production of quality goods at a minimum cost depends solely on the availability and fusion of the latest technical know-how. Modernisation for higher productivity also depends on this technical know-how, essential for the healthy growth of the small-scale industry. This technical know-how, however, depends on industrial research, particularly in the small-scale sector, which not only ensures stability in marketing and profits, but is essential for the very survival of a unit.

A consultant sells advice and counsel for a fee. You not only have the right, but also the responsibility to charge for what you know. Similarly, as a consultant, you must generate enough revenues to underwrite your venture and make it worth your time and effort.

You can make it happen.

Consulting Model

In the competitive post liberalisation environment characterised by rapid technological innovations on one hand, and the prospect of an increasing number of highly experienced international giants entering the domestic market, on the other, the very future of organisations seems rather foggy and endangered. The free market, being ruthless, strictly adheres to the principle of survival of the fittest.

To ensure this future, our observations and consulting experience indicates that organisations must meet the following conditions:

- The vision to provide the direction and driving fuel;
- Appropriate business strategy, based on correct environmental scan or distinctive advantage (or the capacity to develop it soon);
- The appropriate organisational structure (with coordination processes);
- The means and ways of synergising the efforts of people to achieve the business goals.

Very often one reads these days about the various modern forms of organisational structures, about business strategies and process reengineering. But unless there is an

alignment or congruence between all these, i.e., the strategy, the structure and the processes or system, the enterprise just does not benefit.

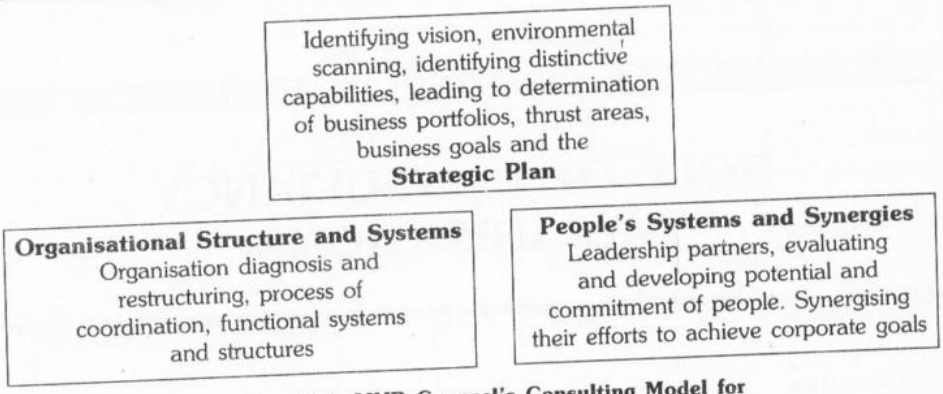


Fig. 36.1 MHB Counsel's Consulting Model for Business and Organisational Transformation

Franchising

Have you ever felt like quitting your job and starting on your own? Chances are that you have. But, before examining the option of going into any business, you may want to ask yourself a few questions like whether you are suited for business.

Is there a congenial business opportunity available? Do you have the resources to set up a business? If you conclude that business is what you want to do, you could either set up on your own or better still franchise.

Franchising as defined by the International Franchise Association is a continuous relationship in which a franchiser provides a licensed privilege to conduct business in addition to providing assistance in organising, training and merchandising. In return for these services the franchiser receives a certain amount from the franchisee. To elucidate, a franchiser could be an organisation which provides the busines package while the franchisee, an entity which adopts the business package.

There are three kinds of franchising. Product Franchising, one of the oldest forms of franchising, is when a dealer signs up to sell a product and uses the manufacturer's name to do. For instance, vehicle dealers from Maruti or Bajaj are product franchisees.

Tradename Franchising, the second form of franchising, allow a franchisee to use an organisation's name without using a particular product. For example, department or retail stores like Mark & Spencers or Wall Mart.

The most commonly recognised form of franchising is known as Business Format Franchising.

Consultancy Matrix

Management, according to Drucker, is what tradition is used to call a liberal art: 'liberal' because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; 'art' because it is practice and application. Managers draw on all the knowledge and insights of the humanities and social sciences — on psychology and philosophy, on economics and history, on the physical sciences and on ethics. But they

have to focus this knowledge on effectiveness and results — on healing a sick patient, teaching a student, building a bridge, designing and selling a 'user-friendly' software programme. For these reasons, management will increasingly be the discipline and the practice through which the 'humanities' will again acquire recognition, impact and relevance.

Consultancy Cooperation Matrix

Characteristics	*Countries*	
	Developed	*Developing*
Strengths	Rigour in data handling Sophistication in techniques	Understanding of dynamics of the local situation and effective communication Inexpensive
Limitations	Unfamiliar with local needs Tendency to transplant solutions	Lack of courage of conviction to put forth ideas Low acceptance due to their being taken for granted

Two Key Roles

In facilitating practising managers to apply this knowledge, consultants have two important roles to play:

(1) bringing new knowledge to the visible proximity of the practising manager.

(2) acting as 'information carriers' on examples of knowledge application — from industry to industry and from sector to sector.

In short, consultants must be good conceptualisers and communicators. The traditional concept views a consultant as a problem solver and if a problem is posed to him, he will find a solution and make a report to the client. This is not true, as the resources for solving a problem are invariably available within the organisations. It is the consultant's ability to help them use effective tools and techniques: to find their own unique solutions to their own special problems which is the more important aspect.

Production

As regards production, product research and research in equipment and processes are important.

(a) Product Research: It is the study of a product's design, colour brand, etc. which enriches the management's knowledge of the product and helps it to stabilise and expand which sales. It also evolves the necessary technical know-how of a product.

(b) Equipment and Process Research: It is the study of industrial processes and methods, tools and equipment and handling devices to produce a product on a commercial basis at the minimum cost. The development of new methods and mechanisms for increasing the safety processes are fertile fields for this type of study.

With a view to increasing production and employment and stimulating the development of industrial co-operatives, the small-scale Industries Board has constituted a working group, which has laid emphasis on technical assistance.

Technical Assistance Suggests —

(a) Survey both economic and technical viabilities to develop small-scale industries;

(b) Present schemes for the purpose of starting production throughout common service facilities and demonstration;

(c) Distribute improved tools and equipment; and

(d) Encourage design and research.

The emphasis on technical assistance aims at ensuring a rapid growth of small industrial units and making them more efficient rather than protecting them against competition from the organised sector of industry. This activity may be provided in the form of systematic techniques, standardisation and improved designs. In other words, technical know-how is the bedlock of the small-scale industry.

Role of the State

The Government of India has been encouraging the growth and development of small industries because of their important contribution to the nation's economy. The Small Industries Service Institute and the Development rendering valuable assistance and advice to small industrialists because the latter, unlike the big industrialists, cannot afford the financial cost of their own staff of qualified specialists. In order to make this service as complete and comprehensive as possible, a Design Cell was set up in each of the four Regional Institutes at Calcutta, Delhi, Mumbai and Chennai. The object of setting up of these cells was to study and improve the designs of the products of small industries. In August 1959, in order to improve its services, the Design Cell was centralised in one office at New Delhi because common workshop facilities were available there for purposes of experiment and building with attached workshops consisting of a tool room, a machine shop, a heat-treatment shop, a ceramic shop and laboratories for chemical and electrical research and a reading room and library containing many books on industrial designs.

The Industrial Design Cell

Since the setting-up of the Industrial Design Cell, the small-scale industry in India has reportedly made tremendous progress in the field of technology and marketing.

To cope with the constant demand for improvement in the products, the Industrial Design Cell has been engaged in evolving new designs which are suitable for production in the small-scale sector with its limited resources and mechanical and technical ability.

The principal function of an industrial design is to create product which is functionally perfect and has a strong aesthetic appeal, besides being economical and convenient in terms of production. The designer studies the capacity of the manufacturer in order to determine how a product should be designed. He also considers the total personality of the product in such a way that the product acquires a form which clearly expresses its function.

From the manufacturer's point of view, the most important purpose of industrial designing is to render the production of his products economical and convenient. A

good design means significant savings in skilled labour, reduction in the number of production operations and better utilisation of raw materials. These savings cannot be brought about at the cost of the utility and function of a product; this can best be accomplished when the designer has a good understanding of the machines, workers and the existing production methods of the manufacturer.

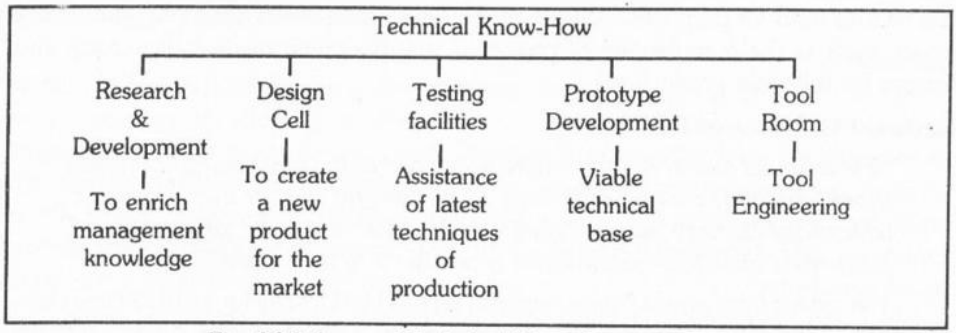


Fig. 36.2 Areas of Technical Know-how to Industry

Some of the percepts of a modern industrial design and what it tries to accomplish may be summarized here.

A modern design should fulfil the practical needs of modern life. It should express the spirit of our times and should also take advantage of new materials and techniques and develop utilitarian products. It should develop the forms, textures and colours that spring from the direct fulfilment of requirements in appropriate materials and techniques and should express the purpose of an object and techniques, and should also indicate as handicraft or simulating a technique which has also not been used. At the same time, it should be simple; its structure evident in its appearance and it should avoid extraneous enrichment.

A modern design should muster the machine for the service of man and should serve as wide a public as possible, considering the modest of needs and limited costs on less challenging than the requirements of pomp and luxury.

The Industrial Design Cell has played a vital and significant role in helping the small-scale sector in product designs. Till recently, most of the products manufactured in the small-scale sector were either imitations of imported products, irrespective of any consideration of suitability of Indian conditions, or were functionally bad. The Industrial Design Cell has made efforts to overcome these shortcomings and has helped the small-scale sector to improve its product design and its viability. At present, the Industrial Design Cell specialises in designs for the following industries:

(i) Cutlery and Domestic Utensils;
(ii) Domestic Electrical Appliances;
(iii) Furniture and Woodwork;
(iv) Ceramics;
(v) Leather Goods;
(vi) Builder's Hardware; and
(vii) Plastic Goods.

It also conducts studies and developmental work in some of the newer subjects and has contributed significantly to the development of small industries.

A considerable number of the designs developed by the Industrial Design Cell have been commercially manufactured. However, the use of the designs which have been developed is a continuing process, and it takes several months before a design can be fully used for production purposes. This is so because its use involves different stages, such as the manufacture of prototype, the designing of dyes, jigs, tools and fixtures for full-scale production.

National Institute of Design

"It is essential that at least the more advanced of the developing countries should establish design institutions as an integral part of their domestic technology delivery system. Until this is done organised production of indigenous industrial technologies is not likely to take place."

This extract from one of the key reports prepared by UNIDO for its 1979 New Delhi conference has been significant in the recognition and support which it suggested to the growing profession of industrial design in the developing world, a recognition which owed much to the experimentation and innovation in Indian design training and practice over the past twenty years. The Indian experience is unique, and awareness of its significance can now help to ensure that this profession sees substantial expansion and is put to work as an essential element in the achievement of national planning goals.

The Indian experience was limited to the development and improvement of products and systems devised for organised production by the industry in the post-independence era. It was an experience inspired by the Bauhaus school of pre-war Germany and its successors in the West, and one that sought relevance to a society with heritage of traditional design unparalleled outside some of our neighbouring Asian civilizations. This particular search for identity began in the early years following Independence, when rapid changes had begun to take place in production processes and within the Indian environment.

New technologies were beginning to enter the remote corners of India and they represented a change in kind, not merely in degree. The integral understanding of form and function that was the foundation of India's traditional production processes now began to fragment and decay. It was in this setting that in the late 1950s the Government of India invited Charles and Ray Eames, the celebrated design team of Los Angeles, to recommend *"a programme of design to serve as an aid to small industry."* Looking back on the enormous problems which pre-occupied India's administration in those years, it was fortunate indeed that there were at that time, minds sufficiently aware that the nature of the development process demanded a reinvestigation of the postulates and resources that determine a design structure and philosophy. The India Report of 1958 by the Eame had recommended *a sober investigation into those values and qualities* that Indians held important to a good life and that there be a scrutiny of the elements that go to make up a standard of living. To assist this process of renewal and discovery, Charles and Ray Eames suggested an

autonomous national institution for research, service and training in industrial and visual communication. This suggestion led to the establishment in 1961 of the National Institute of Design (NID) at Ahmedabad. Eighteen years later, the first United Nations Design Conference, hosted by NID, proclaimed the Ahmedabad Declaration on Industrial Design for Development, a seminal document in the history of a very old activity and a growing profession.

What is the Indian experience in Industrial design? The history of professional training in industrial design in India began at Ahmedabad at the NID. Its early years were spent in developing potential future designers, through advanced level programmes, tailor-made to the needs of candidates selected from backgrounds in engineering, architecture and applied art as well as from international design schools. In 1970, nine years after its founding, NID had commended its undergraduate professional Education Programme, drawing in students immediately after secondary school for a programme which extends to 5½ years. In 1969 the Indian Institute of Technology at Powai had commenced the Industrial Design Centre (IDC) which established post-graduate design courses to suit the requirements of engineering students and as an extension to engineering learning. These pioneering attempts at NID and IDC created the beginning of a national awareness of design as a professional discipline, and of what the industrial designer can do to help resolve Indian problems.

A unique contribution of the NID experiment has been the integration of real-life, professional situations within its curriculum. This stress on the reality of the market-place is a challenge to both student and teacher, introducing uncertainties and risks quite outside the attitudes and experiences generated in the Indian education scenario. Yet it is this participation in the real world which has enabled NID to pursue its mandate to seek relevance through sustained experimentation. Graduates of its 5½ year programmes have since 1975 moved out in the vanguard of a new cadre of fully-trained Indian designers.

A process to gear design training and consultancy at NID more firmly to national objectives began in 1974 through the report of the Review Committee on NID appointed by the Government under the chairmanship of Romesh Thapar. The "Thapar Report" was a strong reaffirmation of the institute's catalytic role and provided the basis of NID's present direction at a time when administrative problems and impatience for quantifiable results threatened the earlier faith in NID's purpose, expressed so eloquently by Charles and Ray Eames. Three years later, NID had received the 1977 ICSID-Philips Award, the first international award for design in developing countries and another powerful reinforcement for the validity of the years of patient learning through trial and error at NID. It was this honour which stimulated the United Nations to request India and NID to host the first UN Conference on Design, held in India, in January 1979 under the sponsorship of the International Council Societies of Industrial Design (ICSID). The UNIDO-ICSID-India Meeting, held in Ahmedabad and Mumbai, served to provide an atmosphere more conducive to the intelligent understanding of industrial design and its application to Indian circumstances. It has led to a seachange in government's attitude towards the profession (although a similar response from private industry is still awaited) and a greater sense

of confidence within India's small fraternity of trained designers, perhaps the most important ingredient in the future growth of their profession.

The enormous stimulus of the UNIDO-ICSID meeting and its exchange of ideas, led NID to a careful review of industrial objectives reflected in the Draft Sixth Plan documents. Through the study of these objectives, NID designers worked to locate the strategic points for design intervention over the coming years. Simultaneously, the Institute worked on its own future plans devised to reflect national priorities as well as the implementation in India of the Ahmedabad Declaration and the Major Recommendations.

Despite the progress of the last two decades, industrial design has touched only the surface of national need. As the NID Review Committee observed in 1974, *"Although design is a real need in our society, it is not yet a sufficiently felt need. Those who most need design seem least aware of its significance."* It is an activity frequently confused with pattern making, styling or fine art, or misunderstood as engineering design and plant layout. National economic objectives, most of which presume design intervention, never mention the profession in their listing of resources, activities or targets. In the Indian context, the events of the past few years have led to a situation where recognition overtook awareness, and the major task for the industrial designers in the country today is to spread an awareness of their roles beyond the confines of classrooms, conference auditoria and government offices.

The blueprint developed for NID suggests a pattern of development for design as an Indian profession. The emphasis is inevitably on services to the small-scale, craft and rural sectors as well as such larger programmes of extension activities which can take design training and awareness to practising professionals, craftsmen, engineers, small-scale entrepreneurs, scientists, and teachers as the *priority audience* who must be reached with design programmes tailor-made to suit specific needs. Advanced level programmes were therefore been rectivated at NID to supplement its existing professional education programmes, which will be strengthened with the introduction of new materials, skills and facilities. These additions will include materials such as cane, bamboo leather, glass bell-metal and wider range of plastics. *Ergonomics,* an essential element which relates all design solutions to the user and to the environment within which such solutions must function, requires urgent development not merely for design training but for effective client service. Garment design, extending beyond fashion to aid industry, education and the needs of lower income groups, were among the new disciplines introduced at the Institute. The need to understand the broader implications of all design decisions and to improve the quality of each human environment to which the designer is exposed called for emphasis on the environmental aspects of design. Reflecting its review of national priorities, NID needed to innovate programmes to assist sectors relatively untouched: design for a vast range of agriculture needs, for health and social welfare (including the design for handicapped) and design services directed to the needs of education, improved communications, transportation and energy conservation. Research priorities included documentation of craft skills and resources, services to the khadi sector, research into Indian habitats and into the traditions of product design related to these environments, into contemporary communication needs

including the development of typography in the major Indian languages to suit new requirements of mechanical and photographic reproduction. Underlying all these design activities must be a renewed awareness and emphasis on cost-reduction, material saving and improved productivity and on the need to generate employment, particularly in the decentralised sectors.

An interesting aspect of these recent development was the growing pressure on India to provide assistance to other countries, particularly Third World nations, which are now considering the introduction or strengthening of design activities within their own economies. There is dilemma here for the Indian profession is still small and vast domestic needs lie waiting. There is the ever-present danger of spreading available design skills and resources too thinly, not merely over domestic needs but in response to international pressures. The answer lies in the documentation and publication of training resources innovated in India and in the strengthening of design training facilities within the country. This infrastructure would help meet major national needs; and also provide an infrastructure of services which India could offer to assist its partners in development.

If there is one fundamental truth of design, it is probably that all design is teamwork, an inter-disciplinary activity *"to embrace all the aspects of human environment which are conditioned by industrial production."* It is, therefore, ultimately most concerned with people — their hopes, needs and aspirations. There is a national responsibility to ensure that the industrial designer not only achieves recognition, but is responsibly placed on those terms where he or she can make an important contribution. For this, India needs a national design policy, and the Ahmedabad Declaration provided the basis for such a national approach. Plan targets required the strengthening of industrial designs services in key sectors, and this in turn required significant changes in the pattern of support from Government and industry to design training and practice. Only a much more vigorous awareness provided the support so essential to programmes of design education, research and training in India, and ensure that designers are placed where they are most needed, and that their clients utilise and remunerate them with responsibility.

Institutional Arrangement

Provision of appropriate and inexpensive consultancy services to small and new entrepreneurs has always been a pre-requisite for achieving wider geographical dispersal of small and medium enterprises. This triggered the need for creating adequate institutional arrangements. Technical Consultancy Organisations (TCOs) were set up in the early 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 Overing 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.

Table 36.1

TCOs According to Sponsored Institutions

IDBI	*IFCI*	*ICICI*
1. KITCO, 1972	1. HIMCON, 1977	1. GITCO, 1978
2. NEITCO, 1973	2. RAJCON, 1978	2. ITCOT, 1979
3. BITCO, 1974	3. MPCON, 1979	3. MITCON, 1982
4. UPICO, 1974	4. NITCON, 1984	
5. APITCO, 1976	5. HARDICON, 1985	
6. ORITCO, 1976		
7. J & KITCO, 1977		
8. WEBCON, 1979		
9. NECON, 1987		

* Restructed on the lines of other TCOs in August, 1976.

Objectives

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 TCOs 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.

The major activities of TCOs are:

(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, management 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;

(xii) Offering merchant banking services;

(xiii) Undertaking market research and surveys, for specific products;

(xiv) Undertaking energy audit and energy conservation assignments;

(xv) Project supervision;

(xvi) Undertaking export consultancy and export oriented projects based on modern technology.

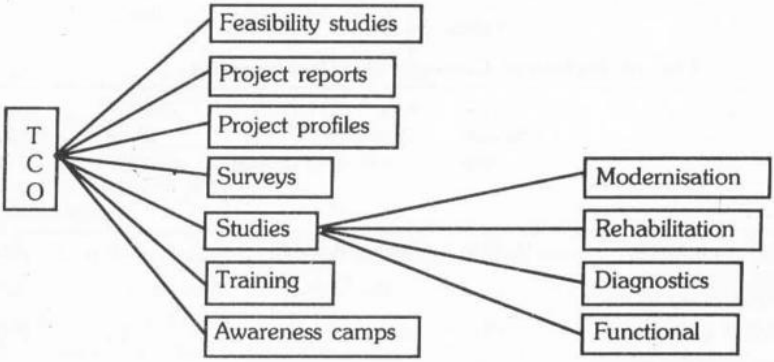


Fig. 36.3 Functions of TCOs

Some of the TCOs felt that the work of extending consultancy services to the small sector has, by and large, proved unremunerative. Tardy settlement of bills by clients, especially Government departments and institutions, was another constraint on their smooth functioning. Coupled with this were the frequent changes in the top management of Government agencies which are the clients of the TCOs rendering infructuous negotiated business and creating a communication gap between the user and the provider of services.

Science and Technology Entrepreneurship Parks

IDBI has been reviewing jointly with other participating institutions, the progress in the implementation of Science and Technology Entrepreneurship Parks (STEP) projects. Of the seven parks supported so far, Tiruchirapalli Regional Engineering College — STEP completed construction of the necessary infrastructure, including a central workshop and seven nursery sheds. The sheds were already been allotted to the prospective entrepreneurs. Besides, two EDPs were conducted and consultancy in computer software development and in non-ferrous machining provided. Units were also set up by 23 entrepreneurs of this park.

Harcourt Butler Technological Institute — STEP (Kanpur) developed special grades of vinyl ester resins and fibre reinforced spun pipes made out of cement. Projects and processes under development at this Park included special grades of printing inks, fatty alcohols and metal recovery agents. Construction work was in progress at Sri Jayachamarajendra College of Engineering — STEP (Mysore). EDPs for working professionals and first generation entrepreneurs and also a short-term course on computer aided design were conducted by this Park, apart from setting up a database and information centre providing requisite information to entrepreneurs and industries.

The Guru Nanak Engineering College — STEP (Ludhiana) started construction of its administrative and research and development (R & D) blocks. Meanwhile, it conducted an EDP and initiated action along with other agencies for joint efforts in R & D. Maulana Azad College of Technology — STEP (Bhopal) conducted an EDP; six of its trainees set up units. It also set up an Institute-Industry Linkage Cell. Jawaharlal Nehru Engineering Chemical Park (Bombay), conducted a workshop on *'Modern developments in the use of polymers as aids to crop production in dry climates'* and a training course on *'R & D in chemical industry.'*

Table 36.2

List of Technical Consultancy Organisation

Sr. No.	*Name of TCO*	*Year establish-ment*	*Area Operations*	*Paid up share capital (Rs. in lakh)*	*Lead sponsor-ing financial institution*
1.	Andhra Pradesh Industrial & Technical Consultancy Organisation Ltd. (APITCO)	1976	Andhra Pradesh	10	IDBI
2.	Bihar Industrial & Technical Consultancy Organisation Ltd. (BITCO)	1974	Bihar	15	IDBI
3.	Gujarat Industrial & Technical Consultancy Organisation Ltd. (GITCO)	1978	Gujarat	15	ICICI
4.	Haryana-Delhi Industrial Consultants Ltd. (HARDICON)	1985	Haryana & Delhi	10	IFCI
5.	Himachal Consultancy Organisation Ltd. (HIMCON)	1977	Himachal Pradesh	15	IFCI
6.	Industrial & Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT)	1979	Tamil Nadu	10	ICICI
7.	Jammu & Kashmir Industrial & Technical Consultancy Organisation Ltd. (J & KITCO)	1977	Jammu & Kashmir	15	IDBI
8.	Kerala Industrial & Technical Consultancy Organisation Ltd. (KITCO)	1972	Kerala	15	IDBI
9.	Madhya Pradesh Consultancy Organisation Ltd. (MPCON)	1979	Madhya Pradesh	15	IFCI

10. Maharashtra Industrial & Technical Consultancy Organisation Ltd. (MITCON)	1982	Maharashtra, Goa, Daman & Diu	10	ICICI
11. North-Eastern Industrial & Technical Consultancy Organisation Ltd. (NEITCO)	1973	North-Eastern Region	15	IDBI
12. North-Eastern Industrial Consultants Ltd. (NECON)	1987	Nagaland, Manipur Tripura & Mizoram	15	IDBI
13. North India Technical Consultancy Organisation Ltd. (NITCON)	1984	Punjab & Chandigarh	10	IFCI
14. Orissa Industrial & Technical Consultancy Organisation Ltd. (ORITCO)	1976	Orissa	15	IDBI
15. Rajasthan Consultancy Organisation Ltd. (RAJCON)	1978	Rajasthan	10	IFCI
16. Uttar Pradesh Industrial Consultants Ltd. (UPICO)	1974*	Uttar Pradesh	15	IDBI
17. West Bengal Consultancy Organisation Ltd. (WEBCON)	1979	West Bengal, Sikkim, Andaman & Nicobar Islands	15	IDBI
18. Technical Consultancy Organisation of Karnataka (TECSOK)	1977	Karnataka	25	Sponsored by Govt. of Karnataka

* Restructured on the lines of other TCOs in August 1976.

Conclusion

In a developing country, it is natural to seek consultancy from abroad in the initial stages of its growth. As it gathers experience in economic development, there is knowledge formation akin to capital formation. Consultancy expertise becomes increasingly available within the country. At the same time, since many development projects are carried out with help from developed countries or international agencies like the World Bank, it is commonplace to see the consultants from developed countries being entrusted with the task of project implementation. Naturally they are more expensive and, not being familiar with the local situation, tend to come up with unworkable solutions.

However, it is being increasingly realised by aid agencies that the best course of action is neither total reliance on foreign consultants nor for that matter, Indian consultants. Given the local situation, each has its strengths and limitations. What is needed is a combination of strengths of these two, as indicated in the diagram. However, for this to happen, the learning ability of Indian consultants is important. In a selection exercise of Indian consultants to work with Swedes in a development project, an important criterion applied by the Swedes was whether the Indian consultants had preconceived notions, or were willing to learn and modify their approach as the situation demanded. In another case, the Germans after identifying Indian talent went about encouraging the development of their expertise in applying a new German problem solving approach in India.

The Nineties are witnessing a new phenomenon. Young management graduates are entering the profession substantially. They welcome the challenge and variety of the assignments. But there is no formal course to develop them as consultants except for the Institute of Management Consultants of India, a recently metamorphosed body of the erstwhile Management Consultants Association of India. An important objective of this Institute is to test, by examination or otherwise, the competence of persons engaged in the profession and to incorporate its members only those who satisfy the Council in this regard. This approach aims to increase the confidence of the community in employing consultants. A college of consulting firms is also to be formed which will concentrate on furthering the interests of management consultancy.

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UNIT 6

MARKETING CHANNEL

With market forces changing rapidly, marketing has been seen as a change agent — a means of continuous adjustment and adaptation. This refers to significant orientation in marketing management and priorities. The imperatives of market exploitation demand understanding meaningful marketing facts, observations and opinions. The dynamics of successful marketing calls for selecting the right questions, getting answers, organise, evaluate and form strategies to deal with competition and technological changes. Marketing perspective focuses on what we want to find, how and where we find and what we believe it means to the business. It is an integrated approach to generate market power by critical analysis of the market logistically, segment proportion of the customers, understanding profile of customers and the competitors, finding new products and services, customer preferences, customer records as to rentention and defection etc.

Since the market place in the last decade has been registering rapid transformation, we are witnessing the business events reflect a distinct pace and capacity for expansion. The moments signal continuous shift in the way of performing — both in style and behaviour. Market is now being defined and perceived as a group of competitors. Hence there is an entrepreneurship surge in the market — the triumph of the entrepreneur. It suggests great opportunities in the fast growing market where there are many under served market niches. *Marketers are always competing to locate the markets that will value the products and would* pay for them. It calls for concentrating on market efforts of targeting and positioning the product. "ME TOO" profile of a market man is the formidable force enabling him acquire distinct competence and chalk out specific strategies for business emphasis. The competing dynamics is resulting in reinventing the marketer. It is the only stimulus today in the development of "new" market concepts. Today 'operating salesman' is reborn as a marketer because he is to take strategic decisions in the new market requirements.

Market focus therefore demands —

- — Perceiving market as market intelligence.
- — Targeting customers.
- — Managing for profitability and not sales volume alone.
- — Building customer relationship and loyalty.
- — Growing with the market.

So, *'Compete'* is the buzz word. It is forcing market operators to develop innovative strategies to sway over the market.

Today's salesman, *nay* the marketing man must always edge closer to the market call to transcend the adventurous customers. And excel by solving daunting problems continuously to be different in the market.

Marketing information will become a highly valued asset in today's information age. Monitoring and scanning scenario building and continuous planning would be the marketing

priority. As the future will occupy a prominent position in marketing research concerns, marketing research is expected to change both in technique and orientation. Marketing intelligence, therefore will be a critical factor to be given greater attention to. While assessing strategic situation, executives will be focussing on marketing factors and strategies, corporate affairs and public relations activities. Marketing environment is expected to be paradoxical — keenly competitive, but exhibiting more cooperation, making marketing more important in the management hierarchy.

Marketing intelligence is supposed to explore real demands of the customers and the steps the competitors are taking to fulfill the same. Marketing intelligence is a way to understand the customer's perception of values and purchase preference. It shall be imperative for the organisations to be alert about competitor's approach towards marketing determinants like dependability and reliability, consumer-friendly features, technical specification, high quality and service uniqueness.

Marketing intelligence has a greater value today in view of market complexities — consumer preferences *vis-a-vis* the product availability. Consumer, therefore goes wholeheartedly for the quality product and the excellence in services. Based on these premises, the success of marketing organisation should be measured — how far the organisation is adapting itself to the customer's aspirations. It is in this context that marketing intelligence has its importance. It enables the organisation to be pro-active in terms of futurology.

Marketing intelligence addresses to the constant research and a deeper insight of the market changes and consumer preference and the organisation's response in terms of products and services. The recent phenomenon in consumer market suggests a continuous adapting to the changes in technology and products. Today, when there is a shift from micro to macro business environment, it is high time we thought of an organised market intelligence for regular communication and integration for market exploitation at all operational levels.

It is therefore, imperative:

- To go deeper into the mechanism of the sales and profit element of business,
- Assess the market potential,
- Monitor and measure the market place,
- Locate and attract new customers,
- Identify the customer's preferences, review the customer's defection percentage and the reasons thereof,
- Fight competition with competitive edge,
- Adopt competitive technology to enhance performance and profitability.

Market has been aspiring lately for more products and a faster pace. The market operators therefor must rush to move markets using abundant marketing intelligence.

CHAPTER 37

METHODS OF MARKETING

Introduction

The resources required for taking care of the various marketing aspects are obviously lacking with the small-scale sector with which they are not in a position to compete with large well-established business houses and have to face unfair competition. A small detergent manufacturer, for example, cannot compete with Hindustan Lever or Tatas for a market share due to his inability to conduct surveys, create a brand image, establish marketing channels etc. He has therefore to remain content with whatever residual market is left over after the major share is covered by these corporations. The Government has banned the large sector from producing certain items but such preventive measures have not solved the basic marketing problem of making available quality goods at a reasonable price to the consumer, *the ultimate aim of all manufacturing activities.* The consumer's interests must therefore be safeguarded. As a buyer he would certainly like to get quality goods at a reasonable cost without bothering to know whether the goods are produced by a small entrepreneur or by a big industrial house.

The strategy for marketing goods produced by entrepreneur must therefore be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service.

The Marketing Concept

It is necessary to distinguish between marketing as a concept and marketing as a group of activities that executives carry out, between marketing as a *'thought-process'* and marketing as a *'doing-process.'* Marketing must start as a concept which defines the purpose of marketing operations rather than as a description of the operations themselves. For when a company has embraced the marketing concept there are many different ways in which the marketing functions can be organised according to the particular circumstances and environment in which the individual company finds itself. There is no universal formula for mobilising and organising the marketing effort and no single mould for casting a firm's marketing structure. There is, indeed, no universally accepted definition of *'marketing.'*

The American Marketing Association (AMA) defines marketing as *'the performance of business activities that direct the flow of goods and services from producer*

to consumer or user.' As it stands, this definition is purely factual and descriptive. It emphasises activity rather than effective accomplishment. It does not provide an adequate explanation of which goods or services in what quantities and with what characteristics ought to be produced or of the importance of planning and integrating these and related activities concerned with the movement of goods and services from the producer to the consumer. Marketing does not merely take over where production leaves off but is concerned with determining the nature and scale of production and with profitability, exploiting a firm's capacities and technological know-how in relation to marketing opportunities. In other words, marketing decision precedes production decisions and investment decisions. The economies of large-scale production and return from long-range investments cannot be realised unless the output can be sold and the added capacity resulting from investment fully utilised, at least for most of the time. There is nothing so wasteful as doing with great efficiency that which should not have been done at all. Finally, the above definition places the consumer or user at the trail-end of the production-marketing sequence.

J.H.Buck, a Unilever food marketing specialist, gave his organisation's definition of marketing as *'the planning and execution of all aspects and activities of product so as to extent optimum influence on the consumer to result in maximum long-term profit.*[1] The key element in this definition is maximum consumption at optimum price resulting in maximum long-term profit.' A company must first establish the benefits of its products to the prospective purchaser and these benefits must be saleable at a price at least sufficient to cover the cost of initial product development and of getting them across to the purchaser or user. Further, the bundle of benefits represented by the product must be recognised by the potential purchaser as value for the money he is asked to pay. At this stage, marketing aims to ensure that the quality and performance of the product, its penetration and the advertising, all combine to give the most effective share in the market. It is right and proper that this should be so since one of the major criteria by which a company's performance is judged is the profit earned in relation to capital employed in the business.

Allowing for varying degrees of generalisation and emphasis, most of the foregoing definitions are broadly in accord. The danger to be avoided, of course, is ending up with a definition which sacrifices precision for the sake of the generalisation. What is required is a precise and concise definition which is both meaningful to the individual firm, and at the same time, is applicable to all types of business in the consumer and industrial goods and service fields. Therefore, marketing can be defined as the primary management function which organises and directs the aggregate of business activities involved in converting customer purchasing power into effective demand for a specific product or service and in moving the product or service and in moving the product or service to the final customer or user so as to achieve company-set profit or other objectives.*

1. Institute of Marketing and Sales Management, published paper No. 128, April 1962.

* The Institute of Marketing codified a new definition in September 1986, with acknowledgement, and incorporating the following sight word changes: marketing is the management function which organises and directs all those business activities evolved in assessing and converting cutomer purchasing power into effective demand for a specific product or services to the final consumer or user so as to achieve the profit target or other objectives set by a company.

Traditional Marketing vs. Modern Marketing

Traditional Marketing	*Modern Marketing*
1. Meaning It deals with production and products to be sold out at any cost to consumers.	It deals with production and distribution, satisfying the needs of consumers.
2. Satisfaction of consumers It deals with circulation of products, irrespective of satisfaction of consumers.	It considers consumer satisfaction as an important aspect.
3. Profit generation Profit-earning has weightage.	Profit motive is secondary to the satisfaction of the consumers.
4. Approach It is product-oriented.	It is consumer-oriented.
5. Mutual relations It does not find any relationship among the various marketing functions.	It takes into account relationship, coordination and integration among all the marketing functions.
6. Social responsibility It has such an approach.	It deals with satisfaction of consumers as a social responsibility. Therefore, it provides quality products, in time at reasonable prices. Moreover to pay taxes in time to govt. and participate in govt. welfare programmes.
7. Research & development It is absent in this regard.	However, it has a basis of research and development of products, marketing research for products, consumers and publicity.

The term *'customers'* in the foregoing definition of marketing, means not only the ultimate consumer or user of product but the manufacturer's own customers, importers, retailers and wholesalers who must be induced to stock, distribute and give active selling support to the product if the final user is to be able to buy it. Effective demand means demand at price the customer is both able and willing to pay and at a profit that makes it worthwhile for a company to make and supply the product. By *'specific product or service'* is meant a product or service which by virtue of its differentiation, real or imaginary, can be readily distinguished from competitive substitute products or services. The differentiation, whether of a characteristic of the product itself, of its packaging or pricing, of its advertising and promotion, must be significant enough to form the basis of preference by the potential customer.

The Institute of Marketing codified a new definition in September 1986, with acknowledgement, and incorporating the following slight word changes: marketing is the management function which organises and directs all those business activities evolved in assessing and converting customer purchasing power into effective demand for a specific product or services to the final consumer or user so as to achieve the profit target or other objectives set by a company.

A very large part of the marketing effort of most companies and an ever increasing share of marketing expenditures, is taken up with keeping the company's products on

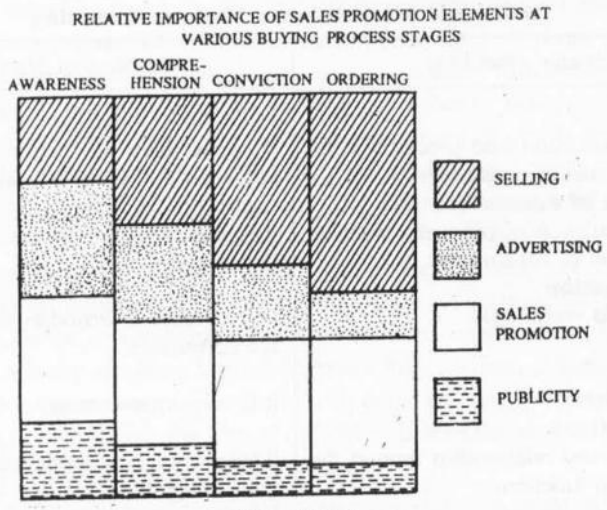


Fig. 37.1

Source: Puzzullo, M.A. (1982), "Marketing for Bankers", American Bankers Association, Washington, p. 298.

the move between the factory's warehouse and the final customer. The whole of the company's sales, effort, through personal selling and advertising, as well as the location of supply — warehousing, depot location, stock control and shipment, represent a major component in marketing costs. Whenever products stop moving for any reason on their journey towards the ultimate user, they accumulate cost — for warehousing and storage, insurance, stock-handling, order processing and packing, stock-obsolescence and deterioration.

Ideally, marketing aims to secure the optimum rate of movements of products from factory to final user, that is to say, that rate which combines the most profitable rates of sale and stockturn and the minimum level of investment in stocks consistent with providing adequate service to customers. This last point can be critically important in the case of certain goods subject to cyclical or seasonal supply and demand. Where

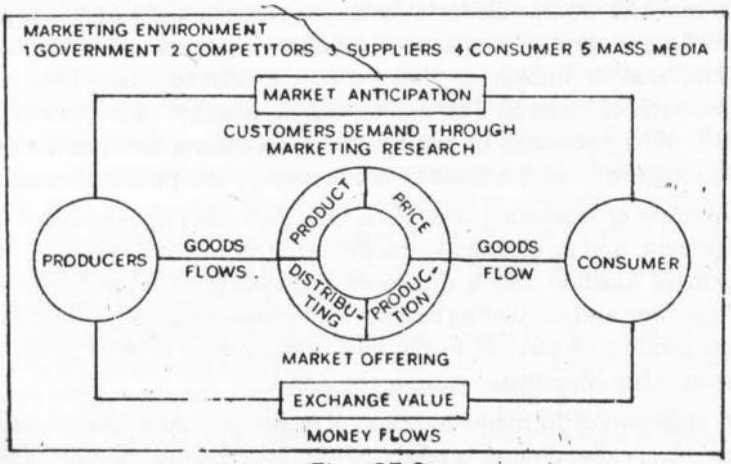


Fig. 37.2

it is necessary to hold strategic reserves of a particular commodity or product then the accumulation of cost by holding heavy stocks may be less than the accumulated cost of frequent or irregular short-run production.

Finally, in our definition no assumption is made as regards the profits maximising or cost-minimising goals of the company. In any given set of circumstances, the profit objective is not the sole measure for judging a company's performance over a given period of time. Factors such as building up the company's prestige or status in the industry, the fear of attracting new entrants to the market, the fear of government intervention and regulations, the desire to an 'average-rate of profit' between the highest attainable short-run profits and the greatest risk of maximum losses are other legitimate objectives or considerations. However, it is fair to say that every company goal, regardless of the language in which it may be couched, has an economic dimension.

The British Institute of Marketing has defined marketing as *'the creative management function which promotes trade and employment by assessing consumer needs and initiating research and development to meet them; it coordinates the resources of production and distribution of goods and services; determines and directs the nature and scale of the total effort required to sell profitably the maximum production to the ultimate user.'*

This definition is more explicit than that used by the AMA since it makes specific reference to the research and development responsibilities of marketing; to the key coordinating role it plays between the linked process of production, selling and distribution. According to the definition, marketing is nothing more or less than the total business function of producing a saleable product.

Salient Features of Marketing

The salient features of marketing are:

(i) It is a creative function;

(ii) It promotes business and employment;

(iii) It co-ordinates finance, production and distribution, and determines and directs the scale and value of the total efforts;

(iv) There is an emphasis on what the customer/borrower wants;

(v) There is an emphasis on the social good, on increasing employment, by giving the customer/consumer the chance to decide; and

(vi) It is a process of exchange between seller and buyer. It may be a commodity or a service.

Business firms in competitive markets must abandon the historical approach of manufacturing what they want to sell and instead manufacture what their customers want to buy. However, this does not mean that through market research, customers can provide the manufacturer with a fairly detailed specification of the product they want. In practice, consumers cannot demand product not already in existence; they are not very articulate when it comes to specifying their particular requirements; they

have difficulty in visualising what the product should look like and what they expect it to do for them. The basic idea for a product comes from the manufacturer, arising out of his detailed knowledge and understanding of consumer needs, and his ability and ingenuity in translating, in technological terms, a specific need into a workable product at a price which the consumer is prepared to pay and which gives the manufacturer sufficient profit to make it worth his while to market it.

Thus, management decisions and the policies based on them are taken in the fullest possible knowledge of market factors and awareness of the effects of those decisions and policies on the market. This should not be taken to imply that all management decisions are reached in this way but simply that, in the final analysis, management has the responsibility for making a profit through supplying a marketable output, out of a company's technological facilities and know-how that creates saleable products. Production and investment plans, raw materials procurement and employment programmes can only be based on confidence in what can be sold.

Chart 37.1

Four Basic Business Strategies

	Products	
Markets	*Present Products*	*New Products*
Present Markets	Market Penetration	Products Development
New Markets	Market Development	Diversification

Source: Adapted from, Ansoff, H. (1965), *Corporate Strategy,* McGraw-Hill, New York.

The Principal Marketing Functions

A marketing function may be defined as a major specialised activity or group of activities performed in the marketing of goods and services. Although the performance of a specific function may be inescapable, it is frequently transferable; in other words it has to be performed by someone regardless of his official title and responsibilities. Another characteristic of a function is that whereas its purpose may be unchanging, its content, in terms of the number and kinds of activities involved, may be subject to constant change. Newer and better ways of doing things and carrying out traditional functions are continually being developed.

Traditionally, some seven or eight so-called marketing functions have been listed and normally include *(a)* the exchange functions of buying and selling, *(b)* the physical distribution functions of transporting, warehousing and handling goods between producer and customer, *(c)* what are usually described as the *'facilitating'* functions which take in product standardisation and simplification, commercial and market information, financing and risk-bearing. (It is questionable whether risk-bearing, in the true entrepreneurial sense of committing one's own resources to a speculative venture, really belongs in any list of marketing functions, risk-bearing is a responsibility jointly undertaken by the managers of a business or solely by the chief executive).

This kind of analysis is inadequate as a description of modern marketing activities since it fails to distinguish clearly between major functions and the specialised activities which comprise the different functions. Under the modern marketing concept, there are four principal functions — marketing research and information, product planning, selling and distribution, and advertising and promotion. Chart sets out those major functions and the specialised activities involved in each.

Chart 37.2

The Principal Marketing Functions

Specific function	*Activities involved*
Marketing Information and Research	Economic, business, trade, industry, consumer, user, product, sales and advertising research and analysis. Information handling and data processing. Marketing operations research. Competitive intelligence.
Product Planning	Determining and developing the company's product mix. Matching the products' specifications, packaging, pricing, performance and servicing to customer needs through product and service improvements and new product development.
Sales and Distribution	Field selling Selection of distribution channels Warehousing Transport Sales analysis Sales reporting Sales forecasting Sales budgets and quotas Merchandising Sales communications
Advertising and Promotion	Advertising to the customer or user in all media (press, television, cinema, radio, outdoor posters, etc.) Consumer promotion directed at the customer or user, e.g., reduced price offers, banded pack offers, premiums, competitions, couponing etc. Point-of-purchase display material. Trade promotion, e.g., incentive schemes, display competitions, sales contests.

Extracted from *Marketing in a Competitive Economy* by Lesile Rodger.

Marketing Mix

A successful marketing strategy depends upon a marketing mix of all the marketing elements and resources.

The basic marketing mix is the blending of four inputs or sub-mixes which form the core of the marketing system: (1) Product mix, (2) Place mix, (3) Promotion mix, and (4) Price mix. The outputs are optimum productivity and satisfaction.



Fig. 37.3: Elements of Marketing Mix

Marketing Process

Marketing involves three basic inputs: the product, the promotional methods and the distribution system. These three are the core of the marketing programme and must be integrated to achieve maximum consumer satisfaction and optimum profits. The marketing process brings together producers and customers — the two important segments in any exchange. An exchange or a transaction takes place when a market offering is acceptable to the customer who is prepared to give something in return for the product he purchases.

The marketing process starts with knowledge of the customer, his needs and ends with a customer purchase and the satisfaction of those needs. Through technical product research and customer research, generalised needs are translated into specific product sales opportunities. Product planning identifies and specifies the particular product-price-package combinations to exploit these opportunities. Products are engineered or formulated (a number of variations of a single prototype may be made up), screened and tested with customers for overall acceptance and performance. Final decisions have to be taken on packaging design, pricing and trade terms. Assuming that one product stands out as eminently suitable in all major respects the next step is to prepare a marketing plan, in writing, setting down all the relevant facts about the product, the market, and the competition, the company's marketing objectives and sales goals and the means by which they are to be achieved.

BOX 37.1 ELEMENTS OF THE MARKETING MIX

1. *General Planning:*
   (–) Establishing an acceptable and possible rate of growth.
   (–) Determining the size and extent of market where business may function profitably.
   (–) Determining the costs and expenses needed for the business operations.
   (–) Estimating the finance needed.
2. *Product Planning:*
   (–) Determining the product or service offered.
   (–) The possible improvement and innovation in the product.
   (–) The brand and packaging policies.
   (–) The importance of servicing and after-sales service.
3. *Pricing:*
   (–) The level and psychological aspects of prices.
   (–) The appropriate margin.
   (–) Research price maintenance.
   (–) Government control, if any.
4. *Channels of Distribution:*
   (–) Selling through wholesalers.
   (–) Appointing sole selling agencies.
   (–) Selling direct through own sales force.
5. *Sales Force:*
   (–) The extent of personal selling.
   (–) Extent of approach to wholesalers and retailers.
   (–) Extent of approach to consumers direct.
6. *Advertising and Sales Promotion:*
   (–) The advertising programme.
   (–) Importance given to display and point-of-sale material.
   (–) Extent of sales promotion aimed at consumers.
   (–) Extent of sales promotion to dealers.
7. *Physical Handling:*
   (–) Transportation.
   (–) Warehousing.
   (–) Inventory policies.
   (–) Possible reduction in costs.
8. *Marketing Research:*
   (–) Sales analysis.
   (–) Field surveys.
   (–) Use of outside agencies.

Market Segementation

No organisation can effectively serve all sections of the market. This is so, because customers are numerous, widely spread over and differ in their buying practices/ requirements and perceptions. This is more relevant to SSI units, in view of their resource constraints. It is, therefore, essential to first decide which segments of the

market the organisation would be in the best position to serve. This can be facilitated through market segmentation.

This country has many diversities with regard to consumption patterns. Thus, in reality, it is a conglomeration of several markets in which people tend to differ. People can be regrouped demographically, economically, and socially, but even within these groups, each set of consumers can be differentiated further. For instance, individuals sharing a common demographic profile may show variations in terms of a cultural and demographic mosaic. The marketer has to recognise all these differences since each individual represents a unique opportunity.

Segmentation is dynamic and extends beyond the traditional two-dimensional classification. We need to treat it as three- four- or five-dimensional segmenting. Many intelligent companies have been able to do beyond two-dimension. However, it is only the gut feeling of the marketer that will help him venture into the fourth and fifth dimensions of segmentating. Thus, segmentation itself becomes a multi-dimensional issue, and a marketer has to face a complex matrix in terms of positioning products.

Segmentation or subdivision of the market is based upon the modern marketing concept, i.e., market oriented strategy and philosophy. Segmentation places special emphasis on the demand side of the market. It is a more rational and more precise adjustment of the product and marketing effort is tuned to consumer of user needs and requirements. Segmentation implies bending of supply to the will of demand as far as feasible and desirable. It recognises that there are several demand schedules and not necessarily a single demand schedule or curve. For each demand schedule representing a group of buyers with similar needs and characteristics, we can prepare a separate and precise market offering or marketing mix.

Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising *differences* in the response characteristics of the various parts of the market. In a sense, market segmentation is the strategy of *divide and conquer, i.e.,* dividing markets in order to conquer them. Its philosophy is something for everybody, within practicable limits. Marketing strategy is adjusted to inherent differences in buyer behaviour. For different groups of customers, *i.e.,* market segments, we have different sets of marketing strategies. Segmentation strategy is an answer to the question, "*To whom* should we sell our products, and *what* should we sell them?" It is a strategic choice concerned with "doing the right things" as opposed to the tactical choice, "doing things right."

Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing mix for each chosen segment, or a group of buyers having homogenous demand. Each subdivision or segment can be selected as a market target to be reached with a distinct marketing mix.

Marketers must go beyond the age-old classifications based on consumer locations, age-profiles, gender, and economic strata, among others, and take into account several other factors that differentiate the market.

Cultural Factors: Societal and cultural factors play a significant role in defining markets for particular products. Unfortunately, although marketers often talk about this,

they rarely address it properly. This is particularly true when the product is of a personal nature. Another example of cultural inhibitors is our psyche to avoid wastage. This holds in the consumer durables replacement market. Try and convince a consumer to junk his existing, but outdated, television set for a state-of-the-art set — and even if he fits into the profile of your ideal customer, the chances are that he will refuse to do so. The solution, then, is to offer him some kind of an exchange scheme. As long as he feels that he is getting some value for his old set — in terms of a reduced price — he can be initiated into making a purchase decision. Of course, cultural factors are also dynamic and changing constantly.

Market segmentation consists of the following steps:

(i) identification of segments of a market;

(ii) evaluation of the target group of consumers; and

(iii) product positioning.

Market consists of buyers, who differ in one or more respects. They may differ in their wants, resources, geographical locations, buying attitudes/practices. One may use one or more of these variables to identify suitable segments or target groups of consumers.

(a) Geographic Variables

These comprise district, region, state, nation, climate, etc. The unit will have to decide on one or a few geographical areas to operate in. It depends primarily on the nature of its product.

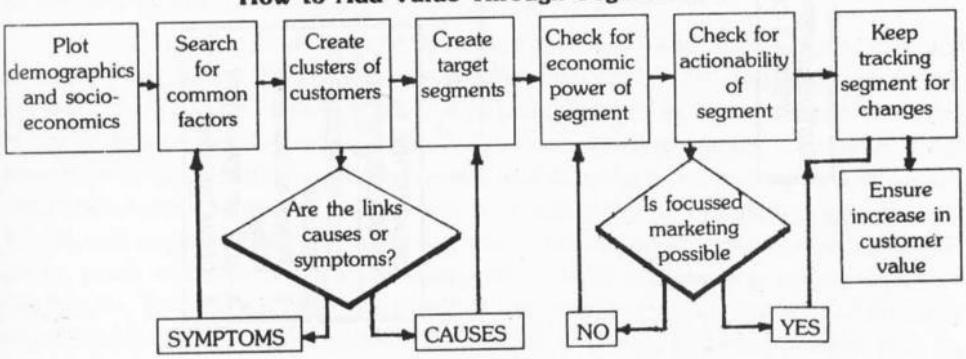
(b) Demographic Variables

These include sex, age, family, size, income, occupation, religion etc. They form an important base for distinguishing consumer groups. For example, a textile unit may use as a demographic variable for market segmentation and may decide to produce sarees, shirting and suiting.

(c) Psychographic Variables

These variables comprise social status, life style and personality traits. Producers of cosmetics, alcoholic beverages and furniture use life style as a base for market segmentation.

How to Add Value Through Segmentation



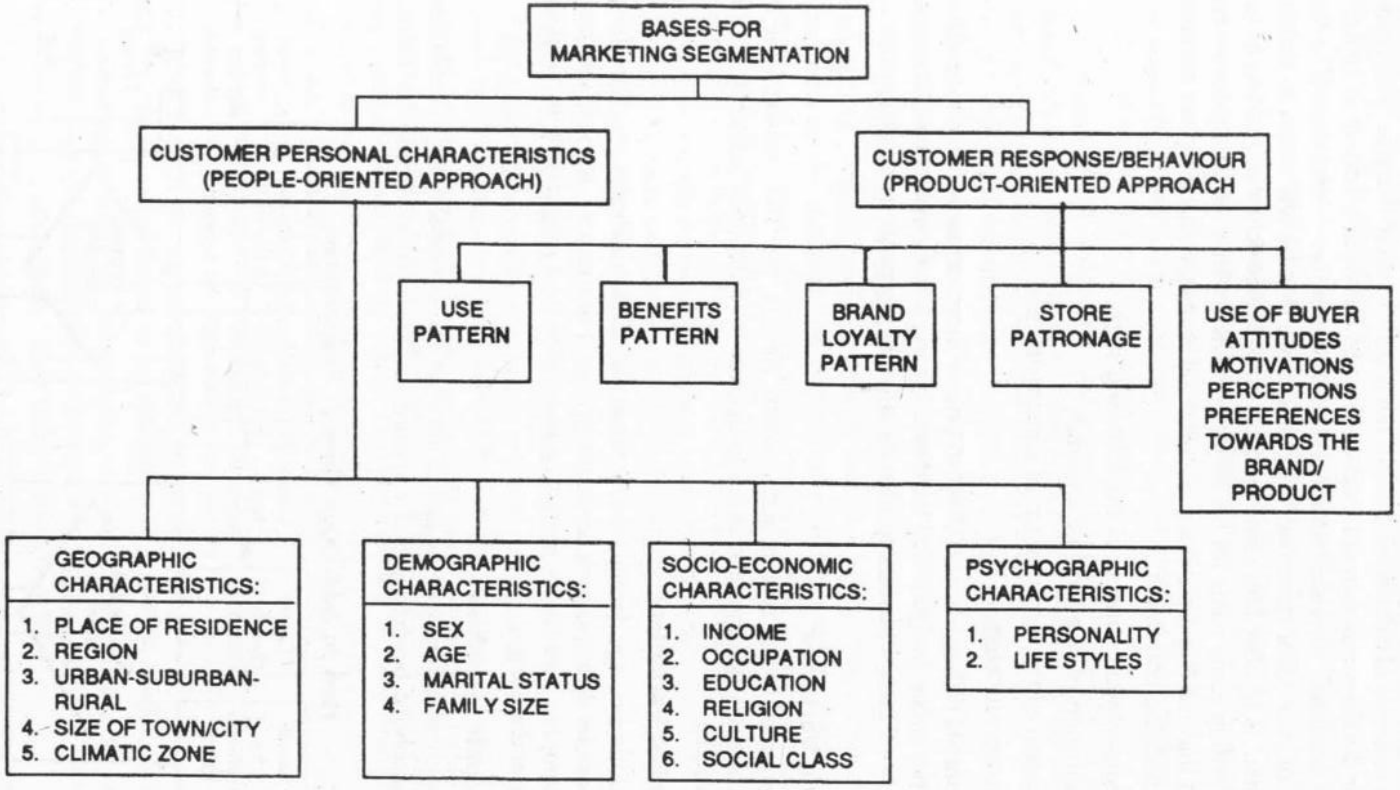

BASES FOR MARKETING SEGMENTATION
CUSTOMER PERSONAL CHARACTERISTICS (PEOPLE-ORIENTED APPROACH)
CUSTOMER RESPONSE/BEHAVIOUR (PRODUCT-ORIENTED APPROACH
USE PATTERN
BENEFITS PATTERN
BRAND LOYALTY PATTERN
STORE PATRONAGE
USE OF BUYER ATTITUDES MOTIVATIONS PERCEPTIONS PREFERENCES TOWARDS THE BRAND/ PRODUCT
GEOGRAPHIC CHARACTERISTICS:
1. PLACE OF RESIDENCE
2. REGION
3. URBAN-SUBURBAN-RURAL
4. SIZE OF TOWN/CITY
5. CLIMATIC ZONE
DEMOGRAPHIC CHARACTERISTICS:
1. SEX
2. AGE
3. MARITAL STATUS
4. FAMILY SIZE
SOCIO-ECONOMIC CHARACTERISTICS:
1. INCOME
2. OCCUPATION
3. EDUCATION
4. RELIGION
5. CULTURE
6. SOCIAL CLASS
PSYCHOGRAPHIC CHARACTERISTICS:
1. PERSONALITY
2. LIFE STYLES

Fig. 37.4

(d) Behavioural Variables

Consumers differ in knowledge, tastes, attitudes and response. It is, therefore, necessary for a producer to take into account these factors.

Once the broad segments of the market are identified, the producer has to evaluate those segments and select one or a few segment which he can reach and serve.

Building the image of a product is an essential pre-requisite for successful marketing. This is referred to as product positioning and can be effected through one or more of the following ways:

(a) *Highlighting specific/special features of the product:* Some toothpaste manufacturers attribute Ayurvedic characteristics to their product.

(b) *Indicating specific benefits:* A two-wheeler manufacturer advertises the high mileage yielded by his product, in order to highlight fuel economy.

(c) *Utility for special occasions:* Identifying usage of product with special occasions, e.g., special occasion sarees or wedding sarees.

(d) *Indicating user category:* The producer highlights the specific category of consumers for whom the product is meant. For example, calculators are being designed and produced for various groups of consumers, e.g., students, engineers, accountants and scientists.

(e) *Comparing against similar product:* In this case, a producer tries to show his customers how his product is superior to other products. For example, a TV manufacturer may highlight the quality of picture tubes which are being used in his TV sets.

Market Positioning

The market positioning is the process of distinguishing an enterprise or an product from competitors along real dimensions — products or corporate values that are meaningful to customers — to become the preferred enterprise or product in a market. Essentially, the process involves knowing what the market wants and needs, identifying enterprise and competitors' strengths and weaknesses, and assessing abilities to meet market requirements better than enterprise competitors do. There are three logical steps to translate market positioning into reality. They are:

Step-1: Analyse market opportunities for your company: Identify areas in which your company feels it is likely to enjoy a differential adv[illegible] over the competition. For example, if a large manufacturer of vinyl products used in the construction industry wants to evaluate opportunities in Rs. 25 cm. floor-covering market, the marketer will have to select a particularly opportune area and develop a positioning strategy for his company's market entry. He studies sales potential of the new market, its growth rate, buyers and buying influences, suppliers, and their influences, cost to make and sell, prices, profit margins, intensity of competition, market dynamics and channels of distribution. The success factors like market size, market growth, barriers to entry, the negotiating power of buyers and suppliers, price sensitivity and environment may be charted, both quantitatively and qualitatively.

Step-2: Select a market and target a specific sub-group: To fine-tune a positioning strategy, segment the market into sub-groups, for example by product (ceramic tile, brick, sheet vinyl) and by purchaser (residential, institutional or commercial). Any segment can be sub-grouped, for example residential sheet vinyl segments into: (1) new and replacement floor covering by contractors and (2) Do it yourself kit (DIY) – If DIY is selected, research indicates that installation and upkeep are two vital attributes the purchaser looking for in sheet vinyl floor covering. A product space map can be drawn along with the positions of competitors.

Step-3: Devise a competitive strategy: To achieve this, a company must focus primarily on identifying its competitors' weaknesses and capitalizing on its own strengths to differentiate an offer.

A matrix should be drawn, ranking its own and competitors business strengths on a scale of 1 to 5 incorporating, for example, market share, profitability, product range, coverage, corporate profile, financial strength, cost position, product differentiation, quality of management, distribution, technology and company reputation. After such analysis, find gaps to differentiate an offer. Make it look like a benefit bundle, or value package involving products, price, distribution and service mix. If product distinction is not possible, the range of other possibilities is endless: everything from timely response to enquiries, to help in design and application, delivery, warranties, return policies, price and payment conditions, service and maintenance, salesperson skills, process or a strong distribution network.

Box 37.2

THE RIGHT TIME APPROACH

Product Launch

Before time: the product is not relevant to the concerned target audience within the specified geographical area as a function of time; the necessary infrastructure is not available to support the product; the need for the benefits of the product category is more a figment of the marketer's imagination, than based on market realities.

On time: the need-benefit for the product category is just about surfacing; the necessary infrastructure to support the product is in shape or is taking shape; the product is an early mover in its category.

After time: the product's technology is outdated/obsolete or second-grade; the product is the fifth, sixth... entrant in its category.

Promotions

Tie up with the tide (seasonality) if the resources are limited; for a player of size and financial muscle, unconventional timing in promotions can deliver it a strategic marketing edge.

Between elements of the marketing mix/packaging

Synchronise the timing between promotions and distribution to avoid an advertising and product availability trap; packaging can certainly be a means for differentiation, but futuristic packaging reflects more often than not on high product price.

Exit

Exit first with a replacement to maintain/acquire the position of a technology leader; if existing altogether from the producer category, make a lot of noise, let the competition be confused, and get out.

India, like many developing countries, is expanding in the number of efficient marketing organisations. Marketing enterprises engaged in meaningful market research on a continuing basis are very few. There are distributing organisations which have undertaken promotional functions. There is just a beginning of designing the products after a study of customer requirements. Very few so-called marketing organisations possess adequate resources to spend on advertising and so stimulate interest of prospective customers. In a developing country, its economy can be greatly expanded, improved and diversified by efficient marketing organisations, manned by expert personnel. Small Industries need them more. If their share in domestic, Government and foreign markets is to be secured and expanded, the small entrepreneur should develop a new attitude and assist in the process of building up powerful and prosperous marketing organisations.

Conclusion

Industrial liberalisation, globalisation, marketing economy and heightened competition is changing all this permanently. While labour laws have become antiquated and virtually ineffective, Government policies which encourage dispersal of industries into backward area locations have helped improve matters. Market forces are now compelling modernisation, productivity improvement and value of additional efficiency like never before. Some parts of the country where industry had been severally affected by obscurantist trade unionism, are today showing heightened pragmatism to generate and endowed states do not seem to appreciate that in order to stay ahead in the game of economic and industrial development, only one thing counts — efficiency of value addition and an enabling climate along with a degree of ressurance about the future.

Marketing management is responsible for creating customers by persuading them through advertising and personal salesmanship that the company's products or services match their indicated needs and preferences more closely then competitors' offerings, by developing products and services through technical and market research which appear to offer profitable sales opportunities and at a price, time and place the customers want.

As with scienties, so with markets, segments change with the passage of time. Only those companies that can adapt to these changes, and innovate to serve the evolving needs of customer can hope to survive. To do this, marketers will have to continuously go back to the basics, Niches or segments are not made by product managers, the changing needs and perceptions of consumers create them. A smart product manager only identifies them and provides products to fill them up. The future, therefore, belongs to the pro-active challenger.

Marketing Research

In a dynamic economy, marketing research acts as the investigative arm of the marketing manager — a management tool in the planning-control cycle. Marketing research covers: (1) market research; (2) sales research; (3) product research; (4) advertising and promotion research; (5) research on sales methods and policies; (6) distribution research, including dealers research.

Marketing research is an invaluable tool to *plan, measure* and *evaluate* marketing effort so that the marketing management can offer: (1) the right product; (2) the right package, and brand; (3) the right price; (4) the right promotion; (5) the right channels; (6) the right means of physical distribution; (7) the right trade policies, and (8) the right marketing strategies and plans.

The marketing concept also emphasises the role of information as the key resource to accomplish the twin objectives of customer satisfaction and profitability. Thus, marketing research has grown along with the expanded role of marketing as the focus for business decision-marketing:

(1) To identify and define the problem, including the causes.

(2) To suggest reasonable and profitable alternative courses of action.

(3) To determine the most desirable alternative courses of action.

(4) To test the feasibility of particular alternative course of action decided upon by management.

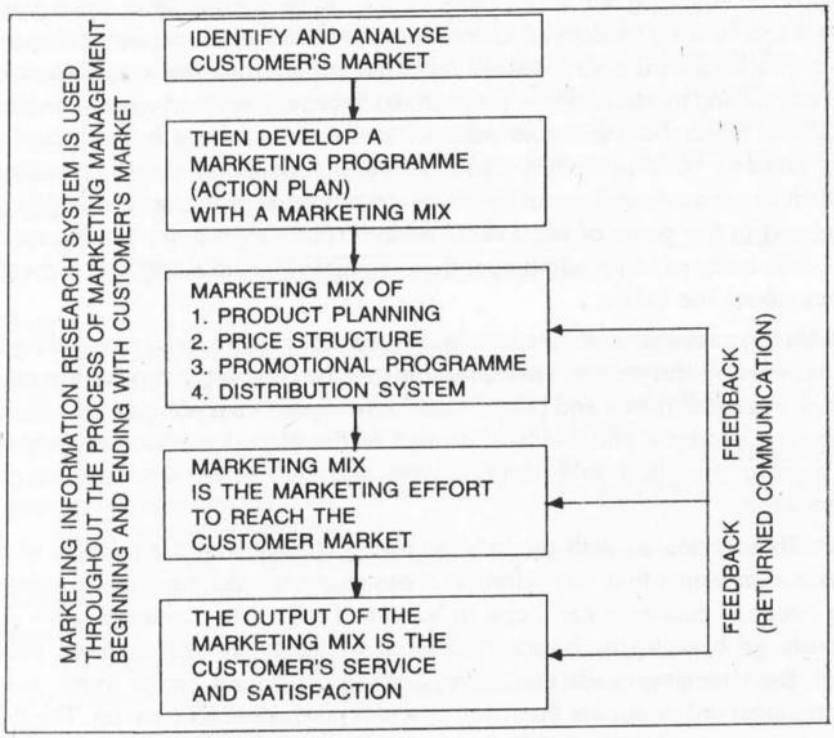


Fig. 37.5 Marketing Research begins and ends with customer

Notes: 1. Company's marketing efforts start and end with customers.

2. Marketing research is a valuable tool to optimise the marketing effort so that we have a minimum of waste and maximum of advantage.

3. Marketing research enables identification and analysis of customer's market.

4. Marketing research is used for devising an appropriate marketing programme.

5. Each component of the marketing mix is formulated on the basis of marketing information and research on product, price, promotion and distribution.
6. Marketing research is also used to evaluate the results of marketing effort when marketing programme is implemented. It provides feedback information on customer's satisfaction and on the achievement of marketing goals.
7. At present, marketing research is also used to evolve the solution of consumers' problems as well as ecological and environmental problems under the societal concept of marketing.

Marketing research is interested in five vital areas of marketing: (1) Market; (2) Product; (3) Price; (4) Promotion; and (5) Distribution. Market survey indicates information on consumer demand. Marketing mix consisting of the 4 Ps indicates the market offering and effort to serve the demand. Fig. 7.1 provides the details of the aforesaid five vital areas of marketing.

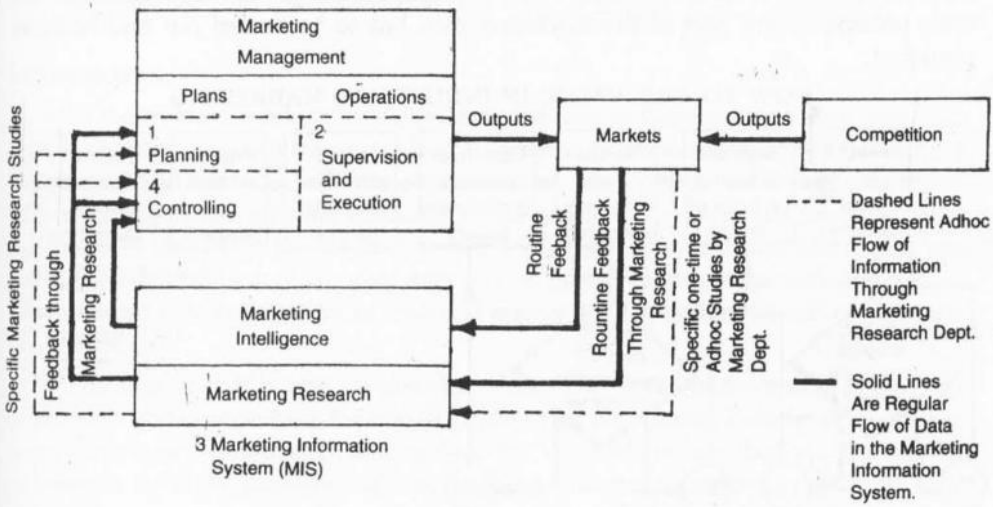


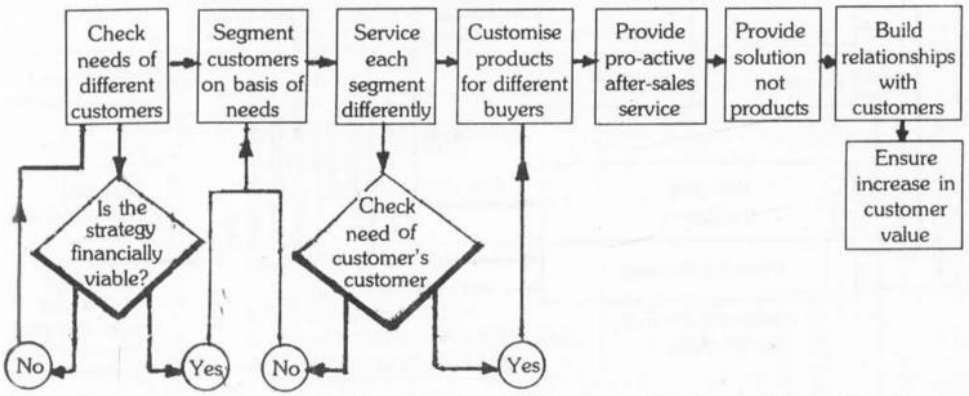
Fig. 37.6 Marketing Research as a Component of Marketing Information System (MIS).

Notes: 1. Planning sub-system decides objectives, policies and strategies and then plans marketing programmes for action.
2. Operations sub-system executes the marketing programme.
3. Marketing information is a sub-system of marketing management. It connects outside environment with the firm. It feeds data on markets, competitors and other external factors. These data are inputs to the control function and to the planning function. The planning function seeks new marketing opportunities and new marketing programmes.
4. Controlling is the fourth sub-system of marketing management. It monitors the marketing operations and their result. If feedback points out deviations from plans, operations are adapted to the changing conditions or objectives (standards) are modified to reflect the changes in the marketing environment.
5. Information is the life-blood of planning, directing and controlling any enterprise. Data circulate, like blood, through the channels or functional areas of a business — production, finance, personnel and marketing. Customers, competitors and external environment interact with marketing.

Marketing Plan

The marketing plan is the key document which sets down precisely who is to do what, when, where and how. There must be liaison with production to determine product requirements and scheduling; ample stocks of the product must be available at the times required by the sales advertisation. The advertising & promotional programme must be worked out in detail-the amount of money to be spent, the media to be used, the kind of advertising to be run. What is to be the basis of the advertising appeal, to reach what kind of audience with what degree of frequency and impact? Are there to be any introductory consumer efforts, coupons, premiums of competitions? On the sales side distribution and product sales targets must be set, by sales territory and by individual sales representatives. Physical distribution facilities have to be organised, delivery schedules worked out and so on. The financial people have to provide costings and profit estimates based on proposed expenditures and forecasted sales volume. Every part of the marketing plan has to be costed out and budgets prepared.

HOW TO ADD VALUE IN INDUSTRIAL MARKETING



The next stage in the implementation of the paper plan through coordination and interaction of the physical field selling and distribution effort and the company's advertising and promotional activities. The functions of the former are to see to it that the company's distributions and sales targets are met, that a wholesale, retail and direct customers are efficiently surviced and at all times carry adequate stock to meet their anticipated requirements, and that customer information is fed back regularly to sales management in the form of daily, weekly or monthly reports. An efficient field intelligence system is of the utmost importance in keeping headquarters appraised of the latest situation expect developments in the market and in checking and controlling actual field performances against planned performance.

Advertising and sales promotion activities run parallel with the physical selling and distribution operations, and include advertising and display material aimed directly at the consumer user; trade and technical press advertising to distributors, trade buyers, professional groups, etc., direct main, trade receptions, and planned sales presentations to trade buyers, committees or associations; consumer and trade incentive schemes, such as special offers, bonuses, competitions, premiums etc.

CHAPTER 38

MARKETING CHANNELS

Introduction

In the modern world, production and distribution have become very complex. Goods are produced in a far away place, whereas consumers are scattered throughout the country and abroad. Under the circumstances, the producer will not be able to sell goods directly to the ultimate consumers. The reasons are many: the producer lacks the financial resources, he has to maintain a large sales force, the products may not justify the establishment of separate sales outlets, problems of management and control arise, instead of spending a lot of time and energy on distribution, he can concentrate on production.

The task of distribution involves transfer of ownership and physical possession of products and services from the manufacturer to the consumers. Transfer of ownership is an exchange process and it comprises the channels of distribution. Transfer of possession involves problems of warehousing and transportation, called physical distribution.

The Concept of Marketing Channel

A channel of distribution may be defined as "an organised network of agencies and institutions which, in combination performs all of the activities required to link producers with users, and users with producers in order to accomplish the marketing tasks." The channel enables the seller to find out the users of its merchandise and helps the buyer to obtain the products he wants.

In the words of Stanton, "A channel of distribution (sometimes called a trade channel) for a product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or industrial user." A channel is the pipeline through which a product flows on its way to the consumer. The manufacturer puts his product into the pipeline or marketing channel and various marketing people move it along to the consumer at the other end of the channel.

According to John A. Howard, marketing channels are a combination of agencies through which the seller who is often, though not necessarity, the manufacturer, moves his product to the ultimate user. Marketing channels play an important role in the selling

of goods. Generally, a channel includes three parties — the manufacturer, the middleman (wholesaler/retailer/agent middleman) and the consumer.

A channel of distribution represents the path for the movement of title, possession and payment for goods and services. Therefore, several types of flows take place through the marketing channel (Fig. 38.1).

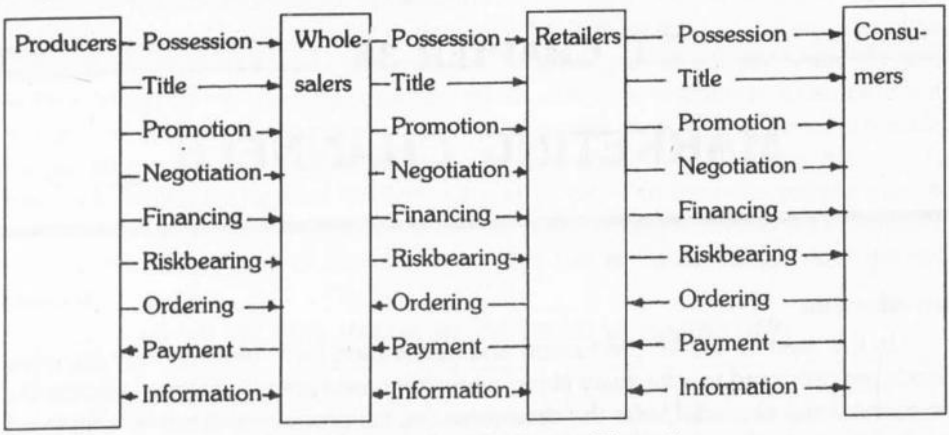


Fig. 38.1 Flows in a Marketing Channel

Connecting Link

There are different ways of supplying the goods. Each method is a sort of *connecting link* between the producer and the consumer. The distribution system is this link. Since, in modern business, production is undertaken in anticipation of demand, distribution plays a vital role in maintaining production. In fact, production and distribution, that is *marketing*, are interdependent. Distribution is an incentive to production. If the goods are effectively marketed, production will be steeped up. It may be truly said than an efficient distribution or marketing of goods gives an impetus to production. It is equally true that the volume of marketing will determine actual levels of production. Production and marketing go hand in hand.

All goods have to move through some sort of channels of distribution. Some channels take the form of direct sale from the producer to the consumer, or they may include an indirect form of sale from the producer through middle-men to the consumers. The distribution channel may be defined as *"the movement of goods and services between the point of production and the point of consumption through organisations that perform a variety of marketing activities."* The term *distribution structure* is used to include all the available distribution channels in a particular industry. The distribution channel may be direct from the producer to the consumer, as it is for industrial machinery. It may be indirect from the producer to the wholesaler, to the retailer and then to the consumer, as it is for any standard article. To ensure that the distribution process is successful, the marketing manager should evaluate the advantages of the various distribution channels. There must be co-operation, compromise and a sense of interdependence among producers, wholesalers, retailers and other intermediaries, such as brokers and agents, in the distribution channel system.

In conventional distribution, the channel includes generally three levels — producers, wholesalers and retailers.

Distribution Channels

The distribution of goods is the most important activity in the process of marketing. We can define the distribution channel as the set of marketing institutions participating in the marketing activities in the movement or the flow of goods or services from the primary producer to the ultimate consumer.

The small-scale industrialist has to take positive steps to bring his products to the attention of potential customers in order to create a demand for them. Once a product is accepted by a customer, the small-scale industrialist has to consider ways and means of arranging for its supply to his consumers. The links between the producer and the consumer are varied; therefore, a small-scale entrepreneur has to select the best channel suitable for his product.

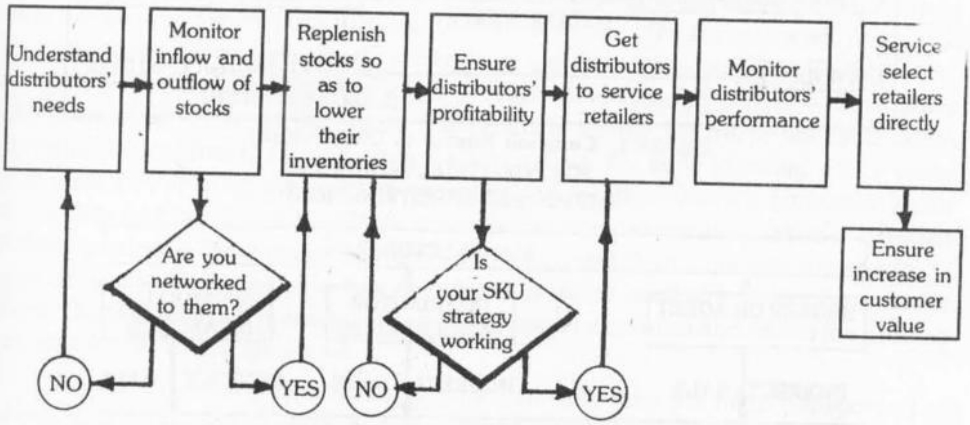
Consumers are grouped into two categories: *(i)* Consumers of industrial products and *(ii)* of consumer goods.

Distribution Channel: A distribution channel is a channel or a route along which goods flow from producer to consumer. The purchase *channel of distribution* is used to refer to various alternative links which connect the products with consumers. Distribution channels are grouped into two major groups: *(i)* Direct and *(ii)* Indirect (middlemen).

In a direct channel or route, there are no middlemen and marketing functions are performed by the producer or manufacturer and goods directly pass on from him to the consumer.

In an indirect channel or route, there are more than one middleman in distribution, linking producer and consumer. They perform the marketing functions.

HOW TO ADD VALUE THROUGH DISTRIBUTION



Middlemen in Distribution: There are two types of middlemen in distribution:

(i) Merchant middlemen, who buy and sell goods on their own account and their own risk, *e.g.,* the wholesaler and the retailer;

(ii) Agent middlemen, who do not take ownership title to the goods but actively negotiate the transfer of ownership right from the seller to the buyer, e.g., selling commission agent or broker.

In the process of marketing a small-scale industralist has to come to three decisions bearing on:

Defining the distribution channel as the set of marketing institutions participating in the marketing activities in the movement or the flow of goods or services from the primary producer to the ultimate consumer.

- The selection of a general channel of distribution;
- The number of middlemen at each level and in each segment of the market;
- The selection of a *particular* middleman for selling *"goods"* with or without any exclusive rights of distribution.

Channels of Distribution: The most common routes for bringing the products to the market from the product to the consumer are shown in the figures shown below:

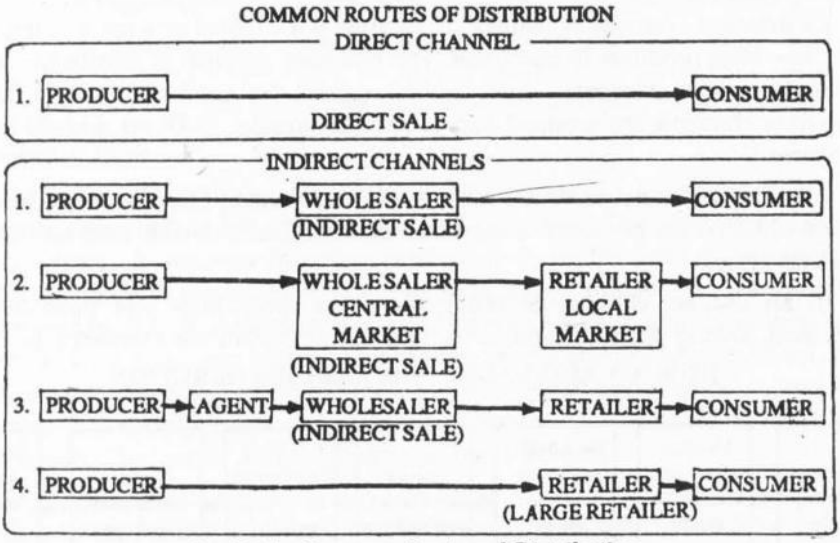


Fig. 38.1 Common Routes of Distribution

FOR INDUSTRIAL PRODUCTS
(CHANNELS OF DISTRIBUTION)

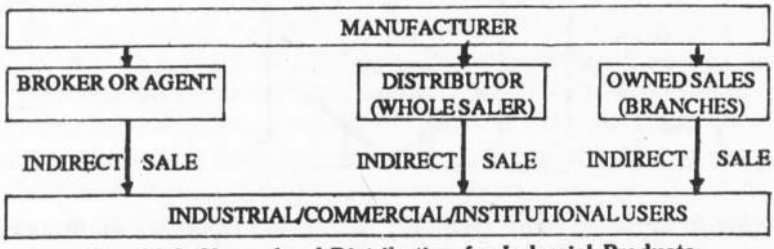


Fig. 38.2 Channels of Distribution for Indusrial Products

Note: Industrial goods are bought for use in further production and not for resale.

Note: (i) The path followed by a product in the movement from production to consumption is known as its channel of distribution. *(ii)* A manufacturer may use different channels, at different times, for different products in different markets. *(iii)* A channel represents three flows: *(a)* Goods flow downwards from producer to consumer; *(b)* The upwards flow from consumer to producer, representing payment for goods; *(c)* Information flows in both directions, downstream and upstream, representing a two-way traffic of communication. The upward flow of information is known as feedback information, *i.e.*, consumer feelings, desires and reactions.

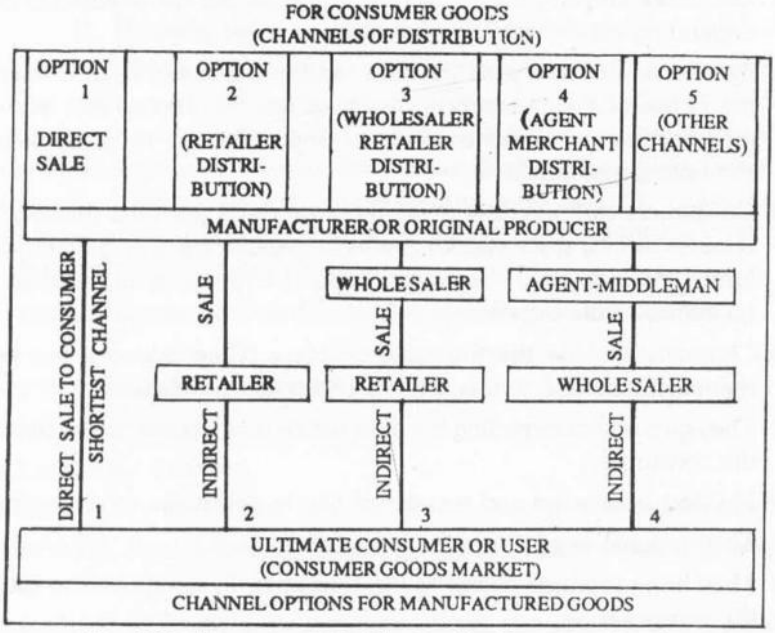


Fig. 38.3 Channels of Distribution for Consumer Goods

Importance of Marketing Channels

Channels of distribution have a vital role to play, especially in the distribution of consumer goods. The most innovative product offered at an attractive price would be of no use unless there is an efficient distribution system. The consumer will not search for the product, it has to be made available at a convenient place from where he can obtain it easily. The distribution channel provides three types of utilities — time, place and ownership. Time utility means the products should be made available when consumers want them, e.g., newspapers and milk in the early morning. Place utility is provided by making the product available at a location where a consumer wants it. It means that the product available at a location where a consumer wants it. It means that the product is delivered to the right place, e.g., a refrigerator manufactured in Delhi is of no use to a consumer in Kochi, unless it is made available to him by a dealer there. Ownership utility is created when the physical possession and title to the product are transferred to the consumer.

Market channels play a far more important role than the mere transporting of goods from producers to users. The economic function of the various institutions that make up a channel are cost reduction, financing, co-operation in setting prices, communication link between the buyer and the user, promotional assistance, and reduction in the number of transactions.

Functions of Marketing Channels

The channels of distribution perform the following functions:

(1) Channels provide the route to link the producers and users. Goods produced in far away places are made available to the users.

(2) Goods are stored by the middlemen in the channel and released to the market depending on demand. They facilitate storage of goods.

(3) Introduction of new products/merchandising is made easier. They bring to the notice of their customers new products (by display etc.) and help the manufacturer in demand creation. They also act as good salesmen in promoting new products.

(4) Consumers can purchase a variety of products from the retailers, because retailers usually stock various products manufactured by different manufacturers. Besides, they "break the bulk," i.e., products are offered in small quantities to the buyers.

(5) Channels provide the financing function. They advance money to the manufacturers and render credit facilities to the retailers.

(6) They give advice regarding the price which is acceptable to the producer and the consumer.

(7) Physical possession and transfer of title to goods are made easier.

(8) They provide market information to the buyers.

(9) They bring products nearer to the consumer. In some cases to the doors of the consumer.

(10) They play a crucial role as price regulator of products.

Important Distribution Channels

The distribution of goods takes place through one of the following channels:

(i) From the manufacturer direct to the consumer.

(ii) From the manufacturer to the retailer and then to the consumer.

(iii) From the manufacturer to the wholesaler; from the wholesaler to the retailer and then to the consumer.

(iv) From the manufacturer to the commission agent; from the agent to the wholesaler, retailer and the consumer.

(v) From the manufacturer to the wholesaler and then to the consumer. There are alternatives in a direct sale to the consumer:

(a) Sale through advertising and direct methods (mail order selling);

(b) Sale through a travelling salesman (house-to-house) canvassing;

(c) Sale through retail shops of small entrepreneurs, *i.e.,* mills cloth shops, etc.

I. Manufacturer → Consumer

This is the shortest channel a product can follow to the market. Small-scale industrial goods may be sold directly to industrial buyers. Usually, we have numerous and scattered consumers who buy in very small quantities. Hence, this channel is not very popular for a wider market. It is invariably adopted by ancillary units.

II. Manufacturer → Retailer → Consumer

This channel is preferable when buyers are large retailers, *e.g.,* a department store, a discount house, chain stores, a supermarket, a big mail-order house or co-operative stores. The wholesaler can be bypassed in this trade route. It is also suitable for products which are perishable, or when speed in distribution is essential. Automobile appliances, men's and women's wear, shoes, etc., are sold directly to retailers. However, the manufacturer has to perform the functions of a wholesaler; he is responsible for storage, financing of inventories, and transport.

III. Manufacturer → Wholesaler → Retailer → Consumer

This is a normal, regular and popular channel option used in groceries, drugs, drug goods etc. It is possible for a producer if:

(a) He has a narrow product line;

(b) He has limited finance;

(c) Wholesalers are specialised and can provide strong promotional support;

(d) Products are durable and not subject to physical deterioration or changes in fashion.

Better means of transport and communications, the growth of big retailers, computer handling of small innumerable orders of retailers, advances in automatic data processing, information explosion, etc. — all these reduce the need and importance of wholesalers.

IV. Manufacturer → Agent → Wholesaler → Retailer → Consumer

In this channel, the producer uses the services of an agent — middleman, such as a sales agent, for the initial despatch of goods. The agent in turn may distribute goods to wholesalers, who sell to retailers. Many textile mills have sales agents for purposes of retailers. Many textile mills have sales agents for purposes of distribution. We may have a large national distributor, such as Voltas, acting as a sole agent for many manufacturers. Agent middlemen generally operate at the wholesale level. They are common in agricultural marketing.

In the marketing of manufactured goods, agent-middlemen are used by manufacturers so that they themselves may not have to worry about marketing goods. An agent-middleman sells on commission basis directly to a wholesaler or a large retailer.

V. Manufacturer → Wholesaler → Consumer/User

A wholesaler may bypass the retailer when there are large and institutional buyers, uch as the Government, consumer co-operatives, hospitals, educational institutions, usiness houses, etc.

A study of 1,000 leading small-scale units manufacturing consumer and industrial products has shown their preferences of distribution channels as follows:

Consumer Goods: While 70% of the small units continue to use the traditional wholesale outlets for some or all of their products, only 21% of them use wholesalers, while 65% sell the whole or a part of their output direct to retailers. Of the 41% that use a single channel of distribution, only about 21% of their goods routed through wholesalers; 2% sell direct to the consumer and 18% through retailers. Of the units using a multi-channel system of distribution, only 8% route their products through retailers; about 50% route them through wholesalers and retailers.

Industrial Goods: About 75% of the units resort to the wholesalers for some or all of their sales. Only 16% of the units, mainly ancillary industries, have resorted do direct selling. However, for purposes of diversification of market segments, industrial goods are routed through a dealer. Of the units using a multi-channel system of distribution, about 53% route their products through wholesalers and then to dealer and to users, and only 6% route them through a dealer.

The study emphasises the fact that wholesalers and retailers/dealers play a vital role in the distribution of goods. They are vital marketing links.

Channel Choice

The problem of selecting the most suitable channel of distribution for a product is a complex one. A number of factors have to be considered; for example, the nature of a product, market trends, competition outlook, pricing policies, typical consumer goods and the needs of the manufacturer himself.

Product: *(a)* If a commodity is perishable or fragile, a producer prefers a few controlled levels of distribution. For perishable goods, a speedy movement needs a shorter route of distribution. *(b)* For durable and standardised goods, a longer and diversified channel may be necessary. *(c)* For a custom-made product, direct distribution to a consumer or an industrial user may be desirable. *(d)* A system approach calls for a package deal, and a shorter distribution channel serves the purpose of marketing. *(e)* For a technical product requiring specialised selling and serving talent, we have the shortest channel. *(f)* Products of a high unit value are sold directly by travelling salesmen and not by middlemen.

Market: *(a)* For the consumer goods market, retailers are essential, but from the industrial market we may eliminate the retailer. *(b)* If the market size is larger, we have many channels; in a small market, direct selling may be profitable. *(c)* For highly concentrated markets, direct selling is adequate enough; but for widely scattered and diffused markets we must have many channels. *(d)* The size and average frequency of consumers orders influence the decision about the use of a particular channel of distribution. For the sale of food products, we need both the wholesaler and the retailer.

A market implies people who have money and who are willing, to purchase want-satisfying goods. The age, income group, sex, vocation, and religion of the customers will have to be studied to secure adequate information about market segments or target markets. The buying habits of customers and dealers will also influence our choice of a channel. A customer-and-dealer analysis will give us data on the number, type,

location, buying habits of consumers and dealers. For example, desire for credit, preference for one-stop shopping, demand for personal services, the amount of time and effort the consumer is willing to spend — all these are important factors in determining the choice of a channel.

If the number of buyer is very large; if the order of each is small; if the order frequency is great and buyer insist on the right to choose from a wide variety of brands/goods, we must have three or even more levels of distribution. Market considerations also govern mass distribution (through multiple channels) or selective/exclusive distribution through a few or even one dealer. When aftersales service is required, *e.g.,* for TV sets, refrigerators, etc., selective distribution is preferable.

Middlemen: Middlemen are those merchants/agents who act as intermediaries between producers and consumers in the distribution of goods. Broadly speaking, they are divided into two main categories: *(i)* functional middlemen or mercantile agents and *(ii)* merchants. Fig. 38.4 shows the organisational structure of middlemen.

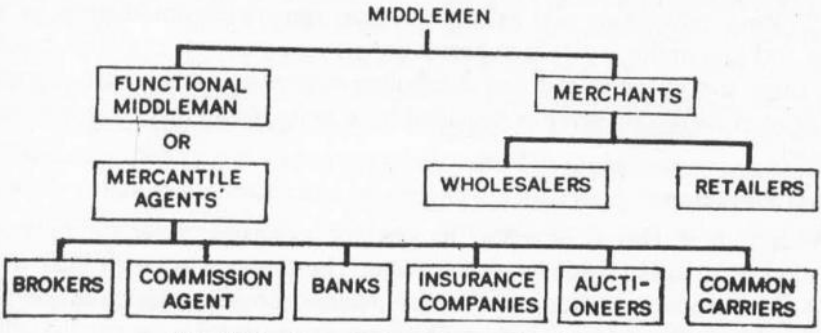


Fig. 38.4 Organisation Chart of Middlemen

Brokers: They serve to bring buyers and sellers together. They are intermediaries who negotiate the purchase and sale of goods on behalf of buyers and sellers. They work on percentage commission on the business transacted.

Commission Agent: Commission agents sell goods on behalf of sellers. Unlike the brokers, they not only negotiate the sale of goods but also take possession of the goods and arrange for the transfer of the tittle to them.

Banks, Insurance Companies: While banks provide the facility of making and receiving payment on account of the business transacted, insurance companies bear the risks of the goods in transit.

Auctioneers: Auctioneers arrange for the auction of goods on behalf of a seller. They work on percentage commission on the auctions of the goods of the railways, airways, roadways, ships, etc.

Common Carriers: Common carriers are responsible for the movement of goods from one place to another. They perform the important function of creating a place utility in goods by arranging for their transportation from the places of supply to the places of need.

Merchant Middlemen: Both wholesale and retail merchants work for profit. They acquire title to goods in their own right and sell them.

Units: *(a)* A unit's size determines the size of the market, the size of its larger accounts and its ability to get the co-operation of middlemen. A big firm may have a short channel.

(b) A unit's product mix influences the pattern of channels. The broader the product line, the shorter the channel. If the product mix has greater depth or specialisation, the unit may favour selective or exclusive dealership.

(c) A unit with substantial financial resources need not rely too much on middlemen and can afford to reduce the levels of distribution. A weaker company, however, has to depend on middlemen to secure financial and warehousing relief.

(d) New units rely heavily on middlemen because of their lack of experience and managerial activity.

(e) A unit desiring to exercise greater control over channels will prefer a shorter channel, for it will facilitate better co-ordination, communication and control.

(f) Heavy advertising and sales promotion can motive middlemen to handle displays and join enthusiastically in promotion compaigns and cooperative publicity. In such cases, even a longer chain of distribution may be profitable. Thus, the quantity and quality of marketing services provided by a unit directly influence the choice of a channel.

Channel Decision

A unit must choose whether to attempt extensive, selective or exclusive distribution or a combination of all the three. The decision is taken after a careful analysis of the product, consumer preference, dealers, company objectives and policies, competition and other relevant factors. The company must solve the conflict within the channels and bring its product profitably to the market.

Once a unit has determined its basic channel design and levels of distribution, it has to select middlemen, appoint them, motivate their efforts, evaluate their utility periodically and, if necessary, it has to reorganise the channels in the light of experience.

Each channel of distribution performs the typical marketing functions which are exclusively assigned to it. Retailing, wholesaling and physical distribution (transport, storage and inventory control) are treated as separate entities in distribution for purposes of easier understanding. From the viewpoint of marketing management, the whole process is a continuous one and constitutes the distribution system in which the ownership and possession of goods flow to consumers. To locate customers, meet their demand and offer them service and satisfaction — these are the basic tasks of the manufacturers, wholesalers and retailers, who combine to form an integrated channel of distribution. Joint cooperative and united efforts alone will ensure the successful distribution of a product.

Market Coverage

Once a unit decides on the general channels to be used, it has to determine the number of middlemen it needs in each channel, *i.e.,* the intensity of distribution. There are three alternatives:

(i) Intensive Distribution: We have the maximum number of retail outlets for mass distribution of convenience goods, for consumer's immediate satisfaction of their wants and that, too, at the most convenient retail shops.

(ii) Selective Distribution: When special services are needed, *e.g.,* for TV sets, or when a right prestige image is to be created, *e.g.*, certain cosmetics are sold only through chemists, we have selective distribution. The number of outlets at each level of distribution is limited. When we have a limited number of middlemen, they can spend more on sales promotion and offer the maximum cooperation in the company's promotion campaign. If the product has a long and useful life and if consumer brand preference can be established, selective distribution will be very profitable.

(iii) Exclusive Distribution: When final buyers do not need any product service, mass or intensive distribution is adopted. If the product service expected by the final buyers is considerable, exclusive distribution is preferable. Here we have one wholesaler or retailer for a given market, who has been given distribution rights in that market. Similarly, if a brand commands not only brand preference but also brand insistence, and if consumers refuse to accept substitutes, selective or even exclusive distribution would be preferable. Exclusive distribution creates a sole agency or sole distributorship in a given market area. Such a distribution is very useful in the sale of consumer speciality goods, *e.g.,* expensive men's suits. The manufacturer can have greater control over prices and markets and he can get the maximum co-operation from middlemen. An exclusive dealer can carry the complete stock and offer after-sales services to customers.

Wholesalers

Wholesalers are those individuals, merchants, or business firms (partnership or private limited) who act as intermediaries between the primary producers, manufacturers or importers on the one hand and industrial consumers, retailers and general consumers on the other. The wholesalers purchase goods in large quantities and, if necessary, repack them into smaller lots. They are divided into three types, as indicated below.

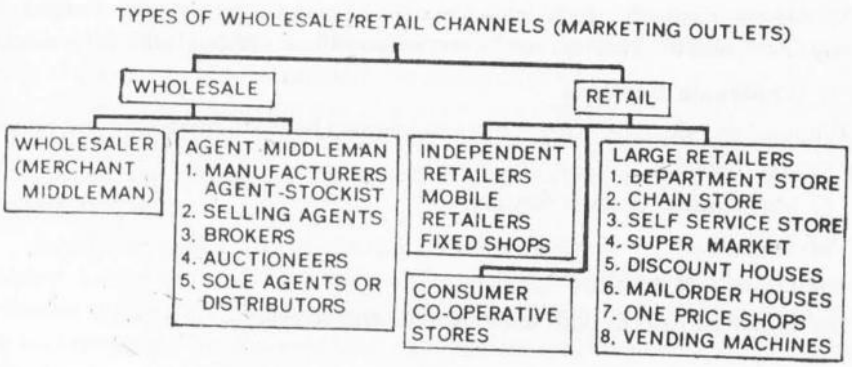


Fig. 38.5 Types of Wholesaler/retail Channels

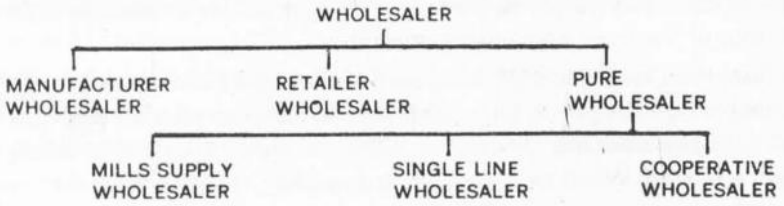


Fig. 38.6 Types of Wholesalers

Functions: The wholesaler performs the following important functions of distribution:

(i) Assembling; *(ii)* Dispersion; *(iii)* Warehousing; *(iv)* Transportation; *(v)* Financing; *(vi)* Risk-assuming; *(vii)* Pricing; *(viii)* Grading and Packaging; *(ix)* Processing; and *(x)* Storage.

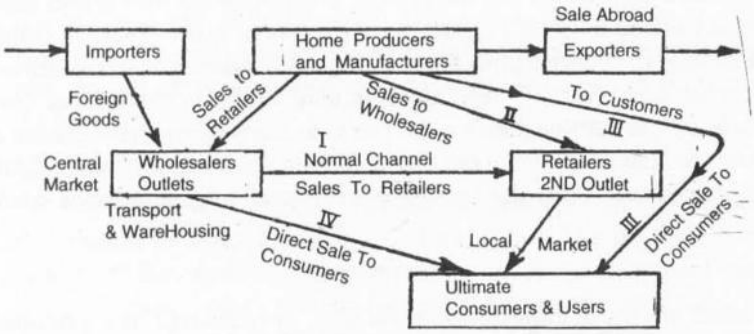


Fig. 38.7 Chain of Distribution Diagram

Wholesale Vs. Retail Trade

Wholesalers operate on a large scale in the central market and act as the first outlet in distribution; and the usually specialise in one or a group of allied articles. Retailers operate on a small scale and in local markets, selling directly a wide variety of goods to consumers to satisfy their numerous and changing wants.

Wholesale business needs large capital. Wholesale prices and margins are relatively lower; and the business can be carried on with or without facilities for display.

Typical Wholesale Services

Wholesalers offer typical services as middlemen between producers and retailers in the central market:

(i) Maintenance of sales service;

(ii) Storage;

(iii) Delivery to retailers;

(iv) Financial help to both manufacturer and retailer;

(v) Merchandising, *i.e.,* preparing goods for sale (packing, grading, branding, etc.);

(vi) Sales promotional work;

(vii) Product servicing;

(viii) Marketing information; and

(ix) Risk-bearing.

Services to the Manufacturer or Producer

(i) Order Collector: Retailers are usually scattered, their orders are small and they are too many in number. The wholesaler acts as an order-collecting and marketing agency for the manufacturer, who can then concentrate on production and need not worry about distribution.

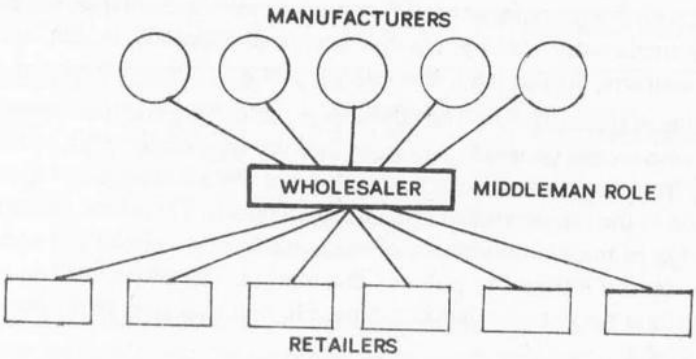


Fig. 38.8 Marketing through merchant wholesalers.

(ii) Risk Transfer: A wholesaler usually places huge advance orders with the manufacturer, who is thus insured for sale or disposal. He need not carry large stocks and can concentrate fully on manufacturing goods as per the orders of the wholesaler. The manufacturer is, therefore, free from bearing any risk of loss.

(iii) Concrete Relief: The wholesaler's organisation may be used by the manufacturer for the disposal of his goods. He need not maintain a huge sales organisation for the collection of numerous orders and for the despatch of many small parcels of goods to scattered retailers. He need not grant credit to retailers. Wholesalers do not demand credit from the manufacturers; as a matter of fact, they sometimes offer advance payment to small manufacturers. Thus, the manufacturer enjoys financial relief and employs his capital for more productive purposes, *viz.,* expansion of his manufacturing activities.

(iv) Expert Advice: The wholesaler knows the pulse of the market. He can secure first-hand information of the consumer's wants through the retailer's orders. The wholesaler's orders on the manufacturer can act as an indicator of trends or of public taste and demand. The manufacturer can regulate his production activity in the light of this trend and make the necessary modifications in his product so that it will give the desired satisfaction to the consumer.

Services to the Retailers

(i) No Need to Hold Large Stocks of a Variety of Goods: A retailer has to maintain adequate stocks of a variety of commodities especially if his turnover is not quick and he has a relatively larger number of customers. He encounters two difficulties in holding large stocks of each type of commodity. One is the dearth of capital and the other is lack of space. Hence, he cannot maintain adequate stocks of a variety of articles. In the circumstances, the wholesaler's warehouse acts as a reservoir or a constant source for the retailer to draw his supplies from them as and when he needs to do so. Thus, the wholesaler gives a retailer a definite assurance that his stocks will be replenished at frequent intervals. In this way, the retailer gets considerable financial relief, for he does not have to lock up his capital.

(ii) Prompt delivery of goods: In the absence of a wholesaler, the retailer may have to wait for a long time for the execution of his order, or he may have to place advance orders with the manufacturer. When a wholesaler is available, supplies to the retailer can be made very quickly, for the goods are already in the wholesaler's warehouse for delivery. In this way, the retailer gets a prompt delivery of goods.

(iii) Benefits of specialisation: The wholesaler performs some marketing functions for the retailer who would generally buy from the best wholesaler who, in turn, would secure supplies from the best manufacturer. Some of the advantages of specialisation can be passed on to the retailers who carry variety of goods. Therefore, he cannot claim expert knowledge of market conditions of each article. The wholesaler specialises in one line of goods and knows the pulse of the market. Therefore, he can advise the retailer when to buy and how much at a time. He can also give him information on the product's quality.

(iv) Announcement of new products: The wholesaler informs the retailer about the arrival of the new products which may have been advertised by the manufacturer. These products may be kept in the showroom, and his travelling salesmen may create a demand for them by personal salesmanship. The wholesaler may help the retailer in having an efficient window display of the new products in his shop.

(v) Credit: Wholesalers grant credit to their permanent customers. The average size of a retailer's order is large, and it may be placed with different departments of the wholesaler's organisation. Secondly, the retailer makes frequent purchases: a cash settlement for each purchase may lead to inconvenience and waste of time. Hence the wholesaler usually grants monthly or quarterly credit to the retailer and sends periodical statements of accounts to him. Such financial help increases in effect the working capital of the retailer. However, he has to forego his cash discount when he accepts credit from the wholesaler.

The wholesaler may grant credit to those retailer whose sales turnover is slow, whose transactions are on credit and who are required to maintain large stocks at a time. Quick sales turnover and cash sales do not necessitate any large stocking of goods. Hence the wholesaler may not grant credit to such retailers.

The Wholesale organisation: The amount of capital required for wholesale business is usually greater than that required for retail business.

The wholesaler has to carry huge stocks of each commodity. He has to maintain big and up-to-date warehouses with cold storage facilities, if necessary, and a big showroom for the display of goods. Trained travelling salesmen are needed for different territories to canvass and book orders from retailers. The wholesaler may have to maintain a fleet of motor vans for prompt delivery to his customers. He has to place advance orders with, and make advance payments to, manufacturers. He has also to offer extensive credit to retailers. Hence, wholesale trade is usually carried on a by a limited company and managed by a Board of Directors. The Board formulates the policy, reviews trends in business, and determines whether any major modification should be affected in the conduct of the business. The day-to-day affairs are dealt with by the managing director with the help of expert departmental managers. The set-up of a wholesale organisation is represented in Fig. 38.9.

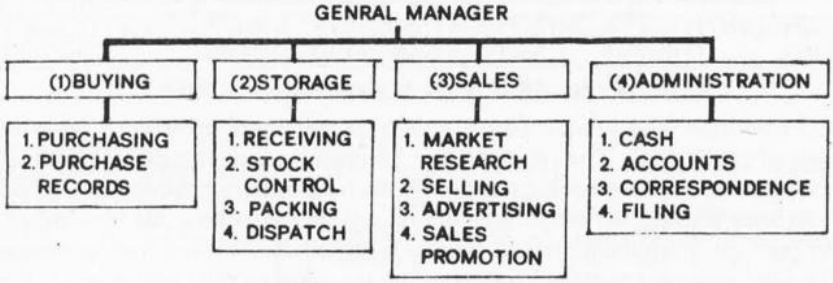


Fig. 38.9 Wholesale organisation

Retailer

The retailer is the last middleman in the chain of distribution, which commences with the producer and ends with the consumer. The word *"retailer"* originate from the French word *retailer,* which means "to cut." Evidently, the retail trade is viewed as one that cuts off small portions from larger lumps of goods. The retailer is the most important intermediary, for he maintains a direct and constant link with the consumer. He occupies a strategic position in the wholesale system of distribution.

Types of retail business: Retailers are broadly classified into two categories: *(i)* Mobile retailers and *(ii)* Stationary retailers. This broad classification is shown in Fig. 38.10.

Retailers may perform the following marketing functions:

(i) Buying and selling; *(ii)* Storage; *(iii)* Dividing, packing and pricing; *(iv)* Delivery of goods to consumers; *(v)* Credit to customers; *(vi)* Risk-taking; *(viii)* Sales promotion; *(viii)* Market information; *(ix)* Service after sales; and *(x)* Professionalised service to customers.

Pre-requisites in the Retail Trade: Success in retail trade primarily depends on a proper combination of six factors:

(i) Location: The ultimate success of most retail operations is determined by a favourable location. A prime location ensures continuing prosperity.

(ii) Price: An appropriate price strategy has the greatest market appeal, particularly in times of inflation. A low price with a reasonable quality of the product and a proper service after sales can work wonders in retail trade.

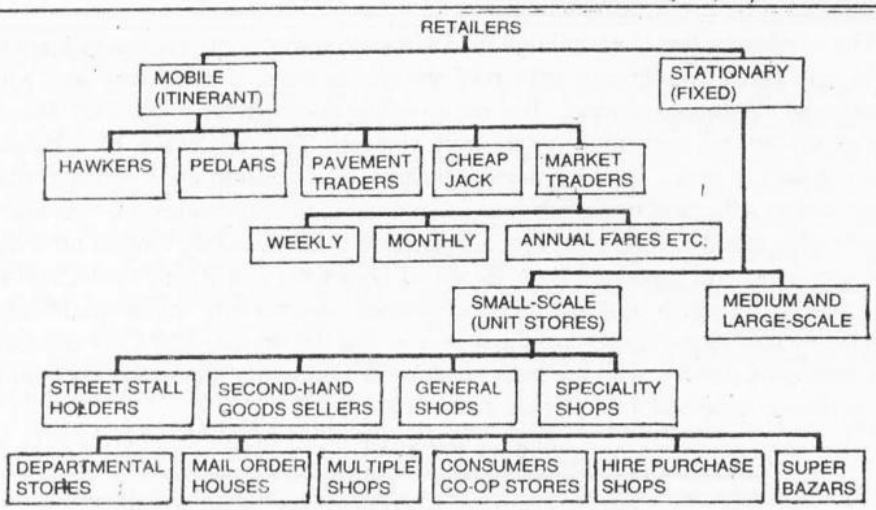


Fig. 38.10 Types of Retailers.

(iii) Promotion: The unique advantages of promotional campaigns account for the success of retail trade. The retailer is the toughest in the channel of distribution. If the goods do not cross the retail counter with the help of sales promotion, *e.g.,* point-of-sale purchase display, all other sales efforts will prove to be futile. An active co-operation between manufacturer and retailer in the promotion mix can guarantee a flourishing sale, assuming that the product or service is intrinsically sound and the price is quite reasonable. Time and money can make promotion effective.

(iv) Buying: A retailer can acquire highly desirable goods if he has shrewd buying practices and a sound decision-making ability. He should act as an expert buying agent on behalf of his customers. Intelligent buying decisions yield rich dividends in the retail trade. The acid test of success in retail trade is consumer satisfaction.

(v) Service: Retailers give non-price competition essentially through personalised services. Prompt and courteous service, quality assurance, sale on approval, money-back guarantee, service after sale, free home delivery, grant of credit, securing goods to satisfy individual taste and liking, offer of expert advice to customer, and comfort and convenience in the store — all these are welcomed by customers and their patronage goes to those retailers who aim at securing profit through service. The retailer must follow the policy illustrated, by such quotations as *"The customer is always right," "It pays to be customer minded," "The customer is king/queen"* and *"He who serves best will profit most"* — these emphasise the concept of *"service, not profit,"* which should be the chief objective of the seller. Most customers prefer a warm and friendly atmosphere.

(vi) Efficient Management: Better planning, organisation and control make efficient retail operations possible. A proper selection, training, remuneration and motivation of the sales force will ensure a higher efficiency. If a retailer plans his inventories in detail and buys and sells in accordance with a plan, he will have his pre-determined profits at the end of the year.

By and large, the goal of a retail store should be:

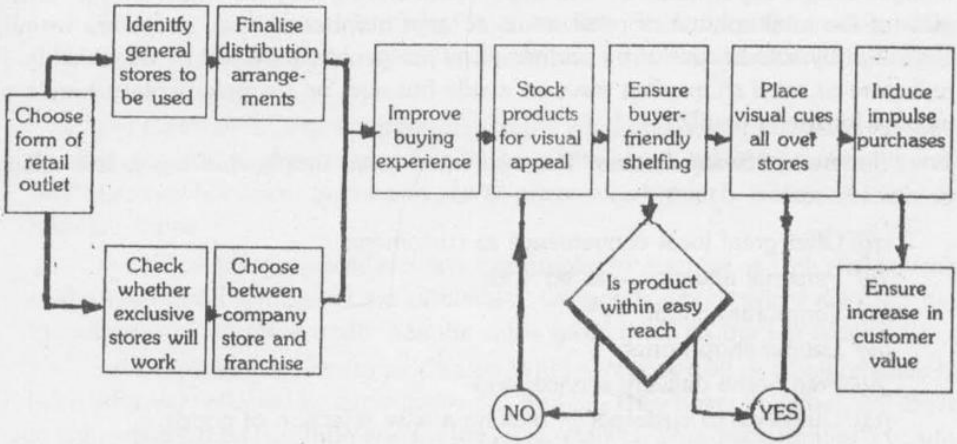
(i) To serve the community;

(ii) To provide employment opportunities for people; and

(iii) To make a reasonable profit.

In a very large measure, the success of a retailer depends on his ability to serve the real needs of the people. The retail store has an obligation to its employees, who have to be well-motivated and kept contented. Profit is an important consideration in the management and operation of a store. High taxes, keen competition and increased cost of sales, all have an unfavourable effect on the profits of retailers. But an efficient stock control, a wise merchandise investment, a cut in unwanted expenses and a general expense control, and personalised service to customers — these do ensure the success of a retail enterprise. The adoption of modern principles of management, etc., are some of the other progressive measures by means of which retailers can ensure reasonable profit margins for themselves.

HOW TO ADD VALUE THROUGH RETAILING



Mobile Retailers: These retailers are represented by hawkers, pedlars street vendors, stall-holders at fairs and exhibitions. In this form of retail trade, the seller has no fixed locality: he carries his goods from place to place. This form of trade is very ancient. The hawker is a very familiar figure in our villages and towns; sometimes he carries goods on a wheeled and movable stall. The prominent features of such mobile retailers are:

(i) They have no fixed place of business;

(ii) They require little capital and put in a very limited organising effort;

(iii) They keep limited stocks on hand and have a very quick turnover;

(iv) They offer the greatest convenience to consumers by giving delivery of the goods at their doorsteps.

(v) They have no establishment expenses;

(vi) Their trade is suitable for the sale of such perishable goods as vegetables, fruits, milk, bread, eggs, etc.

Some retailers offer a very keen competition to small-scale retail shops, which look upon them with disfavour. Hawkers and pedlars will continue to exist as long as they offer:

(i) Local convenience to purchasers;

(ii) Charge lower prices because they have no establishment charges to bear and because they buy from wholesalers at wholesale rates; and

(iii) Sell useful goods by way of house-to-house canvassing and home delivery.

General or Special Shop: A small retail shop may be a general shop selling a wide variety of goods or it may specialise in a particular line of goods. Grocery shops and provision stores are general retail shops, while radio and jewellery shops are specialised ones. Independent small retail shops account for more than 80% of all retail organisations in any country. However, with the growth of large-scale retailers and of multiple-shops, super-markets, and department stores, they now account for hardly 60% of the total volume of retail trade. A large number of retail shops are usually organised by sole traders or by partners, and are generally owned by households. A unit store or retail shop often serve as a side business or a supplementary source of income for many families.

Survival of Small Traders: The traditional retail shopkeeper has a few selling points. He can:

(i) Offer great local convenience to customers;

(ii) Personal attention and services;

(iii) Temporary credit;

(iv) Longer shop hours;

(v) Free home delivery service; and

(vi) Guidance to customer in making a wise selection of goods.

A small retail shop or unit needs a limited amount of capital and organising power and limited managerial skill. It has low establishment charges. It hardly needs publicity, for the manufacturer or wholesaler advertise the product. The proprietor has a flexible selling policy. He offers concessions to please a good customer — something which is not possible for the branch manager of a multiple shop. That is why a unit shop still survives even against competition from big retailers.

Large-scale distribution techniques cannot reap all the advantages of large-scale operations because, in distribution, we have to satisfy thousands of people who are scattered over a wide area in all countries. Hence, there are two unique demands of consumers, viz., *(i)* local convenience in purchase and *(ii)* personalised service to satisfy the ever-changing psychology of consumers. Large-scale retailers find it difficult to meet these two basic demands of consumers. But small unit shops can, and do, offer complete satisfaction in these respects. In normal trading conditions, there is no doubt that large retailers are able to undersell their unit shop rivals. Even so, for reasons mentioned above, until shops will survive in retail trade for a very long time.

Measures to Overcome Competition from Big Retailers

A small retailer suffers from certain handicaps:

(i) Unfair price competition from big retailers;
(ii) Lack of modern sales promotion devices, e.g., attractive window display;
(iii) Inadequate advertising;
(iv) Unfavourable terms of purchase because of small orders;
(v) Lack of capital;
(vi) Lower-risk-bearning ability.

Small retailers try to overcome some of these disadvantages in the following manner:

(i) Co-operative Buying: Bulk purchase is the key to cheaper prices. Group buying can secure more favourable terms and prices because it enables small units to meet chain-store competition. Small retailers may form a cooperative association to conduct joint purchases on a large scale and reap the benefit of bulk purchases. This trend is noticeable in the grocery trade.

(ii) Modern Business Principles: Small retailers may undertake modernisation of their business practices and operations to secure maximum economy and efficiency in their trade.

(iii) Cash-and-Carry Warehousing: Some wholesalers sell at lower prices instead of offering credit to retailers and free delivery services. Small retailers can, therefore, buy at somewhat lower prices and sell at prices which match those of their rivals in multiple shops.

(iv) Wholesaler's Specialised Services: Small shopkeepers can take full advantage of the specialised services of the wholesaler. On goods whose prices are fixed by the manufacturer, the small trader has the same gross profit as the big retailer.

(v) Co-operative Groups or Chains: Wholesalers as well as small retailers have been adversely affected by large-scale retail traders. They have, therefore, got together to fight against their common enemy, the large retailers. They have formed a voluntary co-operative chain which enables them to get the benefits of large-scale purchases.

A voluntary chain is an association of independent retailers sponsored by a wholesaler, who furnishes various services to member retailers buying all their merchandise from him. Because of their very large collective purchases, the wholesaler is able to buy at prices competitive with those at which large chain stores buy their merchandise. A co-operative chain of retailers functions on the same basis as voluntary chain of small traders.

Innovative Retailing

Try searching for new and innovative ways to reach the customer. For, the right channel cannot only improve your reach. For instance, the Rs. 1,000 crore PepsiCo (Pepsi) has changd solft-drink retailing by installing over 4,000 Pepsi Fountains in 40 cities in the country. It's a strategy to increase impulse purchase. Pepsi is now using the Ahmedabad-based Abad Dairy's milk booths to sel its soft drink. The company, which also stocks the snack-food Ruffles, offers a dial-a-crate scheme in Ahmedabad that delivers soft drinks — and flavoured milk.

Case Against Middlemen

There are many who argue for the elimination of middlemen on the following grounds:

(i) Middlemen add considerably to the cost of marketing and are responsible for a rise in prices. Their profit comes partly from profit of the producers and partly from the price that the consumer has to pay. The fact that middlemen make as much as 35 % to 55% of every rupee that is paid by the consumer for his purchases underlines the fact that he is a heavy burden on consumers and producers.

(ii) Their places of operations are more or less superfluous roadside stations where goods are unnecessarily halted on their journey from manufacturers to consumers. In other words, middlemen act as a bottleneck in the channel of distribution.

(iii) Although they are affected by industrial risks, they exploit the situation to their advantage and add to their profits.

(iv) In times of scarcity, middlemen sit tight over the stocks they hold, corner the available stocks, manipulate prices and indulge in black marketing.

Although middlemen perform some of the most important marketing functions, they are not indispensable. Their number can easily be reduced by a rationalisation of marketing and other functions of a business enterprise.

Marketing Consortium

The best way to face and fight the above distribution problems is the formation consortia. One such experiment has been reported from the Delhi Industrial Area. Small units from this area manufacturing electronic equipments formed a consortium. Within a period of 5 years, this consortium captured 3/4th of the market *vis-a-vis* that of big manufacturers.

Thus, a number of small units preferably with common interest or lines of manufacture should form a well-knit consortium. The common factors considered could be (1) a common brand name, (2) a common advertisement programme with a cess channeling from the members, (3) a common network of distribution agencies for channeling their common pool of products, (4) a standard system of discounts for the retailers/distributors, commonly arrived at, (5) a common pool of funds formed for designing and development of the product.

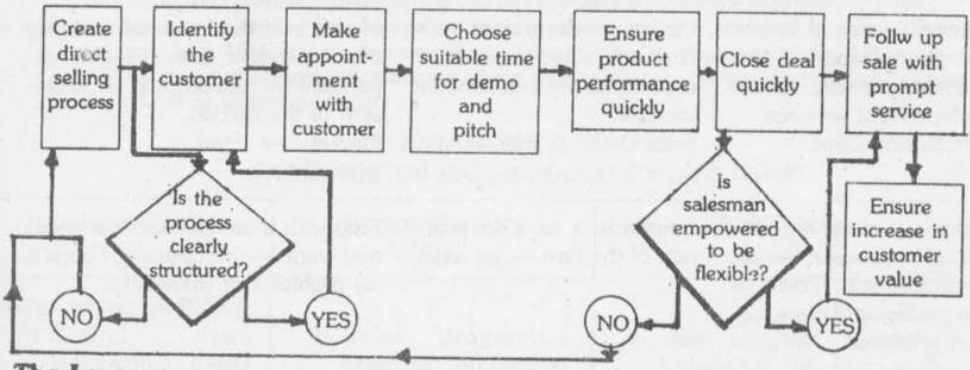
Thus, a single channel distribution system, a quick flow of finance and the popularity of a brand will help to increase the overall sales and the consortia will be able to create a large turnover capital ratio.

Direct Selling

It could be the ultimate in offering value to the customer: direct selling. Or, when a company bridges the last link in the generic value-chain between the retailer and the residence — and sels its product at the customer's doorstep itself. It's also the ultimate in increasing the customer's value to the marketer. After all, what could be more effective than a face-to-face dialogue between a salesperson and a customer in an

environment where the latter is utterly receptive — her home — through a process the former is completely in conrol of — one-on-one with the customer — to communicate the attributes of his product?

HOW TO ADD VALUE THROUGH DIRECT SELLING



The Lessons

(i) Keep the process flexible enough to accommodate individual needs;

(ii) Simplify the process of negotiations to save the customer's time;

(iii) Use your customer to sell your product to other customers; and

(iv) Ensure that your direct seller conclude a deal immediately.

Conclusion

Marketing is of outstanding importance. It is a key to the rationalisation of production and helps in improving quality standards, productivity and economical purchasing.

The systems approach in marketing helps provide complee satisfaction to the customer rather than just offering a product. If the purpose of business is to create a customer, and at a profit, then the needs of the customer have to be carefully attended to. In the consumer soft and consumer durable areas marketers have forged ahead in understanding this, but in the industrial products and services areas his concept is yet to gain a real foothold. Wherever it has been adopted by industrial marketing companies, the systems approach expresses itself in two ways — the creation of a complete product system sold as a unit.

The future of a large number of small-scale industrialists who deal directly with consumers depends on the marketing mechanisms in operation. In some cases, departmental stores, such as the Khadi Bhandar and the Bata Shoe Co., have become very successful in marketing the goods of the small-scale sector. This channel has to be strengthened and expanded to cover other items of production in the small-scale sector. It is, therefore, absolutely essential to rationalise the marketing system by reducing the number of middlemen, so that the entrepreneur may sell at a competitive price, and at the same time, get a good return on his investment in the manufacture of his products.

ANNEXURE 1
STAGES OF DEVELOPMENT IN MARKETING MANAGEMENT

Production Orientation	*Sales Orientation*	*Customer/Market Orientation*
Market is viewed as dependent variable and production capacity as the independent variable. Production Dept.→ Market	Market as dependent variable and sales department capacity as the independent variable. Sales Dept. → Market	Market and the firms are mutually interdependent; firm is highly dependent on market; it is an extension of the market. Market → Firm
Emphasis is *on the production process* — on technical unit. Focus is on problems of manufacturing/finance.	Emphasis is on own products of the firm — *on sales.*	Emphasis is on the customer needs and wants — *on demand.* Focus is on problems of marketing.
Marketing means: 'Sell what is produced.'	Marketing means: 'A good product does not sell by itself. It has to be pushed. Customers have to be manipulated.'	Marketing means: Targeting on customer needs/present or future purchasing patterns of demand.
Prevalent in a situation of absolute scarcity, or during seller's market.	Prevalent in a situation of surplus production, surplus capacity, or when the market has not been surveyed properly.	Prevalent in a situation of relative affluence or during buyer's market.
Prevalent in the West prior to 1930. Prevalent in areas, e.g., developing nations at a production economy stage.	Prevalent in the West during 1930-1950 and when demand declined in certain industries.	Prevalent in the developed and affluent countries since 1955.
Production was the centre of the universe.	Salesmanship and promotion acted as the focus of marketing universe.	Customer satisfaction is the focus of marketing universe.
It was assumed that best product could attract buyers automatically. Consumer choice could be based on quality in relation to price.	It is assumed that goods are not bought. They have to be sold at any cost, and profit is through sales volume.	It is assumed that goods are bought and not sold and profit is through customer satisfaction only.
No need of aggressive salesmanship and publicity. Company sells what it can make.	Special selling efforts and promotion to capture and maintain demand.	If demand clicks with supply, no special selling efforts are necessary, problem is only of distribution. i.e., servicing of demand. Company makes what it can sell.

Note: Since 1965 under environmental approach, marketing concept has been widened in the West. Government, market and pressure groups influence the firm and its marketing strategy. The firm has to adopt socially responsible marketing strategies. It has to cater to the needs of consumers as well as society-market needs in a social framework. It has to ensure quality of life, *e.g.*, absence of food, air and water pollution. Consumerism and Government should achieve consumer protection and environmental protection. The firm now aims at benefits for both sides, i.e., customer satisfaction and profitability. Societal or social marketing concept appeared in many affluent countries from 1965. It is slowly spreading over also in other developing countries. It is now said that the so-called affluent countries have become really effluent countries. Developing countries should not be effluent countries.

ANNEXURE 2
VARIANCE OF SALES MANAGEMENT

Progressive Condition (1)	*Average Condition (2)*	*Weak Condition (3)*
Sales Merchandising:		
(i) Sound sales programme based on known customer needs. Market research and analysis supported by good advertising and sales programme.	*(i)* Sales programme based on past customer experience. Market potential not known; advertising not selective.	*(i)* Sales coverage incomplete; knowledge of competition limited.
(ii) Sales budgets classified by products, customers, salesmen, territories.	*(ii)* Sales total estimated but not budgeted by products, customers and territories.	*(ii)* No sales budgets
(iii) Sound pricing based on standard costs, giving effect to all cost factors.	*(iii)* Price structure rigid; accurate product costs not used in fixed sales prices; competition partially governs pricing.	*(iii)* Selling prices based on competition or what the market will bear, cost information not generally used in fixing prices.
(iv) Profit or loss determined by salesmen, territories, customers and products.	*(iv)* No attempt to analyse gross and net profit by salesmen, products and customers.	*(iv)* No sales analyses.
(v) Selective selling efforts directed towards maximum profit possibilities.	*(v)* Selling effort not directed towards best profit possibilities.	*(v)* No selective selling programmes.
(vi) Trained sales force intelligently directed and compensated.	*(vi)* Salesmen closely supervised but training programme inadequate.	*(vi)* Sales force neither well trained nor supervised; compensation not comparable to competitors.

Table 'A'
PROMOTION STRATEGY

Push Strategy	*Pull Strategy*	*Push-Pull Strategy*
It is called a pressure strategy. Emphasis is on personal selling at all stages in distribution. We have aggressive and high pressure salesmanship. Conditions favouring push strategy: 1. Quality product with unique product features and talking points for salesmen. 2. High-priced product. 3. Higher profit margins to resellers. Advertising plays a minor role in push strategy.	It is called a suction strategy. Emphasis is on extensive advertising to generate consumer demand. Product is literally pulled thorough the marketing channel by consumer. Salesmen are mere order takers and distributing agents. Less emphasis on personal selling at all stages in distribution. Lower trade margins are offered to resellers. Lower retail prices but higher turnover rates. Heavy emphasis on consumer advertising and large investment required.	In consumer goods market very large companies generally adopt a push-pull or a combination adopt a pushpull or a combination strategy to sell their products. Salesmen are employed to push products, through the marketing channels. Extensive advertising is also employed to accelerate sales and to increase the market share. We need extensive promotion expenditures and only very big national companies can resort to combination strategy. All tools of promotion work together as a total communication process.

Note: 1. Strategy lays down plan of action to secure an advantage over competitors, demonstrate attractiveness to buyers and try to achieve fuller exploitation of company resources.
2. Pull strategy gives emphasis on mass promotion. Push strategy gives emphasis on personal selling.
3. Conditions indicating a favourable opportunity to promote are: 1. a favourable trend in demand, 2. major product differences, 3. hidden qualities (purity in drugs, cleaning power in detergents, flavour in foods). 4. emotional buying motives to change the psychological motivation and partly using promotion as a form of non-price competition.
4. In the push strategy, the middleman has an active role for creating demand. In the pull strategy he is responsible for serving demand.

Table 'B'
PROMOTION PLANS

Advertising Plan	*Publicity Plan*	*Personal Selling Plan*	*Sales Promotion Plan*
An advertising plan covers advertising: 1. Targets. 2. Objectives. 3. Strategy. 4. Appeal. 5. Copy theme. 6. Media schedule. 7. Budget. 8. Methods for measuring advertising results.	A publicity plan covers: 1. Targets and objectives. 2. Schedule of company products and events with news value. 3. Media possibilities. 4. Budget. 5. Means of measuring the results of publicity.	A Personal selling plan covers: 1. Sales targets. 2. Objectives. 3. Strategies. 4. Major appeals. 5. Budget. 6. Methods of measuring personal selling results.	A sales promotion plan covers: 1. Sales promotion targets. 2. Objectives. 3. Strategies. 4. Schedules of events. 5. Budget. 6. Methods of measuring the results of sales promotion

Note: 1. Objectives indicate where a firm wants to go: strategy shows the way or means of going there and achieving objective.

2. Promotion and plans should be: 1. relevant, 2. practical, 3. complete and detailed. They should include specific costs and schedules of activities. They should be co-ordinated. They should allocate definite responsibilities and give necessary authority to those who are required to carry out each part of the plan.

3. Typical promotion objectives are: 1. increase sales, 2. improve market share, 3. create or improve brand recognition, acceptance, insistence etc.,4. inform and educate the market, 5. create a competitive difference, 6. create a favourable climate for future sale. Please not that promotion is only one tool to achieve these objectives.

4. A strategy is a plan for achieving objectives through the use of scarce resources in the face of intelligent competition.

Table 'C'

TYPES OF COMMUNICATION (PROMOTION) INFLUENCING VARIOUS STAGES IN BUYER BEHAVIOUR

Components or Dimensions of Attitude	*Movement toward Purchase (Six-stage Sequence)*	*Types of Communication Relevant at each stage*
1. The Conative (Behavioural) Dimension It is the region of drives or motives, i.e., activated unsatisfied wants. Advertisements and sales promotion must stimulate and direct desires so as to motivate the consumer to buy a product. The buyer should be made ready to respond and he should have the conviction that the purchase would be wise. Purchase is the last step converting this attitude into actual purchase.	6 Purchase Conviction	Point-of-purchase Material, Retail Store Advertising, Special Deals, 'Last Chance Offer', Price Appeals, Testimonials, Source Credibility, i.e., expertness and trustworthiness of the source, personal selling, interpersonal communication, word of mouth communication are essential in evaluation and adoption stages. Believability of company as a communicator is called source creditability.
2. The Affective (Feelings and Emotions) Dimension It is the region of feelings and emotions. Consumer moves from knowledge to liking and preference, he develops a favourable attitude toward the product (liking) and then develops the point of preference. Promotion tools must stress the affective aspect of behaviour, i.e., the area of feelings and emotions must be tapped. Advertisements and sales promotion will change emotions and feelings.	4 Preference 3 Liking	Competitive Advertising, Argumentative Advertising Copy, Image Advertising, Status, Glamour Appeals stress on changing emotions and feelings of buyers. Opinion leaders are used as a good source of information and opinion — to change attitude of buyers through interpersonal communication.

3. The Cognitive Dimension It is the region of awareness and knowledge. Promotion tools must emphasize the cognitive aspects of buyer behaviour in order to create awareness and knowledge. Advertising provides adequate information and facts.	2 Knowledge 1 Awareness	Announcements Advertising, Descriptive Advertising Copy, Classified Advertisements, Slogans, Jingles, Sky Writing, Television, Radio Advertisements. Mass media must be adopted to create awareness, provide knowledge and information.

CHAPTER 39

MARKETING INSTITUTIONS AND ASSISTANCE

Introduction

Over the years, India has worked on beneficial strategies and incorporated technology resulting in the emergence of efficient marketing organisations and distribution centres, thus seeing a shift from the inadequacy of these firms. However, this is just a beginning of designing the products after a study of customer requirements. Very few, so-called marketing organisations possessed adequate resources to spend on advertising and so stimulate interest of prospective customers. In a developing country, its economy can be greatly expanded, improved and diversified by efficient marketing organisation, manned by expert personnel. Small industries need them more. If their share in domestic, government and foreign markets is to be secured and expanded, the small entrepreneur should develop a new attitude and assist in the process of building up powerful and prosperous marketing organisations.

Institutional Support

The success of marketing depends solely on well established institutional set-ups and timely assistance without any hassels. Although the institutional set up for marketing has been broad-based, it is biased towards international marketing in preference to internal markets. Another feature is that a majority of there institutions are in the public sector.

With a view to assisting small-scale industries, the government and other agencies have reserved certain items to be purchased from them. The National Small Industries Corporation and State Small Industries Corporations assist small-scale industries in selling their products to the Government.

The Khadi and Village Industries Commission and the Handicrafts and Handlooms have their own distribution agents and their own marketing arrangements.

Moreover, the government has established trade centres to cater to the marketing needs of the small-scale industries sector. The NSIC and the STC help this sector to export its products.

Let us discuss in detail the methods of the marketing of the products of the small-scale industries sector:

Central Government Stores Purchase Programme

The Central Government Stores Purchase Programme provides an outlet for the products of industrial units in the country. This programme was then operated by the Director-General of Supplies and Disposals, Government of India. Under the programme, the DGS & D is responsible for arranging the purchase and delivery of all the stores required by the Central Government, certain specified items from the scope of this department. It also purchases the stores needed by State Government, public sector organisations and other government and semi-government bodies.

The two major recommendations of the Stores Purchase Committee set up under the chairmanship of the Deputy Minister of Works, Housing and Supply, and accepted by the Government of India relating to the small-scale sector were:

(i) Price preference to products of cottage and small-scale industries, including reservation of certain items of stores for purchase only from this sector; and

(ii) Greater facilities for the registration of cottage and small industries.

The objective was to encourage the production and utilisation of industrial products manufactured by the small-scale sector by State purchases. To achieve this objective, the items of Government purchases have been divided into the following four groups by the DGS & D:

Group I: Items which are of no interest to small-scale units and can be procured only from the large-scale sector.

Group II: Items which, by their very nature, require large-scale firms as prime contractors but permit substantial scope to purchase components and parts from small-scale units.

Group III: Residuary items which both small-scale as well as large-scale firms can supply. Tenders for items falling under the groups are invited from all parties, including small-scale industries.

Group IV: Items which are reserved for exclusive procurement from small-scale units. The present list consists of 379 items.

Special Facility for Small-scale Sector

The present policy offers the following special facilities to small-scale units:

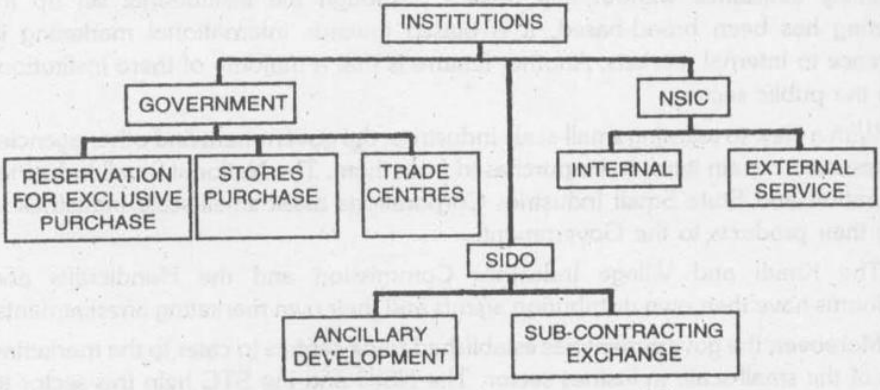


Fig. 39.1 Institutional Market Support to Small-scale Sector

(i) Application forms for initial registration and renewal are issued free of charge;

(ii) No registration fee is charged;

(iii) Free tender forms are supplied;

(iv) Tenders are accepted without a security deposits from those small-scale units which are registered with the NSIC and whose competency is certified by the Council;

(v) In certain cases, purchase of items in group III is also confined to small-scale industries;

(vi) Where basic considerations like quality and delivery conditions are comparable, or where small-scale industries have an advantage over large-scale industries, or where the former have established themselves as suppliers to the Government on competitive terms, the products of small-scale industries are given preference over products of other manufacturers; and

(vii) In the case of Group III items, which are purchased from both large-scale and small-scale units, the small-scale units are accorded suitable and reasonable price preference up to a maximum of 15%. The actual quantum of price preference is decided in each case on merit.

This price preference is not, however, granted automatically and is subject to certain conditions. The basic consideration is conformity to specification, quality, delivery, capacity, etc.

Price preference is not granted in the following cases:

(a) Where the items are reserved for exclusive purchase from small-scale units;

(b) Where competition against tender enquiries exists amongst the small-scale units alone; and

(c) Where tenders are received from both small-scale units and large-scale units and the lowest offers are from small-scale units and their capacity is more than sufficient to meet the demand.

The offers received from middlemen for the products of small-scale industries are treated as offers from small-scale units for the purpose of price preference. All small-scale units, whether registered with the DGS & D, the NSIC or the Directors of Industries are eligible for price preference.

The sub-committee appointed in 1975 under the chairmanship of the DC (SSI) by the High Power Committee had made recommendations concerning the following aspects:

(i) Categorisation and review of items under groups (referred to above);

(ii) Uniform purchase and price preference to be adopted by all Central and State Government Departments for small-scale units;

(iii) Increased association of DCSSI with decisions affecting small industries;

(iv) Sub-contracting of orders to small-scale units;

(v) Registration procedure;

(vi) Wider circulation of tenders among small-scale units;

(vii) Monitoring of small-scale units' performance by the NSIC;

(viii) Mandatory registration with the NSIC of the small-scale units interested in the Government Purchase Programme;

(ix) Statistics of purchases for small-scale industries; and

(x) Regional imbalance in procurement from this centre.

Reservations of items for Exclusive Purchase from Small-Scale Sector

The reservation of items for exclusive purchase from the small-scale sector has been effective from 1956-57. To begin with, 16 products were reserved. Later 40% products were listed. This apart, 22 items, which were, till now, reserved for civil requirements were to be treated as reserved for purchase from the small-scale sector for defence requirements also. 11 items were notified under the list Group V for graded purchase reservation to the extent of 75% and 15 items to the extent of 50% under the List Group VI.

There was an appreciable increase in the total number of firms registered under the Central Government Purchase Programme during the last five years. But small-scale units have shown a slightly higher rate of increase than the large-scale units. However, the number of large-scale units is much greater than that of small-scale units registered under the programme.

Small-scale Industries' Share in Indigenous Purchases

The small-scale units' share of the indigenous purchases of the DGS & D has increased substantially over the years. There is, however, a larger scope for small-scale industries to increase their share in these purchases, considering the fact that their share in the total industrial production in the country is nearly 50%. Group-wise Purchases from small-scale industries. Fig. 39.2 gives the progress of reservation of items for exclusive purchases from 1974-75, 1956-57, 1979-80 and 1994-95.

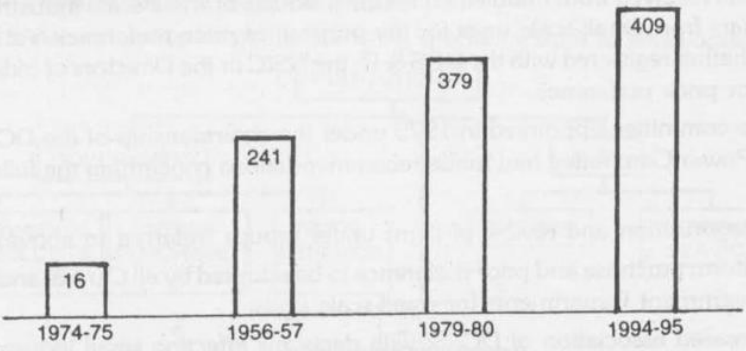


Fig. 39.2 Progress of Reservation of Items for Exclusive Purchase

All the firms in India and abroad, dealing in stores purchases by the DGS & D, are eligible for registration under the categories of manufacturers; stockists of imported and certain indigenous stores; sole selling agents of Indian manufactures; and agents of overseas principals.

Registration with the DGS & D has to be renewed every five years.

Until recently, the procedure was that a small-scale unit could participate in the Government Purchase Programme by getting itself registered either directly with the DGS & D, or with the NSIC. For registration with the NSIC the unit could approach any of its regional offices or go through the SISI, the Directorate of Industries and District Industries Officers with an application containing information on the plant and machinery, installed capacity and production, and the specific products for which the unit requests registration. On receipt of the application by the SISI, its officers visit the factory, assess the unit's technical competence to manufacture the products in question and recommend registration with the NSIC.

Subsequently NSIC would enlist the units and issue competency certificates in their favour. Such units are then supplied with tender forms as and when the DGS & D issues them for specific products. The NSIC and the SSIs help the units to fill up the tender forms wherever required; but they are submitted directly to the DGS & D.

Revised Procedure: A policy decision was recently taken by the Department of Supplies that small-scale units registered with the NSIC would be treated on par with those units registered with the DGS & D. The application form for registration has been suitably revised, all new applications by small-scale units have now to be submitted only on the revised forms to the concerned SISIs.

This has been applicable only in the case of those units enlisted by the NSIC under the revised procedures and which have applied on the new application forms, subject to the condition that the NSIC has followed the registration procedure and observed the conditions laid down by the DGS & D. The revised procedure eliminates the formalities related to the production of various documents, etc., at the time of submission of tenders to the DGS & D, which were necessary earlier. After having satisfied itself of the units' competence, the SISIs will make suitable recommendations to the NSIC, which will register these units, initially for a period of two years, and issue the necessary certificate.

Only manufacturers and sole selling agents will be registered by the NSIC. However, suppliers of safety/difficult items, as specified, will not be registered by the NSIC but by the DGS & D[illegible].

Gradually, all the small-scale units already registered with the DGS/SIC, will be covered under the new procedure. The NSIC, has taken up the registration of firms under the new single-point scheme with effect from 1st May, 1976.

Marketing services offered by SIDO

The organisation provided marketing assistance to small-scale units by providing promoting ancillarisation, marketing intelligence and information, establishing trade centres, encouraging small entrepreneurs to participate in the purchase programmes of the Central and State Governments, setting up sub-contracting exchanges, organising exhibitions, seminars and training programmes in marketing and publishing information booklets etc.

Ancillary Development

One of the important activities undertaken by the SIDO is the promotion of ancillary industries in order to help in the marketing of the products of the small-scale sector in collaboration with Bureau of Public Enterprises (BPE) and other Central Government agencies.

The Small Industries Services Institutes are actively engaged in identifying promoting new items for ancillarisation, besides rendering technical and managerial assistance to the existing ancillaries. Region-wise seminars, exhibitions and buyer-seller meetings are arranged to promote mutually beneficial relationship between small and large industries through ancillarisation.

Sub-Contracting Exchange

With a view to providing effective support to small-scale units in securing sub-contracting jobs from large and medium undertakings in the country, the SIDO established 16 sub-contracting exchanges at the SISIs. The main functions of these sub-contracting exchanges are:

- To invite small-scale units to register with the exchange their spare capacity on specific machines;
- To approach large industries with a view to listing out items which may be manufactured in small-scale units;
- To render technical assistance to small-scale units in creating new capacity for specific processes or for the manufacture of items/stores which are required by large-scale undertakings; and
- To furnish information on firms from whom enquiries can either secure orders to meet their requirements or on sub-contract their requirements.

The 16 sub-contracting exchange (SCEs) established in the SISIs provide a suitable linkage between large industries and small-scale feeder units to maintain up-to-date information on spare capacities available within the small-scale units and the requirements of large industries.

The Standing Committee on Ancillary Development appointed by the Small-Scale Industries Advisory Board held sittings in all the regions and gathered information from such agencies as the Association of Industries, private institutions (private/public are undertakings), etc., and their recommendations on ancillary development are under preparation. The committee was also furnished with a full techno-economic analysis of all the industries. Suitable recommendations on regular programmes, licensing and direct incentive systems have been made.

Government Purchase Schemes: NSIC

In 1956, the small-scale industry had not grown sufficiently in the technology of manufacturing processes and skills to be able to produce goods according to the rigid specifications of the Government Purchasing Agency. A scheme was, therefore, evolved, according to which the National Small Industries Corporation would take prime contracts from the Purchasing Agencies and get such contracts executed by farming them out to a number of small-scale units scattered all over the country.

This arrangement for the pre-emption of the orders of the corporation was soon stalled by a basic problem. Some small units would quote through the Corporation and others directly; as a result, the Corporation inadvertently became the sponsor of one set of the small units against another when, constitutionally, it was to serve them all equally well. Besides, there were the operational problems of co-ordinating the production of units located in different parts of a vast country. A fresh thinking was, therefore, called for on the issues involved. The scheme was re-oriented. The corporation now acts as a liaison agency to enable small-scale units to secure a larger share of government business. The salient features of the scheme are:

(a) Instead of purchasing tenders sets from the DGS & D, the small units enlisted with the corporation automatically get them, free of cost, from it and its branches;

(b) After verifying the technical competence of the small units, the corporation issues certificates of competency. The units, subsequently do not have to pay any security deposits to Government Purchasing Agencies;

(c) Provided that the specifications and quality are acceptable, the small units get a price preference up to 15% over the quotations of large-scale units, depending on the merits of each case;

(d) Whenever the small units feel that injustice has been done to them, the NSIC takes up their cases with the DGS & D in order to find out the reason for the non-placement of contracts with these units and tries to redress their grievances wherever feasible or possible;

(e) As a result of the efforts of the NSIC, another big purchase department, the Ministry of Defence, has come in line with the DGS & D, and has now started exempting small units from the payment of security deposits.

In addition, the following facilities are available to the small scale units registered with NSIC under the Single Point Registration Scheme under the Government Store Purchase Programme.

1. Issue of tender sets free of cost;
2. Exemption from payment of Earnest money;
3. Waiver of Security Deposit into the monetary limit for which the unit is registered;
4. Price preference upto 15% over the large scale unit.

Internal Marketing

In this field, the NSIC had undertaken the marketing of some products — tapioca starch, hand-made paper and hosiery items. By organising and co-ordinating the productive efforts of a consortium of hoisery manufacturers, the sale of ISI-marked hoisery products has been encouraged. Under its future programme, the NSIC intends:

(a) To cover domestic appliances, hand tools, malleable castings, light engineering products, soap;

(b) To provide marketing intelligence within the country and abroad for the benefit of the small-scale sector;

(c) To assist small-scale units in their survey of the markets and marketing research;

(d) To provide the necessary technological inputs in developing and standardising products in the small-scale sector;

(e) To establish raw material banks to meet the requirements of the small-scale sector in ferrous and non-ferrous raw materials.

Trade Centres

The Government of India has established trade centres to cater to the marketing needs of units in the small-scale sector.

These trade centres provide an integrated marketing system for small industries; they collect and disseminate information relating to all types of small-scale industries in the region, giving full details of products, capacities and prices. They provide a focal point for buyers and sellers who have the required supplementary service for trade centres and transactions, between small-scale industries and the buyers of their products, including large-scale manufacturers, importers and merchant exporters, export houses, purchasing organisations and consumers in general. A library function as an agency for contracts between small-scale units and prospective buyers in the country and abroad. Moreover, they assist the small units in the maintenance of quality control and the introduction of standardisation. About 50% of the total recurring and non-recurring expenditure on equipment, stores, library and documentation, etc., on these centres was met by the Central Government (excluding the cost of land and buildings), subject to a maximum limit of Rs. 200,000 per year for a period of five years.

The need for setting up trade centers for small-scale industries was keenly felt of their phenomenal growth and because of the fact that they manufactured a wide range of products — from simple consumer goods to capital goods and other sophisticated items, such as machine tools, television sets, scientific equipment, automobile ancillaries, drugs and pharmaceuticals, etc. But if the small-scale sector is very important, it is also very vulnerable, so far as its marketing capacity is concerned. It is essential, therefore, that the products of small units should become competitive and should be able to contribute in a large measure to the national industrial output.

Small-scale industrialists cannot organise sales and market promotion activities on their own; they cannot display their products; they cannot spend much on advertising and publicity market research etc. because their resources are limited and they are handicapped in their exports know-how and trade contacts. Buyers in India and abroad, on the other hand, are not aware of the quality, specifications and range of the products manufactured by the small-scale industry. The setting-up of trade centres in different parts of the country has therefore considerably filled up the information and communication gap between small manufacturers, consumers and buyers.

Exports

Responding to the widespread belief that the small industrial sector has not been marking a proportional contribution to the overall export earning of the country, the

NSIC has set up an Export Department to encourage the export of small industry products. Because of their small size and lack of resources and effort the small industrialists do not have an easy access to world markets. Very often, they are unable to infuse confidence in foreign buyers. The NSIC aims at filling this need by functioning as an export house. Following the latest in marketing concepts, the corporation identifies the demand abroad for labour intensive products. It collects intelligence about specifications, prices etc. It locates small industries in the countries with the required production facilities and helps such units to make dyes and tools, counter samples, small-units, and takes the entire responsibility for the execution of the contract. It helps small industry products such as hand tools, fasteners, casting etc., from some of the most sophisticated markets in the world — from the US, West Germany and Canada.

Export Incentives

The Government has offered special incentives to encourage export of the products of the small-scale sector. The minimum export performance limits for the grant of export house certificates have been lowered for small-scale manufacturers and their consortiums. The Government has also made arrangements to educate the small-scale units in the export prospects of different products abroad, by collecting information from various sources and disseminating it among them. Some of the important sources of information are the reports prepared by the Trade Development Authority, the Indian Institute of Foreign Trade, the Export Promotion Councils and the Directorate General of Commercial Intelligence Statistics. Periodical reports from Indian missions abroad are consulted for the purpose of identifying export opportunities for small-scale industries or taking note of the developments affecting such opportunities in foreign countries.

Export Promotion Councils (EPCs)

There are at present eleven Export Promotion Councils in India. The EPCs perform both advisory and executive functions.

Indian Institute of Foreign Trade (IIFT)

The IIFT is engaged in the following activities:

(i) Training of personnel in modern techniques of international trade;

(ii) Organisation of research, area surveys, commodity surveys, market surveys; and

(iii) Dissemination of information arising from its activities relating to research and market studies.

Commodity Boards

The five statutory Commodity Boards for Rubber, Coffee, Tea, Tobacco and Spices are responsible for production, development and export.

Export Inspection Council (EIC)

The EIC, a statutory body, is responsible for the enforcement of quality control and Pre-shipment inspection of various exportable commodities.

Indian Institute of Packaging (IIP)

The main aims of the Institute (IIP) are to undertake research into raw materials for the packaging industry, to develop new types of packaging for export products, to organise programmes on packaging technology and to stimulate consciousness of the need for good packaging.

India Trade Promotion Organisation (ITPO). The ITPO has come into effect from January 1, 1992 with the main objective of promoting exports and imports and upgradation of technology, through the medium of fairs to be held in India and abroad, to undertake publicity through the print and electronic media, to assist Indian companies in product development, to organise export development programmes, buyer-seller meets, contact promotion programmes and integrated marketing programmes.

Export Credit Guarantee Corporation of India Ltd.

The Prime objective of ECGC is to support the country's export by providing a range of insurance covers to the Indian exporters against the risk of non-realisation of export proceeds due to political or commercial reasons and guarantees to financial institutions to facilitate grant of credit facilities to exporters on a liberal basis.

Export Processing Zones

The Export Processing Zones set up as enclaves, separated from the Domestic Tariff area by fiscal barriers, are intended to provide an internationally competitive duty free environment for export production, at low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international market. India has seven Export Processing Zones at Kandla (Gujarat), Santacruz (Mumbai), Falta (West Bengal), Noida (UP), Cochin (Kerala), Madras (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). The one at Visakhapatnam (Andhra Pradesh) has become operational only recently.

The Santacruz Electronics Export Processing Zone (SEEPZ) is meant exclusively for export of electronics and gem and jewellery items whereas the other zones are multiproduct Zones.

Export Oriented Units

The EOU Scheme introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31.3.95, there were 2,944 valid approved units out of which 710 were in operation under the EOU Scheme.

At present 502 units are in operation in the Export Processing Zones.

Export Promotion Industrial Park Scheme (EPIP)

A centrally sponsored "Export Promotion Industrial Park" (EPIP) Scheme has been introduced in August 1994 with a view to involving the State Governments in the creation of infrastructural facilities for export-oriented production. The scheme

provides that 75% of the capital expenditure incurred towards creation of such facilities, ordinarily limited to Rs. 10 crores in each case, will be met from a central grant to the State Governments. In addition a maintenance grant equivalent to 2% of export turnover of each unit established therein will also be made available to State Governments for a period of 5 years from the date of commercial production of that unit.

The Central Govt. have so far approved 18 proposals for establishments of EPIPs in the states of Punjab, Haryana, Himachal Pradesh, Rajasthan, Karnataka, Kerala, Maharashtra, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, Gujarat, Bihar, Jammu & Kashmir, Assam, Madhya Pradesh, West Bengal, Orissa and Meghalaya.

Export Houses, Trading Houses and Star Trading Houses

The objective of the Scheme of Export Houses, Trading Houses and Star Trading Houses is to give recognition to the established exporters and large Export Houses to build up the marketing infrastructure and expertise required for export promotion. The registered exporters having a record of export performance over a number of years are granted the status of Export/Trading Houses/Star Trading Houses/Super star Trading Houses subject to the fulfilment of minimum annual average export performance in terms of FOB value or net foreign exchange earnings on physical exports prescribed in the EXIM Policy.

The Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses Scheme allows the Registered Exporters certain additional benefits available to them under the policy.

As on 21st November, 1995, there are 6 Super Star Trading Houses, 22 Star Trading Houses, 258 Trading Houses and 1578 Export Houses. The total estimated exports by these Houses during 1994-95 were Rs. 59,596 crores.

Jute Corporation of India

The Jute Corporation was established on 2nd April, 1971 as a wholly owned limited company of the Government of India. The main functions of the corporation are:

(i) Export and import of raw jute;

(ii) Internal marketing of jute; and

(iii) Undertaking measures for the export promotion of jute goods.

The objectives of the JCI are to ensure the minimum prices of raw jute; to conduct commercial operations in a judicious manner; to import and export jute fibre as authorised by the Government; to process raw jute and export jute goods; and to undertake export promotion measures for jute goods. It also aims at maintaining stability of jute production and prices.

State Trading Corporation of India (STC)

The State Trading Corporation of India was set up in May 1956 as an autonomous corporation to implement the Government's policies in regard to the promotion and diversification of foreign trade. The principle objectives of the STC are:

(i) To explore new markets for existing as well as new products;

(ii) To diversify and consequently increase India's export trade; and

(iii) To promote long-term export operations and the sale of "difficult-to-sell items."

The Corporation's major export items are semi-processed leather, castor oil, art silk fabrics, rice, jute goods, etc. With the pace of canalisation of India's foreign trade gathering momentum, the share of the STC in India's trade has increased substantially in recent years.

The STC provides a package of services to this sector with a view to encouraging it to produce more and market its products in foreign countries. These services include the supply of raw materials service, and warehousing, exporting, marketing and shipping facilities.

The Corporation deals in agricultural products, chemicals and fats, leather goods, textiles, imported cars and marketing. It has setup an Industrial Raw Materials Assistance Division to make off-the-shelf deliveries of imported raw materials to manufacturers against import licences.

In addition, the STC has set up four subsidiaries, namely: *(a)* The Projects and Equipment Corporation; *(b)* Handicrafts and Handlooms Exports Corporation of India; *(c)* The Cashew Corporations of India Ltd.; and *(d)* The State Chemicals and Pharmaceuticals Corporation Ltd. The subsidiaries assist the parent Corporation in furthering the main objectives of export promotion.

(a) The Projects and Equipment Corporations of India (PEC): The PEC was formed on 21st April, 1971, and has taken over the Railway Equipment and Engineering Divisions from the STC.

This corporation was formed to promote more intensively the export of non-traditional sophisticated engineering and railway equipment. In addition to this, it specialises in large-scale joint ventures and turn-key projects in the railways, public utilities and in complete industrial plants and projects. In view of the promising turnkey project opportunities in most developing countries, the corporation is expected to play a very important role in developing the exports of Indian engineering goods and technical now-how on a continuing basis.

The PEC plans to concentrate on undertaking turn-key projects and large-scale ventures. These vary from the construction of new railway lines of the putting up of complete industrial plants on an integrated basis, from the initial project report stage to that of final commissioning.

(b) Handicrafts and Handloom Exports Corporation of India: The HHEC came into existence in October 1962 as a subsidiary of the State Trading Corporation, with the merger of the Indian Handicrafts Development Corporation (set up in 1958) and the Handloom Export Organisation, a department of the STC. The main objective of the corporation is to develop new markets and expand traditional ones, thus supplementing and aiding the existing private sector trade in handicrafts and handlooms.

With a view to projecting the image of Indian handicrafts and handlooms in international markets, the corporation has opened showrooms known as "Sona of India" in New York, Tokyo, Paris and Nairobi, and also at the Akbar Hotel in New Delhi. A carpet warehousing depot was set up in Hamburg in July 1965.

The HHEC undertakes the export of handicrafts, handlooms, ready-to-wear garments and canalised export of woolen knit-wear. Product development is one of the main activities of the HHEC. In its attempts to increase overseas sales of its products, it has secured the help of many popular designers in different countries — France, japan, Italy and the U.K.

The HHEC also conducts consumer preference surveys abroad and introduces new products which project the excellent craftsmanship of India, helps the trade by means of advice and market exposure: participates in trade fairs and exhibitions abroad; and encourages delegates from abroad to visit India, study the products and offer valuable suggestions for improvement.

(c) Cashew Corporation of India: The Government of India set up the Cashew Corporation of India (CCI) on 19th August 1970 as a wholly-owned subsidiary of the STC to stabilise he import trade in raw cashew. The import of raw cashew, handled under the Open General Licence (OGL), was canalised through the Cashew Corporation with effect from 1st September 1970. The CCI has floated a joint stock company to raise cashew plantations.

The Minerals and Metals Trading Corporations of India (MMTC)

The Minerals and Metals Trading Corporation of India was established by the Government of India on 1st October, 1963. The central aim of the corporation is to broaden and enlarge the scope of exports of Indian minerals and ores and to arrange for the import of essential raw materials for distribution to industrial units in the country. Iron ore, fifth largest foreign exchange earner of the country, is the principal item of the export handled by the MTC. The other items of export handled by it are manganese ore, ferro-manganese, coal, silimanite, ferro-silicon and ferro-chrome.

Besides Japan, which still accounts for more than 65 per cent of MMTC's exports, several other markets have been cultivated. Notable among these are South Korea, Taiwan, Romania, Czechoslovakia, Poland, Hungary, Yugoslavia, West Germany and the Netherlands. It has sought to secure continuous export outlets by entering into long-term contracts with importing countries.

The Tea Trading Corporation of India Ltd. (TTCI)

Tea Trading Corporation of India was established in 1971 to create a stable export market for Indian tea particularly in the value added forms, which include packet tea, tea bag, instant tea, etc. Other activities of this Corporation include marketing of tea for domestic consumption, management of tea establishment of other facilities beneficial to the tea industry. TTCI has been a subsidiary company of the State Trading Corporation of India since January, 1986, TTCC owns five gardens, namely, Pathini Tea Estate in Assam and Pashok, Looksan, Vah-Tukvar and Potong in West Bengal.

The Spices Trading Corporation Limited (STCL)

Spices Trading Corporation Limited (formerly known as Cardamom Trading Corporation Limited) was established in October 1982 and commenced its trading activities in September, 1983. The Corporation was set up to carry on domestic and international trade in spices and their products. The Memorandum of Association permits the Corporation to also carry on business as a dealer/exporter of other agricultural commodities and related products. The Corporation diversified its trading to include agricultural inputs such as fertilizers, pesticides and sprayers.

The authorised Share Capital of the Corporation is Rs. 5 crores while the paid up Share Capital is Rs. 1.50 crores. For its commercial activities, the Corporation mainly depends on borrowings from Banks.

Small-scale industries have made a significant contribution not only by increasing industrial production but also to non-traditional exports from the country. Programmes for promoting the export capabilities of small-scale units have been further intensified. Export market training courses and seminars have been held in different parts of the country to create the necessary awareness and motivation among the small-scale units engaged in export business.

Promotional Activities

The Small Industries Development Organisation (SIDO), through its network of Small Industries Service Institutes and Extension Centres, provides techno-managerial assistance and extension services for promotion of the exports of the products of these industries. The SIDO intensified its activities relating to the dissemination of information on foreign markets to export-worthy small-scale units; provided on consultancy services in all matters of export procedure to facilitate the disposal of replenishment, claims, drawbacks and other incentives; on export prices; on the identification of small-scale units already possessing the necessary equipment and skills to undertake the production of items having an export potential; on the organisation of training programmes on export marketing; and on the maintenance of liaison with the concerned agencies. A large number of meetings, seminars and open-house discussions on export promotion were organised in collaboration with the concerned promotional agencies and associations of industries. Training programmes on export packaging, too, were organised by some of the Small Industries Service Institutes in collaboration with the Indian Institute of Packaging.

A quarterly 'Small Industry Export Bulletin', which covers the important areas of interest to exporters, continued to be brought out by the SIDO. It contains useful information on export marketing, Government policy announcements and the procedures relevant to small industry exports, abstracts of market/commodity reports prepared by such professional agencies as the Indian Institute of Foreign Trade and Trade Development Authority, special features on export-oriented industries, markets and facilities, etc. The Export Promotion Division has started another feature in the form of Trade Enquiry Service Bulletin, in which the names and addresses of overseas buyers, importers and importing organisations are provided. As a result of these efforts, the communications are provided. As a result of these efforts, the communication and

information gap between the small-scale manufacturers/exporters and overseas markets will be partially bridged.

SIDO also dealt with the special problems of small-scale exporting units, especially in regard to import entitlement, cash assistance, duty drawback, etc., and took them up with the authorities concerned.

In order to encourage the formation of export consortia of small-scale units, a scheme for financial assistance to them in the initial years of their formation was formulated and submitted to the Ministry of Industry. Under the scheme, the export consortia of small-scale units would be provided financial assistance during 3 or 4 years till they are able to develop themselves into full-fledged export houses.

Co-operation with Other Organisations

The SIDO actively collaborated with other Central and State institutions in their export promotion efforts, especially for small-scale industries. The SISIs prepared techno-managerial reports on export-worthy small-scale units, and collaborated with State Small Industries Corporations, Export Promotion Councils, the National Productivity Council and associations of small industries in organising seminars, training programmes, exhibitions, etc.

Under the scheme of Export Awards of the Ministry of Commerce, the Development Commissioner (Small-Scale Industries) has been designated as a sponsoring authority for small-scale units. The Small Industries Development Organisation, through its network of SISIs, therefore, invited applications from various small-scale units and recommended suitable exporting units for the Award.

One classic instance was when SIDO encouraged small units to participate in buyseller meets and exhibitions organised by the Trade Development Authority at Rotterdam and Birmingham. Interested units were given detailed information and advice in this regard.

State Small Industries Corporations

Some of the State Small Industries Corporations have, in recent years, shown interest in export promotion activities. These corporations were actively associated with the various programme of export promotion organised by the SISIs.

Export House & Turn-key Projects: The NSIC, a recognised export house, has been pushing up the export of such small industry products as hardwares, industrial fasteners, sanitary fittings, locks and machine tools, etc. Goods worth more than Rs. 2 crore have been exported to such countries as the UK, the USA and countries in the Middle East. The NSIC has supplied complete plant and machinery for 32 turn-key projects for 62 small-scale units in Tanzania against the IDBI credit line of Rs. 20 million. This has evoked interest for similar projects from other countries, *viz.,* Nigeria, Mauritius, Uganda and Yemen. The corporation also considered proposals to assist Tanzania and Indonesia in setting up industrial estates for small-scale units.

Some small industries have good prospects of selling their products in international markets. If they cannot develop a consortium for the export of their products, they should at least associate with and support an export house. If marketing

is a war, it is the most fierce in the international field. Well-equipped and highly professionalised export houses are indeed necessary, if the products of small industries are to be established in overseas markets. India has not made any serious inroads in these markets, not because the products do not conform to specification or are not competitively priced, but because exportability — the organised power to export — is somewhat low. There is a distinct need of large, strong, high-voltage and high resources export houses, which have specialised in the promotion of the export of the products of small industries. Individual small units may succeed when entrepreneurs have a high degree of marketing competence. But this is not true of most small units. They should not, therefore, enter the foreign markets on their own.

Exports have their own attractions; but unfortunately, very few entrepreneurs care to equip themselves adequately to export successfully and satisfactorily. The complaints one hears from foreign buyers of Indian goods, particularly, against manufacturers in the small-scale sector, bear testimony to this fact, though it may be conceded that some Indian small entrepreneurs do enjoy a high reputation abroad; but their number is woefully small. In these circumstances, the small entrepreneur should, as far as possible, utilise the services of an export house. In fact he should help build up the right type of export houses which have specialised in the promotion of the production of small industries in foreign markets. All export houses can neither do justice to the products of the smal sector, nor all their operations likely to be of real benefit to small exporting units. Hence the need for specialised export houses capable of producing and pushing the products of small industries in overseas markets.

Responsibilities of Management

The major responsibilities of the general management are to establish marketing objectives, to make policy decisions and communicate these decisions to the managers of the operating (or implementing) divisions of the company; to establish standards for measuring and guiding the overall performance of the company. The responsibilities of operational or line management are to plan programmes, methods and procedures and implement the decision necessary to achieve the stated objective; to organise and co-ordinate the activities and resources necessary to carry out the programmes and to see that operating results conform as nearly as possible to agreed plans and standards of performance.

The Basic Differences Between Production-Oriented and Marketing-Oriented Organisation

Business function or Activity	*Company Perspective*	
	Production	*Marketing*
Top Management	Technological considerations predominate. Production and engineering personnel in highest level executive positions.	Customer considerations paramount. Marketing personnel in highest level executive positions.

Objectives	Internal influences predominate. Business objective is to match total company resources against production on technical efficiency and method. Want to be known for technical or production know-how.	External market influences predominate. Business objective is to match total company resources against market requirements and opportunities. More emphasis on market strategy and planning. Want to be regarded as style and market leader.
Manufacturing	Production less flexible. The company sells what can be made.	Flexibility in production so as to match product to sales opportunities. The company manufactures what can be profitably sold.
Marketing	Aims to fulfil existing needs and develop workable products to meet these needs. Company's future bound up with markets already supplied, and products already in existence. Marketing function not considered to be as valuable as manufacturing engineering as finance.	Seeks to create markets and develop saleable products. Company's future bound up with markets yet to be identified and developed, and with products not yet in existence. Marketing considered to be co-ordinate with manufacturing, finance and other major business functions.
Research	Leads in technical and scientific research. Marketing intelligence system relatively undeveloped.	Leads in analytical and marketing research. Market intelligence system well developed.
Product Planning	Based on technical research, suggestions for new or improved products stem from functional performance and applications are prime considerations. Engineering consideration tends to predominate. Laboratory testing more prominent than sales or market. Packaging viewed as a shipping and protective device. Chief concern is engineering, materials handling and packaging machinery.	Based on market research. Suggestions for new or improved products stem from research into customer needs. Performance and applications are prime considerations regarded to be almost as important. Sales and market testing an integral part of planning. Packaging viewed as a sales tool in terms of its user convenience and advertising and promotional effectiveness.
Sale Organisation	Salesman regarded as an order-getting for the factory.	Salesman regarded as an order-maker who keeps the factory running & provides employment to production workers. Salesman accorded high status in the company and more likely to

		be promoted to top management position.
	Salesman lacks the professional status of the engineer, chemist, lawyer or accountant. Less likely to be promoted to top management. Salesman lacks formal training. Tends to get left to his own devices as the man 'out there.' Motivation of the salesman minimal.	Salesman given formal and continuous internal and on-the-job training. Motivation of sales organisation given high priority. Chief sales executive regarded as part of the management team.
Advertising and Promotion	Emphasis on cost rather than on the value of its contribution to the total selling effort. Advertising & promotion regarded as an extra cost, not a basic cost like machines, raw materials, research laboratories, etc. Not regarded as one of the skills required to run a modern business successfully.	Advertising & promotion is an integral part of the Company's marketing effort and a basic cost. Outstanding advertising and promotion considered to be as equally important to the successful running of a business as outstanding manufacturing technique, technical research ability or financial and legal skills.
	Advertising & promotion not looked upon as an important source of competitive differential advantage.	Advertising and promotion regarded as a potential source of competitive differential advantage, particularly when the differences in own and competitive products become less and less distinguishable.

GLOBAL AND REGIONAL TRADE ARRANGEMENTS

World Trade Organization (WTO)

The WTO, established in January 1, 1995, as the successor to the Geneal Agreement on Tariffs and Trade (GATT), serves as the legal and institutional foundation of the multilateral trading system.

The Uruguay Round Trade Agreement that created the WTO also eliminated tariffs for some manufactured goods and reduced other tariffs; reduced barriers to trade in agriculture; expanded protection for copyrights, patents, and other intellectual property; and provided some reduction in barriers to services and foreign investment. It also reformed the multilateral trade process itself, including the introduction of a stronger dispute-settlement mechanism.

The WTO has 123 members, and the following 31 governments have applied to join: Albania, Algeria, Armenia, Belarus, Bulgaria, Cambodia, China, Croatia, Estonia, Georgia, Jordan, Kazakhstan, Kirgyz Republic, Latvia, Lithuania, former Yugoslav Republic of Macedonia, Moldova, Mongolia, Nepal, Oman, Panama, Russia,

Saudia Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu, and Vietnam.

Extended beyond their original deadlines, WTO negotiations continue now on reducing barriers to trade in basic telecommunications and financial services; a decision on whether to resume failed negotiations on maritime services has been deferred until 2000.

North American Free Trade Agreement (NAFTA)

NAFTA, which built on he 1989 U.S. - Canada Free Trade Agreement, went into force January 1, 1994, phasing out tariffs on trade between the United States, Canada, and Mexico over 15 years. Side agreements require each country to enforce its own labour andenvironmental laws.

U.S. trade with Canada and Mexico increased 29 percent in the first two years of NAFTA. Nevertheless, trade disputes between the partners persist, mitigated somewhat by dispute-settlement mechanisms.

Failing for three years to get abroad fast-track authority from Congress to negotiate any trade agreements, the Clinton Administration is grappling with a strategic decision: whether to request fast-track authority solely for negotiating accession to NAFTA by Chile.

Free Trade Area of the Americas (FTAA)

At the December 1994 Summit of the Americas in Miami, Forida, 34 political leaders of the Western Hemisphere adopted a U.S. proposal to construct an FTAA by 2005, with substantial progress expected before 2000. Trade ministers held subsequent meetings in September 1995 in Denver, Colorada, and in March 1996 in Cartagena, Colombia, where they set up working groups; other meetings are planned for Belo Horizonte, Brazil, in 1997 and for Costa Rica in 1998. Cuba alone among hemisphere countries does not participate in the FTAA.

The working groups have begun moving toward the first concrete actions for an FTAA, which are likely to involve procedures deaing with mutual acceptance of product standards and electronic customs filing.

Lack of fast-track negotiating authority has hurt U.S. credibility with other FTAA participants. For the Clinton administration, the strategic issue has become how to rebuild U.S. political consensus for FTAA negotiations while other Western Hemisphere countries continue to make trade agreements with each other — usually accepting lower standards on services, investment and intellectual property protection than the United States is seeking in an FTAA.

Asia-Pacific economic Cooperation (APEC)

Formed in 1989 as an informal dialogue group with limited participation, APEC has become a forum for negotiations to achieve the goal of freer trade and investment in the Asia-Pacific region — by 2010 for industrialised economies and by 2020 for developing economies.

Beginning in 1993, the annual APEC trade ministers meetings have been followed by meetings of the heads of state or government of member countries (Hong Kong

and Taiwan send economic ministers). The next APEC ministers and leaders meetings are scheduled for November 2 to 25 in the Philippines.

APEC has 18 members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand and the United States.

New Transatlantic Agenda

Part of the New Transatlantic Agenda agreed to at the U.S. European Union (EU) summit in December 1995 in Madrid was an initiative to expand trade between the two sides called the New Transatlantic Market place, assisted by meetings of businessmen called colectively the Transatlantic Business Dialogue.

Among a number of agreed goals were tariff cuts, including elimination of tariffs on information technology products (an information technology agreement), and negotiation of mutual recognition agreements to harmonize product standards and testing. Progress has been slow.

Meanwhile, U.S.-EU relations have been disturbed in 1996 by a number of irritants, especially U.S. imposition of sanctions against third-country investments in Cuba, Iran, and Libya.

Conclusion

Marketing is a system of integraded business activities designed to develop strategies and plans including marketing mixes to the satisfaction of customer wants of selected market segments or targets. It is on process involving a set of multi-directional as well as multidimensional activities. Marketing is a matching process by which a producer provides a marketing mix *(product, price, promotion and physical distribution)* that meets consumer demand of a target market within the limits of society.

Of late, marketing management has been given much importance, especially by the SSI sector and will continue to get this importance with different market situations existing now.

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CHAPTER 40

SETTING QUALITY STANDARDS

Introduction

As a result of liberalisation of the industrial policy, the Indian industry has moved into market driven/oriented economy. Quality Performance is a competitive weapon just as important as price. Indian industry is now becoming well aware of the need to ensure qulity not only in the wake of growing competition in the domestic and global markets but also an important tool for efficient cost effective production, setting quality standards, therefore, equip small-scale enterprises and entrepreneurs to be competitive and to enhance their market share and profits.

Quality is a multifaceted and an all encompassing word and needs to be perceived in totality to avoid misinterpretations. There are a number of definitions evolved by quality gurus from Dr. Juran to Tom Peters. But ISO has caught the essence of all these thoughts in its definition of quality.

Quality as ISO-9000 defines, *is totality of characteristics and features of a product, service, system or part that bears upon its ability to satisfy stated or implied needs of a customer.* Every word of this definition is significant. It covers ability of product, process, plant, people and overall integration and management of all these to commensurate to customer's needs. In short, we can say that quality lies in the eyes and views of customers. As a customer, we are accustomed to feel the impact of the lack of quality in our daily life.

The Concept of Quality

In order to achieve consistent quality, an industry cannot continue with the existing practice of concentrating all its efforts on inspection-related activities and failures during manufacture resulting in segregating the defectives and rework. It is now an established fact that quality cannot be achieved through inspection alone; it has to be built into the product at every stage of design and manufacture and also by using it. This quality building effort, starting from identification of customer needs should then continue through various stages of design development, procurement, production, inspection, etc. upto the delivery of the products to the customer and even further. This

can only be achieved by adhering to sound procedures, methods and controls which constitute the elements of various quality-related activities in manufacturing or service set up.

Joseph M. Juran expanded Deming's theories even further, taking quality out of the manufacturing processes and across the organisation: from leadership style to choosing suppliers. It was he who broke down. Total Quality Control (TQC) into quality planning, quality control and quality improvement. Juran emphasises that,

- Quality control must be an integral part of management
- Quality is no accident
- Quality must be planned
- There are no shortcuts to quality
- Use problems as sources of improvement

Quality is free, declares Philip Crosby. He continues to believe that quality means setting it right the first time rather merely laying down acceptable levels of quality. Crosby firmly believes that;

- Quality is conformance to requirements
- Quality is achieved through prevention, not appraisal
- Quality standard is zero defects, not acceptable levels
- Quality is measured by the price of non-conformance

SHADES OF SUCCESS: QUALITY

A measure of Ray Ban's success in India lies in the fact that within a span of three years, they have reached the world's top ten Ray Ban markets in unit terms. In value terms, they contribute more than 0.5 per cent of the world's Ray Bans. Ray Ban attributes its success to the production of a world class classic, with no compromise in quality, which has been its hallmark for the past 65 years. Ray Ban occupies a 43 per cent share of the market, which is several times the size of the market for its competing brand.

Ray Ban has set the highest quality standard in the premium sunglasses market. Brand awareness may have existed in the pre-launch stage, but this was a different kind of Ray Ban, which had little resemblance to the 'real thing.' According to a survey conducted by Ray Ban, 81 per cent of the people interviewed considered premium sunglasses a necessity, and around 57 per cent saw them as a status symbol. Around 56 per cent felt sunglasses were essential to look well-dressed and that bad sunglasses could harm the eyes.

The astounding success of Ray Ban is partly due to sustained marketing strategy. The 'Lift thru Ray Ban' campaign captured the larger-than-life aspect of the brand and ensured a high visibility launch.

Crosby stresses that quality is the result of comprehension and action; not of some mystic system of procedures.

Quality will become integral to strategic business plans. Quality goals and objectives will be set at the corporate enterprise level and deployed through the organisation.

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Standardisation

In this scientific and technological age, standardisation and quality control in industry are vital factors in the industrial development of a country. Standards are to industry and trade what culture is to society. As culture and civilisation are essential pre-requisites for the proper behaviour and conduct of a person in society so standards are indispensable for industrial development and efficiency. Standardisation bestows advantages of far reaching importance not only on consumers but also on producers, traders and technologists, and provides a scientific means of achieving quality control.

Advantages of Standardisation

Standardisation helps in the development of industrial economy of a country by—

(i) Providing economically and technologically sound solutions;

(ii) Cutting down unnecessary varieties of types and sizes;

(iii) Ensuring an optimum utilisation of available raw materials;

(iv) Minimising the use of scarce and imported raw material when standardisation is based on indigenous materials;

(v) Ensuring interchangeability of items;

(vi) Defining the quality levels of products;

(vii) Providing agreed methods of test; and

(viii) Providing basis for quality control.

International Satisfaction

The need for standardisation on a rational basis has been felt throughout the world and, therefore, international standardisation has acquired a great importance in the smooth flow of world trade. It provides for a greater acceptability and interchangeability of commodities in the various countries. To meet this need, the International Electro-Technical Commission (IEC) was established in 1906 to ensure the standardisation of electrical items. Subsequently, in 1946, the International Organisation for Standardisation (IOS) was set up to ensure the standardisation of all non-electrical items. The IEC was affiliated to IOS as its electrical branch. For developing nations, international standardisation has become an important factor in their scientific and technical progress and in the establishment of scientific, technical, industrial and economic liaison among the different countries in the world.

ISO 9000 is the International Standard for quality systems. It is a set of requirements specified by the International Organisation for Standardization. The corresponding standards known in some countries are as under:

— IS 14000 (the Indian Standard)

— EN 29000 (the European Community Standard)

— BS 5750 (the United Kingdom Standard)

ISO consists of representatives from 90 countries. Each country is represented by its one national standards body. Bureau of Indian Standards is the Indian representative to ISO.

Structure of ISO 9000

The ISO 9000 series currently consists of the following published and planned documents:

1. ISO 9001: Quality Systems — Model for quality assurance in design/ development, production, installation and servicing.
2. ISO 9002: Quality Systems — Model for quality assurance in production and installation.
3. ISO 9003: Quality Systems — Model for quality assurance in final inspection and test.
4. *(i)* ISO 9004-1: Quality management and quality system elements — Guidelines.
   (ii) ISO 9004-2: Quality management and quality system elements — Guidelines for Services.
   (iii) ISO 9004-3: Guidelines for processed materials.
   (iv) ISO 9004-4: Guidelines for quality improvement.
   (v) ISO 9004-5: Guidelines for quality plans.
   (vi) ISO 9004-6: Guidelines for quality assurance for project management.
   (vii) ISO 9004-7: Guidelines for configuration management.

The Elements of the Quality System

The following are the requirements for demonstration of a supplier's capability to design and deliver a product. These are called as *'elements of the quality system.'*

1. *Management Responsibility* — To have a documented system of quality assurance, i.e., to identify representative for ensuring that the reuirements of ISO are met.
2. *Quality System* — To have a documented quality system.
3. *Contract Review* — To meet customers' stated requirements.
4. *Design Control* — To control and verify that the design of the product meets the specified requirements.
5. *Document Control* — To ensure that the staff doing the work have the right documents available.
6. *Purchasing and Sub-contracting* — To ensure the conformity of quality requirements by all concerned.
7. *Purchasing Supplies Product* — To store the equipments/instruments belonging to customers properly.
8. *Product Identification and Traceability* — To identify and trace the product at all times.
9. *Process Control* — All work must be planned and carried out under controlled conditions.

10. *Inspection and Testing* — No product must be dispatched until final inspection and test according to the quality plan or documented procedures are successfully completed.
11. *Inspection, Measuring and Test Equipment* — To ensure the testing equipment to provide accurate information.
12. *Inspection and Test Status* — To record the date of inspection and particulars of fitness of the testing equipment.
13. *Control of a Non-conforming Product* — Clearly label the non-performing products and segregate them from those products that do meet quality standards.
14. *Corrective Action* — Analyse how, where and why things have gone wrong and take corrective action.
15. *Handling, Storage, Packaging and Delivery* — To demonstrate that you adequately project the quality of equipment.
16. *Quality Records* — To demonstrate that the quality system is operating effectively.
17. *Internal Quality Audits* — Regular checks to ensure that the procedures are being followed and documented as required.
18. *Training* — To ensure that you are competent to carry out your work through qualifications, experience or training. Identifying the training needs as necessary.
19. *Servicing* — To properly design, plan and implement the servicing activities.
20. *Statistical Techniques* — To demonstrate quality performance and identify the statistically based techniques.

WHOM DOES ISO-9000 HELP?

- Companies that market their products in the European Community
- Vendors supplying to companies that demand ISO-9000 certification
- Companies whose competitors are certified or are seeking ISO-9000 certification
- Companies with geographically-scattered facilities and global operations
- Companies whose transactional parents are seeking ISO-9000 certification

WHOM DOESN'T ISO-9000 HELP?

- Companies whose CEOs see ISO-9000 certification as an end in itself
- Companies that have a quality system in place or are implementing TQM
- Companies in industries following other widely-accepted quality systems
- Companies whose quality problems stem primarily from HRD problems
- Companies that are struggling for survival in today's marketplace

THE BASIC INDIAN STANDARDS

IS 13988/ISO 8402 — Quality systems — Vocabulary

IS 14000/ISO 9000 — Quality systems — Guidelines for selection and use of standards on quality systems

IS 14001/ISO 9001 — Quality systems — Model for quality assurance in design/ development, production, installation servicing

IS 14002/ISO 9002 — Quality systems — Model for quality assurance in production and installation

IS 14003/ISO 9003 — Quality systems — Model for quality assurance in final inspection and test

IS 14004/ISO 9004 — Quality management and quality systems elements — guidelines

Note: These are only the basic standards. Few parts of ISO 9000 and ISO 9004 have since become available covering the quality system for services, software industries, etc.

STRUCTURE OF QUALITY SYSTEM STANDARDS

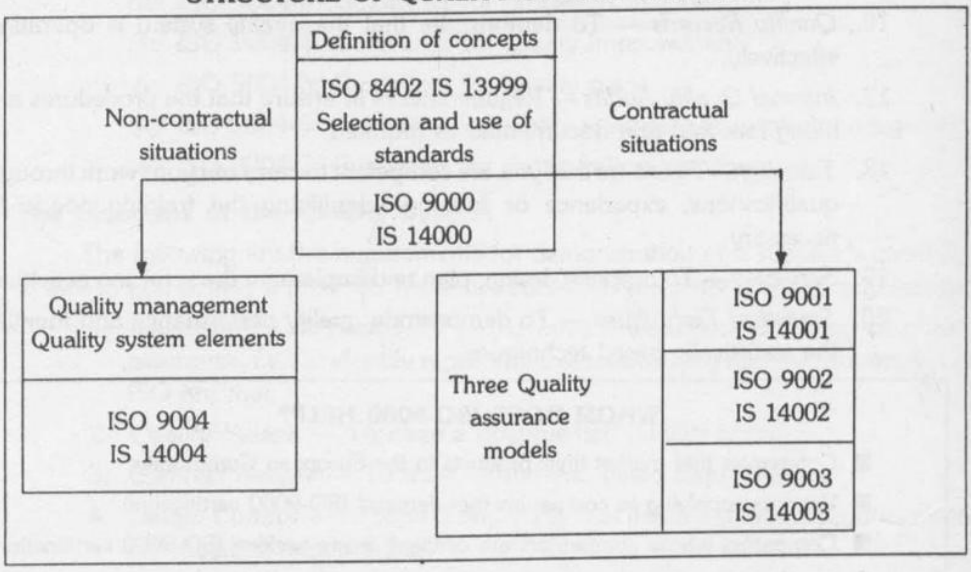


Fig. 40.1

Benefits of Implementing IS 14000 Series

- Provides a competitive edge in domestic as well as global market.
- Saves Money — As quality system ensurers efficient and sound procedures.
- Reduces wastes and time consuming reworks and repairs — increasing profits in return.
- Efficient tool to achieve and ensure consistent quality improvement.
- Brings confidence to the consumer.
- Quality performance is institutionalised.

CHART 40.1

/ Key Differences between the Baldrige Award and the ISO 9000 Registration

Points	*Baldrige Award Programme*	*ISO 9000 Registration*
Focus	Competitive criteria reflect two key competitiveness: (1) delivery of everimproving value to customers, and (2) improvement of overall company operational performance.	Conformity to practices specified in the registrant's own quality system.
Purpose	Educational — to encourage sharing of competitive learning and to *"drive"* this learning nationally. It fulfils this purpose by: (1) promoting awareness of quality as an important element in competitiveness, (2) recognising companies for successful quality strategies, and (3) forstering information sharing of lessons learned.	To provide a common basis for assuring buyers that specific practices, including documentation, and in conformance with the providers' stated quality systems. Some organisations use the ISO 9000 standards to bring basic process discipline to their operations.
Meaning of "Quality"	Customer-driven quality — addressing total purchase, ownership, relationship experience — concerned with all factors that matter to customers. Conformity issues are included in criteria, under process management, which addresses other key operational requirements.	Conformity of specified operations to documented requirements.
Improvement Results	Depends heavily on results *"Results"* are a composite of competitiveness factors: customer-related, employee-related, product and service quality, and overall productivity, *"Management by fact,"* tied to results, is a core value. Trends (improvement) and levels (comparisons to competitors and best performance) are taken into account. Results play dual role: (1) representing business improvement indicators needed to demonstrate a successful quality strat-	Does not assess outcome oriented results or improvement trends. Does not require demonstration of high quality, improving quality, efficient operations or similar levels of quality among registered companies.

	egy, and (2) representing indicators that drive improvement.	
Role in the Market Place	A form of recognition. Despite its heavy reliance on results, it is not intended to be a product endorsement, registration or certification. Award winners may publicise and advertise their recognition and must share quality strategies with other US organisations. The winners' role is public education and inducement for others to improve. Award winners adhere to a voluntary advertising guideline that prohibits attributing their awards to their products.	Provides customers with assurances that a registered supplier has a documented quality system and follows it. In some cases, registration will reduce the number of independent audits otherwise conducted by customers. While some registrars encourage advertising registration as a market advantage, some also prohibit advertising that registration signifies a product evaluation or high quality. ISO 9000 registration does not translate meaningfully into a Baldrige Award assessment score.
Service Quality	A principal concern in guiding criteria evolution has been compatibility with service excellence. Criteria and supporting information are evaluated to improve compatibility with requirements for service excellence. Criteria are relevant to service organisations, the most important *"process"* item (Customer Relationship Management) is a principal concern of service organisations, but also a major concern for manufacturers which seek competitive advantage via service.	ISO 9000 standards are directed towards the demonstration of supplier's capability to control the processes that determine the acceptability of product or service, including design processes in ISO 9001. ISO 9000 standards are more oriented towards repetitive processes, without an equivalent focus on critical service quality issues such as relationship management and human resource development.
Scope of coverages	Criteria address all operations and processes of all work units to improve overall company productivity, responsiveness, effectiveness and quality. Approach offers wide attitude in developing customer-focused cost reduction strategies, such as re-engineering of business processes. Due to broader nature of the Baldrige criteria and assessment, a rigorous audit of a printed quality manual and compliance with its procedures do not occur during an assessment.	ISO 9001 registration covers only design/development, production, installation and servicing. Registration covers parts of several items in the Baldrige Award criteria (primarily, parts of Management of Process Quality). ISO 9001 requirements address less than 10% of the scope of the Baldrige criteria, and do not fully address any of the 28 criteria items. All ISO 9001 requirements are within the scope of the Baldrge Award.

Documentation Requirement	Criteria do not sell out ongoing documentation requirement. They imply that documentation should be tailored to fit requirements and circumstances, including internal, contractual or regulatory requirements. Some analysis confuse application report with on ongoing documentation requirement. Assessment relies on evidence and data, but this does not define or prescribe a documentation system.	Documentation is a central audit requirement. Documentation requirements are ongoing, meaning that documents are a permanent part of the quality system needed to maintain registration.

Need for Developing Countries

The need for standardisation today is a necessity for both developed and developing countries. To catch up with the industrially advanced countries in as short a period as possible, developing countries must learn from the experience of the advanced countries. They can bypass the problems faced by the developed countries and make a judicious application of standardisation from the very beginning. Organised standardisation will be an instrument by which they can achieve direction and co-ordination in their industrial activity.

Standardisation in India

During the last decade, several basic industries and large, medium and small-scale industries, have been set up. Industrial standardisation has played a very significant role in the industrial growth through the formulation of specification to establish uniform perspective requirements relating to the characteristics and quantities of constituents and elements which enter into the production of commodities. It has also provided the basis for determining the efficiency, quality, utility and performance of a commodity and made possible the advantage of interchangeability.

Bureau of Indian Standards

The Government of India recognised the importance of standardisation in the rapid industrial development before launching big, industrial development plans, the Indian Standards Institution (ISI), now known as Bureau of Indian Standards (BIS) was therefore established in 1947 to ensure the preparation, promotion and general adoption, at national and international levels, of standards relating to materials, commodities, structures, practices and operations. The institution aims at assisting in the rationalisation the efforts of producers and consumers to improve coordinates processes and products. It promotes quality control methods.

The BIS has over the years taken up programme for the formulation of standards in a big way handled by several technical committees, sectional committees, subcommittees and panels. The various subjects for the formulation of standards are covered under the Divisional Council of Agricultural and Food Products, the Chemical, Civil Engineering, Consumer Products, the Electro-Technical, Mechanical Engineering, Structurals, Metal and Textiles. The various committees and councils comprised of

representatives of manufacturers, consumers, trade, technical bodies, Government Departments and other interested concerns. The BIS has published over 8000 standards on various industrial materials, semi-finished goods, codes of practice, methods of test, methods of quality control and glossaries of terms.

Besides formulating and publishing standards, the BIS initiated a big programme to help industries in the production of goods to the prescribed quality. For this purpose, it operated a *"Certification Mark Scheme,"* which brought manifold advantages to the industry. Any commodity for which an Indian standard has been published is eligible to get the *"BIS"* mark if the industry has got the necessary facilities for manufacturing quality goods. The BIS charges a nominal fee for the certification mark, which is stamped on the product by the manufacturer, the ISI mark is an assurance on the part of an independent party of the quality of the goods. The BIS has given over 1,000 licences for certification marks under this scheme. The sample inspection of the product is done by it, and if any product is found not to be in accordance with the specifications, the manufacturer is liable to be penalised.

The BIS keeps a continuous watch on industrial commercial concerns to ensure that specification standards are strictly adhered to. Various Central and State Government purchase organisations have been increasingly adopting the BIS for the purpose of purchases on behalf of their various departments, including Defence.

The BIS also plays an important role in the international standardisation field. It co-ordinates its activities with those of the International Body and takes a leading part in its technical and other work. Its work has been well reorganised in the international field. As a matter of fact, its Vice-President was President of the International Body, *i.e.,* the ISI, for three years.

In the first phase BIS has selected the engineering industries for intensifying quality upgradation work and is working very closely with the Confederation of Engineering Industries (CEI).

Most of these standards are voluntary in India. Indian standards promotion, therefore, has assumed a great significance in our country. Its efforts have, therefore, been directed towards persuading manufacturers, Government departments, statutory authorities and the consumers to apply/adopt Indian standards in their own fields of activity.

As a result of this 88% of Indian standards specification have been adopted as the basis for purchase and other activities by government agencies. Recently, the Government of India had decided that contracts for purchase of its stores will be entered into only for items bearing BIS standard mark and in case BIS marked products are not available, items strictly conforming to Indian standards will be purchased.

So far products, such as food additives, steel products, cement, vanaspati and miner's equipment have been brought under mandatory certification. This list may have to be progressively enlarged to meet the growing demand for compulsory marking where sub-standard quality had generated considerable public displeasure. There are socio-economic problems in case of items reserved for or predominantly manufactured in the small-scale sector. Bringing a product under compulsory certification would not

by itself ensure desired quality levels. A number of steps such as survey of production technology in the units, consultancy for designs, availability of quality raw materials and components, adequacy of testing facilities and a viable plan for quality upgradation are necessary. This calls for concerted action by several agencies as these are not issues that could be tackled by BIS alone.

A number of advantages accrue from the implementation of Standards, such as assuring quality, ensuring safety, minimizing wastage, reducing costs, cutting down unnecessary varieties, ensuring interchangeability and increasing productivity. Standards serve as a guide for production of goods and services; provide basis for trade transactions; help technologists judge quality and performance; and provide solutions to recurring problems of the designer and the builder.

ISI Certification Marks Scheme

To bring the advantages of standardization within the reach of the common consumer, the Institution is operating a Certification Marks Scheme under the Indian Standards Institution (Certification Marks) Act, 1952. This enables ISI to grant licences to manufacturers producing goods in conformity with Indian Standards to apply ISI Mark on their products.

Every licence includes a scheme of testing and inspection which the licensee is required to follow strictly. During the operation of the licence, ISI inspectors carry out regular and surprise inspection of the manufacturer's works to make sure that the scheme is being properly adhered to. Samples of certified products are drawn from the production line as well as from the open market and tested in independent laboratories. As a further safeguard for the consumer the scheme provides for free replacement of ISI marked goods found to be of substandard quality. Besides providing third-party assurance of quality to the consumers, quality control operation helps the manufacturer in producing goods of quality, increasing productivity and achieving production economies in diverse ways.

Standardisation in Small-Scale Industries

The adoption of standardisation for large and basic industries though comparatively easy is not so for small-scale industries because the problems of standardisation in small-scale industries are somewhat different from those of large-scale industries; and therefore the introduction of standardisation has to be such that it may not prove uneconomical or unproductive for this sector. The experience of India in the field of standardisation for the small-scale sector should be of great use to other developing countries. While formulating the standards for such commodities, as are manufactured in the small-scale sector; it is necessary that its representatives consulted and their guidance sought by the relevant committees of the BIS. A large number of standards have been formulated for the items manufactured by small-scale units. These include items like bicycle components, farm implements, food products, builder's hardware hospital equipment, sports goods, surgical and medical instruments etc. Small-scale units have been widely using the BIS certification mark in the past few years. Small-scale ancillary industries also make use of this certification marks. Several industries — machine tools, bicycles, electrical machinery and equipment, automobiles and

supply parts and components to the large units. Some other small units follow company standards. For items manufactured by the units the specifications are laid down by large-scale units are for the ancillary units supply parts and components in accordance with these standards.

Several items manufactured by small-scale units have contributed to foreign exchange earnings; and these units have to undergo inspection prior to the export of their products in accordance with the standards prescribed for this purpose, which are generally the Indian Standard Specifications. The BIS certification mark has also been recognised by the Government of India under the Export (Quality Control Inspection) Act, 1965, in the case of several light engineering products as utensils, knives, buckets, tower bolts, wire nails, umbrellas, scissors, electrical cables and conductors, etc., manufactured by these units.

Quality Control

The introduction of quality control techniques in the manufacturing industries is one of the most significant factors in the rapid development of the industrial economy of the country, for it has brought about improvement in the quality of products without any additional capital investment. Several countries in the world, particularly those which suffered a setback to their economy after the Second World War, have recovered their economy and established firm foreign market by improving products. The application of quality control techniques also brings considerable savings at various stages of production. For this purpose, standardisation plays a fundamental role in the assessment, specification and measurement of the quality of a product. With the help of standardisation, it is possible to lay down basic procedures for ensuring this activity/ quality.

It is obvious that for a proper quality control in industry, it is essential to have suitable raw materials of specified quality to produce quality products. It is also necessary to enforce quality control in the industry at all stages of manufacture because with the complex integrated industrial system in the modern world unless control is effected at all levels, it may be difficult to ensure the quality of the end product. At the same time, the cost factor should be considered to be of equal importance, for it is the cost of a product which determines its saleability. In a sheltered or *seller's market,* the cost factor and even the quality aspect are often neglected; but when industrial recession sets in and competition in the export market becomes keen, adequate attention to quality and cost becomes essential. India has of late been facing both these problems; and need for improving quality and reducing cost production.

Quality control is one of the important responsibilities of the production department. It minimises wastage, reduces cost, builds up goodwill for product in the market, facilitates advertising sales, and brings increasing satisfaction to its users.

Meaning

Quality is a related concept, related to certain pre-determined characteristics such as shape, dimensions, composition, strength, workmanship, finish, colour, time, weight, etc. According to Alfort and Beaty, quality control is the mechanism by which products are made to measure up to the specifications determined from the customer's demands

and transformed into sales, engineering and manufacturing requirements. It is concerned with making things right rather than discovering and rejecting those made wrong. Quality control is a technique by means of which products of uniform acceptable quality are manufactured. In other words, it is the systematic Control of those variables encountered in the manufacturing process and which subsequently affect the excellence of the finished product.

Importance

Quality control has distinct advantages. Firstly, it facilitates distribution, increases the sales and builds up goodwill and the brand in the market. Secondly, it leads to all-round efficiency in the organisation. Thirdly, it helps the entrepreneur (manufacturer) in determining the responsibility of individual workers and of the production units. Fourthly, it minimises the cost by reducing wastages, increasing efficiency, standardising procedures, machines, tools, materials and working conditions. Fifthly, it enables the entrepreneur to know the cost of a product in advance so that he may determine competitive price. Finally, the entrepreneur can conform to the standards set by the Government (if any).

Quality standards are set only after carefully analysing the consumer's requirements and the product cost. If the quality standards are set very high and maintained effectively, they may involve a higher cost which may be beyond the expected range of the consumers.

Control over Production

The variations in quality are caused by variations in the materials used, in men, machines, tools, and equipment and in methods and procedures of production and inspection. These variables need to be controlled if quality products are to be manufactured.

Inspection

Inspection is one of the very important steps in quality control. There are three important aspects of inspection:

(i) Product Inspection: It is to ensure that the goods sent into the market for sale are free of defects and conform to the set standards of quality.

(ii) Process Inspection: It is designed to check raw materials machines, etc. It saves times and wastage of material, and prevents process bottlenecks.

(iii) Inspection Analysis: A careful analysis of inspection results enables an entrepreneurs to locate these points in the manufacturing process at which control is breaking down.

Statistical Quality Control

Statistical Quality Control (SQC) controls the quality of a product. In this method, statistical techniques are used to gather and analyse data to determine and control quality. It is based on sampling, probability and statistical inference, *i.e.,* it judges an entire lot by the characteristics of sample. It is divided into three parts: *the analysis of samples, the use of control charts and the taking corrective action.*

SQC is a diagnostic and preventive device of quality control, used in the process control in continuous process industries and in industries producing goods on a mass scale.

Quality control in the small-scale sector is as necessary, or even more necessary than, in the large-scale sector because of the greater use of manpower in the former during the manufacturing processes. But its application raises certain problems because of several limitations, including financial, technical and managerial. For a successful application of quality control, small-scale units must take care of quality right from the choice of raw materials, selection of machinery and equipment, tooling, designing, manufacturing processes, testing, marketing and after-sales service. To ensure its success, the small units have to be suitably assisted by Government organisations, associations and institutions, which will have to provide technical, financial, management assistance and training to the small industrialist and create quality consciousness in him.

With the combined efforts of the Development Commissioners, Small-Scale Industries Organisation, Indian Standards Institution and State Government agencies, the small units have successfully adopted quality control measures in various fields. Amongst the other measures, their quality control is based on —

(i) Indian Standards specifications;

(ii) Quality marketing schemes;

(iii) Company standards (in case of ancillary units);

(iv) Any other standard specifications prescribed by the Government or other purchasing agencies.

The Indian Standards Specifications have been of valuable guidance to small-scale units and have persuaded them to adhere to the product quality. Several units have obtained the BIS mark to establish the quality of their product. The quality of the small-scale industries products, however, depends upon many other factors, one of the biggest factors being the availability of suitable factors, one of the biggest factors being the availability of suitable standard raw materials. In this connection, several standard specifications for raw materials have been laid down which have greatly helped the producers in the manufacture of suitable raw materials. On quality control itself, the following Indian Standards have been published:

(i) Methods of statistical quality control during production by the use of a control chart;

(ii) Manual on basic principles of lot sampling; and

(iii) Sampling inspection tables.

Several State Governments have been initiating quality marketing schemes and standards for various products. Small-scale units manufacture the items in accordance with these standards; and the Quality Marketing Centres (QMCs) of the Government stamp the "Q" mark on their products which assures customers that the items have been made to certain quality standards. Several light engineering items, sports goods, textiles are covered under this scheme. The specification laid down under this scheme

may or may not conform to Indian Standards, but they are acceptable to State Governments, probably because they have been found to be suitable for one purpose or the other. The QMCs sometimes inspect the goods on behalf of the BIS Export Inspection Councils and the Defence Department. State Governments have set up a number of common facility centres and testing laboratories to assist the units to manufacture goods on prescribed standards.

The quality of the products manufactured by ancillary units is prescribed by the large units either as per the national standards or company standards; sometimes the large units provide detailed specifications, drawings, samples, analysis of materials to be used, inspection procedures, and for storage of materials to small ancillary units. They also help them to manufacture items of specified quality by giving technical guidance, wherever possible. The items are inspected by these large units even during the course of manufacture to ensure that they are fabricated in accordance with the standards laid down by them. This helps the ancillary units to adhere to the required quality, which may otherwise adversely affect the sale of their end product.

For the purchases the Central Government through the Director General of Supplies and Disposals, the standards for the quality of the products are laid down by the department itself. These standards may also be national standards. Inspection is carried out by the department before purchases are made from small-scale and other units. Similarly, standards are laid down for purchases by the Defence Department for its requirements. For consumer use some standards are prescribed by the Civil Supplies and Weights and Measures Departments or by similar agencies.

Testing Facilities for Small-Scale Industries

Small-scale units cannot afford to have all the testing facilities in their own premises. However, such testing facilities not within their means have to be obtained by them either from established testing houses, laboratories set up in various regions, including engineering colleges. The Government Test House at Alipore in Calcutta, the Indian Standards Institutions Laboratory at New Delhi and the national laboratories under Central Scientific and Delhi and the national laboratories under Central Scientific and Industrial Research Organisations have played a significant role in offering testing facilities to small-scale units. The DCSSIO has also paid special attention to this aspect of the needs of small units; and through the Industries in every State, common facility services and testing facilities are provided to small units for the following:

(i) Hardness testing and heat treatment;

(ii) Stand testing, carbon silver determinator and other testing equipment for metallurgical goods;

(iii) Tensile testing and other testing for metals;

(iv) Chemical laboratories for testing vegetable and essential oils fats, and soaps;

(v) Electrical testing laboratories.

Even though small-scale units have been getting substantial assistance for quality control a great deal more needs to be done in terms of a proper inventory of training, testing and other facilities available in the country and making these facilities known

and available to small units. A *"source-book"* of this type would go a long way in making several facilities available to small units and help them to ensure quality control.

Quality Control for Export Promotion

Developing countries have to import plan, equipment, and raw materials for rapid industrialisation; and in order to earn adequate foreign exchange for this purpose, they have to develop and diversify their exports. Quality control techniques can be an effective instrument in raising the export earnings of a developing country. A product can be sold abroad only if it is cheaper and up to a certain quality or if there is no competition. It is therefore essential for developing countries to lay great emphasis on quality, in the goodwill and confidence of foreign buyers. The use of international standards would be more convincing than any sales campaign. The Government of India has made the inspection of several items compulsory before they are exported. This has been very beneficial for the Indian exporters and made it possible for Indian goods to find export markets in competition with the products of other countries.

Agenda for Success

Successful organisations place more emphasis on setting out clearly their broad route and then focussing much more on getting things done to create motivation, commitment and common expectation. And it is primarily this that successful managers are good at. This theory, has, no doubt, strong overtones of consensus creation about organisational success and achievement.

In almost every situation, changes — often uncomfortable changes, involving people doing things differently — are involved. Those organisations in the public and private sectors which have been most successful in securing beneficial change have created an environment that thrives on challenge and change, by managing the following elements in such a way as to reinforce each other:

Vision: What the authority is seeking to be or to achieve.

Strategy: How this vision is to be translated into reality.

Structure: The way the authority is organised to implement the strategy.

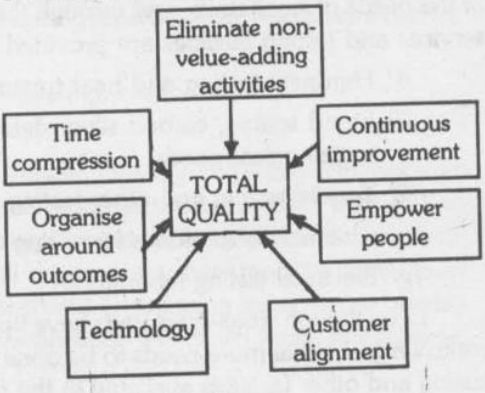
Systems: The way in which people in the organisation plan, decide, control and monitor day-to-day actions.

Staffing and skills: The way in which the critical resource in every authority — people — is acquired, trained, deployed, motivated and rewarded.

Style: The way we do things and the members relate to each other and others.

Thus it becomes imperative for the business enterprises to muster their resources to master changes. Organisations to be successful, must define their change agenda as part of getting started, under-

THE ANDERSEN CONSULTING MODEL



THE JURAN MODEL



Fig. 40.2

THE McKINSEY TQM MODEL

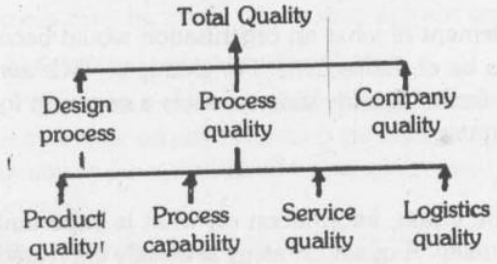


Fig. 40.3

organisation is *quality-driven* in its totality. According to Philip Crosby, quality management, essentially, is a thought process and not a tool. If a company gets its thoughts right on the subject, working on the systems is not difficult. The degree of sophistication may vary from company to company depending upon the characteristics of the economy and the size and complexity of each organisation.

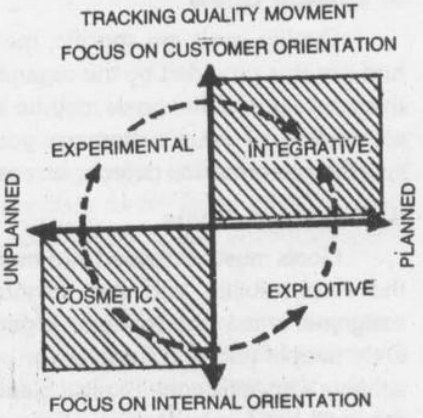
TQM operates at three levels. At level one, it deals with the organisation's purpose, vision and mission, quality planning and leadership. At level two, it concerns the costs of quality, design for quality, systems for standing the magnitude of change to achieve the desired result.

Total Quality Management

Quality in business is accomplished by adopting TQM, company-wide. TQM's four principles are customer focus, strategic quality planning, executive leadership and quality planning, quality control and quality improvement of all key business processes.

What is TQM?

The TQM approach at managing corporations calls for embracing quality in the entire company, cutting across all functions and levels. TQM covers business plans and strategies, manufacturing, production technology, marketing and sales, after-sales services, customer satisfaction, personnel and administration and finance. It is an *organisational concern* with leadership as the most important ingredient. In other words, the management of the



Source: AIMA

Fig. 40.4

quality, capability for quality like statistical process control, process variability, control of quality, team-work for quality, and related areas. At level three, it deals with continuous improvement, training for Human Resources (HR) and Daily Process Management including TQM audits and reviews. In the process, TQM cuts across all functions and levels in an organisation.

While TQM is an overall approach to management, it needs systems tools and techniques that can convert this approach into realities.

Tools and Techniques for TQM

- Creating customer focus
- Long range plan
- Continuous improvement
- Daily process management
- Employee involvement

QUALITY BENCHMARKS

The term *benchmark* is used to designate the best practices in quality management. They provide the insight to leaders of quality movements. The quality benchmarks are:

1. Quality Vision

A quality vision is a general statement of what an organisation would become and how good organisation intends to be at that activity. For example: *"We aim to be the best managed electric utility in India."* Quality vision creates a common focus for the organisation and a basis for strategy.

2. Strategy with Customer Focus

A quality strategy is based on the vision, information on what is important to customers, and how customers view quality. A quality strategy is usually expressed as part of the strategic plan for the overall business.

3. Quality Goals

Quality goals are specific, measurable, and related to the quality of the goods and services provided by the organisation. Some people prefer the term objectives for this concept. Quality goals may be set on a number of different bases: the needs and satisfaction of your customers; your performance compared to your competition; specific performance defects; or costs of poor quality.

4. Deployed Goals

Goals must be divided into smaller objectives, and specific individuals be assigned the responsibility and the resources arranged to meet every objective. These assignments may be made to organisational units or cross-functional quality teams. Only people (either collectively or individually) can complete the activities needed to achieve a specific goal. Explicit planing as to who will do the work and what resources they will have is important.

5. Monitoring Progress Toward Goals

The results with respect to each goal must be measured for the organisation and each relevant component. Upper management must assign clear responsibility for action when actual performance is not meeting the goals.

6. Quality Council

Upper managers must lead the quality effort. The name may differ, but some sort of quality council or steering committee is needed to perform the functions required of upper managers jointly. Quality councils have several responsibilities.

The next four benchmarks highlight the most critical: set priorities, establish cross-functional teams, provide resources like training and time, and review progress.

7. Set Priorities

Quality improvement comes only project by project. So, it is critical that the most important projects receive priority. Upper managers set these priorities in quality, just as they set priorities in other areas. You are expending all this effort on quality because you need to rid the organisation of the losses due to poor quality and because you have adopted a strategy to satisfy your customers. To achieve these ends, you must work on those items that have the greatest cost of poor quality and those that affect customer satisfaction the most. It is absolutely critical to use data for prioritisation so that the right items are addressed. This prioritisation is not, however,strictly mechanical. Choices may be made where data are not comparable.

8. Establish cross-functional teams

The most important quality improvements almost always require cross-functional teams for their success. Planning the quality of new or replacement goods and services also require cross-functional teams which need to follow formal, mandated, structured processes.

9. Provide resources

The success of quality teams depends on the resources used to do the work. The most critical resources include training; time for meetings; data collection and analysis; facilitator support and data analysis support.

10. Review progress

Upper management must provide constructive, effective review for their on-going quality projects. These reviews consider questions such as: *Is the team following the established methodology? Is the team experiencing any difficulty that upper management can alleviate? What limitations do the data have? What does the team plan to do next?* The approach should always be one of support and encouragement.

11. Customer data

Quality leadership requires data on the identification of customers; customer needs expressed in terms of benefits sought; the relative importance of each need; customer evaluation of your quality; customer evaluation of the competitor's quality; measures of the performance of the competitor's goods and services. Data on these

items are adequate if they are prepared using appropriate statistical methods and scientific samples that include both current customers and potential customers.

12. Costs of poor quality

Costs of poor quality are all the costs that would disappear if all work were performed perfectly every time. These include: the costs of looking for the deficiencies; the costs of repairing, replacing, or doing work over again; the costs of taking care of the customer who has suffered from the deficiency. Reasonably reliable, systematic estimates are sufficient. The precision needed is only that required for making decisions.

13. Internal culture information

Data on the internal culture of the organisation can help upper managers identify the strengths and weaknesses being faced by them. Such information can also help identify quality improvement opportunities that address employee needs and satisfaciton.

14. Audit of quality systems

This activity by upper managers is an important tool for keeping the organisation on track. Upper managers develop the key questions about the status of quality within the organisation. Subordinates assemble and summarise the information to answer the questions. Upper managers evaluate the results and decide on a course of action for improving a system's performance.

15. Leadership Style

The style with which you and the other members of the upper management team lead your organisation leave an important impact. While there are many variations of leadership style that have been successful in establishing effective quality management, there are some common themes. In this case, we are focusing on the degree to which the senior managers demonstrate faith in their subordinates through their style of delegation.

16. Personal Involvement

The following are some typical examples of personal involvement: change meeting agendas to emphasis quality; meet frequently with people at all levels; serve on some project teams; attend training seminars; deliver training; meet customers; lead community-based quality efforts.

17. Consistency

Consistency in quality means not allowing the ordinary business or even extraordinary events to slow or suspend the process.

18. Elimination of blame

An atmosphere of blame makes it difficult to identify improvement opportunities and remedy them. Blaming individuals does not solve problems; it only creates hostility and discouragement. in fact, if we continue to blame people, we will create a situation in which will be fundamentally unable to get solved because individuals will be fearful of identifying, describing, or working on problems.

19. Data-based decisions

We have already seen that quality depends on good data. It also depends on executive leadership in using that data. Basing decisions on data does not remove the need for judgement. Using data, however, reduces the margin for error in these judgements. It also makes it easier for groups to agree on a common judgement and accept the final solution because the data either determines or sharply limits the range of possibilities.

20. Changing culture through action

Attitudes change as a result of the activities in which individuals participate. Efforts to change attitudes directly are rarely successful. The type of training that you provide is one indicator of the orientation of your efforts to create a quality culture. Training or other activities that focus directly on changing people's attitudes will create, at best, short-term changes. Such attitude-oriented approaches will probably create long-term cynicism and even outright hostility.

21. Changing culture through participation

Providing for ample participation helps reduce resistance to change. If individuals are involved in planning a change that will affect them, they are more likely to accept or even be enthusiastic about the change. On a practical level, such involvement increases the chances that their needs and concerns will be met.

22. Changing culture by providing time

People often require time to adjust constructively to proposed changes. Providing this time should not create paralysis. Beyond the simple organic basis for human change, providing time also gives the opportunity to come to terms on matters that are in dispute. Sometimes, resistance to change actually reflects real problems that should be addressed.

23. Motivation through recognition

Recognition is a strong non-monetary incentive to adopt change. One can almost never provide too much recognition. Recognition must be in a form that is valued by the individual being recognised. One of the most powerful forms of recognition is often the active and personal participation of upper managers in the review, discussion and implementation of the results or projects on which other individuals have worked.

24. Motivation and financial reward

In general, there should not be a separate system of financial rewards for contributions to quality. Quality is part of the job, and quality should be one of the primary determinants in the overall processes of performance evaluation, compensation, and promotion. Appropriate evaluation factors for quality include customer satisfaction, improvement in critical quality indicators, costs of poor quality and effectiveness of quality systems and processes.

The new business management model

The new business management model as built around the Malcolm Baldrige Quality System model presently in practise in USA puts the customer as the driver to

steer improvement processes within the company. The figure depicts this model utilising the seven categories of the Baldrige model. Companies hitherto have been running their business units with the sole aim of increasing profit margin and customer satisfaction would accrue as a result.

The message of this model, in short is that companies are required to determine what it is that customers want, then work out strategies, action plans to imprlment them within the company to meet its customer requirements and in addition have some measurements made to keep track of the progress towards meeting these requirements.

Thus, there is a *"shift in thinking"* from a conventional business practices to running a business with customer focus.

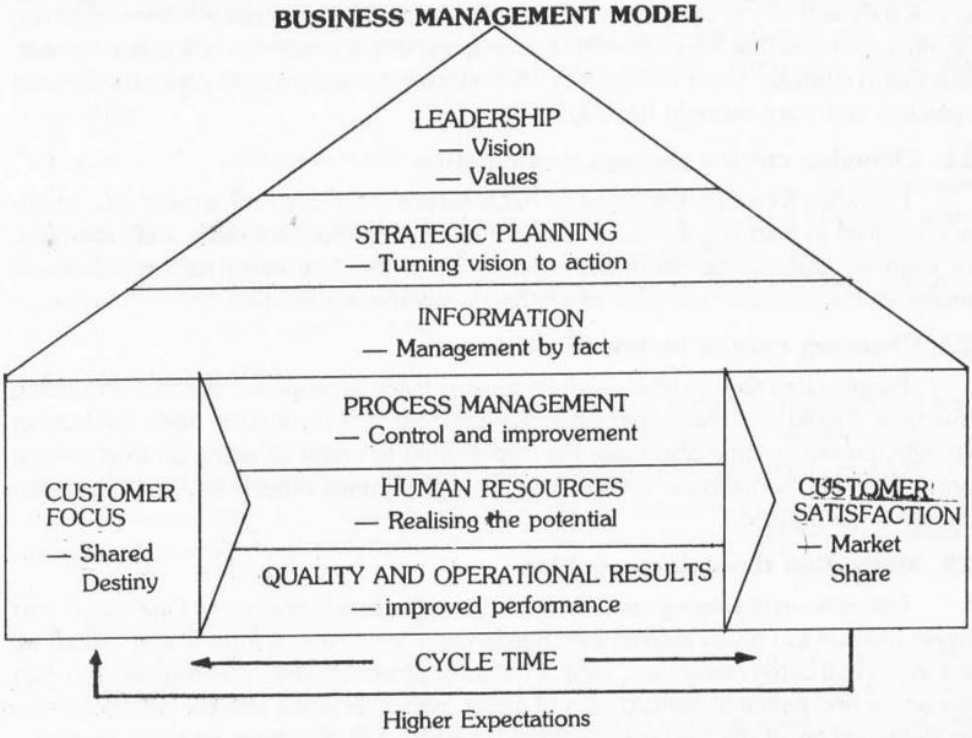


Fig. 40.5

Conclusion

Continuously improving quality, reduction of costs/over heads and improvement of productivity in all areas of working are the order of the day to enable healthy growth of the people, of the industry and of the country. TQM is one very important tool for exploitation. Government, industry, professionals, consultants have all a role to play have to be balanced and complementary.

Total quality is rooted in such timeless principles as poductivity, synergy, and constancy of purpose. Without the roots, we do not get the fruits. Without teh govrning principles of total quality, the methods and techniques alone rarely produce quality products, services, or relationships. Quality will give any individual or organisation a

long-term competitive advantage. Quality culture is the basic system of marketing and management philosophy.

First and foremost there should exist the initiative to improve at all levels continuously. It should be supported by Government and professionals in a patriotic manner and not for financial benefits only. There needs to be both cooperation and control to achieve this aim. It is time to have a national body comprising of professionals in quality field, government representation to coordinate activities to get best results as a cooperative effort to monitor, control, educate and counsel.

Indian entrepreneurs have to realise that the culture of the worldwide business is more important than national cultures. They should open up and take advantage of what other countries have to offer them. They need to go out to sustain growth. To meet the world's standards, Indian businesses leap right into quality. It gives one the power to manage better.



UNIT 7

SETTING UP A SMALL INDUSTRY

Small-scale industries play a key role in the industrialisation of a developing country. This is because they provide immediate large-scale employment and have a comparatively higher labour/capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments. They also offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.

A rewarding feature of economic development in India has been the impressive growth of modern small-scale industries. The small enterprises have by now established their competence to manufacture a wide variety of sophisticated goods in different product-lines requiring a high degree of skill and precision. They have made a notable contribution in realising the principal objectives of expanded employment opportunities, adoption of modern techniques and dispersal of industries in small towns and rural areas. This has been possible as a result of the successful implementation of the programme for assistance of SSIs. The diversified, rapid growth of these industries has made substantial contribution to India's economic development in recent years.

Small enterprises represent the fountain head of vitality for the national economy. At the end of the seventh plan, small-scale industrial sector including village industries accounted for over 55% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. It also provided direct employment to 245 lakh people. What is more, certain groups of small enterprises, such as electronics, engineering and leather have made impressive progress. The small-scale sector has also achieved a high degree of sophistication and made significant progress in quality upgradation and standardisation. They have also given fillip to entrepreneurship development. Small enterprises are able to successfully adapt to the changing situations and possess creative strength. Therefore, much is expected of them as the driving power behind the continued development of the Indian economy.

Although the prospects for SSIs are plenty, the new industrial policy has to a great extent hampered its sustained growth in the nineties. On the contrary, the policy is oriented towards development of large-scale industries, in particular, multinationals based on technology as well as finance imported from advanced countries, while showing lip sympathy to small-scale sector. The need of the hour is an appropriate industrial policy conducive for the development of SSIs. The high levels of potential inherent in small-scale sector are yet to be properly understood and analysed.

AGENDA FOR GROWTH

- The Aim: to become a key player in the Indian economy in fostering entrepreneurship, creating employment opportunities, increasing industrial production and accelerating the process of sustainable development.
- The sector will bank upon the strategic business development plan, which draws on its core strength.
- To use modern technology in maintaining quality and in increasing productivity.
- To introduce new product lines to garner a higher share in exports.
- To integrate with the medium and large enterprises.
- To promote entrepreneurship, stress will be on human resources and development at the grass-root level.

CHAPTER 41

LOCATION OF AN ENTERPRISE

Introduction

Location considerations for the establishment of manufacturing plants is critical to the operation of the set-up in an uninterrupted and least resistant manner. Considerable emphasis is laid from the technical point of view regarding site locations.

The study of indusrial location forms an important branch of economic geography which has engaged the attention of both economists and geographers. Economists judge from the point of view of profit, productivity and growth. Similarly, they may also look from the point of view of raw material, market, labour, finance, infrastructure, policy, costs, incentives, and subsidies.

In this chapter, an entirely different perspective of selection of site for an enterprise has been dealt with. The selection of site and equipment are important aspects of a project to derive maximum operative economy and effectiveness.

An ideal site certainly contributes to the smooth and efficient functioning of an enterprise. It not only saves on costs but also enhances productivity and profits. An ideal location is a boon to a manufacturing unit to grow, diversify and prosper, as well as provide quality products on an ongoing basis.

Need for Enterprise Location

The need for plant location arises under the following circumstances:

(1) When a new enterprise is to be established.

(2) In the case of established enterprise, the need for enterprise location arises when expansion, decentralisation and diversification is undertaken to meet the increased demand for its products.

(3) Whenever the existing factory is not in a position to obtain renewal of lease.

(4) When an undesirable location is to be abandoned.

(5) When the tendency of shifting the market, depletion of raw materials, changes in transportation facilities, new processes requiring a different location are observed in a factory.

(6) When a new branch or branches are to be opened for inceasing the volume of production or distribution or both.

Importance of Enterprise Location

The selection of an appropriate location enables the enterprise to operate smoothly, efficiently, and with the minimum cost; it is estimated that manufacturing and distribution costs may vary to an extent of 10 per cent simply by virtue of the choice of enterprise location. Wrong location leads to wastage in efforts and talents of the promoters with consequent uncertainty in results. The location of enterprise has a great effect on the success or failure of the operation of that plant. If the selection of the site is not proper, then all the money invested on factory building, machinery and their installation etc. will go waste and the owner of the factory will have to suffer a great loss. Further, the cost of transferring it from one location to another would prove a very costly affair and pose problems which cannot be easily solved. Therefore, while selecting a site, the owner must consider technical, commercial and financial aspects and then to select a suitable site that may provide maximum advantages.

Location is also an important factor determining the ultimate success or failure of a small-scale unit. On it may depend the small industry's ability to obtain an adequate and regular supply of its raw materials at minimum cost, to maintain a sufficient labour force, and to serve its customers satisfactorily. In spite of its importance, many small entrepreneurs in the past ignored the problem of proper location of their units.

Seps in Enterprise Location

According to Bethel, Atwater and Smith enterprise location involves three main steps. They are: (1) selection of the region or general area; (2) selection of the particular community; and (3) selection of the exact plant site.

In choosing a plant location the entrepreneur would do well to follow the undermentioned steps:

(*i*) Selection of the region;

(*ii*) Selection of the locality or community;

(*iii*) Selection of the exact site; and

(*iv*) Selection of an optimum site.

The project site is sometimes determined by the Government's licensing regulations and not by the choice of the promoters. However, since location is an extremely important aspect for ensuring commercial success of an enterprise, appraisers evaluate location in relation to availability of raw materials, power, labour, fuel, transport, market and other infrastructure needs. The social infrastructure facilities such as availability of housing and education, medical and recreation facilities also become important, particularly if skilled personnel are to be recruited and retained from outside. In the case of certain project involving sophisticated technology, availability of testing and research facilities are also taken into consideration. The weightage given to different aspects depend upon the type of industry. Water and power availability, for example, are the major factors examined particularly in relation to a power and water-intensive project. Generally, the power-intensive units are not encouraged to be set up in areas

having a chronic power shortage. In the case of export-oriented projects, location near a port might prove advantageous. This has been shown in Table 41.1.

Table 41.1
Factors Affecting Location of an Enterprise

A) Selection of Region	*(B) Selection of Community*	*(C) Selection of Site*	*(D) Optimum Selection of Site*
(i) Availability of raw materials *(ii)* Nearness to market *(iii)* Availability of power and fuel *(iv)* Transport *(v)* Suitability of climate *(vi)* Government policy *(vii)* Competition among states *(viii)* Meterological conditions and topography	*(i)* Availability of labour *(ii)* Civic amenities for workers *(iii)* Existence of complementary and competing industries *(iv)* Finance and Research facilities *(v)* Availability of water and the fighting facilities *(vi)* Local Taxes and restrictions *(vii)* Momentum of an Early start *(viii)* Personal Factors *(ix)* Banking facility *(x)* Communication faciity *(xi)* Cultural affinity *(xii)* Religious and social institutions *(xiii)* Educational Environment *(xiv)* Historical Factors *(xv)* Political stability	*(i)* Soil, size and topography *(ii)* Disposal waste *(iii)* Price of land *(iv)* Expansion potential *(v)* Commercial services *(vi)* Communication *(vii)* Availability of amenities *(viii)* Health of locality *(ix)* Statutory considerations *(x)* Flood and drought experience *(xi)* Right and title of the land *(xii)* Good scenery *(xiii)* Attitude of local people *(xiv)* Technological know-how *(xv)* State Assistance	Optimum site is selected on the basis of a comparative economic survey of the alternative sites in question

Generally speaking if the value-added component is not high, the project may be located near the source of raw material but for projects manufacturing high value-added products, a wide choice in respect of location is available as the products can bear the to and fro transportation cost of raw materials and finished products.

It has been found in a recent investigation that some 92% of the small industrialists had selected the location of their units to the nearest point of their residence; and out of these some 90% ignored the economics of the location of an industry. They did not bear in mind the fact that heavy recurring costs were involved in the purchase of raw

materials that came from a place that was far from the location of their industries. In the case of some small industrial units, a particular type of climate, proximity to rail or road transport is necessary, but no care had been taken in selecting a site with these locational advantages. The study concludes: "Due to the faulty selection of a site for the location of an industry, some 56% of the small units failed within a period of five years of their start." This fact emphasises the importance of location as a primary consideration in planned production and control.

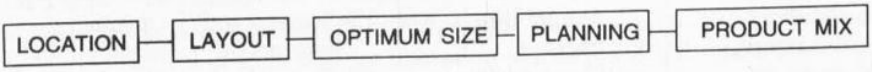


Fig. 41.1 Production channel of an enterprise

BOX 41.1

THE PROJECT

The Company has already set up a unit for re-refining of used/waste oils with an installed capacity of 10,500 KL/MT. The proposed issue is to part finance the Company's expansion programme to manufacture blended lubricating oils, industrial waxes and jellies as well as to provide balancing equipments to the existing re-refining plant to improve capacity utilisation and plant efficiency. After the proposed expansion the capacity will increase to 13,500 KL/MT per annum.

LOCATION

The unit is located at Khopoli, Dist. Raigad, Maharashtra which is about 90 kms. from Mumbai. It is a 'C' category Backward area having benefit of State Subsidy.

The factors favouring this location are as under:

1. Easy availability of raw materials from the surrounding areas in Maharashtra and Gujarat.
2. Proximity to the potential market of Mumbai.
3. Well established road network.
4. Easy availability of power, water, labour and general industrial infrastructure.

LAND & BUILDING

The Company is in possession of free hold land at Village Honad, Taluka Khalapur, Dist. Raigad, admeasuring 10,789 sq. mtrs. As on March 31, 1992, the Company had incurred an expenditure of Rs. 55 lakhs approximately, towards purchase and development of land and construction of building.

The existing built-up area is 1,130 sq. mtrs. approximately. The built-up area after the proposed expansion will be 1,785 sq. mtrs. and the civil construction contract has been awarded to M/s. Akcon Engineering Company.

Weber's Theory of Industrial Location

The Weber's theory of industrial location is based on the following basic assumptions:

(1) The materials used by an industry can be classified into ubiquitous and localised materials.

The ubiquities are those raw materials which are available everywhere, like brick, clay and water. The localised materials are those which are available in certain localities only, like minerals, fuel etc.

The localised materials are further divided into *(i) weight-losing* or *gross* materials and *(ii) pure* materials. The weight losing materials are those which considerably lose weight during the manufacturing process (e.g., coal and other minerals) as opposed to pure materials like cotton or wool.

(2) The situation and size of places of consumption are given, with the market comprising a number of separate points.

(3) There are certain fixed labour locations and labour is immobile. Wage rates may vary from location to location but in each location supply of labour is unlimited at the given wage rate.

Weber's theory divides the factors influencing industrial location into the following two:

(i) The general regional factors of transport and labour costs. These general regional factors are regarded as the primary causes affecting industrial location.

(ii) The local factor of 'agglomerative' or 'deglomerative' forces regarded as the secondary causes responsible for redistribution of industries.

The location of an industry is determined by the interaction of the two sets of factors.

The limitations of the Weber's theory of industrial location are:

(1) The theory is based on three wrong assumptions about labour supply;

(2) Transport cost depend on the mode of transport, nature of goods etc.;

(3) Location and size of markets may vary with changes in the economy;

(4) Non-economic factors also exert important influence on industrial location;

(5) The theory ignores the role of capital and entrepreneurship in industrialisation; and

(6) The classification of materials is not proper.

Selecting General Area

The important factors, which should be taken into account in the selection of a site, are *(i)* availability of raw materials; *(ii)* availability of skilled and unskilled labour; *(iii)* nearness to the source of motive power; *(iv)* nearness to market; *(v)* availability of transport facilities; *(vi)* nuisance problems; and *(vii)* suitability of the climate.

(i) Availability of Raw Materials: The region in which a manufacturing industrial unit is proposed to be set up should provide at least a greater part of the raw material required, thus ensuring a continuity of supply at reasonable prices.

(ii) Availability of Skilled and Unskilled Labour: It has to be seen whether proper labour required is available in the area. If labour is brought from other areas, its cost would go up.

Table 41.2

The Important Factors in the Selection of a Site

	Selection of region	*Selection of locality*	*Selection of of site*
1. Availability of raw materials	x x x		
2. Nearness to markets	x x x		
3. Availability of power	x x x		
4. Transport facilities	x x x		
5. Suitability of climate	x x x		
6. Government policy	x x x		
7. Competition between States	x x x		
8. Availability of labour		x x x	
9. Civic amenities for workers		x x x	
10. Finance and research facilities		x x x	
11. Availability of water and fire-fighting facilities		x x x	
12. Local taxes and restrictions		x x x	
13. Momentum of an early start		x x x	
14. Personal factors		x x x	
15. Soil, size and topography			x x x
16. Disposal of waste			x x x
17. Housing facilities for workers			x x x
18. Unencumbered land			x x x
19. Good scenery			x x x
20. Road, rail and water connections			x x x

(iii) Nearness to the source of motive power: The area should provide cheap power, soft water and adequate sewage disposal facilities. Power failure has been one of the important reasons for industrial breakdowns in the small-scale sector.

(iv) Nearness to market: If production is meant for self-consumption the location of a small-scale industry is determined solely by considerations of the availability of raw materials, power and labour. If its production is for the market, its nearness to market has also to be taken into account.

(v) Availability of transport facilities: Transport cost has often been a decisive influence in the choice of location. In making a selection, the factor to be considered is the availability of transportation facilities at a reasonable cost.

(vi) Nuisance Problems: If there are any special "nuisance" problems connected with an industry — smoke, noise, odour, or smog — an arrangement for their control should either be available or necessary controls should be installed.

(vii) Suitability of Climate: Although the natural climate as a factor has lost its importance following rapid technological advances, small-scale industries have yet to pay adequate attention to this factor. Climate does influence the product and its quality.

The other important features to be considered are:

(1) Topography — flat, cheap or marshy land, sea, lake or river location. Vegetarian in the area, elevation above sea-level.

(2) Soil conditions — this determines the nature of foundation, nature and depth of piing required, steps to be taken with regard to corrosion to underground pipes, drainage requirements, quantity and cost of fill required.

(3) Water supply — surface or underground. Quality of water is important. Where water in extremely hard additional plant for softening and treatment may be required.

(4) Waste disposal — local regulations may require additional facilities for treatment of effluents prior to discharge to main stream.

(5) Position of plant to local transport facilities: nearness to rail connections or highway.

(6) Availability of homes for workers.

(7) Local legislations and municipal laws including sanitation, air and steam pollution and other factors.

(8) Living conditions for labour and management which include consideration of climate, recreational facilities, quality of schools, religious institutions, medical facilities, hospitals and other factors.

(9) Community directives and community attitude towards manufacturing activities and outside investors.

(10) Tax concessions and other incentives applicable to area/site.

It is very important to ascertain the general development surrounding the site. Whenever a construction activity is launched, it is useful to have ancillary support available in the area. Availability of construction facilities like rental of cranes, earth-moving equipments, welding sets etc., in the vicinity reduces the cost of construction as well as the time of project implementation.

The extent of industrialisation has as much bearing as its impact on unionisation. Location of sites closer to the concentration of industries has significant fallouts in terms of interference from external elements. The usual outcome of such interactions are comparison of notes and the germination of seeds of dissatisfaction, which even if not directed towards one's organisation, has a potent effect of acting as a source of 'learning' to others. In such situations, any manipulation tends to could thinking and often leads to industrial strife without cause.

Having decided upon the location, the selection of a suitable site for the project is important. Factors taken into consideration in the selection of a site are:

- Soil test indicating type and load-bearing capacity of the soil at various depths, water table, terrain, etc.;
- Extent of site development required;
- Climatic conditions, namely, temperature, rainfall, humidity etc.;
- Presence of mineral deposits;

- Proneness to natural and structural disturbances;
- Leasehold or freehold nature of land, price/compensation, mode of acquisition, etc.

For a proper assessment of the locational features of a project, the borrowers are asked to enumerate the locational advantages and are also required to furnish copies of the location map, site plan showing the cantour lines, internal roads, power receiving station, railway siding, tubewell, factory, lay-out providing for flow of raw materials and finished products, etc. While appraising the project, it is examined whether the land at site is sufficient not only for the immediate but also for its future requirements. Care is also taken to ensure that the formalities connected with the acquisition of land are completed before the appraisal of the project.

Economic Size

For each project, there exists a certain minimum economic size below which the project will not be viable. It may so happen that in the case of some acute scarcity products, a project even below the economic size may appear to be viable in the immediate future, but if a long-term view is taken, it may not be so. This size varies from industry to industry, depending upon the nature of product to be manufactured, complexity of the manufacturing process, factors of production, particularly capital and labour. This concept is also linked with inflationary pressures on the unit cost of investment and technology adopted.

Processing Unit

In a continuous processing unit, the minimum size of a plant is determined by technology as also the size of the plant/equipment available while in a jobbing unit, the size of the plant will depend on the product mix, project site, availability of skilled labour, cost of infrastructural inputs and quantum of bought-out finished and semi-finished components. The scale of a project is, therefore, examined keeping in view technological efficiency, cost of production, size of the targeted market and capital cost. These factors may, however, be conflicting and, therefore, while deciding on the scale of operation, certain compromises may have to be made. For instance, when the expected demand for the product is not adequate to justify the size of the project, it would be necessary to compromise on the technological efficiency criteria and choose a lower scale of operation sacrificing thereby a part of technological efficiency.

Project Phasing

Various alternatives are often evaluated for project phasing in terms of either the size of the plant or the extent of integration. When eventually the market develops, the project size can be increased appropriately by either backward or forward integration.

Other factors which have an important bearing on the economic size of the project are the cost structure and availability of infrastructure facilities. With this, it might often be necessary to compromise with project smaller with this shorter gestation period vis-a-vis large capacity plants involving huge investment and long gestation periods. Thus, in each and every case, its economic size is analysed carefully by the appraising financial

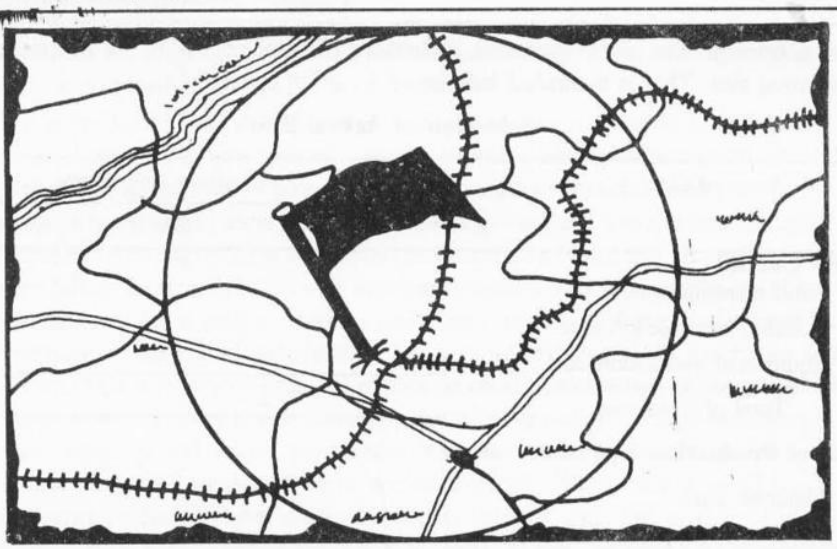


Fig. 41.2 Site Perspectives

institution and it is ensured that neither the project is too small nor too ambitious. If a project is found to be of an uneconomic size, the borrower is advised at the initial stage itself so that it might be possible for him to modify his scheme and make it an economically viable and acceptable proposition. It may be mentioned here that the institutions also ensure that the licensed capacity of a plant is expressed in terms of physical quantities and not in terms of monetary value as per the directions of the Central Government.

Selection of most Economic Site

According to Kimball and Kimball, the "most advantageous location is that at which the cost of gathering material and fabricating it plus the cost of distributing the finished product to the customer will be a minimum." This statement can better be explained with the help of the following diagram.

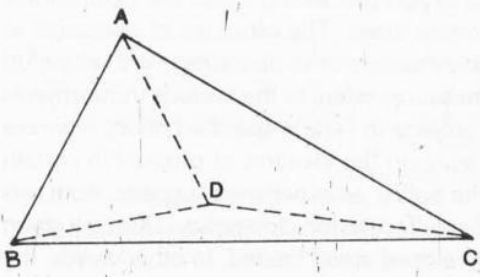


Fig. 41.3 Economic site

Let A and B represent the two sources of supply of materials. Let C stand for the market place; and let D represent the site of the factory. If the site of the factory is located at the market place C, then only the transportation cost of raw materials will have to be paid. Instead, if the factory site is located either at A or B, then only the distribution cost of finished goods is to be incurred. If the site is located at an intermediate point D, then ony transportation cost on incoming raw materials and outgoing finished goods will have to be incurred. In order to arrive at the final decision for the

most economic site, a comparative statement of total cost is to be prepared for an alternative site. This is ilustrated below:

Selection of Actual Site

Items of Cost	*Cost per unit at site*		
	Site A	*Site B*	*Site C*
Fixed Capital			
(1) Land acquisition cost			
(2) Building construction cost			
(3) Equipment installation cost			
Total of fixed cost			
Cost of Production and Distribution			
(1) Materials cost:			
(a) Direct Materials			
(b) Indirect Materials			
(2) Labour cost:			
(a) Direct labour cost			
(b) Indirect labour cost			
(3) Overheads:			
(a) Factory insurance			
(b) Factory taxes			
(c) Factory depreciation			
(d) Office salaries			
(e) Selling overheads			
(f) Distribution overheads			
Total			

Factors Influencing the Location of Projects

Broadly speaking, there are two types of measures that may be advocated or adopted to influence the location of projects. The first set of measures may be called *positive measures* to encourage the growth of certain areas by offering to the industrialists various inducements some of which have been listed above. The technique of setting up industrial estates and export processing zones has been widely used as a means of simulating growth in certain areas. The other set of measures to be adopted by the authorities includes negative measures to discourage the setting up of projects in certain areas. The first set of measures refers to the various inducements extended to the industrialists to set up their projects in certain specified areas, whereas the second set of measures imposes restrictions on the location of projects in certain congested areas. In the actual operation of the policy, as experience suggests, both sets of measures are necessary for the purpose of an effective location policy. During a given period, the total number of projects to be developed stood limited. In other words, the resources available for industrial projects, for instance, were limited. If more resources are invested in projects in one region, less resources will be available for investment

of resources in projects in some regions of the country. Thus a combined use of both positive and negative measures is of importance.

If a policy of industrial location with a view to achieving decentralisation and dispersal is accepted on economic, social, political and environmental grounds, then there is a strong case for setting up a machinery for the administration of the policy. The machinery should exist at the central, regional and local levels to deal with the problems of regional or local industrial development. Naturally, the central ministry of industry which has much to do with industrial matters should be in charge of the overall administration of the policy. Various ministries and agencies are concerned with the problems of industrial development. Co-ordination, therefore, becomes extremely important. The ministry of industry in charge of administration of the policy will be in a better position to co-ordinate various aspects of the policy through an inter-ministerial or inter-departmental panel competent to take decisions on the project sites with efficiency on sound economic and social grounds. There is the need for a similar organisation at the regional and local levels to deal with the problems of industrial development in a particular region and locality. At the regional and local levels also, the responsibility for the administration of the policy should rest with the regional office of the department of industry. Here also a large number of departments and agencies will be concerned with industrial matters and the task of co-ordination may be achieved through inter-departmental regional panel which will promote dispersal of industries even in hitherto background areas.

Among the important factors relating to industrial location, state incentives also play a key role. Although central incentives and subsidies assist the growth of enterprises in the country, it is the state incentives which attract entrepreneurs to set up their enterprises in particular States/Union Territories. The objectives of state incentives is to provide assistance and facilities to allure and motivate techno-entrepreneurs, intrapreneurs and first generation entrepreneurs to locate their ventures in their region. State incentives must be so devised as to synchronise private incentives with social returns in an efficient, cost-effective manner that simultaneously promote moral imperatives. To the extent state incentives are a tool, no less than a programme, they make industrialisation and growth of entrepreneurship a reality. The nature of assistance, however, varies from state to state.

Table 41.3
STATE INCENTIVES

Incentives offered	*Small-scale industries*	*Medium and large-scale industries*
(1) Feasibiity study subsidy	Subsidy to a ceiling of 75% of the cost of preparing the report upto a maximum of Rs. 5,000.	Loan of 75% of the cost of preparing feasibility report upto a maximum of Rs. 50,000.
(2) Investment subsidy	10% of value of fixed assets, subject to a ceiling of Rs. 5 lakhs.	10% of the value of fixed assets,subject to a ceiling of Rs. 10 lakhs

(3) Deveopment loan	Overall ceiling of 25% of the value of fixed assets.	For Zone II, 10% of the value of fixed assets to a maximum of Rs.50 lakhs and for Zones III & IV, 15% of the value of fixed assets, subject to a maximum of Rs. 50 lakhs.
(4) Working capital loan	Interest-free loan offered, subject to a ceiling of 25% of the value of fixed assets or the development loan taken whichever is less.	Interest-free loan, subject to a maximum of Rs. 50 lakhs.
(5) Procurement of know-how	It shall be reimbursed in full, subject to a maximum of Rs. 25,000.	50% of fees paid by new units for procurement of know-how shall be subsidised upto a ceiling of Rs. 1 lakh.
(6) Stamp duty exemption and reduction in registration fee	Exemption on a stamp duty for executing agreement with KSFC. There is also reduction fee of Re. 1 per Rs. 1,00 for registering the agreement deeds.	Same as in th case of small-scale industries.
(7) Subsidy on housing	Subsidy at the rate of Rs. 1,500 per house of built-up area of not less than 300 sq. ft. shall be offered for the new units, who have plans to build houses for the employees.	Same as in the case of small-scale industries.

Location Policy

Location Policy has also been significantly amended. In location other than cities of more than one million population, there is no requirement of obtaining industrial approvals from the Central Government except for the industries under compulsory licensing. In respect of cities with population greater than one million, industries other than those of a non-polluting nature such as electronics, computer software and printing, may be located outside 25 Kms. of periphery of urban areas, except if they are located in designated industrial area, prior to 25.7.1991. Zoning and Land Use Regulations and Environmental Legislation continue to regulate industrial locations.

Conclusion

Among other things, the entrepreneur has to give special emphasis to the location of his project, equipment and layout to derive maximum benefits. Selection of site and equipment is governed by various variables. Taking into consideration all these aspects, the entrepreneur has to select the site and equipment for his enterprise.

The selection of the most economical site is possible where an entrepreneur prepares a comparative cost statement, takng into account the different sites available. Certain recent trends in plant location are now discernible. These are: (a) To locate

plants away from cities; (2) The development of industrial estates; (3) Competition among states to devlop industries; (4) rend towards decentralisation; (5) Pollution control; (6) Location of industries leading to balanced regional development; and (7) Growth of multinational firms, thereby transcending the geographical area of the country.

Location of an industrial enterprise plays an important role in the development of the industry in terms of cost-structure, growth potential and profitability of an enterprise. A location that is most beneficial to an enterprise in all respects is known as an optimum location. An optimum location is essentially an idealistic concept. Such a location is difficult to obtain and still more difficult to retain. Taking into consideration the ground realities and the basic needs of an enterprise, the entrepreneur has to select the best among the lot and then develop the area as he needs it to be. It is, therefore, very necessary to weigh the merits and demerits of location factors before setting up of an industrial enterprise. In fact, location is a most important factor, next only to the choice of an industry/product, in laying a sound foundation for an industrial enterprise. A critical evaluation of the industrial location policies reveals that a thorough overhauling is required in the approach toward location of industries based on economies of scale and marketing.

In the years ahead, industrial location will be guided primarily by commercial considerations and sustainability rather than by regulatory or social demands alone. An investment which does not maximise the generation of surpluses cannot contribute to the country's social goals. Thus, location in backward regions where there is a great deal of willingness and native skill amongst the first generation workers provides very attractive scenario to the decaying environment of cities where industry has been traditionally located.

ANNEXURE I

Check List

The location of an enterprise has to be carefully selected. A wrong choice sometimes proves fatal for the enterprise. The selection of a suitable locality depends on a number of factors. Further, each factor is influenced by a number of other factors. So a thorough analysis of the location to be selected is to be undertaken by the entrepreneur before he selects a particular site. The following check list prepared by the United States Department of Commerce will help the entrepreneur in the appraisal of the basic location factors:

Check List for considering Basic Industrial Location Factor

I. Location of Production (Raw) Materials

A. What production materials exist in the area?

B. In what volume are the production materials available?

C. What is the quality of each production material?

D. How accessible are the available material?

Does the nature of such production materials (quantity, bulk, perishability etc.) or any unusual advantage attendant thereto definitely favour plant location at or near site or source?

II. Labour

A. What is the labour force of the area?

B. What is the quality of the available labour force?

C. What is the character of the labour force?

D. What quantity of labour is seasonably available?

1. Is a large supply necessary?
2. Are special skills required?

III. Sites

A. How much land is available for industrial expansion?

B. What are the soil and topographic features?

C. At what cost and terms can land be purchased or leased?

D. What facilities are now or will be available?

E. What industrial floor space is or will be available in existing structures?

1. Is a large area needed?
2. Must the site have special features, such as topographic soil conditions, transportation facilities, low costs, etc.?

IV. Industrial Fuel

A. What industrial fuel is available for additional industry?

B. How dependable is the supply?

C. At what cost is the fuel available?

1. Is low cost heat a major factor in processing?
2. Is a particular fuel required?

V. Transportation Facilities

A. What transportation facilities are available?

B. What is the rate situation?

1. Do materials and/or product require prompt and/or low cost movement?
2. Does product or raw material require a special type of transportation?

VI. Market

A. What is the trading area generally served by this location?

B. What is the general quality of this market?

1. Are time and distance vital matters to reach the market?
2. Is price of quality a vital market factor?

VII. Distribution Facilities

A. What agencies and services are available?

1. Are there channels for marketing complex and do they require special financing, inspection, warehousing, storage or terminal facilities?

VIII. Power

A. What kind of industrial power is available?

B. How dependable is the power supply?

C. At what cost is the power available?

1. Is power a significant factor?
2. Is sufficient surplus power available?

IX. Water

A. How much water is available for additional industry?

B. What is the quality of the water supply?

1. Is significant quality of low-cost water required in processing?
2. Whether the required quantity is available?

X. Living Conditions

A. Are adequate facilities available for education, recreation, shopping, religious and social life, health and professional services?

B. Is sufficient housing available?

1. Will the industry employ enough people to make housing and environment significant factors?

XI. Laws and Regulations

A. What laws and regulations exist of significance to prospective industries?

1. Is the industry subject to special local and/or state regulation?

XII. Tax Structure

A. How favourable is the tax structure to industry?

1. Is the capital investment of such a size that the tax rate or assessment policy will be important?

XIII. Climate

A. What are the climate characteristics of the area?

CHAPTER 42

STEPS FOR STARTING A SMALL INDUSTRY

Introduction

The development of small-scale industries has been one of the most significant and characteristic features of industrial development in India. One of the distinctive characteristics of small-scale sector is that, the development of these industries would create broader employment opportunities, assist in entrepreneurship and skills development, and ensure a better use of scarce financial resources and appropriate technology. Furthermore, they can play a main role in the achievement of national economic and socio-political objectives. The gestation period is very short and they need smaller amount of capital to start. It also helps in the dissemination of productive capacity unlike the large-scale industries which tend to concentrate in a few hands. This part, establishment of such industries in rural areas and small towns helps to check the influx of population into bigger towns.

Basic Objectives

The basic objectives underlying the development of small and medium scale industries are the increase in the supply of manufactured goods, the promotion of capital formation, the development of indigenous entrepreneurial talents and skills and the creation of broader employment opportunities. In addition, they include socio-economic goals such as the decentralisation and dispersal of manufacturing activities from the metropolitan to the non-metropolitan and rural areas, the reduction of regional economic imbalances within a country and the diffusion of entrepreneurial and managerial abilities and skills and technology throughout the country.

In the Indian Economy, cottage and small-scale industries have a significant role to play. With increasing pace of industrialisation and sophistication of the large-scale industries, a new orientation is inevitable in the relationship of the SSIs with the large and medium industries. This relationship calls for integration of the production methods, upgradation of the qualities of production, ability to meet stringent delivery

schedules and very many other problems that arise in a dynamic and changing environment not only in the country but in the international field.

Steps of the ladder the entrepreneur (Small) has to climb

It is a continuous process of industrialisation

34. ANCILLARY DEVELOPMENT
33. GROW BIGGER
32. COMPETE WITH OTHERS
31. MODERNISATION
30. DIVERSIFICATION
29. PLOUGH BACK PROFITS
28. KEEP UP-TO-DATE
27. SELL
26. PRODUCE
25. PLAN OUT RECORD-KEEPING
24. ORGANISE MARKETING
23. DECIDE ON PRICING POLICY
22. TRIAL RUN
21. RECRUIT PERSONNEL
20. PROCURE MATERIALS
19. INSTAL MACHINERY
18 PLAN BUYING
17. APPLY FOR MATERIALS (IF IMPORTED OR CONTROLLED)
16. PLACE ORDER FOR MACHINERY (PREFERABLY ON HIRE-PURCHASE)
15. PLAN SOURCES OF MACHINERY
14. PLAN FINANCE
13. OBTAIN CLEARANCE FROM CENTRAL, STATE & LOCAL AUTHORITIES and SSI REGN. NO.
12. MAKE SURE WHAT LAWS WILL PARTICULARLY AFFECT YOU
11. ARRANGE THE WORKSHED WITH FACILITIES (PREFERABLY ON RENT)
10. DECIDE ON LOCATION AND SITE
9. OBTAIN THE PROJECT REPORT FROM SISI OR ELSEWHERE OR PREPARE IT YOURSELF
8. DECIDE WHETHER TO PURCHASE A GOING CONCERN OR TO START A NEW ONE
7. DECIDE ON FORM OF OWNERSHIP [SOLE-PROPRIETORY/ PARTNERSHIP/CO-OPERATIVE/COMPANY (PRIVATE/PUBLIC)].
6. CHOOSE A LINE
5. DATE WITH YOURSELF FOR A DECISION
4. DISCUSS WITH ALL AROUND YOU AND WITH SISI & D.I. OFFICE
3. CONSULT PUBLICATIONS AND AGENCIES
2. DATE WITH YOURSELF FOR NEWER IDEAS
1. ANALYSE YOURSELF AND YOUR OBJECTIVES

Note: This is a bare outline. The next chapter contains some details and suggestions for step-by-step plannin

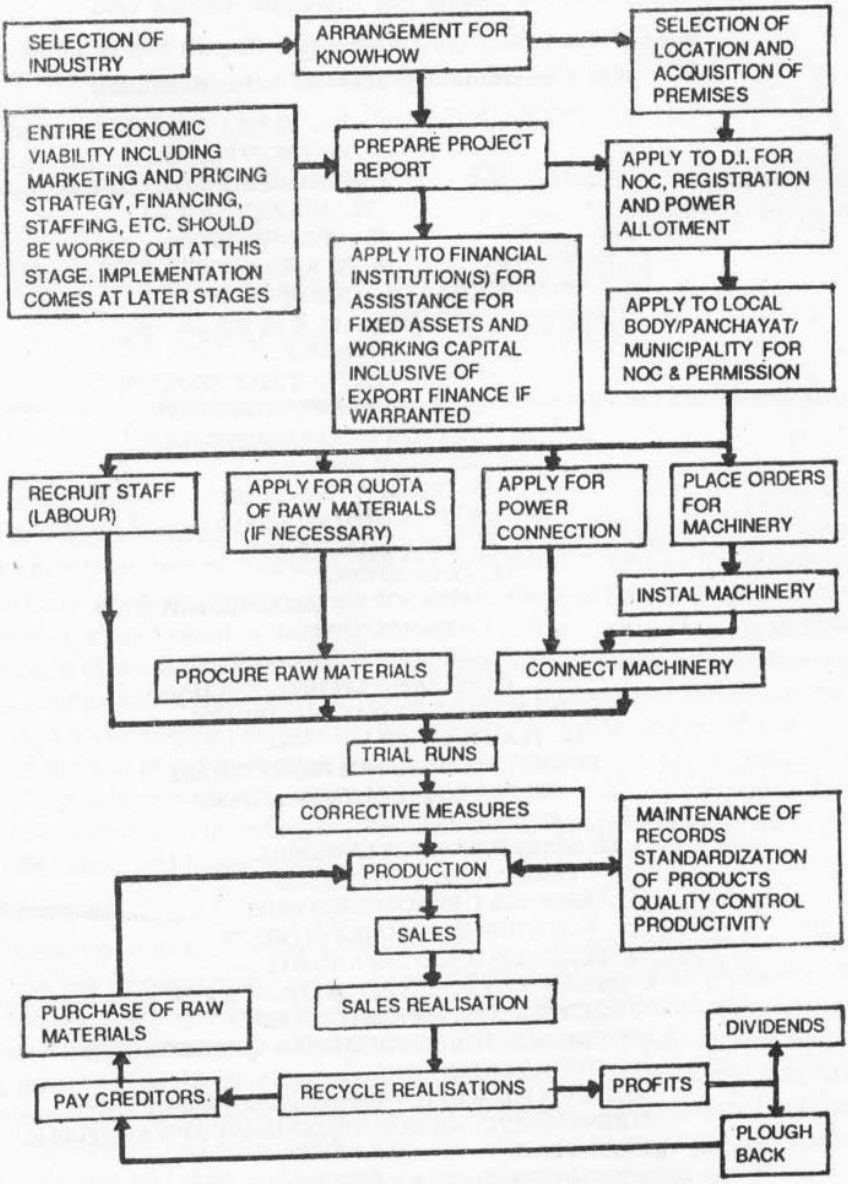


Fig. 42.1 Process of Setting up a Small-Scale Industry

SELECTION OF A SMALL-SCALE INDUSTRY

The process of setting up a small-scale industry has been indicated in Fig. 42.1, which has been drawn on the basis of practical experience gained in its promotion. It indicates all the important stages in the setting up of a small-scale industry.

The objectives of the promotional regulations are to provide an impetus to the growth of a small-scale industry and regulate the supply of machinery, electricity, water, premises, finance, raw materials and markets. The process of production and marketing is governed by a series of rules and regulations. In a way, these regulations are a boon to the small entrepreneur.

Starting a Small-Scale Industry

A small entrepreneur is the chief executive of his unit, its floor supervisor, accounts clerk, purchase manager, salesman, legal and economic adviser, planner and visionary — all rolled into one.

Every now and then, you will come across advertisements and announcements in the enticing you to set up small industries under the aegis of the State Small Industries Corporations, which promise a fully developed industrial shed with power and water, assistance in getting you raw materials, machinery on hire-purchase basis, common services facilities, training facilities and facilities in the marketing of your product. Assurance term loans on attractive terms and working capital in time and at concessional rates. In backward areas, a number of additional subsidies are available.

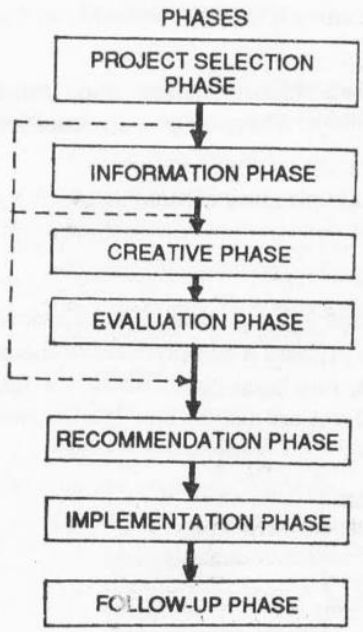


Fig. 42.2

OBJECTIVE

To select those products, processes or systems in an organisation where the value and cost ratio is low and where analysis will lead to increased benefits:

(a) To gather, organise and analyse data.

(b) To define functions.

(c) To establish a functional monetary value.

To generate alternative methods for providing necessary functions:

(a) To develop, refine and evaluate alternative methods generated during the creative phase.

(b) To determine the cost.

(c) To select a feasible method offering best value.

To prepare and present a report containing recommendation along with benefits:

(a) To establish a plan of action for implementation of the selected method.

(b) To obtain approval.

(c) To perform all other actions necessary to put the proposal into effect.

(a) To follow-up and audit actual results.

(b) To resolve problems, if any, during proposal implementation.

An entrepreneur may be a qualified engineer. Even so, he should not dream of becoming a small entrepreneur unless he is confident of meeting the following twelve essential requirements:

(i) The entrepreneur should be fully conversant with the product line. It is not enough that he knows the method of manufacture; he has to know how to operate the machines, etc.

(ii) He should have adequate shop floor experience to guide the machine operators in fool-setting techniques or the die-maker on the specific needs of his press tools.

(iii) He should be familiar with the raw materials he requires, their specifications, how to ensure their quality and where to get them at reasonable prices.

(iv) He should know how to keep accounts, how to maintain stores, how to prepare the balance sheet, etc.

(v) He should have knowledge of marketing channels, distribution network, agency practices, transport intricacies, and the economic of packaging.

(vi) He should know how to ensure the stipulated quality of his product.

(vii) He should be well-versed in taxation and other laws governing SSIs.

(ix) He should be willing to put up with bureaucratic regulations and insults, and be fractional under any circumstances.

(x) He should know how to avail himself of the various benefits available to the SSIs.

(xi) He should possess expertise, shrewdness, resourcefulness and, most important, preservance in his business dealings. There is no substitute for hard work.

(xii) He should have the guts to withstand the high pleasure climate in which he has to build his unit.

Objectives

Any entrepreneur desirous of starting a small-scale industry should have a clear picture of the objectives of his project. It is advisable to prepare a comprehensive check list. Such a list, embracing all the important matters, has been given below for the guidance of prospective entrepreneurs. Students will get an insight into the various processes of a small-scale industry.

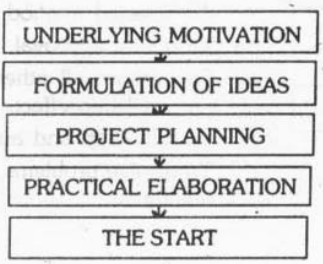


Fig. 42.3 Process of Starting a Small Enterprise

Check List

Does your industry have scope for development? (Consult Director of Industries) — Yes — No

Is there enough demand for the item you propose to manufacture? — Yes — No

Do you have some experience of

(a) Manufacturing? — Yes — No

(b) Marketing? — Yes — No

Have you studied the viability of your scheme? (Consult the Small Industries Service Institute) — Yes — No

Is factory space available

(a) In the industrial Estate? — Yes — No

(b) In an Industrial Area? — Yes — No

(c) In some other approved place? — Yes — No

Have you obtained the necessary licence from the Municipality or the Local Body? — Yes — No

Are the necessary raw materials available

(a) Indigenously or are they to be — Yes — No

(b) Imported? — Yes — No

Are facilities available for

(a) Tooling, — Yes — No

(b) Quality Control? — Yes — No

Is necessary labour available

(a) Of skilled workers, — Yes — No

(b) Of semi-skilled workers? — Yes — No

Have you the necessary technical background for

(a) The erection of the machinery, — Yes — No

(b) Operations? — Yes — No

Have you studied your product in respect of

(a) The manufacture of the various parts, — Yes — No

(b) Production Planning, — Yes — No

(c) Inspection and Quality Control, — Yes — No

(d) Assembly, — Yes — No

(e) Packaging, — Yes — No

(f) Diversification? — Yes — No

Have you the necessary finance?

(a) Are you a client of any bank? — Yes — No

(b) Has any bank offered to lend you —

(i) Short-term loans? — Yes — No

(ii) Long-term loans? — Yes — No

(c) Have you any assets? — Yes — No

(d) Are your assets adequate for obtaining the necessary funds? — Yes — No

(e) Have you other sources/ways of raising money? Yes — No

(f) Have you approached the Director of Industries/State Financial Corporation for financial help? Yes — No

(g) Do you propose to approach the NSIC/SSIC for machinery on hire-purchase basis? Yes — No

(h) Have you adequate cash/bank arrangement to furnish the earnest money required by the NSIC? Yes — No

What are your markets?

(a) Local, Yes — No

(b) Countrywide, Yes — No

(c) Export? Yes — No

How would you market your product(s)? Through

(a) Retailers, Yes — No

(b) Wholesalers, Yes — No

(c) Agents? Yes — No

Are the necessary transportation facilities available by

(a) Road, Yes — No

(b) Rail? Yes — No

Have you attended a course on

(a) Production, Planning and Control, Yes — No

(b) Purchasing and Marketing Yes — No

(c) Finance and Cost Control, Yes — No

(d) Personnel Management, Yes — No

(e) General Industrial Management? Yes — No

Have you entered into a foreign collaboration agreement for

(a) Technical Know-how,

(b) Royalty/Commission on sales? Yes — No

(c) Has your agreement been approved by the Government? Yes — No

Once the industry is identified, the SISI prepares a feasibility report and project report, giving one a comprehensive idea of an industry's prospects and profitability.

Licences

An impression seems to have gained ground among some people that there are some restrictions on the getting up of small-scale industrial units and that licences from either the Central or State Governments have to be taken out before an entrepreneur to set up an industrial unit in the small-scale sector; no formal permission from the State or Central Government is necessary for this purpose. Also, industries employing less than 100 workers and having fixed assets of less than Rs. 10 lakh need not obtain any licence under the Industries (Development & Regulation) Act.

Small-scale units have, however, to conform to the rules and regulations prescribed by State or local authorities under the Factories Act, Commercial Establishments Act, Town Planning Rules, and rules made for the issues of quotas of raw materials, etc.

However, powerlooms do not come under the purview of the small-scale industries programme. For installing powerlooms, the prior permission of the Textile Commissioner, Government of India, Mumbai is required.

Registration of Small-scale Industries

In their own interest, all existing small-scale units or intending entrepreneurs employing more than 10 workers should get themselves registered with the Director of Industries in their State. A copy of this application for registration should be sent to the Director of Small Industries Service Institute in the concerned State. Such registration with the Director of Industries and the Small Industries Service Institute will be of considerable help to small-scale unit in obtaining financial assistance from the government and for obtaining machinery on hire-purchase basis from the National Small Industries Corporation. Assistance in the supply of controlled raw materials, specific certificate for imported raw materials and components, and facilities for export promotion, would then be easily made available to small-scale units registered with the State Director of Industries. The registration number is now required to be quoted while submitting import applications.

INFRASTRUCTURE

The Director of Industries and/or the SISI in the State can be approached to provide you with built-up factory space in an industrial estate, or develop the factory site, power, etc. After the initial clearance from the State Director of Industries, the Municipality or the Panchayat issues a "No Objection Certificate."

The mechanics of putting up a new factory in Greater Mumbai are:

(i) Apply to the Industries Commissioner, Industries and Labour Department, Government of Maharashtra, and obtain a "No Objection Certificate." (NOC)

(ii) With a copy of the above NOC, apply in Factory Form "A", to the Word Engineer of B.M.C.

(iii) Clarifications and submission of further details on the information supplied in Form "A" may follow.

(iv) The sub-engineer will inspect the premises and submit from No. '2' to his assistant engineer.

(v) The assistant engineer will scrutinise and confirm if the applicant's activity conforms to the zone and will intimate to the applicant in Form No. '3' if there is no objection or in Form No. '4' if there is any objection.

(vi) Form 'B' will be received by the applicant if Form No. '3' is issued to him. This form should be filled in and submitted.

(vii) Within 21 days after the submission of Forms 'A', 'B' and the factory plans in triplicate, the assistant engineer will issue Form No. '5' and '6' in which he will specify;

(a) The electric power sanctioned (thereafter, the BEST provides current);

(b) Adequate water facilities provided;

(c) The various requirements, requisitions and conditions for operating the factory, including those required by the chief inspector of factories.

Form 'C' will also be issued along with these forms. (Upon complying with the stipulations in Form 'B', the BMC should be informed thereof in writing.)

Subsequently, permission to commence production will be given.

MACHINERY

The small entrepreneur needs the requisite type of machines for production. He can get the necessary machinery from the National Small Industries Corporation under a hire-purchase scheme.

The scheme for the supply of indigenous and imported machines on hire-purchase basis was launched in March 1956 to enable small entrepreneurs without substantial means to avail themselves of assistance. The scheme is different from the credit operations scheme for entrepreneurs. The NSIC has acquired the necessary experience and expertise in the procurement of machines from the right sources. It also takes care of the problems up to the stage of delivery of machineries to the entrepreneurs. Also, while financial institutions plan to look mainly to the creditworthiness of entrepreneurs, the NSIC would look primarily to the motivation of the individual applicant, his capacity, his technical competence and his managerial ability to run the enterprise.

The small entrepreneur should enlist himself as a member with the NSIC. His application form should be accompanied by the Registration Certificate and report of the Director of Industries. The application for obtaining machines under the hire-purchase scheme of the NSIC is quite comprehensive. The small entrepreneur has to provide full details along with the relevant documents.

The application form for hire-purchase of machinery calls for information regarding the organisational set-up of the unit, its programme of production, and the marketability and profitability of the enterprise. It also calls for additional information regarding the cost of production, the infrastructural facilities available for the unit, the technical capability of the entrepreneur, etc. The details in the application are self-explanatory.

RAW MATERIALS

The raw materials required by SSIs may broadly be classified as under:

(i) Raw material components and spares, both indigenous and imported;

(ii) Non-ferrous materials — both indigenous and imported;

(iii) Iron and steel — both indigenous and imported; and

(iv) Chemicals — indigenous and imported.

Under the liberalised scheme, the actual users are provided with adequate foreign exchange to meet their justifiable requirements of imported items of industrial materials. The *"priority"* industries are assured of an adequate supply based on requirements by way of grant of rotational licences.

Small-scale units should apply directly to the Regional Licensing Authority, and not through the sponsoring authority, for import licences for raw materials, components and spares after utilising the previous set of licences to the extent of 90% by way of opening their own credit or 60% by way of actual import, covering six month's requirements of the unit. New units should submit their applications through their respective sponsoring authority.

The State Director of Industries allocates indigenous non-ferrous metals. Some of the non-ferrous items are canalised through the State Trading Corporation of India (STC). The raw materials imported by the STC are given to the SSI units in accordance with the recommendations of the Director of Industries concerned.

The same applies to iron and steel raw materials are canalised through the MMTC.

In times of difficulties, the decontrolled chemical raw materials are canalised through the DGTD in accordance with the recommendation of the State Director of Industries. Indigenous controlled chemicals are allocated through the State DIS/SICs. Imported raw materials are canalised through the STC.

In short, controlled and imported raw materials are to be obtained through the State DIS, SICs (SSI).

(5) FINANCE

The financial function in a small-scale industry is similar to the financial function in any other organisation, but with this essential difference — that there are a host of banking and insurance regulations to be strictly adhered to and quite a few precautions to be taken.

The areas where finance would be needed, after the small-scale industrialist fixes the land accommodation, are:

(i) Purchase and installation of machinery,

(ii) Procurement of raw materials and components and the manufacture of products;

(iii) Working funds;

(iv) Availability of funds until the realisation of sales.

The State Director of Industries provides loans for block capital under the Industries Act. One should apply through the sponsoring authority. State Financial Corporations provide long-term credit for the purchase of fixed assets. The application should be submitted to the SFCs along with the following documents:

(i) Project Report; *(ii)* Copy of Registration; *(iii)* Cash-flow Statement; *(iv)* Stock Statement.

In some states SFCs and the banks agreed to process the common applications for loans. Up to an amount of Rs. 2 lakh, a commercial bank provides medium-term instalment credit. It also provides loans for meeting needs for working capital for the purchase of raw materials as also for day-to-day requirements.

In order to get a loan from a commercial bank, the entrepreneur has to fill in an application form as per the specimen provided by the financial institutions including banks and submit it to the bank along with the following documents:

(i) Authentic copies of Balance Sheets and Profit and Loss Accounts (if the industrial concern is a limited company or an industrial co-operative society).

(ii) A statement of total assets and liabilities in the prescribed form in the case of partnership and proprietary concerns.

(iii) Perform statements in all other cases.

(iv) Copies of the affidavit in regard to the size of the unit.

(v) Technical Feasibility Report from the Small Industries Service Institute, the Director of Industries, if obtained, may also been closed.

MARKETING

The rationale of the Government Purchase Scheme of the Corporation lies in the fact that the Government of India is the largest single buyer, and by channelising these purchases in favour of small-scale units, it gives a tremendous boost to the marketing of their products.

The salient features of the scheme are:

(a) The small-scale units, desiring to avail themselves of assistance, have to enlist themselves with the NSIC;

(b) Instead of purchasing tender sets from the DGS & D, the small units enlisted with the NSIC automatically get them from it and its branches free of cost;

(c) If their prices are acceptable to the DGS & D they are not required to pay a security deposit on the issue of a competency certificate by the NSIC;

(d) Price preference up to 15% over the quotations of large-scale units is considered by the Purchasing Agency, depending on the merits of each case;

(e) Wherever they feel that injustice has been done to them, the NSIC takes up their cases with the DGS & D and other Government Departments such as Defence, the Railways and the P & T in order to find out the reasons for non-placement of contracts with the units, and tries to redress their grievances.

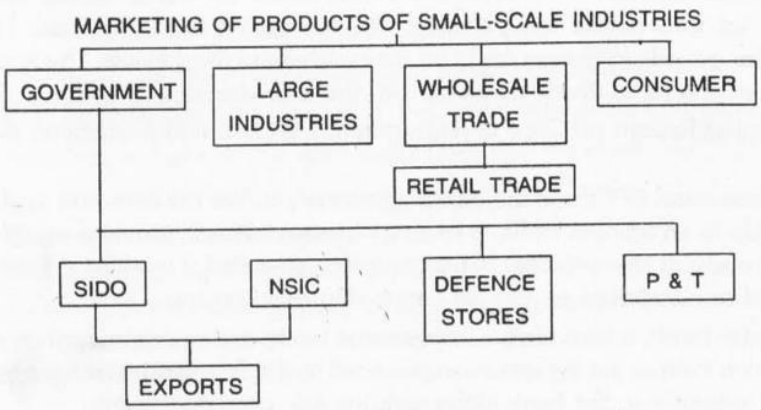


Fig. 42.4

In the beginning, purchases in respect of only 16 items were reserved exclusively for the small-scale sector; the number of such items has steadily increased to 409 items in 1995-96.

Besides, in respect of 13 items, purchases upto 75 per cent and in respect of 28 items, purchases upto 50 per cent of the requirements are earmarked for the small-scale sector.

The Corporation also helps small-scale industries in securing contracts from other Government Departments such as the Railways, Posts and Telegraphs, etc.

Hitherto, the purchase programme has been restricted purely to Central purchase houses like DGS & D, the P & T and the Railways. It is proposed to extend the base further to cover State Government Departments such as the State Electricity Boards, PWDs, etc. and provide liaison offices at each of the principal centres of the State.

INCENTIVES

For availing the various incentives, it is advisable to seek the help of the SISI and/or the Director of Industries.

Small-scale industries are the industrial units having an investment in fixed assets in plant and machinery not exceeding Rs. 10 lakhs. The ancillary units are those having an investment in fixed assets in plant and machinery not exceeding Rs. 15 lakh and they are engaged in the manufacture of parts and components.

The Small Industries Development Organisation (SIDO), Ministry of Industry, Nirman Bhavan, New Delhi, co-ordinates policies and programmes at the national level and provides a comprehensive range of extension services through its network of sixteen Small Industries Service Institutes, nineteen Branch Institutes and forty-five Extension Centres.

At the State level, organisation like State Directorates of Industries, Small Industries Development Corporations and Finance Corporations cater to the needs of small industries; these needs include land, sheds, credit, power, raw materials, etc.

The National Small Industries Corporation (NSIC), Okhla, New Delhi, has been providing machines and equipment on hire-purchase basis to entrepreneurs, assists units to participate in stores purchase programmes and provides training and prototype development facilities.

Registration with NSIC entitles the units to obtain facilities from Central or State Government organisations. New units have to apply to the respective State Directors of Industries for provisional registration, which is given within a week. It enables the party to take the necessary steps to bring the unit into existence, i.e., apply for sheds in industrial estates or on developed sites, for water and power connections, and for credit facilities. After the party has taken all the steps, it can apply for registration.

SIDO provides technical consultancy on improved technical processes, use of modern machines and equipment and technical assistance on all aspects of production. Each SISI has attached workshops for common facility services, training of workers, demonstration of modern machines and processes, making of tools and dyes, etc.

The Central Institute of Tool Design (CITD), Hyderabad, has been specialising in the provision of technical consultancy and tool facilities training in the design and manufacture of tools.

The Institute for the Design of Electrical Measuring Instruments (IDEMI), Mumbai, provides technical know-how and testing, calibration, laboratory, workshop and training facilities to manufacturers of electrical measuring instruments.

The Prototype Development and Training Centres (PDTCs) at Okhla, Rajkot and Howrah develop prototypes of machine tools and other machinery provide assistance to units in the manufacture of prototype machines, technical consultancy and training.

The Product and Process Development Centre in glass and ceramics, Ranchi has been developing new products, viable processes, new designs of product and machines, consultancy services and training.

Under the modernisation programme for selected industries guidance and assistance are provided to small-scale units to adopt modern production and management techniques with a view to improving their productivity and competitive strength.

Technical assistance guidance in a wide range of industries is provided by specialised institutions and experts. Testing facilities are available at the Regional Testing Centres in New Delhi, Calcutta, Mumbai, Chennai and also at SISI Workshops.

Industrial Management, Consultancy and Training

SIDO offers consultancy services in a variety of fields — technical, managerial, marketing, quality control, production, finance, labour laws, solving problems through special training programmes, in-plant studies, open-house discussions and seminars.

A panel of consultants, consisting of reputed engineers, technologists and scientists in every branch of technology, has been drawn up for such jobs or products for which expertise is not available with SIDO. In 246 backward areas, small-scale units can avail themselves of the services of these consultants, and the entire expenditure is borne by SIDO. In other areas, the units have to bear 75% of the cost, while the rest is borne by SIDO.

Technical training facilities are available in a wide range of trades with the SIDO, CITD, IDEMI, PDTCs and a number of training centres of the Ministry of Labour and Employment and of State Governments.

The Small Industry Extension Training Institute (SIETI), Hyderabad, has been giving training in industrial management and other aspects of small industries development, also undertaking feasibility and research studies, collecting and disseminating technical information through its documentation centres.

Under the Assistance to Young Engineers Programme, training is provided through specified agencies, and an interest subsidy, i.e., the difference between 7% interest rate and the normal rates charged by financial institutions, is provided, subject to a maximum of Rs. 20,000 per annum for a period of five years in backward areas and 3 years in other areas.

Backward Areas Development

Special incentives and facilities are available for the development of small-scale industries in 246 selected backward districts. These include credit facilities on concessional terms, i.e., lower rates of interests, extension of initial grace period for the commencement of the date of repayment of the loan, reduction in service charges and margin of security; income tax deduction of 20% from profits and gains is allowed while assessing income tax for a period of ten years.

The Rural Artisans Development Programme, which has been in operation in forty-one districts, is also covered by the Rural Industries Projects (RIP) programme. The main features of the programme are special training facilities for artisans and the supply of improved tools and equipment at subsidised rates.

Machinery on Hire-Purchase basis: The NSIC and several SSIC's supply machines chosen by the entrepreneur on hire-purchase basis on liberalised terms. The full title to the machinery is transferred to the entrepreneur on payment of the last instalment.

Government Stores Purchase: Two hundred and forty-one items have been reserved for the exclusive purchase by the Government purchasing agencies from small-scale units. A price preference, extending up to 15% offered to small-scale units against medium and large-scale units for purchase of all other items. The NSIC verifies the competence of the unit to execute government orders and enlists them for participation.

Exchange: Ten sub-contracting exchanges at the SISIs in Mumbai, Calcutta, Hyderabad, Bangalore, Chennai, Ahmedabad, Jaipur, Kanpur, Ludhiana and New Delhi are entrusted with providing information, enlisting and assisting small units in obtaining contracts from medium and large-scale units for parts, components, sub-assemblies, etc.

Export Promotion: Export promotion facilities, subject to certain conditions, include cash compensatory support in the export of specified non-traditional products; liberalised export credit for pre-shipment advances, and general permission by the Reserve Bank to exporters to enter into negotiations for the export of capital goods; liberalised schemes for the registration of export contracts for cash assistance; liberalised procedure for the payment of cash assistance claims of exporters; exemption of fifty-four specified raw materials imported for export production against advance from customs duty payment; simplified payment procedure for cash assistance. Exporters are paid 95% of their claims on a preliminary scrutiny within a fortnight and the balance on detailed scrutiny.

The Export Credit and Guarantee Corporation Ltd. (ECGC) has been authorised to issue an export promotion guarantee covering bid bonds up to 90% in specified cases; offer protection against fluctuations in foreign exchange in specified cases; and issue blanket permits for export promotion tours. Exporters receive assistance for sales and marketing promotion from the Marketing Development Fund and package assistance for export promotion and marketing by the Trade Development Authority in addition to liberalised facilities for the import of raw materials, capital goods, parts, components and technical samples.

The Winning Edge

The opening up of the Indian small industry sector to competition as well as the increase in the need to cater to the global market, demands fresh perceptions to respond to the radical changes in the 90s. Consequently, this sector must change first to survive as well as restructure itself to meet the new challenges through a critical evaluation of the forces of free global trade and increased competition. These events demand quantum strategic changes in terms of industry culture, flattening of the organisation structure, employee empowerment as well as team building. Only those organisations which can respond to these changes will be able to survive and retain a winning edge.

Some of the important characteristics that differentiate the successful organisations from the unsuccessful ones are:

(1) The most important aspect of successful business is leadership. It calls for clear vision, goals and objectives, well defined mission, dash and employees' participation.

(2) Adequate but well-orchestrated control. Constant feedback of results as well as setting and adherence of high standards give an organisation a cutting edge over others. Planning, foresight and analysis are other important qualities.

(3) To able to extract the best from its employees through total involvement, the organisations put a lot of emphasis on proper internal communication and on training employees.

(4) The successful organisation is one which is very close to the market place. The process of systematic market is used to develop products or process of systematic market research is used to develop products or process and to provide value for money to the customers. This helps to gain the market share.

(5) The next most important characteristic of a winning business organisation is "Zero Basing" or sticking to the last — knowing what business the company is in swiftly recognising and preventing when it has diverted into an unsuitable path and preventing risks.

Conclusion

Starting a small-scale industry is not easy. It is ninety per cent perspiration and hardly ten per cent profit. It calls for vision, perseverance, co-operation and hardwork. The entrepreneur has a uphill task in coordinating multifarious activities and turn into a viable enterprise. It calls for a thorough business plan and prompt implementation. The entrepreneur needs a number of skills to set up a small industry, which will grow into a giant in coming years. Many of the giants of to-day, viz., Kirloskar, Honda, Escort, Camlin, Reliance were started small. It calls for a missionary work with a purpose. Then the joys of fulfillment is like a beautiful rainbow.

ANNEXURE 1
Whom to Approach for What (A Digest)

1. For Selection of Industry	
Small Industries Service Institutes	They guide entrepreneurs in the selection of industries, areas, suitable raw materials and machinery.
Indian Investment Centre, Parliament Street, New Delhi-1.	They advise on foreign capital formation and technical collaboration.
Ministry of Industrial Devt., Govt. of India, New Delhi.	They approve cases of foreign collaborations.
2. For Registration	
Director of Industries	S.S.I. Registration number.
Small Industries Service Institutes	They register you to enable you to participate in the Central Government Stores Purchase Programme.
3. For Factory Accommodation	
Directors of Industries (State Government)	They provide built up factory space in industrial estates of developed factory sites, power, water, etc. (Although the building designs have to be approved by the Municipalities/Corporations, while power and water connections are sanctioned by State Governments/Undertakings).
4. For Machinery	
Small Industries Service Institutes	They advise about the machinery and equipment needed for the manufacture of different products.
National Small Industries Corporation, New Delhi.	They supply indigenous as well as imported machinery on hire-purchase basis.
State Small Industries Corporations	They provide indigenous machinery on deferred credit basis.
Chief Controller of Imports and Exports, New Delhi.	They issue import licences for machinery of foreign origin on the recommendation of the Directors of Industries.
5. For Raw Materials	
Development Commissioner, Small Scale Industries Organisation, New Delhi.	They arrange indigenous raw materials and distribute through State Governments. They also arrange imports of raw materials through the Minerals and Metals Trading Corporation and State Trading Corporation of India.

Directors of Industries	They allot quotas of scarce raw materials.
State Small Industries Corporations	They supply raw materials.
Chief Controller of Imports and Exports and its Port Offices.	They issue licences for import of raw materials.
6. For Finance	
Small Industries Development Bank of India (SIDBI)	SIDBI has been set up as a principal financial institution for the promotion, financing and development of industry in the tiny and small sector and co-ordinate the functions of institutions engaged in similar activities. SIDBI provides finances for new projects, expansion, diversification, modernisation, rehabilitation. In addition, it provides refinance assistance to other institutions engaged in similar activities.
State Financial Corporations	They provide long-term credit for purchase of fixed assets.
State Directors of Industries	They provide loans under State Aid Industries Act/Rules for block capital.
State Bank of India and its Subsidiaries	They sanction medium-term and instalment credit loans for purchase of machinery and construction of factory buildings. The also provide working capital for purchase of raw materials and meeting day-to-day requirements.
Commercial Banks	They sanction loans for meeting working capital needs.
Small Industries Service Institutes	They furnish technical reports to the State Bank of India on the applicant units.
7. For Technical Know-How	
Small Industries Service Institutes	They prepare improved designs and drawings for the products.
	They assist in making tools, dies, jigs and fixtures.
	They help in the optimum utilisation of men, material and machinery through technological and management consulting.
	They train managers and supervisors in industrial management.

	They train workers to upgrade their skills. They demonstrate modern technical processes.
National Small Industries Corporation, New Delhi	They give advanced training in their Prototype Production-cum-Training Centres in the operation of modern machines.
Council of Scientific and Industrial Research, New Delhi	They develop new technological processes and disseminate the same to industry.
Productivity Councils	They train the factory owners in getting higher productivity.
Small Industry Extension Training Institute, Hyderabad	They give full-time management training to the managers/proprietors of small industry sector.
8. For Standardisation	
Small Industries Service Institutes	They provide technical guidance in the production of goods according to prescribed standards.
Indian Standards Institution	They prescribe specifications for the products and give ISI marks.
Directors of Industries	They prescribe standards and give 'Q' Mark to the small industry's products.
9. For Marketing	*Internal*
Small Industries Service Institutes	They conduct distribution and surveys for the benefit of small industrialists.
	They enlist the units for participation under Central Government Stores Purchase programme.
	They issue competency certificates to the units receiving Government orders.
	They promote ancillary relationship with the large and medium-scale units in the Public as well as Private Sectors.
National Small Industries Corporation, New Delhi.	They secure contracts from the Director-General of Supplies and Disposals, Railways, and Defence for supply of manufactured goods on behalf of small-scale units.
State Small Industries Corporations	They secure orders from the State Governments and other semi-Government organisations for the supply of stores.

	Export
Small Industries Services Institutes	They enlise small units for participation under Export Aid to Small Industry Scheme of the State Trading Corporation of India.
	They render technical counseling for satisfactory execution of export orders.
	They disseminate information about the items having export markets.
	They maintain close liaison with specialised agencies like Export Promotion Councils to have up-to-date knowledge about the products having export markets.
Chief Controller of Imports and Exports, New Delhi	They issue licences for export of products to foreign countries.
Directorate of Export Promotion, Udyog Bhavan, New Delhi	They collect and supply information on foreign markets.
	They carry out market studies for particular products.
Export Promotion Councils	They publish Trade Directories, Brochures and Bulletins.
	They organise exhibitions and show rooms.
	They maintain close liaison between Indian exporters and foreign buyers.
	They settle commercial disputes.
	They frame special export promotion schemes.
State Trading Corporation of India, New Delhi	They register units for participation under Export Aid to Small Industry Scheme.
	They held the small-scale units in the preparation of sales leaflets, price lists, etc.
	They secure export orders for small industries.
10. For Inventions	
The Inventions Promotion Board, 39, Ring Road, Lajpat Nagar IV, New Delhi-14.	They promote workable inventions of practical utility, through financial assistance and other incentives.
11. For Miscellaneous Problems	
The Federation of Associations of Small Industries of India, Rohtak Road, New Delhi	They represent the problems faced by the small industries to the Government.

CHAPTER 43

SELECTION OF TYPES OF ORGANISATION

Introduction

The selection criteria of a proper form of organisation is crucial for the success of a business enterprise. Every entrepreneur has to decide, at the outset, about the type of organisation which he plans to select for his private enterprise. It is an important entrepreneurial decision. This choice is by and large influenced by the socio-cultural norms and then prevailing industrial environment.

The decision of an entrepreneur depends on a number of variable factors. Among the many, the following factors are given weightage in making a choice of a suitable form of organisation which is most suited to one's enterprise. The deciding core factors are:

- Type of business — service, trade, manufacturing.
- Selection of industry and the area of operation.
- Scope of operations, volume of business and the size of the market, including its expected growth potential.
- Amount of capital funds required — initial capital, working capital.
- Possibility of raising resources from the market — institutions, subsidies and other incentives.
- Costs and procedures and relative freedom from Government regulation.
- Comparative tax advantages, etc.
- Size of the risk.
- Continuity of the enterprise.
- Degree of direct control and adaptability of administration.

By and large, the final organisational choice is a compromise that is most suitable to the entrepreneur's needs. The above ten factors are the major factors that will

influence the choice of a proper form of an organisation, which will withstand all the stresses and pressures and strive for its smooth progress on an ongoing basis.

The aim of entrepreneurial development programmes in India should not be to treat the small entrepreneurs as small, but to help the more promising and efficient ones amongst them to grow big. This will mobilise the productive resources of the country, contain the monopoly of a few large enterprises, and increase income, profits and employment. The objective is to accelerate the process of innovative entrepreneurial development in the country. Herein, choice of organisation also depends on the entrepreneurial skills and vision.

Ownership Organisation

The first and foremost question in organising a small-scale industry is that of ownership, represented by the right of an individual or a group of individuals to acquire legal title to assets for the purpose of controlling an industrial operation and enjoying the gains or profits flowing from such activities.

Small industrial units are, by and large, started by persons who value independence and are desirous of obtaining the highest rewards for their initiative, innovation, technical skills, business acumen and experience. As Nihal Singh aptly observed that *"The owner of a small industry values his undertaking for the job it provides him as well as for any return it may make on his invested capital."* The chief forms of an ownership organisation are:

(i) Sole proprietorship;
(ii) Partnership;
(iii) Co-operative society; and
(iv) Joint-stock company.

Policy Decision

Each entrepreneur has to make policy decisions in all vital areas of business activities and organise and manage his business affairs on scientific lines. He has to make a decision either as a manufacturer of some product or as the distributor of the products made by others. Whatever activity he chooses, he will be confronted with problems and his ultimate success will depend upon his entrepreneurial ability to solve these problems. He will have to make a policy decision about the size of organisation. Should he start his enterprise as a sole proprietary concern, partnership or any other form of organisation suited to the needs of his business? Should it be a small-scale industry or a large-scale industry? He should also decide whether to register the SSIs with the appropriate authorities or not.

Ownership Organisation Decision

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 organise 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 him 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.

A survey of SSIs in Greater Bombay showed the organisational structure of small business units. The sole-proprietorship is the most popular form of small business ownership. According to the survey, 78.5% of the total units were of private proprietorship type, joint family and partnership accounting together 20%, cooperative and private limited units accounting together for about 1% of the total. Even in the case of joint family and partnership, many a times a single entrepreneur controls the enterprises.

The type of organisation suited for these units depend upon several factors such as the nature and type of industry, the extent of capital, the nature of skill required, and the capacity to offer livelihood to the participating factors. Sole proprietorship is, however, the dominant form in these enterprises.

State Policy

It is the policy of the Government, both at the Centre and in the States, to encourage and promote cooperative enterprises of all types. The Registrar of Cooperative Societies in each State is concerned with the administration, supervision, coordination and development of cooperative societies, assisted by deputy registrars, assistant registrars and inspectors. The registrar offers assistance and guidance in the formation of all types of cooperatives and keeps a vigilant eye on their stability, administration, working, financial accounting, etc. through instructions, regulations, inspections, audit and other checks. Fig. 43.1 shows the forms of ownership organisation in a small-scale industry.

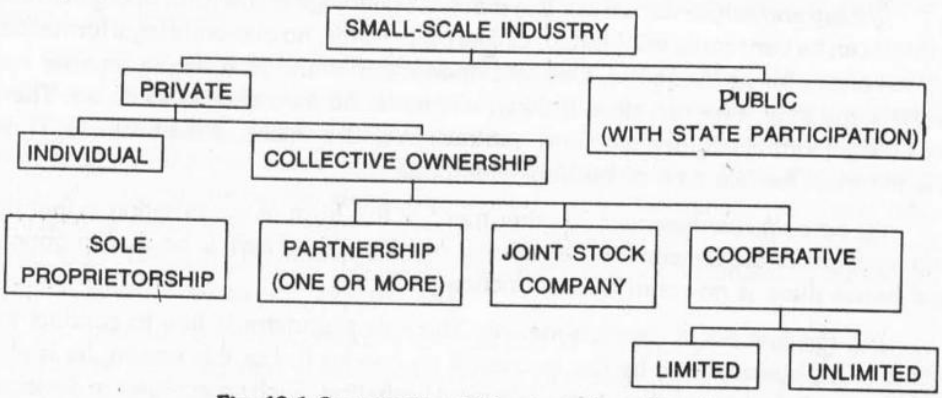


Fig. 43.1 Organisational Structure of small-scale industries in India

Sole Proprietorship

"Sole proprietorship is a form of business organisation in which an individual invests his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operation." The individual, with the assistance of other workers or by is own labour and capital, *may run the industry.* This form of organisation is also known as *individual entrepreneurship* — the oldest and the most sought after form of enterprise in the field of small-scale industry, and the easiest and simplest form of entrepreneurship from the operational point of view. The individual entrepreneur embarks upon some industrial activity with his own savings or with funds borrowed from his friends or relatives. The industry may be started either in a portion of the entrepreneur's own house or in rented premises. There are no legal formalities to be gone through except those required for a particular type of industry. For example, if the entrepreneur decides to start a small engraving industry, he has no legal formalities to comply with. He and his family members may run the industry in their own residence. In this form of ownership, the liability is unlimited. The small industrialist and the industry are highly interrelated and integrated. If the industry prospers, the entrepreneur is the sole beneficiary, and *vice versa.* Moreover, he enjoys full control over the affairs of the industry and the sole authority to decide, plan and control the operations of his business: In short, the entrepreneur is his own master. The import features of a sole proprietorship are:

(a) Sole ownership;

(b) One-man control;

(c) Unlimited risk;

(d) Undivided risk;

(e) No Separate entity of the firm;

(f) No Government regulations.

Merits

The sole proprietorship form of organisation has the following advantages:

(i) Easy and simple formation: The greatest advantage of this form of organisation is that it can be very easily established. Unlike other forms, no elaborate legal formalities are necessary for its formation. One can open it easily and in a simple manner and at the same time, one can close it down whenever he may choose to do so. There are no legal formalities for expansion, contraction or dissolution of the business. Thus, it is the most flexible type of business enterprise.

(ii) Smooth management: Another merit of this form of organisation is that the management of the concern can be carried on smoothly. There is no one to oppose and hence there is no room for any friction.

(iii) Promptness in decision-making: The sole proprietor is free to conduct the affairs of his business and he has to consult no one for it. For this reason, he is able to make quick decisions without any delay and hesitation. Such promptness in decision-making is essential, in general, for the smooth conduct of business operations.

(iv)Direct motivation and incentive to work: The sole proprietorship has to assume all the risks and is entitled to receive all the profits; therefore, he takes pains to work hard as there is direct relationship between the efforts and the rewards.

(v) Personal touch with customers: A sole trader is always able to maintain close and personal touch with his customers with this, he is able to the tastes and needs of the consumers. Such personal touch adds to the success of the business.

(vi) Secrecy: An individual entrepreneur is able to maintain complete secrecy about important maters relating to his business and thus may be able to safeguard business secrets from his competitors.

(vii) Social advantages: This refers to the provision of employment opportunities to many by ensuring diffusion of business ownership and thus concentration of wealth and power in the hands of a few is avoided. Further, it helps in the development of several essential qualities in entrepreneurs, such as the initiative, hard work, responsibilities, tact and self-reliance etc. The single proprietorship offers the best promise of securing motivation and widespread ownership and control of industry.

Limitations

The sole proprietorship has several limitations which are as follows:

(i) Limited financial resources: The greatest limitation in this case is that the capital available for the business remains very limited. An individual cannot possess enormous savings and he can borrow only limited funds from his friends and relatives. He may not have enough credit to borrow huge sums from the banks or financial institutions. This limits the size as well as financial profits of the business.

(ii) Limited managerial ability: An individual cannot be expected to possess knowledge of every branch of management. Now, when the management is highly specialised and business is becoming more and more complex, nobody can claim to be an expert on all the subjects. An individual may have limited knowledge and ability to take correct decisions. He may take a wrong decision which ultimately may prove to be drastic for the business. Few persons are qualified by training or experience to handle alone the varied problems of purchasing, merchandising, advertising, customer relations and financing.

(iii) *Unlimited liability:* Another great limitation is that the liability of the sole trader is unlimited. It implies that there is always a risk that he may lose the capital invested in his business as well as his personal property. In the event of some disaster, his creditors can satisfy their claims out of his personal property also. Thus, the entire risk has to be borne by one person alone. But, in a way unlimited liability may be of help too. The sole trader may get more credit from the creditors, as the limit of credit may extend to the value of property owned by him, and it will not be limited to the extent of capital invested by him in business only.

(iv) *Lack of continuity:* There is always lack of continuity or stability in such business. The mortality rate of such business has also been high. If the owner falls ill or he is away, the business stops. In case of any mishap, the business may disappear completely or may have to be rebuilt.

In spite of the above limitations, this form of business organisation occupies a prominent place in the business world. In advanced countries and in developing economies like India, it is playing an important role. This form is best for small ventures and may be more than a match for larger enterprises. It is more suitable for concerns where *(i)* capital required is small, *(ii)* risk involved is not heavy, *(iii)* goods of artistic nature are to be produced, *(iv)* personal touch with customers is necessary, *(v)* an individual is able to control the affairs, *(vi)* prompt decision is needed, *(vii)* scale of production is relatively small, and *(viii)* operation is simple in character not needing highly skilled management.

Nearly 61% of the SSIs are proprietary concerns. The most important factor in the formation of proprietary concerns is non-interference from others. Further, an entrepreneur is not bound by law to publish annual accounts or to keep accounts except to the extent it may be necessary to do so for income-tax and other related purposes. He need not disclose any confidential information. Besides, this form of organisation is simple, and no legal formalities are required for its formation.

Partnership Organisation

Partnership organisation grew and gained importance as an individual is not competent enough to possess enormous capital and knowledge or competence to manage everything. With the expansion of business and enlargement of the scale of its operations it became necessary for a group of persons to join hands together and supply the necessary capital and skills. Often it is found that a person may be having a huge capital but may not possess the required skill. Individually, none of them can run a business enterprise single-handed but together they may be highly successful in its operations. Thus, partnership organisation has been adopted to arrange more capital, offer better skill, control and management to take advantage of high degree of spcialisation and division of labour, and to share the risks.

In India, such organisations are governed by the Indian Partnership Act, 1932. Section 4 of this Act defines a partnership as *"the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all."* Persons who enter into partnership are collectively known as *"firm"* but individually known as *"partners."* If we analyse this definition carefully, the following points emerge as the main elements of partnership: *(i)* Partnership is the relation between persons, i.e., at least two persons must be there to constitute a partnership. *(ii)* There should be an agreement between them. This also means that persons should be legally competent to enter into a contract. *(iii)* They should carry on some business. It implies that an agreement to run a charitable institution will not constitute a partnership. Business here necessarily implies a lawful business. *(iv)* The business must be carried on by all or any of them acting for all. Thus, one or some partners can represent the firm and bind it by his/their actions in the course of business.

Basic Features

The partnership organisation has some basic or fundamental features which have been discussed below, with special reference to the position of partnership in India.

1. Number of persons: There should be at least two persons to form a partnership organisation. In India, there is no upper limit prescribed under the Partnership Act, but a limit has been put under the Companies Act indirectly. Under this Act, a partnership consisting of more than 20 Act indirectly. Under this Act, a partnership consisting of more than 20 persons for a general business and 10 persons for a banking business has been made illegal. Thus, the upper limit of the number of partners in a general business is 20 and in the banking business it is 10.

2. *Contractucal relationship:* Partnership is the result of contractual relationship between two or more persons. There must be an agreement between persons who wish to form a partnership. It is a fundamental feature of the partnership organisation. For example, a manager of a firm may get his remuneration which may be based on the profits of the firm, but on that account he cannot be taken as a partner as the element of agreement is not there. Similarly, two or more persons may be sharing the gains of a property jointly held and on that account alone, there cannot be a partnership jointly held between them. Further, as it is the result of a contract, the law does not interfere with its formation or dissolution. On that very basis, no partners agree for the same. Similarly, if a partner dies the firm gets dissolved as one of the contracting parties is dead. Thus, it has been rightly said that a partnership arises from a contract and not from status.

3. *No legal distinction between firm and its partners:* It has been mentioned earlier that persons entering into a partnership are individually known as 'partners' and collectively as a 'firm.' Since a partnership is merely an association of persons, no separate legal entity or fictitious partners are created. This implies that the law does not make any distinction between the firm and the partners who compose it. Any partner can bind the firm with his decisions on behalf of the firm. But, at the same time, a partner is free to undertake personal business or enter into personal contracts.

4. *Unlimited liability:* Just like the sole proprietorship, the liability of the owners of the firm is unlimited. But the difference between the two is that in the case of the former, all risk is to be shouldered by one person alone but in the case of a partnership, this is borne by two or more persons. This means that a partner is not only liable to the extent of capital he has invested in the firm but he may be called upon to meet the liability out of his personal property also. If need be, the creditors of the firm can claim debt but out of the personal property of the partners. In such an eventuality, the partner loses the capital invested in the firm as well as his personal property.

Advantages of Partnership Organisation

A partnership organisation has certain advantages as compared to the sole proprietorship or joint-stock company organisation. We discuss below these advantages:

(i) Easy formation: A partnership can be easily formed as no legal formalities are to be observed to establish it. At the same time, unlike a company, not much of expenses are incurred for its formation.

(ii) Flexibility: A partnership organisation is highly flexible as well as mobile. Changes can be introduced without much difficulty. The necessary additional capital

can be raised, new partners be introduced including changes in the place and object of the firm. Business of the firm can also be expanded or contracted according to the needs.

(iii) Pooling of resources and skill: Unlike the sole proprietorship, under a partnership, several persons pool their capital, resources, skill, expertise, experience and services etc. Two or more persons are always better than one and in that sense partners strive to work with zeal for the better. It enables combination of such individuals who may not be in a position to do anything alone.

(iv) Division of risks: Under a partnership, the risks of business are divided among the partners and are not shouldered by one person alone. Thus, it is more useful for business with large investments.

(v) Strong credit position: Unlimited liability of the partners enhances the creditworthiness of the firm. The credit can be extended to it to the limit of the value of property owned by the partners, and not confined to the extent of capital contributed by the partners. Further, it restricts on the speculative and reckless activities of the partners with which they always remain vigilant.

(vi) Less incidence of tax: As compared to joint-stock company, the burden of taxes on a firm or its partners individually is lower.

(vii) Encouragement of mutual trust, personal element in business: Partners act in co-operation and thus mutual faith, trust and goodwill are maintained. They maintain personal relations with each other and take personal care to promote the business of the firm. This personal element in business, which is not found in a company, is highly useful. The existence of partnerships rests on mutual faith and goodwill and that way it encourages the spirit of helpfulness and instills the qualities of honesty, sincerity, responsibility, initiative and self-reliance.

Disadvantages

While the partnership organisation has the above advantages, it has the following serious limitations which cannot be ignored:

(i) Limited resources: In spite of pooling its of resources by in partners, it is not possible to raise huge amount of capital and engage specialists required for modern business or industrial units. Partners may be rich but their capacity to contribute capital is limited as compared to the needs of modern industrial complexes. Undoubtedly, a joint-stock company may raise more capital as against a partnership firm.

(ii) Unlimited liability: One of the serious limitations of a partnership organisation is that the liability of partners is not limited. The partners like the sole trader unlike the shareholders of a company, may be personally held liable for the debts incurred by the firm. Their private property also remains at stake. Moreover, liability is cumulative. Further, a partner may also be called upon to compensate for the misdeeds and dishonesty of his fellow partners along with his own acts.

(iii) Instability: Theoretically, it may appear that the partnership organisation is more stable than the sole proprietorship but in practice it is not so. It is often found that a firm's business comes to an end on account of petty quarrels among the partners.

If a partner is dishonest and short-tempered, it may become difficult for other partners to carry on business with him. Any misunderstanding may prove ruinous for it. It is also unstable because death, retirement, and insolvency of a partner may dissolve the partnership. It is quite true that the partnership provides better means to perpetuate itself "but existence of that 'self' at any given time is more precious."

(iv) Lack of harmony of interest: Unlike a sole proprietorship, it is not possible to maintain harmony of interests among the partners. There is always the possibility of friction. The partners may follow a conservative policy to avoid risk of their private property. Their combined judgement often may not prove useful. If mutual co-operation is lacking, prompt decisions may also not be possible. There is the possibility of leakage of business secrets and matters which may affect the business adversely.

About 35% of the SSIs in India existed as partnership concerns of which, 21% are joint-family partnerships and 14% partnership concerns. Very often, small entrepreneurs with business acumen and training are handicapped by lack of capital; or there may be need of a wealthy man with managerial capacity. Partnership organisations grew essentially out of the failures and limitations of the sole proprietorship form of organisation. The formation and management of a partnership organisation is governed by the provisions of the Indian Partnership Act of 1932. According to it, a *"partnership is the relation between persons who have agreed to share the profits of a business carried on by all or by any one of them acting for all."* A partnership deed is essential for this type of organisation. The Partnership Act, 1932, outlines the rights and duties of a partner. The liability of a partnership is unlimited.

The ownership pattern of small units is given in Table 42.3. As indicated in the table, 61% of the units are single proprietary small-scale industrial units, followed by family partnerships, i.e., businesses owned by two or more members of the family. Only 14% of these units are non-family partnerships, where the ownership is held by a small group which does not constitute a family. Among the small-scale industrialists, there is a strong tendency to keep the business within the family. As a general rule, a non-family partnership is restricted to craftsmen pooling their resources; alternatively, it may be a venture of a group of merchants. An industry-wise analysis shows that in the printing presses, general engineering and soap industries, 20% of the units fall in the category of non-family partnerships. In these cases, a large amount of capital investment is necessary, and the family resources are generally too meagre for such a venture. The capital resources are increased by coverting the industrial unit into a non-family partnership.

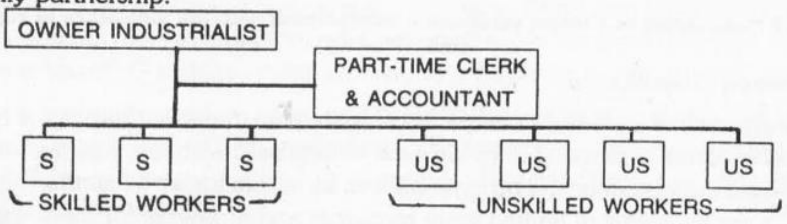


Fig. 43.2 Functioning of one-man small-scale entrepreneur doing all the work: (Phase 1)

Table 43.1

Small Units Classified According to the Type of Ownership

Industry	Single Proprietorship	Partnership			Co-operatives	Joint Stock	Total
		Family	Family & Others	Non-Family			
1. Flour Mills	36.4	49.1	—	14.5	—	—	100.0
2. Printing Presses	52.0	28.0	—	20.0	—	—	100.0
3. Leather Footwear	62.0	32.0	2.0	4.0	—	—	100.0
4. Light Engineering	48.0	36.0	4.0	12.0	—	—	100.0
5. Electrical Goods	25.0	65.0	4.0	6.0	—	—	100.0
6. Wooden Furniture and Fixtures	60.0	30.0	1.0	8.0	1.0	—	100.0
7. Hosiery	63.0	25.0	—	11.0	1.0	1.0	100.0
8. General Engineering	58.0	18.0	—	20.0	1.0	3.0	100.0
9. Soap	27.0	53.0	—	20.0	—	3.0	100.0
10. Electroplating	40.0	39.0	8.0	13.0	—	—	100.0
11. Foundries	43.0	43.0	—	14.0	—	—	100.0
12. Oil Mills	15.0	70.0	—	12.0	2.0	1.0	100.0
13. Drugs	60.0	35.0	—	3.0	—	—	100.0
14. Utensils	55.0	38.0	—	6.0	1.0	—	100.0

In hosiery, leather goods and wooden furniture industries — wherein capital investment is less and one can develop the business by productively utilising one's skills with the co-operation of workers — a very large percentage of these units come under the category of individual proprietorship.

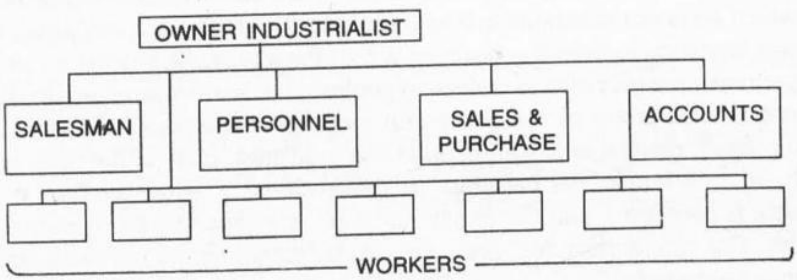


Fig. 43. 3 Functioning of a single small-scale entrepreneur with the assistance of supporting staff: (Phase 2)

Joint-Stock Companies

The growth of joint-stock companies constitute an important step in the historical evolution of forms of ownership of business enterprises. With the enlargement of the scale of business operations, it became difficult for a sole trader or partnership firm to cope with the problems of finding more resources and arranging for more specialised management.

The development of these companies has taken place almost in all the countries of the world but the nomenclature differs. There may be technical points of difference but the basic characteristics are almost the same everywhere. We call it joint-stock company in England and in India. In the U.S.A., it is known as a *"corporation."*

Definition: A company is a voluntary association of persons who contribute to its capital but their liability remains limited. It carries on business for profit as a legal entity. It can sue and be sued in its own name. Thus, a corporation is an artificial being, invisible, intangible, and existing only in the contemplation of law. Being a more creation of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence.

Salient Features

A joint-stock company exists as a separate legal entity quite apart from that of the members comprising the organisation unlike a *partnership*. In other words, this company is considered to be a *"person"* in the eyes of law. Also these company possesses the right to own and transfer any property.

In India, only 3% of the units exist as joint-stock companies. In a sense, it is an extension of the partnership form; it is an association of a number of members which has a legal sanction behind it. Because of the complicated and cumbersome legal procedures, heavy taxation and the possibility of unscrupulous promoters securing capital for an undesirable concern, this system has not made any headway in the small-scale industries sector.

Illustration:

It's all in the family

The Amalgamations group has been the largest privately held business houses in the country. The company in the group which went public in 1978, Bimetal Bearings Limited, did so only because it had to bring down its foreign shareholding. Although these shares have been briskly traded, the family held about 70% of the equity. Other publicly held companies listed were: T.Stanes of Coimbatore; the two plantation companies (Unitea and SAE), and Amalgamations Repco Ltd.

The holding company, Amalgamations had two directors, Sivasailam and Krishnamurthy. The shares of the holding company were divided equally among Anantharamkrishnan's four children — two sons and two daughters. Sivasailam and Krishnamurthy, the two sons, were the chairman and vice-chairman of the group. One of Sivasailam's sons-in-law, K.S.Sundaram, Addisons Paints and the other son-in-law, N.Venkatramani, headed India Pistons. Each company in the group has been managed by its own board. Generally, there are very few outsiders on the boards.

Both the brothers looked after some of the group companies directly. For instance, Sivasailam monitored. TAFE and Amco Batteries on day-to-day basis, while Krishnamurthy has been involved in Simpsons, Bimetal Bearnings and Shardlow. Sivasailam had the greater say.

Third generation: The third generation in the business consists of Srinivasan, 30 (who is married to Venu Srinivasan of the TVS group), and MBA from Wharton

University USA, is general manager (planning and co-ordination) in TAFE. The younger daughter, Jayshree Venkatraman, 17, (married to M.S. Venkatraman of WS Industries), who has an MBA from the International Management Institute, Delhi, has been inducted as an executive assistant to the chief executive of Amco. Krishnamurthy has no children.

Obviously, in a group like this, the chairman has always been the power centre. He deals with the banks, the government and makes all the initial preparations for collaborations. Krishnamurthy, who described his role as a supportive one has been in charge of group industrial relations. If there are any disagreements, the decisions taken by the chairman prevail. Sivasailam felt that the unique strength of the group lies in respect for authority and the consequent discipline that it brings. *"I see this as a value* which should not be discounted. The group's strength lies in its togetherness under the umbrella of Amalgamations. We offer limitless opportunities to talented professionals. The family should induct and retain them. But the directions should come from the family," he said.

Simpsons, Amalgamations and "J"

Nobody quite knew who he was. But Simpson, who hailed from Scotland, chose to set up a company in Madras in 1840 to build horsedrawn coaches and carriages for the affluent. The star achievement of the company in the 19th century was to build a carriage for the use of the Prince of Wales during his visit to India in 1876. In the early 1900s, Simpsons actually built a motor car and ran it on Mount Road. The company, however, confined itself to the car trade and opened many workshops and branches. It was only during the fifties, under the Indian management, that the company began to manufacture diesel engines.

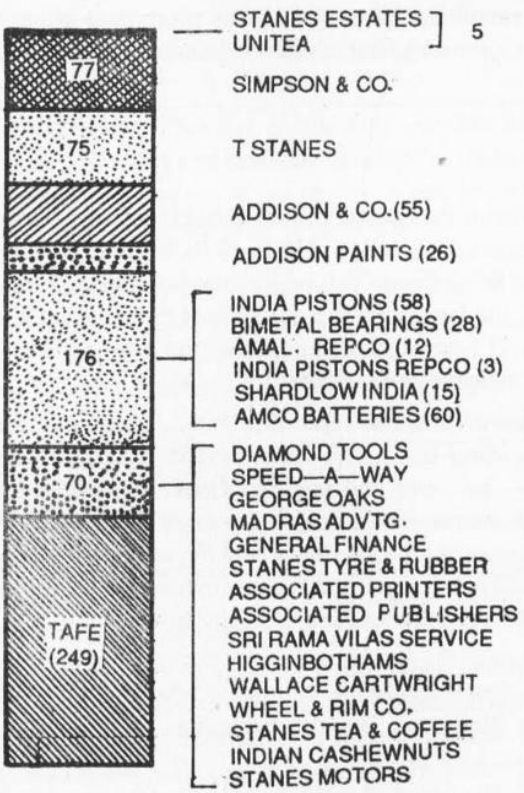


Fig. 43.4 The Amalgamations Group at a Glance

In 1930, a 25-year-old unassuming accountant joined Simpsons. S. Anatharamakrishnan was known to his English colleagues as simply J. The nickname stuck and no one knows why. By 1938, J was ready to start a business of his own. He formed Amalgamations Pvt. Ltd. that year. Why he chose that particular name is against not known. He then established Sri Rama Vilas Service

(SRVS) which went on to run a large bus fleet and a cargo service. The same year an agency, Speed-A-Way, was established to distribute automobile spare parts.

Historical move: In what is referred to in modern parlance as a historical move, J acquired Simpsons in 1941. And W. W. Ladden, then chairman of the company, voluntarily opted to serve under J Simpsons became a subsidiary of Amalgamations. In the next 25 years, both Amalgamations and Simpsons began to acquire and promote companies at a blistering pace.

J was a true visionary who realised that after independence, it would be necessary to begin manufacturing goods. He established units to manufacture paints, pistons, batteries and tractors, among other things. He bought a publishing house which owned a newspaper *(The Mail).* In 1961, he acquired interests in several plantations.

When J passed away in 1964, he left a highly diversified business house which featured among the top twenty in the country.

The Co-operatives

A co-operative society is essentially an association of persons who join together or a voluntary basis for the furtherance of their common economic interests. The International Labour Organisation (ILO) defines a cooperative as *"an association of persons, usually of limited means, who voluntarily join together to achieve a common economic end through the formation of a democratically controlled business organisation, making an equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking."* This type of organisation has not made any appreciable impact on the small-scale industrial sector. Of the total small-scale units, only 0.7% are organised as cooperative societies. These are mainly in such industries as wooden furniture and fixtures, utensils, agricultural hand tools and implements, printing, and washing soaps.

Forms of Organisation

The selection of the form of organisation depends basically on the nature of industrial activity proposed to be undertaken, the scale of operations in terms of the volume of business proposed to be handled, the scope of the market to be covered, the sharing of risks and tax advantages.

Three salient features of all forms of organisation are:

(i) Relationship — Line, Functional, Staff.

(ii) Authority — Direct, Indirect, Representative.

(iii) Responsibility — General, Specialised, Advisory.

In other words, the organisational structure is based on:

(i) Division of labour;

(ii) Co-ordination;

(iii) Accomplishment of goals and objectives; and

(iv) Authority — responsibility.

Comparative Evaluation of Different Forms of Business Ownership

Basis of Comparison (1)	*Sole Proprietorship* (2)	*Partnership* (3)	*Private Company* (4)	*Public limited Company* (5)
1. Formation	Easiest, no legal formalities	Easy, only an agreement required	Difficult, some legal formalities	Very difficult, several legal formalities
2. Registration	Not necessary	Optional	Compulsory	Compulsory
3. Membership	One man show Single membership	Minimum: 2 Maximum: 10 in banking and 20 in others	Minimum: 2 Maximum: 50	Minimum: 7 Maximum: No limit
4. Legal staus	No separate legal existence	No separate legal existence	Separate legal entity	Separate legal entity
5. Liability of Members	Unlimited, full risk	Unlimited, joint and several, risk shared	Limited	Limited
6. Financial capacity & suitability	Limited capital suitable for small business	Pooling of capital, suitable for medium size	Large capital, suitable for medium scale business	Very large capital suitable for large scale operations
7. Sharing of profits	All to the owner	As per agreement	On the basis of shares held	On the basis of shares held
8. Management and control	Quick decision, no specialisation, management & ownership lie in the same hands.	Unanimous decision, limited specialisation, management lies where ownership is.	Board decisions, greater specialisation, ownership and control go together	Board decision, specialisation, divorce between ownership and management
9. Business Secrecy	Perfect secrecy No audit or reports	Secrets limited to partners, no audit or reports compulsory	Secrets shared by members, audit and reports compulsory	Secrets shared with public, audit and reports compulsory
10. State regulation and flexibility	Practically none, full flexibility of operations	Very little, sufficient flexibility	Considerably, limited flexibility, privileges, & exemptions	Excessive, no flexibility
11. Transferability of interest	At will	With mutual consent	Restricted as Articles of Association	Freely transferable
12. Tax Burden	Low at small level of income, progressive rate	Low at small level of income, progressive rate	Low at medium level of income, flat rate, double taxation	Low at high level of income, flat rate, double taxation
13. Stability or continuity	Unstable, life fully dependent on the owner	Less stable, may be disolved by death, insolvency, etc. of a partner	Perpetual existence	Perpetual existence
14. Winding up	At will	At will	Under the Act	Under the Act
15. Governing Act	General law	The Partnership Act, 1932	The Companies Act, 1956	The Companies Act, 1956

The process of organisation consists in making a rational division of work into groups of activities for the accomplishment of a task. The various stages of this process are:

(a) Determination of objectives;

(b) Enumeration of activities;

(c) Classification;

(d) Fitting individuals (workers) into functional activities; and

(e) Assignment of authority for action.

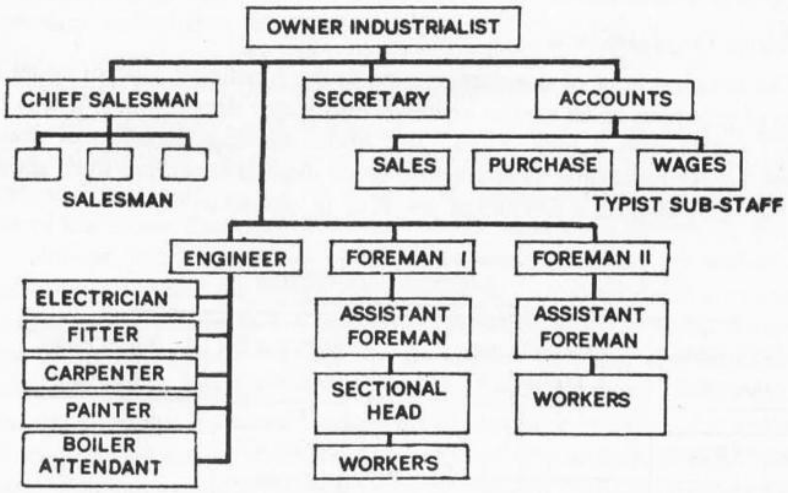


Fig. 43.5 Small-Scale Industrialist functioning with the assistance of technical supporting staff: (Phase 3)

Line Organisation

A line organisation is the basic framework of an organisation. It is the backbone of the organisational hierarchy. Mr. Lundy has observed that *"line organisation is characterised by direct lines of authority flowing from the top to the bottom of the organisational hierarchy and lines of responsibility flowing in an opposite but equally direct manner."* Under this type, various activities are organised in groups and controlled by a manager, who is responsible to the top man. In this type of organisation, authority flows from the top to the bottom while responsibility flows from the bottom to the top.

Advantages

(i) It is simple to form and easy to operate.

(ii) In it, line executives enjoy decision-making powers.

(iii) It has a systematic organisational structure.

(iv) It maintains a balance between authority, responsibility and accountability.

(v) Discipline can be maintained easily.

(vi) Communication is easy and quick.

Disadvantages

(i) It becomes autocratic or dictatorial.

(ii) It suffers from lack of specialisation.

(iii) There is an overload of responsibility.

(iv) It hampers initiative.

(v) There is absence of co-ordination among the different departments.

(vi) It is unstable.

Functional Organisation

The simplest type of departmentation is the functional type of structure which consists of grouping of all similar activities into major departments. It was organised by F.W. Taylor with a view to bringing about the specialisation of management activities. Under functional foremanship, office work is separated from shop or plant work. Fig. 43.7 depicts a functional structure in operation.

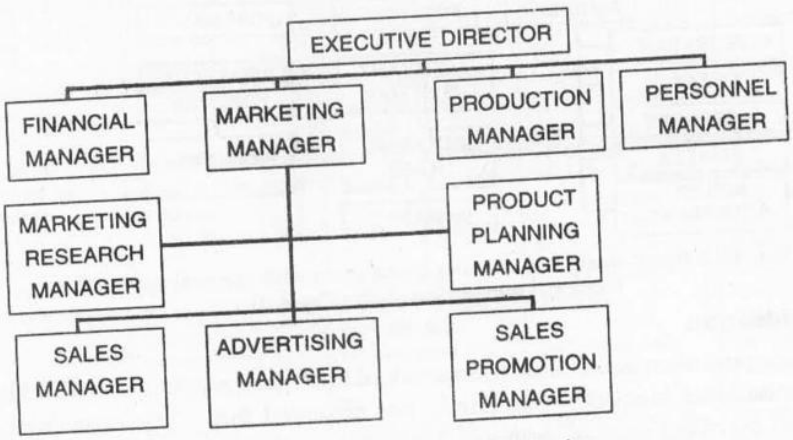


Fig. 43.6 Functional Structure

Note: In a pure functional organisation, we have multiple and divided responsibility. Although there is a need for functionalisation, it is probably never used in its pure form. A practical approach to functionalisation is reflected in the line-and-staff organisation, which is necessary for a large enterprise.

Advantages

(i) It promotes a better division of labour.

(ii) It ensures proper communication.

(iii) It offers a good scope for specialisation.

(iv) It promotes co-ordinated work.

(v) It ensures systematic organisation.

Disadvantages

(i) The unity of command is absent.

(ii) There is a tendency towards over-specialisation.

(iii) In this type of organisation, it is difficult to pinpoint responsibility.

(iv) It is costly.

(v) There is no continuity of authority.

(vi) Lower potency for developing managers for promotion.

Selecting a Viable Structure

Industrial activity has been diversified in which routine functions are entrusted to the secretary, accountant, sales director. The industrialist has opened a new branch for export and import and has also sought the services of a legal adviser in all legal matters connected with the operation of his industry.

Apparently, the functioning of a small-scale industry is organised on the basis of their functional activities. The owner-industrialist still provides the necessary leadership and initiative. The overall control remains in his hands. In many cases, key positions like those of the works manager, the sales director and the accountant, are held by his close relatives (brother or sons), while other routine matters are looked after by employees whose services are hired. The small-scale industrialist also appoints young and well-qualified to attend to the personnel problems of his industry. To make the delegation of authority really effective, he should not only pay due attention to the principles of delegation, but also recognise the obstacles that stand in the way of a true delegation of authority. He should create an atmosphere in which the line staff are prepared to give and accept authority and responsibility enthusiastically. This is the beginning of delegation and an appreciation of modern management methods with a view to maximising profits.

Finally, he has to select a viable structure most suited to achieve his objective or goals. In the words of Peter Drucker: *"Organisation is not an end in itself, but a means to an end of business performance and business results. Organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and may even destroy it.... Organisation, structure must be designed so as to make possible the attainment of the objectives of the business for five, ten, fifteen years hence."* This may be achieved by analysis of activities, decision analysis and relations analysis — all on a continuing basis. All in all, the organisation structure must contain the least possible number of management levels, and forge the shortest possible chain of command. It must also make possible the training and testing of tomorrow's top entrepreneurs.

Deciding Factors on Organisation while Starting a Business

It is worthwhile for the entrepreneur of a new or proposed business to be familiar with the following factors in making a choice for a suitable form of ownership:

(1) Type of business — service, trade, manufacturing.
(2) Scope of operations — volume of business and the size of the market area served.
(3) Degree of direct control and management desired by the owners.
(4) Amount of capital funds required.
(5) Size of the risk.
(6) Continuity of the concern.
(7) Costs and procedures and relative freedom from government regulation.
(8) Adaptability of administration.
(9) comparative tax advantage, etc.

An entrepreneur has to weigh these major factors, as well as others in deciding the form of organisation while starting a business. Many a times, an enterprise, like a river, may be started as a proprietary concern, converted into a partnership when like minded people come together, promoted into a joint-stock company when it grows substantially big. This organisational evolution is an ongoing process through interaction with the social, political and economic environment.

The best and the brightest always stand out as the most outstanding. The best invariably prosper. Prosperity leads to growth. And growth ultimately shows up in increased size. So in a free market economy, the size of the business (enterprise) is a fair indicator of excellence. Managing a larger enterprise is without doubt more difficult than running a small one. And so it is likely that many small enterprises are more profitable than their larger counterparts. But this in no way detracts from the achievements of the latter. Big is always better, by way of its inherent strength, the capacity to bear opted shocks and stresses, and simply by the fact that it has grown so big in a world where roughly everyone has had the same opportunities.

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CHAPTER 44

INCENTIVES AND SUBSIDIES

Introduction

Entrepreneurs in India are offered a number of incentives with their strategic contributions to economic development. Firstly, they facilitate the decentralisation of economic power by encouraging prospective entrepreneurs to take up industrial ventures and assist in the dispersal of industries over India's geographical area. Secondly, they facilitate the transformation of a traditional technology, which is characterised by low skill, low productivity and low wages, into a modern technology, subsequently characterised by improved skills, high productivity, rising wages and a higher standard of living. They serve as a catalyst to start a dynamic process of development. They also influence the location of enterprises and contribute to regional distribution and development.

The Ford Foundation Team, which visited India in 1953-54, suggested a positive programme for the development of modern SSIs. Based on the recommendations of this team, the Government provided a broad infrastructural and institutional set-up for the accelerated growth of these industries.

In the present chapter, an attempt has been made to indicate the assistance and the incentives which are available from the Government.

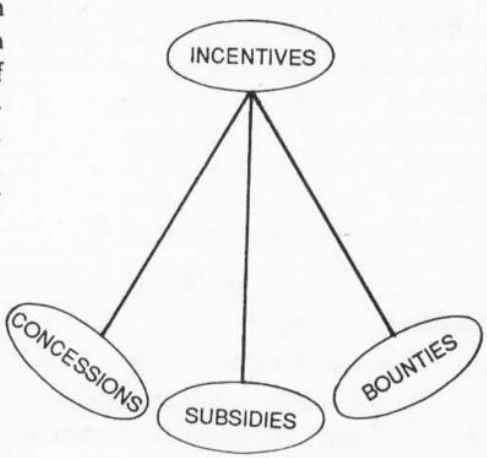


Fig. 44.1 Pattern of Incentives

Incentives

The term *'incentive'* means encouraging productivity. It is a motivational force which makes an entrepreneur take a right

decision and act upon it. Broadly, incentives include concessions, subsidies and bounties. Economic incentives — both financial and non-financial — push an entrepreneur towards decisive decision and action.

Subsidy

'Subsidy' denotes a single lump-sum which is given by a Government to an entrepreneur to cover the cost. The term *'bounty'* denotes a bonus or financial aid given to an industry to help it to compete with other units in country or in a foreign market. The objective of incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation and the society.

Controversies on the Efficacy of Incentives and Subsidies

Often one comes across an intellectual controversy over the good or evil or nil effect of incentive programmes. According to one criticism, the argument proceeds, of course, with empirical evidence and other pure measurement approaches, that incentive schemes would ultimately deteriorate into useless tax give-aways, would only cause other States to reciprocate with the result that industry locations would be affected by those lures and would cause the financial position of the exchequer seriously impaired. While this argument may be true, the industrial development schemes have been with use for more than three decades. As against this view, there are study results establishing the economic significance of the impact of incentive programmes. We also find, to our surprise, the fast-growing, information on the reappraisal of the *'legitimacy'* of the regional economic industrial policy with incentive schemes.

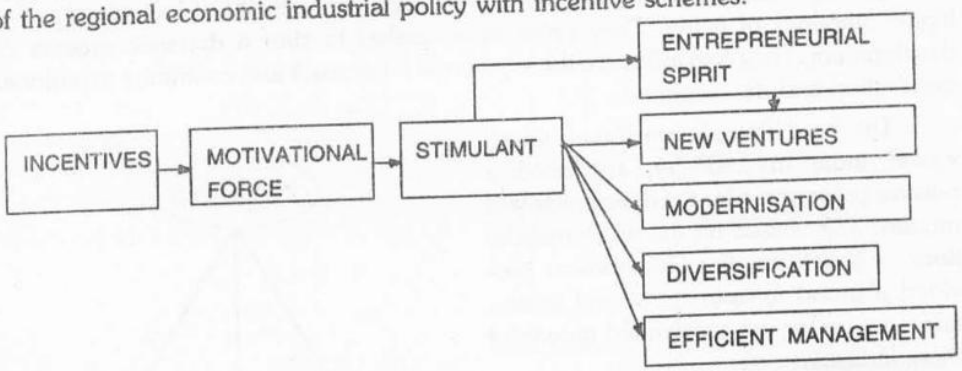


Fig. 44.2 Incentives as a motivational force

Need for Incentives

The need for incentives and subsidies arise for the following reasons:

1. *To correct regional imbalances in development:* The usual package of incentives and concessions has been available in backward as well as developed districts. It has been, however, the experience of industrial administration, department of industries, district level officers, development corporations, etc., that what is lacking in the backward districts is the overall existing environmental growth. One of the ways is to identify pockets of savings of different activity groups like traders, businessmen, agriculturists, professionals, etc., and provide them with relevant information as well as suitable incentives to offset the disadvantages prevailing in such places. Industrial

policy uses incentives both to correct the market imperfections and to accelerate the process of industrialisation so as to drive the forces of supply and demand reach the equilibrium level. Such a policy then aims at inducing some entrepreneurs or sections of the community (e.g., technicians) to locate their industrial units in areas selected by Government rather than that of their own choice. Regional balances can also lead to effective utilisation of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

2. *To promote entrepreneurship by removing economic constraints:* As for the economic constraints, the new entrants in the field face many impediments on account of inadequate infrastructures. The new entrepreneur suffers because of distances separating central administrative organs from entrepreneurs and their projects, deficiency of various supporting services such as market intelligence, entrepreneurial guidance and training, technical consultancy and merchant banking facilities, lack of an institutional mechanism to provide full-time management personnel completementary to that of the new entrepreneurs, and finally, from insufficient orientation of the promotional institutions, barring a few exceptions, at the State level to the needs of new entrepreneurs.

The various incentives normally aim at mitigating some or all of the problems by several means. Industrial estates, industrial complexes, industrial nucleus etc., availability of power, concessional finance, capital investment subsidy, transport subsidy, etc., are all but a few examples of incentives to solve constraints impeding the emergence of entrepreneurs in industry.

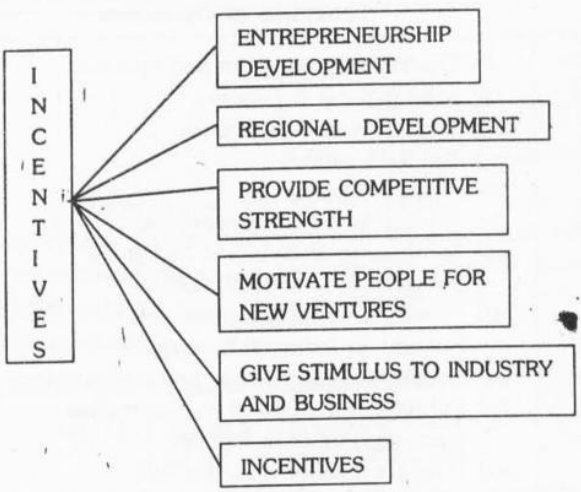


Fig. 44.3 Objectives of Incentives

3. *To provide competitive strength, survival and growth:* Some of the incentives are concerned with the establishment of industries while others are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period. Instances may be cited of the reservation policy for SSIs due to which a small firm can hope to compete in the market to which entry by larger units is barred. If these units are already established and are brought under the reservation policy later, it will be a case of incentive to support its competitive strength. For a newcomer, the reservation is an incentive to enter the industry itself. A price preference improves its competitive strength.

Incentives Strategy	
1. Subsidy for Purchase of know-how	— Varies from 50% to 100% of cost
2. Entrepreneur Training	— Free with stipend for SC/ST and women entrepreneurs
3. Developed Land	— At subsidised cost, on hire-purchase/outright purchase basis
4. Factory shed	— In indusrial estates subject to availability
5. Machinery	— On hire-purchase/lease
6. Seed capital loan (Margin Money Loan)	— To start industries
7. Central Investment Subsidy	— At the rate of 25% varies from Rs. 10 lakh to Rs. 50 lakh
8. State Investment Subsidy	— 10% to 15%
9. Tax Exemption	— Excise and sales-tax Exemption from stamp duty and concessional registration changes.
10. Establishment Grant	— In some cases
11. Stamp Duty	— Exempted

Thus, a creative and shrewd entrepreneur can set-up a small-scale industry and/or industries without putting a single pie of his own and even capital out of it. Some successful entrepreneurs have built their own industrial empire, acquired status and power

Schemes of Incentives and Subsidies in Operation

Incentives in Operation	Subsidies in Operation
(i) Interest free loans,	*(i)* Export/Import subsidies and bounties,
(ii) Exemption from property tax,	*(ii)* Subsidy for R & D works,
(iii) Incentives to NRIs,	*(iii)* Capital investment subsidy,
(iv) Special incentives to women entrepreneurs,	*(iv)* Transport subsidy,
(v) Exemption from income-tax,	*(v)* Interest subsidy,
(vi) Interest-free sales tax loans,	*(vi)* Subsidy for power generations,
(vii) Sales tax exemptions,	*(vii)* Subsidies to artisans and traditional industries including handlooms,
(viii) Land and building at concessional rates,	*(viii)* Subsidy for buying test equipment,
(ix) Price preference to SSI Units,	*(ix)* Subsidy for industrial housing,
(x) Exemption from stamp duty,	*(x)* Subsidy/assistance for technical consultancy
(xi) Provision of seed capital,	*(xi)* Subsidising the cost of market studies/ feasibility studies or reports.
(xiii) Allotment of developed/ constructed sheds,	*(xii)* Subsidised consultancy services
(xiv) Allotment of controlled or subsidised raw materials	*(xiii)* Subsidy for market studies
(xv) Concessional water	*(xiv)* Subsidy for quality standards
(xvi) Special facilities for import of RAW materials	
(xvii) Taxation benefits	
(xviii) Excise concessions	

The Assistance Programme

Some of the important measures of assistance now available for the entrepreneurs in the industrial sector are:

(i) Technical assistance through industrial extension service;
(ii) Assistance for obtaining raw materials;
(iii) Cash assistance;
(iv) Supply of machinery on hire-purchase basis;
(v) Marketing assistance;
(vi) Assistance to small entrepreneurs;
(vii) Rural Industries Projects;
(viii) Seed capital assistance;
(ix) Concessional finance assistance;
(x) Technology assistance;
(xi) Pollution control.

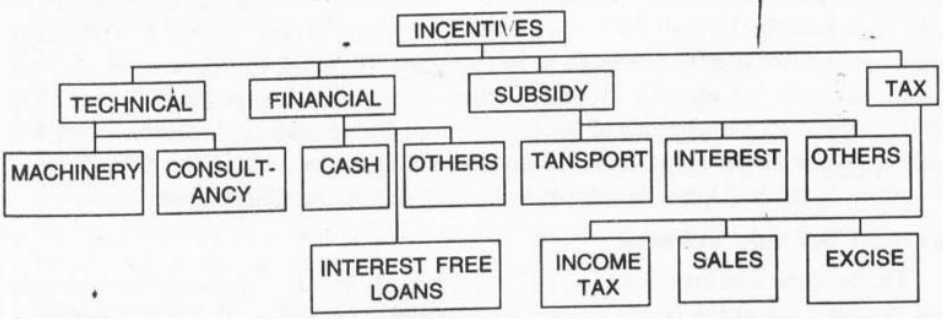


Fig. 44.4 Types of Incentives

In order to promote industrialisation of the country as a whole and to remove disparities in levels of development between different regions, the Central Government is operating three major schemes, viz., central investment subsidy scheme, transport subsidy scheme and central assistance scheme for infrastructural development in no-industry districts.

Advantages of Incentives and Subsidies

(a) They act as a motivational force which makes the prospective entrepreneurs to enter into manufacturing line.
(b) They encourage the entrepreneurs to start industries in backward areas.
(c) By providing subsidies and incentives the Government can
  (i) Bring industrial development uniformly in all regions.
  (ii) Develop more new entrepreneurs which leads to entrepreneurial development.
  (iii) Increase the ability of entrepreneurs to face competition successfully.
  (iv) Reduce the overall problems of small-scale entrepreneurs.

Problems of Incentives and Subsidies

- Empirical studies reveal that the incentives and subsidies are being highly misused.
- Incentives and subsidies turned out to be grounds for dishonesty.
- They have given scope for favouritism and rampant corruption.
- They have become the seeds of unethical business practices.
- Resulted in financial drain on the exchequer.
- The real objective of providing incentives, subsidies and assistance is hardly achieved.

Central Investment Subsidy Scheme

This was introduced in 1971, and has been modified from time to time. The scheme is for encouraging setting up of industries in centrally notified backward areas. For setting up industries in Category "A" backward areas, subsidy is allowed at the rate of 25% subject to a maximum of Rs 25 lakh (enhanced to Rs 50 lakh for setting up electronics industry in hilly districts). It is 15% and 10% subject to a maximum of Rs. 15 lakh and Rs. 10 lakh for category 'B' & 'C' districts respectively. MRTP/FERA companies are not eligible for subsidy in Category 'C' areas. Entrepreneurs who set up nucleus plants in Category 'B' and 'C' districts/areas are legible for 20% and 15% subsidy, subject to a maximum of Rs. 20 lakh and Rs. 15 lakh respectively. Since the inception of the scheme and upto December, 1989, a total sum of Rs. 855.46 crore reimbursed to States/Union Territories excluding Delhi and Chandigarh.

Transport Subsidy Scheme

The Scheme was introduced in 1971 and is applicable to remote and inaccessible areas. It covers the entire North Eastern Region including Sikkim, Jammu & Kashmir, Himachal Pradesh, hill districts of Uttar Pradesh, Lakshadweep and Andaman & Nicobar Islands and Darjeeling District of West Bengal. Identified promotional institutions which transact business on behalf of small, village and cottage industries are also eligible for transport subsidy. Transport subsidy is paid on the transport costs of industrial raw materials which are brought into and finished goods which are taken out of these areas to identified rail heads/ports. In the North Eastern region subsidy is available at the rate of 90% and for Himachal Pradesh, hill districts of Uttar Pradesh and Darjeeling District of West Bengal, it is 75%. It is also available at the rate of 90% for movement of raw materials within the N.E. region and at the rate of 50% for movement of finished goods in this region from one state to another state. For airlifting of electronic components/products from Calcutta airport to the airport nearest to the locations of the industrial units in this region subsidy is allowed at the rate of 75% and *vice versa.*

Central Assistance for Infrastructural Development in No-Industry Districts under the Old Scheme

To assist State Governments in taking up infrastructural development in one or two identified growth centers in each no-industry district, the centre gives financial

assistance which is limited to one-third of the total cost of infrastructural development, subject to a maximum of Rs. 2 crore per district. Two types of patterns have been laid down for the purpose:

Pattern I

Rs. 2 crore as subsidy from the Central Government.
Rs. 2 crore as share of the State Government.
Rs. 2 crore as loan from IDBI on concessional terms.

Pattern II

Rs. 2 crore as subsidy from the Central Government.
Rs. 4 crore as share of the State Government.
Rs. 5 crore as loan from IDBI on concessional terms after the shares of State and Centre are spent.

For States in the N.E. region, the scheme has been further liberalised. In a total project of Rs. 4 crore, the Centre's shares would be 50%, i.e., Rs. 2 crore per district and the State Governments have the option to fund the balance of Rs. 2 crore either from their own funds or by raising a loan from IDBI. Construction of sheds, subject to a ceiling of 25% of the total cost, has been allowed in the case of this region only.

So far 51 growth centres in 44 districts of the States of Rajasthan, Orissa, Karnataka, UP, Bihar, Maharashtra, West Bengal, Tripura, Nagaland, AP and Mizoram have been approved by the Government for development of infrastructural facilities. A sum of Rs. 15.42 crore has been released for creating infrastructural facilities in the States of Rajasthan, Orissa, UP, Karnataka, MP, Maharashtra, Mizoram, Bihar and West Bengal till December 1988.

New Scheme for Growth Centres

The Government has announced on June 3, 1988, the decision to set up 100 growth centres throughout the country over the next five years or so. These growth centres, would be endowed with infrastructural facilities on par with the best available in the country, particularly in respect of power, water, telecommunication and banking. Each growth centre would be provided with funds of the order of Rs. 25-30 crore in order to create infrastructural facilities of a high order.

In the first phase, it has been decided to take up 61 growth centres, allocated to various States/Union Territories as indicated below:

	State	*No. of Growth Centres*
1.	Andhra Pradesh	4
2.	Assam	2
3.	Bihar	5
4.	Gujarat	2
5.	Haryana	2
6.	Jammu & Kashmir	2
7.	Karnataka	3
8.	Kerala	2

Governments have been requested to make suitable provisions in their States/Union Territories Plan for the development of these growth centres.

INCENTIVES AND FACILITIES TO EXPORTERS

1. Duty Drawback

For a product exported from India, the manufacturer would have paid duties as under:

(i) Import duties on raw materials and components imported and

(ii) Excise duty on the items manufactured in India.

The Customs and Central Excise Duty Drawback Rules, 1971 provide for refund of such duties to the exporter on the export being completed.

Duty drawback is allowed only in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid. There are two types of rates of drawback: *(i)* all-industry rate and *(ii)* brand rate. All-industry rate is applied to all exporters alike. The brand rate is applicable only to particular manufacturers. The brand rate is fixed on application and furnishing of information to the authorities by the exporter. Brand rate can be so fixed where the all-industry rate does not exist, or where the existing rate of drawback is less than 80% of the duty paid.

For claiming the drawback, the exporter should file with the customs the triplicate copy of the shipping bill within 60 days after the customs officer at the port has given 'Let Export Order.' On a fortnightly basis, the drawback entitled to the exporter will be remitted to his account with his bank. If the rate of drawback is yet to be fixed, the exporter can make a provisional claim. The final disbursement will be made on fixation of the rates.

To help the exporter tide over the financial difficulty faced due to the delay in disbursement of the duty drawback, the Government has formulated the Duty Drawback Scheme, 1976. Under this scheme, the exporter can get interest-free finance from his bank an export eligible goods and producing a provisional certificate as to his entitlement of drawback. This has been detailed in the Chapter on 'Financing Exports'.

2. Duty Exemption Scheme

The scheme enables the exporter to import materials without payment of customs duty. The licence issued under this scheme is known as 'Advance Licence.' The items allowed to be imported under these licences are such as are to be used in the manufacture of goods to be exported from India.

The advance licences are issued to manufacturer-exporters subject to actual user condition. Generally, the scheme is applicable only to those export products in which there is a minimum value addition of 33%. The licence will bear a suitable export obligation.

The licensing authority issuing a licence under this scheme will also simultaneously issue a connected Duty Exemption Entitlement Certificate. Exempt materials

imported against a licence under this scheme should be utilised for the manufacture of the resultant products specified in the Duty Exemption Entitlement Certificate. The licence holder should execute a bond with bank guarantee and lodge it with the licensing authority.

After exports, the Duty Exemption Entitlement Certificate duly completed by the customs will have to be surrendered to the licensing authority in fulfillment of the export obligation imposed.

No duty drawback will be allowed on the products exported/supplied under this scheme.

3. Excise Rebate

Finished goods which are subject to excise duty for home consumption are exempt from the duty when they are exported. The scheme is also applicable where exported goods contain excisable goods in their manufacture.

The exporter can avail of this facility in either of the following methods, where finished goods are excisable:

(i) Export under bond: Under this method, the exporter has to execute a bond in favour of Central Excise Authorities. The amount of the bond will be equal to the duty on the estimated maximum outstanding of goods leaving the factory without paying the duty and pending acceptance of their proof of export by excise authorities. No excise need be paid by the exporter.

(ii) Refund of duty: If the duty is already paid, after export is made, the exporter should make a claim with the Centra Excise authorities. After verification of the claim, the excise authorities will arrange for the refund of the central excise.

Where the excisable materials have been used in the manufacture, similar to the above arrangement, the exporter can avail of the facility of manufacturing under bond or he can claim refund after the duty is paid.

4. Marketing Development Assistance

The Government of India has instituted a Marketing Development Fund for providing grants-in-aid for the development of markets for Indian products abroad, for compensatory support for export commodities and for other export promotion efforts. The fund gets its resources from the allocation of General Budget.

The fund is administered by a committee consisting of the Secretaries of the Departments of Economic Affairs and Expenditure and Commerce. Various schemes (i.e., export promotion activities) falling under the grants-in-aid are processed by different sub-committees.

Assistance under MDF is available to organisations like Export Promotion Councils, Commodity Boards, India Trade Promotion Organisation, etc., and individual exporters approved by such organisations.

The extent of assistance differs depending upon the scheme. Generally it ranges between 50% and 60%. Some of the schemes eligible for assistance under the Fund are:

(a) Commodity survey/study within the country for determining export potential;

(b) Market survey abroad;

(c) Publications for issue within the country or abroad;

(d) Participation in exhibitions abroad;

(e) Setting up showrooms, warehouses, after sales service establishments;

(f) Research and Development;

(g) Consultancy services;

(h) Setting up foreign offices.

The application for assistance should be sent to the Marketing Department Assistance Committee at the Ministry of Commerce through the approved organisation like Export Promotion Council and Commodity Board.

5. Supply of Raw Materials

Units engaged in exports are given priority in the allotment of scarce raw materials such as steel. In certain cases, the raw materials are arranged to be supplied at international prices, much below the internal prices.

IPRS: The International Price Reimbursement Scheme for steel and pig iron provides for reimbursement to the exporter of the difference in international and domestic price of specified categories of iron and steel used in export of engineering goods. The reimbursement is made through the Engineering Exports Promotion Council.

6. Export Oriented Units/Export Processing Zone

Units undertaking to export their entire production of goods may be set up under the Export Oriented Units Scheme. Such units may be engaged in manufacture, production of software, horticulture, agriculture, acquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits.

Free Trade Zone or Export Processing Zone is an industrial estate, cordoned off from domestic tariff area, where trade barriers applicable to the rest of the economy do not apply and where export oriented units can operate free of import duties or quantitative restrictions and are given other advantages including tax exemptions. Seven free trade zones have been set up in India at Santa Cruz (Mumbai), Kandla, Chennai, Cochin, Noida, Falta (Calcutta), and Visakhapatnam.

Units in the free trade zone and export oriented units (outside the zone) are similarly placed with regard to conditions and benefits bestowed on them.

Facilities for Units in the Export Processing Zone

- Developed plots/ready-buildings to suit Project requirements.
- Single-paint clearance of new projects within 40-65 days.
- Automatic approvals of proposals by the Development Commissioner on certain conditions.
- No licence required for import of capital goods, raw materials, consumables, spares etc.

- Excellent green and clean environment.
- Administrative support by the Promoters to users in preparing their application for units in the zone.

Export Houses, Trading Houses and Star Trading Houses

A registered exporter is a person holding valid registration certificate issued by an Export Promotion Council, Commodity Board or other registering authority designated by Government for the purpose of export promotion.

The exporter may be registered as an *Export House* or a *Trading House* or a *Star Trading House* if the average FOB value of physical exports during the preceding three licensing years is not less than Rs. 10 crores, Rs. 50 crores and Rs. 250 crores respectively. The registration may also be granted if the FB value of exports during the preceding licensing year was not less than Rs. 15 crores (export house), Rs 75 crores (trading house) and Rs. 300 crores (star trading house).

These houses are entitled for special import licences for import of such items included in the Negative List of Imports, under a scheme notified in this behalf. They are also eligible for opening of foreign currency accounts in India and abroad, Marketing Development Assistance and to execute legal undertaking in lieu of bank guarantee to cover the export obligation.

8. Export Promotion Capital Goods Scheme

Under the EPCG scheme capital goods may be imported at a concessional rate of customs duty of 25% of CIF value with an export obligation of 3 times CIF value to be achieved within 4 years. The duty will be further reduced to 15% of CIF value where the export obligation undertaken is 4 times the CIF value within a period of 5 years.

A manufacturer-exporter for a period not less than 3 years is eligible for this scheme. Other exporters may also be considered on merits.

9. Foreign Currency Accounts for Exporters

Exporters with a net foreign earnings of Rs. 4 crore and over during the preceding year may be permitted by Reserve Bank to maintain foreign currency accounts in US dollar or sterling pound, with SBI, public sector banks and foreign banks operating in India.

Only one account shall be maintained which will have no cheque facility. No overdraft can be granted in the account. The exporter availing this facility should route all export documents through the designated branch of the bank. Credit to the foreign currency account will be approved method of liquidation of postshipment advances. RBI will fix ceiling on balance to be maintained in the account. Excess over that shall be converted into rupees promptly.

If exports arrange foreign currency overdraft/revolving lines of credit from banks abroad for financing their imports RBI may consider their keeping foreign currency accounts abroad. Mirror account shall be maintained by a bank in India. They cannot avail preshipment/postshipment finance except to the extent of rupee expenditure.

- Dutyfree import of capital goods and equipments from preferred sources.
- Second-hand capital goods allowed to be imported.
- Sourcing of capital goods from domestic manufacturing/leasing companies allowed.
- Exemption from Central Excise Duty and other levies on products manufactured within the zone.
- Complete exemption from income Tax on profits for a period of five years.
- Foreign equity participation upto 100% permissible.
- Remittance of profits and dividends by foreign investors/NRIs allowed fully after payment of taxes.
- Upto 25% production and 5% rejects can be sold in Domestic Market on payment of appropriate duties.
- Re-export of unused imported goods allowed, subject to certain conditions.
- Imported machinery becoming obsolete allowed to be disposed of, subject to payment of custom duty on depreciated value.
- Sub-contracting part of Job Work to units in the Domestic Market may be allowed.
- Concessional finance available for investment and working capital.
- Assured power supply, preferential power connection.
- Supplies from Domestic Market to the units in the Zone, treated as Deemed Export.
- Export finance Banks or special concessional rate of interest.
- Green card to units for getting facilities like telephone, telex, cement, steel, etc. on priority basis.
- Containers loaded by units in SEPZ not to be inspected or other points, so long the seals are intact.
- Private bonded warehouses permissible for stack and sale of duty-free materials, components, etc. to SEPZ units.
- And many more ...

Other Facilities/Provision being made available in SEPZ

- Security as per norms laid down by the customs for SEPZ.
- Paved internal roads, street lights, water supply, etc.
- Container space on rental basis.
- Customs clearance centre within the Diamond Industrial Park.
- Railway Station within 1 Km. Surat Airport, Magdalla Sea Port & Highway within 15 Km.
- Office premises available in the International Trade Centre of the park.
- Health centre, school, recreation club, theatre coming soon.
- Hotel by an international Chain of Hotel soon to come up.

10. Other Benefits

Some of the other benefits available to exporters can now be listed.

(a) Exemption from sales tax.

(b) Exemption from income tax.

(c) Training facilities in India and abroad.

(d) Availability of concessional finance from banks and Exim Bank.

(e) Credit insurance cover from ECGC.

(f) Preshipment inspection facilities.

(g) Foreign exchange for business visits abroad and for participation in trade fairs and exhibitions abroad.

(h) Special import licences for items in negative list.

Thus, it may be seen that no efforts have been spared in providing all possible facilities and incentives to exports.

State Incentives

All states in India recognised that small and medium industries continue to play a vital role in their socio-economic development. There is a major interest in state developing programmes to stimulate and encourage indusrial development in their state. With a view to attract entrepreneurs to set up industries/business in their states, states offer varied incentives, subsidies and assistance. Major incentives and concessions offered by the selected states is presented here.

Major Incentives and Concessions to SSI Units in selected states

Gujarat	*Category I Areas*	*Category II Areas*
1. Capital Investment Subsidy		
Tiny Industries	35% of eligible fixed capital investment	25% of eligible fixed capital investment
Small Scale Industries	30% of eligible fixed capital investment with a maximum of Rs. 30 lakh	20% of eligible fixed capital investment with a maximum of Rs. 20 lakh
2. Sales Tax Incentives		
Tiny Industries	100% of eligible fixed capital investment for 9 years	100% of eligible fixed capital investment for 6 years
Small Scale Industries		
3. Additional Sales Tax Benefits	Available to employment oriented units	
4. Sales Tax Benefits for 100% EOUs	100% of fixed capital investment for 10 years	75% of fixed capital investment for 8 years
5. Other Incentives: to 100% EOUs	Priority allotment of land and raw materials.	

Maharashtra

1. Sales Tax incentive to new SSI units as Exemption/Deferral/Interest free unsecured loan	B. 100% of Fixed Capital Investment for 6 years C 110% of Fixed Capital Investment for 8 years D 120% of Fixed Capital Investment for 10 years D+ 130% of Fixed Capital Investment for 12 years
2. Special capital incentive for SSI units only	B 15% of Fixed Capital Investment with a maximum of Rs. 7 lakh C 20% of Fixed Capital Investment with a maximum of Rs. 10 lakh D 25% of Fixed Capital Investment with a maximum of Rs. 15 lakh D+ 30% of Fixed Capital Investment with a maximum of Rs. 20 lakh
3. Refund of Octroi/Entry Tax in the form of a grant up to 100% of the admissible Fixed Capital Investment to New SSI units	B for a period of 5 years C for a period of 7 years D for a period of 9 years D+ for a period of 12 years
4. *(a)* Refund of electricity duty to new SSI units	D Grant for a period of 7 years D+ Grant for a period of 10 years
(b) Refund of electricity duty to new units in Electronic Hardware Technology Parks (EHTPs) and to 100% EOUs	(A) Grant for a (B) period of (C) 5 years (D) Grant for a period of (D+) 7 years

Note: Talukas in the State have been classified as A, B, C, D & D+ in the order of most to least developed areas.

Kerala

1. Investment subsidy for thrust industries (electronics, rubber processing, food processing, light engineering, drugs & pharmaceuticals, leather, clay & silica based industries and garment manufacturing industries).	15% of Fixed Capital Investment subject to a maximum of Rs. 20 lakh. Also available to existing units undertaking expansion, diversification and modernisation.
2. *(a)* Sales Tax exemption/deferment to all new industrial units and existing units undertaking expansion diversification & modernisation	Exemption for 7 years/deferment for 10 years upto a ceiling of 100% of fixed Capital Investment
(b) Additional option of SSIs only	To deposit the Sales Tax with the Government in the 'Tax for Growth Fund'
3. Concessions to ensure a market for products manufactured by SSI units in the State.	A price preference of 15% for all departmental purchases, purchases made by State public sector enterprises and statutory corporations
4. Exemption from electricity duty and enhancement in power tariff.	To all new units for the first five years

Tamil Nadu

1. State Capital Subsidy in most backward taluks	20% of fixed assets with a ceiling of Rs. 20 lakh
Other specified areas	15% of fixed assets with a ceiling of Rs. 15 lakh
2. Special Subsidy for select category of industry	
(a) To encourage priority and sunrise industries	A sum not exceeding Rs. 15 lakh based on 10% of cost of fixed assets
(b) For leader and electronic units	Rs 20 lakh and Rs 35 lakh respectively
3. Concessions in power tariff for three years for all units (except located in metropolitan areas)	1st year 40% of energy charges 2nd year 30% 3rd year 20%
4. Generator subsidy for certain industries	15% of the cost of generator subject to a maximum of Rs. 5 lakh
5. Liberalised Sales Tax waiver/deferral scheme up to a ceiling of total investment in fixed assets	
(a) Full wavier for five years	New and existing units located in most backward taluks
(b) Deferral for 9 years	New units located in 82 backward taluks and in government developed industrial areas
(c) Deferral for 5 years up to a maximum of 60%	New industries in other areas
6. Subsidies and concessions to women entrepreneurs	
(a) For units where women constitute more than 30% of the workforce	5% additional capital subsidy up to a maximum of Rs. 5 lakh
(b) Reservation in the allotment of industrial sheds and developed plots	30% reservation in all new Industrial Estates and Industrial Complexes developed by Government organisations.

West Bengal

1. One time subsidy on Investment in Plant & Machinery	
(a) Valued up to Rs. 2 lakh	40% for industries in B, C and D category and for specified industries in A category districts
(b) Valued above Rs. 2 lakh	15% for industries in A & B category districts, 20% in C and 30% in D category districts
2. One time subsidy on cost of drawing power line and installation of transformer	20% in B, C & D category districts only

3. One time subsidy on cost of purchase & installation of Gen. Sets	25% irrespective of the location provided such cost is not borne by the Power Supply Agency
4. Waiver of Electricity duty w.e.f. the date of commencement of activities	100% for a period of 5 years in B, C & D category districts only
5. Exemption from payment of Octroi/Entry Tax w.e.f. the date of commencement of activities	100% for a period of 3 years in B, C & D category districts only
6. Exemption of Sales Tax on purchase of Raw Material	
(a) for new SSI units	100% for 5 years for A, B & C category and 9 years for D category districts
(b) for expansion/ modernisation	100% for 4 years in A (specific industries only) and B category districts and 6 & 8 years for C & D category districts respectively

Notes:

(i) The incentives are available for new SSI units as well as for units undertaking expansion/modernisation.

(ii) Districts in the State have been classified as A, B, C & D in the order of most to least developed areas.

Conclusion

Besides incentives and subsidies given by the Centre, the State Governments too offer fiscal and monetary incentives and subsidies help entrepreneurs setting up their industries in the States to overcome certain disadvantages. The entrepreneurs are attracted to some State for their package of incentives and subsidies. The foremost incentive is a stable government with excellent law and order situation followed by availability of disciplined, dedicated and skilled labour force. However, states do attract industries by giving incentives in regard to sales tax, octroi, and subsidised loan. These incentives have helped in large measure in attracting entrepreneurs to set up industries — and accelerate the process of industrialisation. State incentives and subsidies have helped entrepreneurs to locate their projects and industrialise the State on a firm foundation. The innovations of these incentives and subsidies indicate their adaptivity and the vital role they have been playing in the process of industrial development, spanning rural and urban, backward and non-backward and organised and unorganised, large, medium and small sectors of the economy — each sector needing different approaches, strategies, skills and techniques.

ANNEXURE I

Facilities for and Incentives to Small-Scale Industries

Land	States develop industrial areas with infrastructure facilities and allot, sell or lease on a no-profit-no-loss basis with 10 per cent to 12 per cent down payment and the balance in instalments at low rates of interest.
Investment Subsidy	Investment subsidy, ranging between 10 per cent to 15 per cent, subject to a ceiling is granted to industries to be set in backward and tribal areas.
Interest Subsidy	Interest subsidy at different rates is granted to industrial units set up by educated self-employed, technocrats, engineers, craftsmen and artisans, subject to the capital investment not exceeding the limit set by the different States.
Power Tariff	A subsidy on electricity tariff for a period of 3 to 5 years is granted according to use and on certain terms and conditions. This is made available for certain types of units whose power constitutes a major item of production cost. The type of product produced is also taken into consideration while granting this subsidy.
Financial Assistance	States grant financial assistance by way of interest-free loans, sales-tax loans and loans from State Financial Corporations. The amount of assistance varies according to the type of industry and is given against immovable property and personal security. Assistance to artisans and craftsmen ranges between Rs. 3,000, Rs. 5,000 and for others between Rs. 10,000 and Rs. 25,000 at an interest ranging between 7.5 per cent and 13.5 per cent. The repayment period is between 5 and 10 years or more. The grant of financial assistance depends on the type of industry, products produced and on merit.
Technical Assistance	The State's Directorate of Industries and the Industries Department provide technical guidance for the setting up and erection of machinery and also for expansion. All possible technical assistance is given to new entrepreneurs.
Feasibility Study	For industries having definite prospects, States Governments, through their own agencies conduct feasibility studies free of cost up to Rs. 1000 or grant 50 per cent to 75 per cent subsidy for the preparation of feasibility reports. This cost is converted into the share capital of the Government.
Price Preference	State Government and Local Boards give a price preference of 15 per cent to 20 per cent over the prices offered for the products of large and medium industries in all government purchases and on products for a certain period provided the quality is on par with that of similar products of bigger units.
Others	Octroi is exempted on capital equipment and raw materials for different periods for industries. Property tax is exempted for new industries for a certain period. Subsidy on transport cost and supply of water on a no-profit-no-loss basis. Housing schemes get 50 per cent loan and 25 per cent subsidy. Royalties on raw materials to Government considered on merit on an economic basis. Assistance to educated unemployed, engineers, technically qualified persons, etc., to set up own units.

CHAPTER 45

EXPLORING EXPORT POSSIBILITIES

Introduction

In the achievement of the strategic objectives of a self-reliant and dynamic economy, the Government considers a substantial expansion in export earnings to be of great importance. Exports enable the country to pay for critical imports — machinery, metals, petroleum, fertilisers and new technological inputs — and step up the pace of economic development, put the resources of those goods in which India has a long-term comparative advantage. This apart, exports are an important instrument for the creation of employment. This apart, exports are an important instrument for the creation of employment opportunities in small-scale industries, cottage industries, and in the agricultural sector as well as in the medium and large industrial sector.

Although the quickening pace of industrialisation in the nineteenth century had opened up vast markets for the commodities produced by developing countries, the volume of their exports began to decline with the changes in the economic climate in the middle of the twentieth century.

In order to achieve national objectives, the Government has adopted a new and scientific approach to its export policy, which has been an integral part of the country's overall strategy for economic development. The new export policy aims at consciously and systematically developing the export of items in which India has a comparative advantage and which promise long-term growth prospects. More practically, stress has been laid on greater participation by the small-scale sector and the labour-intensive sector in the export trade with a view to providing wider employment opportunities to the people.

Export Promotion of products manufactured in the Small-scale sector has been given considerable importance, and efforts are being made to increase its share in total exports.

Components of Exports

The main components of exports of products manufactured in the small-scale sector are:

Khadi and Handloom
Handicrafts including Gem and Jewellery
Processed food
Garments (all types)
Engineering goods
Projects exports
Computers
Consultancy exports, Ancillary exports and so on.

Exports from SSI Sector

The value of exports from the small-scale industries (SSI) has been rising from year to year. The value of SSI exports increased from Rs. 1,643 crore in 1980-81 to Rs. 39,250 crore in 1996-97. The share of exports from the small-scale sector as percentage of India's total exports also rose from 24.5 per cent in 1980-81 to 33.4 per cent in 1996-97. This increase in SSI exports is mainly due to the promotional measures undertaken by the government as well as the entrepreneurial push.

If exports of powerlooms, handicrafts, handlooms and khadi are included, the share of SSI sector is likely to be nearly half of the total. Total exports of small sector increased from Rs. 19,338 crore in 1990-91 to Rs. 71,570 cores in 1996-97. Even in the global market, the SSI units have been successful in enlarging their share every year. This goes to prove that the SSI sector is quite significant in the ever-changing economic scenario. Table 45.1 brings out the growth of SSI exports during the 80s and 90s.

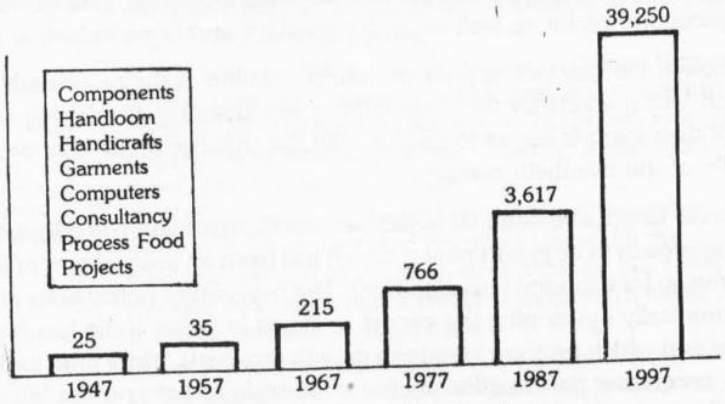


Fig. 45.1 SSI Exports (Rs. Crore)

Export Prospects

The small-scale sector in India now produces a wide range of products, from simple consumer goods to such sophisticated products as scientific and precision

instruments, hearing aids, electronic components, tape recorders, television sets, etc. With a lower level of labour costs than in Western countries, India enjoys an advantage in exporting both traditional and non-traditional labour-intensive products. This apart, there is a favourable climate for SSI exports in foreign markets because frequent wage hikes and pollution hazards in industrialised countries tend to favour imports from developing countries, particularly the import of SSI products.

The Government is striving to achieve an annual export growth of at least 20% in dollar terms in the next five years so as to reach the goal of $ 75 billion (Rs. 2,62,500 crore) of exports by 2000 A.D. It is our endeavour to achieve an increased outward orientation of the economy with an increasing share of imports and exports in GDP and to improve India's share in world trade by the year 2001.

Table 45.1
SSI Exports

(Rs. crores)

Year	*Total Exports*	*SSI Exports*	*3 as % of 2*
1	*2*	*3*	*4*
1980-81	6,711	1,643	24.5
1981-82	7,806	2,071	26.5
1982-83	8,803	2,045	23.2
1983-84	9,771	2,164	22.1
1984-85	11,744	2,553	21.7
1985-86	10,895	2,773	25.5
1986-87	12,452	3,631	29.2
1987-88	15,674	4,535	28.9
1988-89	20,232	5,681	28.1
1989-90	27,658	7,990	28.9
1990-91	32,553	9,664	29.7
1991-92	44,042	13,983	31.7
1992-93	53,350	17,785	33.3
1993-94	69,546	25,307	36.4
1994-95	82,674	29,068	35.2
1995-96	1,06,353	36,470	34.3
1996-97	1,17,525	39,250	33.4

In order to promote exports, the government has drawn up a number of schemes for promotion of exports from the SSI sector, which include organisation of specialised training programmes on packaging for exports in collaboration with the Indian Institute of Packaging, Mumbai, assistance to SSI units for participation in the international and internal exhibitions, dissemination of export information at the doorstep of SSI units through Technological Information Promotion Systems (TIPS) and incentives for quality production in SSI sectors.

In order to strengthen the export production base, manufacturers of items reserved for SSI sectors are permitted to increase their capacity by way of investment in plant and equipment beyond Rs. 75 lakh provided they undertake a minimum export of 75 per cent of their annual production.

The new revised export and import policy extends equal opportunity to small and medium exporters. Bulk of the country's exports, in terms of value, are taking place through export/trading/star trading/super star trading houses. Such status is granted on the basis of prescribed export performance level and all exporters, including small and medium exporters, are extended equal treatment.

If the status is claimed in terms of FOB value of exports, double weightage is given to export of products manufactured by Small Scale Industry (SSI), handloom and handicrafts including sports goods, hand-knitted carpets and silk products.

If the status is claimed in terms of Net Foreign Exchange (NFE) earned, double weightage is given to the export products manufactured by SSI and triple weightage is given to the NFE earned on the exports of hand-knitted carpets and silk products manufactured by the handloom and handicrafts sectors.

Such status holders are extended equal treatment for getting transferable special import licence valid for the import of specified items of negative list of import. Under the duty exemption scheme, SSI units have been extended the facility to give the bank guarantee wherever applicable, at 50 per cent of the normal requirement.

Table 45.2

Export Thrust Areas

City	*State*	*Commodity*
Tirupur	Tamil Nadu	Knitwear & hosiery
Moradabad	Uttar Pradesh	Brassware
Ludhiana	Punjab	Heavy machinery, Hosiery
Surat	Gujarat	Handloom
Alleppey	Kerala	Coir
Jallandhar	Punjab	Sports goods
Ranipet/Ambur	Tamil Nadu	Leather
Nagpur	Maharashtra	Handtools
Vishakapatnam	Andhra Pradesh	Marine products
Meerut	Uttar Pradesh	Sport goods
Aligarh	Uttar Pradesh	Brass locks
Agra	Uttar Pradesh	Leather footwear
Khurja	Uttar Pradesh	Pottery
Kanchipuram	Tamil Nadu	Silk
Sivakasi	Tamil Nadu	Safety matches
Salem	Tamil Nadu	Handtools
Ambala	Haryana	Scientific instruments
Jamnagar	Gujarat	Brass parts
Rajkot	Gujarat	Engine pumps
Vapi-Ankleshwar	Gujarat	Chemicals
Batala	Punjab	Machine tools
Bhagalpur	Bihar	Weaving

LUDHIANA
Export thrust: Machine tools
No. of units: NA
Export earnings: Rs. 75 crore
Infrastructure problems : Lack of roads and waste disposal systems; power shortage; inadequate communication and transport infrastructure.
Government initiative: None
Exporters' choice: Want government to help.

SURAT
Export thrust: Diamonds
No. of units: NA
Export earnings: Rs. 4,000 crore (approx.)
Infrastructure problems: No direct international access; absence of good hotels and recreational facilities; poor roads; power shortage; poor sewage disposal systems.
Government initiative: None
Exporters' choice: Need government help, but some are relocating to worldclass facilities set up by themselves outside the city.

MORADABAD
Export thrust: Brassware
No. of units: 900
Export earnings: Rs. 800 crore
Infrastructure problems: Power shortage; no direct access to Mumbai port, absence of factory stuffing; inadequate telecom, transportation, education and health facilities.
Government initiative: Plans for Rs. 2,500 crore infrastructure upgradation. Blueprint not yet ready.
Exporters' choice: Major private sector investments not possible, exporters ready for limited involvement.

TIRUPUR
Export thrust: Knitwear
No. of units: 3,500
Export earnings: Rs. 2,400 crore
Infrastructure problems: Lack of water roads and sewage facilities; power shortage; educational facilities almost non-existent.
Government initiative: A Rs. 2,500 crore infrastructure plan identified.
Exporter's choice: Willing to share the infrastructure cost. Rs. 1,317 crore upgradation scheme already underway.

VISHAKHAPATAM
Export thrust: Marine products
No. of units: Only 60 out of 160 mechanised trawlers go out on voyages.
Export earnings: Rs. 638.39 crore
Infrastructure problems: Over exploitation; lack of storage facilities; exorbitant freight rates and poor container facilities.
Government initiative: None
Exporter's choice: Want government to help.

International Sub-contracting

Due to enormous costs, firms in the western countries prefer to sub-contract the manufacture of spares, components and parts of a machine to developing countries before they are fitted into the final product. As a result, motor car parts are manufactured in many countries before they are assembled in one country. Semi-conductors, tubes and electronic components are manufactured in developing countries for the parent firm in the developed country. Many textile firms in Europe airlift cloth to Morocco, Malaysia and Indonesia, where it is converted into garments, bedding, rugs, towels and upholstery fabrics. Watch-makers in Europe fly jewels to Mauritius for precision drilling. Also, sports materials and kits for games like basket-ball and cricket are manufactured in different countries. With the development of technical skills in India

in recent years, the small-scale sector is in a position to undertake the manufacture of all these items. There is a vast scope for expanding the export of several non-traditional products. The role of the small-scale in the export field can hardly be over-emphasised.

Units in the small and medium-scale industries are playing an important role in raising the level of industrial production in the country in a variety of fields, especially engineering, chemical, sports goods, textiles, etc. Similarly, the export of the products of the medium and small-scale sectors has increased substantially and new account for about 1/8th of the country's total exports. The Government continues to encourage export production in the small and medium sectors by facilitating the availability of the necessary inputs, finance, market intelligence, etc. The importance of the development and expansion and establishment of institutional framework and the infrastructural facilities. Public sector organisation play a special role in providing the necessary guidance and inputs to the small and medium exporters.

Export Promotion Measures

Exports continue to remain the main thrust area in economic policies of the Government. To ensure a secure base for India's export, Government has initiated various measures that would *(i)* strengthen export production, *(ii)* encourage capacity expansion in export-oriented industries, *(iii)* augment bargaining power of our exporting community, *(iv)* encourage entry of our products in the new markets of both developed

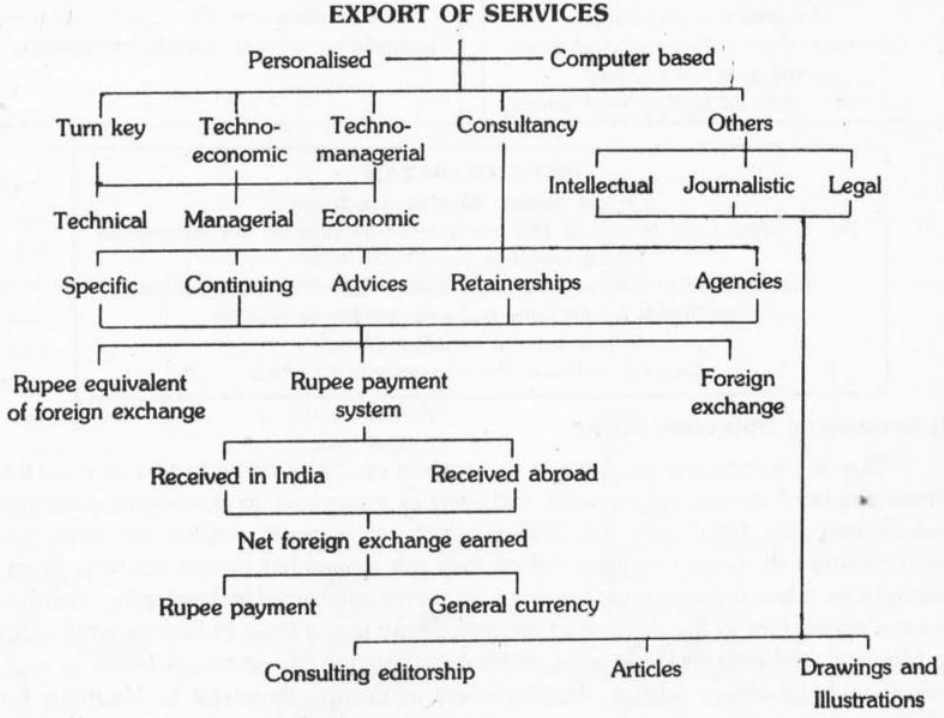


Fig. 45.2

and developing countries, and *(v)* improve our inherent competitive strength through imparting greater relative price stability of Indian economy. One of the most important features of Government's measures has been to provide a stable base, uncertainties are removed and exporters are encouraged to take a long-term view about international marketing. Another noteworthy aspect of these measures has been to make exports promotion truly a national effort by involving various agencies of Central Government, public sector organisation, State Governments, financial institutions and other agencies engaged in different types of economic activities.

The important export promotion measures undertaken by the Government from time to time are *(i)* Deemed exports, *(ii)* Export Promotion of capital goods scheme, *(iii)* Duty exemption scheme, *(iv)* Advance licence, *(v)* Pass book scheme, *(vi)* Advance intermediate licence, *(vii)* Secial imprest licence, *(viii)* Advance release orders, *(ix)* Export houses, Trading houses and Star trading houses, *(x)* Export-Import policy aligned on ITC (HS) Classification, *(xi)* Trade finance, *(xii)* Infrastructure, *(xiii)* Air transport, *(xiv)* Air cargo complexes, *(xv)* Cargo projections/Evacuation, *(xvi)* Elecronics data interchange, *(xvii)* Multimodel transport, *(xviii)* Inland container depots/ container freight stations, *(xix)* Export facilitation, *(xx)* Board of trade, *(xxi)* States cell, *(xxii)* Appellate Committee, *(xxiii)* Export Processing zones, *(xxiv)* Export Promotion industrial park scheme, *(xxv)* Market development assistance, *(xxvi)* Grants-in-Aid to export promotion, *(xxvii)* Export Credit deveopment, and *(xxviii)* 100% Export-oriented units.

Quality Control

Closely allied to the programme of modernisation is the question of maintaining the quality of the product. Overseas buyers do not differentiate between goods manufactured by a small-scale unit and a large-scale unit. All they care about is the quality of the product. The quality of the products delivered to customers should conform to the sample design originally shown to them. The products, moreover, should be fit for use at the time specified therein. Recognising that individual entrepreneurs are not in a position to establish laboratories to test their products, the Small Industries Development Organisation has set up four Regional Testing Centres at New Delhi, Calcutta, Mumbai and Chennai to provide general as well as product-oriented testing facilities for mechanical, metallurgical, chemical and electrical products. In the course of time, these Regional Testing Centres plan to open sub-centres in other parts of the country to cover small units in the remotest parts.

Marketing

Attempts have been made to obtain raw materials for small entrepreneurs, help them to update their products and ensure their quality. But not enough has been done to provide marketing facilities for them, particularly for the export of their products. The problems which small entrepreneurs face when they market their products within the country become acute, varied and complex when they enter international markets. These problems range from lack of export consciousness to the absence of infrastructural facilities in marketing abroad. Here, steps have to be taken, on an urgent basis, to assist the small entrepreneurs.

Export Consortia

One way of overcoming the problems of marketing is through increasing participation of small entrepreneurs. They can adopt a group approach by forming themselves into export houses or export groups to maximise the opportunities available in the marketing of their products. Their combined efforts may lead to, among other things, better packaging methods and overseas publicity campaigns. It is essentially with a view to encouraging small-scale industrialists to join together for this purpose that the Union Government has announced liberal concession for small-scale export consortia.

Infrastructural Set-up

The government has established adequate and appropriate institutions, mainly to assist export promotion in particular. They are:

1. 20 Export Promotion Councils, for the promotion of specific commodities or groups;
2. Commodity Boards for coffee, tea, cardamom, rubber, coir, silk, handicrafts and handloom;
3. The Board of Trade; Advisory Council of Trade; Zonal Advisory Committees;
4. Chambers of Commerce and Industry and Associations of Trade and Industry;
5. The Indian Institute of Packaging;
6. The Federation of Indian Export Organisations (FIEO);
7. Export Processing Zone;
8. Indian Institute of Foreign Trade;
9. Export Inspection Council;
10. Indian Council of Arbitration;
11. State Trading Corporation of India;
12. MMTC Limited;
13. Export Houses and Trading Houses;
14. Free Trade Zones;
15. 100% Export-oriented Units; and
16. The India Trade Promotion Organisation;
17. Marine Products Export Development Authority, Cochin;
18. Agricultural and Processed Food Products Export Development Authority, New Delhi.
19. Export Credit Guarantee Corporation of India Limited;
20. Projects and Equipment Corporation of India Ltd.;
21. Spices Trading Corporation of India Ltd.;
22. Tea Trading Corporation of India Ltd.;
23. Export-Import Bank of India.

Problems

The small-scale sector is beset with a number of problems. Basically, the three aspects that affect the SSI exports relate to:

(a) Availability of raw materials;

(b) Quality control; and

(c) Marketing facilities.

A major difficulty facing the small-scale industry is the procurement of raw materials, both imported and indigenous. Big industries have resources to maintain special staff for liaison with the various Government agencies and are able to use their influence to expedite their applications and obtain raw materials on priority. In this respect, though small-scale industries get some Government help, the small-medium scale industries with no special staff to liaise with the Government agencies are left with inadequate supplies and often they have to resort to open market purchases at very high prices.

Another major problem facing the small-scale sector, at least 40 per cent of them connected with company organisation. Only few companies have detailed sales plans, and only 50 per cent of the units allocate and control department costs. Application of modern methods of management would enable small-scale industries to lower production costs, standardise and improve the quality of their products and achieve sustained growth, thus consequently making the products more competitive overseas.

The procedures for claiming export assistance have been considerably streamlined. However, the dynamism and sense of dedication should percolate to the working levels of the ITC office and a sustained dialogue maintained with the industry not excluding the smaller units — to evaluate and assess what has been done and what remains to be done.

Prospects

With the functioning of District Industries Centre and by reserving 827 items for production in the small-scale sector, there will be greater industrial production in the small-scale sector as a result of which there will be more avenues of employment. It is further necessary to find more outlets for this increased production as there are limitations to absorb all the production in India.

In harnessing the growing international market, the small-scale units should maintain the high quality of the goods and channelise their products through the Export Promotional Agencies. Exports of Small-Scale Industries are going to play a crucial role in the export performance during the Ninth Five Year Plan.

Export Management

In the seventies, the small-scale sector emerged as a principal contributor to the country's exports. The pattern and direction of trade have been diversified, and an increasing number of small-scale units have switched over to non-traditional exports and export-oriented industries to cater to the specific needs of the export market. These industries have played a very significant role in pushing up exports through large-scale undertakings. These developments have called for the organisations of exports on

sound lines. Export management in the small sector calls for professionalisation and sound organisation. The basic principles of export management are:

(i) Planning;
(ii) Organisation;
(iii) Building a team;
(iv) Executive action; and
(v) Management control.

Planning

Planning for export, even though extremely difficult, is the most important function. It involves forecasting, programming, procedures and budgeting. While forecasting leads to objectives and potential, programming spells out the ways of accomplishing them. A properly prepared programme becomes an administrative tool of much significance. Procedures help in the performance of work in the uniform manner. Budgeting in export marketing is a vital element in planning.

Organisation

A sound export organisation determines the economy and effectiveness with which the export business is managed and operated. The three basic activities of an export organisation are:

(a) Designing organisation components, that is, identifying the work that has to be performed to reach the objectives and grouping this work in well-balanced jobs, territories, divisions and other operational segments.

(b) Defining and delegating responsibility and authority; and

(c) Establishing relationships.

The organisation chart indicates all the important functions of an export activity. Since many a small unit may not be in a position to have a specialised organisation of this type, efforts should be made by a group of small-scale industries to form a consortium to promote their exports on a large-scale.

Organisation Chart for a Small-Scale Unit



Fig. 46.3

Conclusion

The exports of small-scale sector have been continuously expanding. As such, the share of the small-scale sector in the total exports showed a perceptible increase over the years. However, the increase was generally in the larger among the small-scale industries. The share of exports of the smaller among the small-scale industries — with less than Rs. 2 lakh fixed capital — declined sharply. Those industries which showed improvement in exports had relatively lesser dependence on exports in their total output. Hence, the export performance of these industries was only a subsidiary function, while catering to the domestic market constituted their major activity. At the same time, the smaller among the small-scale industries had a high degree of dependence on export.

Small-scale units are flexible in product adaptation because of their small size. That is why the items which are frequently modified according to the customer's demand can be produced by them and should be undertaken for export production.

The export market is a highly competitive market. It would, therefore, not be worthwhile to try to export the products of all the SSI units. It is desirable to identify some and to select a few export-worthy SSI units. This should be done on a continuing basis. Once the products and units have been identified every effort should be made to develop the exports of the producers of these units.

The small-scale sector, which is rightly called the unorganised sector, requires organisational assistance, particularly in the marketing of its products abroad. Some of the State Export Corporations have rendered useful services in an organised way to market the products of the SSI units situated in their respective States. But most of the States either do not have any State Export Corporation or, when they have one, the desired services are not available. Merchant exporters and some of the export houses have no doubt played an important role in exporting the products of small-scale units; but this is insignificant in view of the large export potential of this sector. Small-scale units producing identical products should form a consortium of their own to market their products. But no satisfactory progress has so far been achieved in this system is developed in marketing the exportable products of the SSI units abroad in a bigger way, the small-scale units should organise and mount their own export marketing effort. For this purpose, arrangements should be made by public institutions to render package assistance in respect of:

(i) Locating markets and buyers abroad;

(ii) Getting price indications and samples;

(iii) Arranging exhibitions of their products abroad; and

(iv) Advising identified export-worthy SSI units on the trade practices and formalities obtaining in the buying countries.

The study also brings into focus that export performance of industries with high capital intensity was remarkable during the period, while the share of labour intensive industries in the total export showed a declining tendency throughout the period. The share of highly labour intensive industries in the total exports also showed a sharp fall. Though it may be admitted that the export performance of capital intensive industries

has enlarged the scope for employment generation both directly and indirectly through employment linkages, additional employment creation would have been much higher had the labour intensive industries showed better export performance.

The expansion of exports of semi-processed and manufactured goods during the period under study had benefited mostly the large-scale capital intensive industries and larger among the small-scale industries. It is true that small-scale and labour intensive industries could expand their exports to an extent and thereby contribute towards the avowed objective of reduction in inequality of wealth and economic power, but the inequality would have been reduced by a larger extent, had these industries strived to secure a larger share in the total exports of semi-processed and manufactured goods.

Small-scale industries are not in a position to achieve the necessary thrust in marketing their products in competitive international markets. Since the small units' resources are quite meagre, they cannot go in for an aggressive drive in marketing their products in competition with large-scale and/or multinational units. The small-scale units do not only require professional managerial support, they also need the active support of financial institutions. In particular, the commercial banks and the newly constituted Export-Import Bank of India can play a very crucial role in promoting exports of the small-scale units.

Small-scale industries are poised for a leap under the Ninth Five Year Plan (1997-2001). The SSI sector offers immense scope. It is, therefore, necessary for the small-scale units to increasingly exploit export demand for their products as a supplementary demand outlet. Given the inherent potential of India, Government's new thrust of export promotion, stability of policies, simplified procedures and the national commitment to rapid economic growth, the Government are confident that it shall be possible for India to overcome the present situation and to attain a sustained growth in exports to meet not only import requirements but also needs for development. In harnessing the growing international market, the small-scale units should maintain the high quality of the goods and channelise their products through the Export Promotional Agencies. Exports of Small-Scale Industries are going to play a crucial role in the export performance.

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UNIT 8

PROBLEMS

The small- and medium-scale industrial enterprises are not, however, without their problems which are many and varied in nature, depending partly on the level of economic and social development reached by the countries.

A few major problems and issues are given below:

(a) Surveys of the material and human resources of the countries to identify the regions or areas for the development of small-sale and medium-scale industrial enterprises;

(b) Identification of industrial projects for development;

(c) Project preparation and evaluation;

(d) Financial or credit support and investment promotion;

(e) Consultancy and counselling services;

(f) Technology development and applications such as, the designing of prototype machines for products identified according to available resources and requirements;

(g) Development of infrastructure of various kinds in the appropriate areas;

(h) Entrepreneurship development;

(i) Industrial training and skill formation;

(j) Linkages between large industries and small industries and the creation of sub-contracting facilities at the national, regional and international levels;

(k) Quality control and testing facilities;

(l) Market promotion both domestic and export;

(m) Scientific and industrial research;

(o) Information collection and dissemination on technology, markets etc.;

(p) Identification of and assistance to enterprises which are experiencing infrastructure difficulties;

(q) Management and restructuring of small-scale and/or medium-scale enterprises through various schemes;

(r) Increase productivity through modernization;

(s) Incentive measures both by industry and by area;

(t) Local initiative;

(u) Creation of institutions and changes in prevailing institutional arrangements;

(v) Regional and international technical and financial assistance;

(w) Co-operation among the developing countries.

CHAPTER 46

PROBLEMS OF ENTREPRENEURSHIP

Introduction

The problems follow the entrepreneur like a shadow. If he overcomes a problem a few more crop up. The entrepreneur faces problems in the beginning, i.e., starting problems. He is confronted with problems when the enterprise is alive and kicking. If it is sick, another set of problems.

External Vs Internal

We may divide the problems of industries into two groups — *external and internal.* As is obvious, external problems are those which result from factors beyond the control of the entrepreneur, the availability of power and other infrastructure facilities required for the smooth running of small-scale industries (SSI) while internal problems are those which are not influenced by external forces. The internal problems affecting the industries relate to organisation, structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management, etc. However, it is not our intention here to suggest that the two kinds of problems are mutually exclusive — they are co-related.

The problems of industries, whether in the small-scale sector or in the organised sector, are almost identical. However, the organised industry is financially very strong and its resources are large; it can therefore face its problems more effectively. Because of its weak financial structure, the resources of the small-sector are limited while the large sector can employ trained and experienced managers, the small industry, the proprietor or the partners, or if the unit is a company, its director or directors have to take care of all the problems. The large sector can influence its raw material suppliers, its customers, and at times even the Government is framing its policies, but the small entrepreneur is helpless in this respect. He, therefore, has to look after the entire spectrum of problems despite the great limitations under which he functions.

Table 46.1
Problems of Enterprises

Internal	*External*
(i) Choice of an idea	*(i)* Infrastructural
(ii) Feeble structure	*(a)* Location
(iii) Faulty planning	*(b)* Power
(iv) Poor Project Implementation	*(c)* Water
(v) Poor Management	*(d)* Post office etc.
(vi) Poor Production	*(e)* Communication
(vii) Poor Quality	*(ii)* Financial
(viii) Marketing	*(a)* Capital
(ix) Financial Crunch	*(b)* Working capital
(x) Labour problems	*(c)* Long-term funds
(xi) Capacity utilisation	*(d)* Recovery
(xii) Lack of vertical and horizontal integration	*(iii)* Marketing
(xiii) Inadequate training in skills	*(iv)* Taxation
(xiv) Poor and loose organisation	*(v)* Raw material
(xv) Lack of strategies	*(vi)* Industrial and Financial Regulations
(xvi) Lack of vision	*(vii)* Inspections
(xvii) Inadequate connections	*(viii)* Technology
(xviii) Lack of motivation	*(ix)* Government. policy
	(x) Administrative hurdles
	(xi) Rampant corruption
	(xii) Lack of direction
	(xiii) Competitive & volatile environment.

Teething Troubles

From the moment a small industrialist conceives the idea to start his own unit, he has to work against heavy odds. The first step, viz., the preparation of a project report, calls for the collection of data on the marketability of the product chosen, the availability of raw materials, the manufacturing techniques involved, the choice of machinery and location. While a large unit can afford to pay a fat fee to a consultant for the preparation of a project report, the small industrialist has generally to rely on himself.

Licence

The next problem is to obtain the permission of, and licence from, the Industries Department of the State, local bodies, etc. But despite the policy of the Government, officials are often unhelpful — they have other ideas. A lot of time and energy are wasted in persuading these officials to perform their duties. It is also true that the small-scale sectors do not know how to make an approach and avail itself of the various facilities announced by the Central and State Governments. Alternatively, they are not

in a position to communicate with the well organised, urbanised bureaucracy. These are the major handicaps which hinder the growth of the small-scale in the country.

Problems of Small Entrepreneurs

The schemes and programmes intended for the small sector have had good intentions and despite the growth and overall contribution of this sector in the Indian economy, the SSI sector has suffered from many problems as well. The plethora of institutions without any effective coordination and subsequent snags/lacunae at the implementation level have resulted in quite a number of SSI units going sick and a good number of entrepreneurs withdrawing from the scene. These entrepreneurs find much gap between the plans and their implementation. Some of the problems identified are as under:

1. Non-availability of suitably updated handbooks about the various industries in Small Industries Service Institutes (SISI).
2. The hire-purchase scheme of providing assistance to SSIs helped only the larger entrepreneurs in the small-scale sector, leaving units smaller financially deprived.
3. Inadequate technical support to the entrepreneurs in respect of product identification and machinery installation from SISI. The difficulty has been in breakdowns, upgradation of technology and R & D quality control.
4. Overlapping of many items reserved for purchases from the small sector.
5. Vulnerability of small units to go sick on account of various inherent problems. As on June 1987, there were 1,58,226 small-scale units which had reported sick with amount involved around Rs. 1,542 crores. This problem received due attention in the Banker-Borrowers, Meet 1989, held in January 1989, organised by All India Association of Industries in Bombay. Though the number of sick units in the SSI sector were very high, the amount involved (Rs. 1542 crores) was not as high as that involved in large and medium-scale units (Rs. 4,200 crores), yet the severity of the problem cannot be denied.
6. Delays in provision of infrastructural facilities like sheds, water, power, raw material, etc.
7. Delays in payment of bills creating liquidity problem for SSI units.
8. Low recovery of bank funds because of difficulties in identifying genuine entrepreneurs.
9. Lack of coordination between banks and state financial corporations and other agencies in assisting SSI units.
10. Lack of expertise on the part of small-scale entrepreneurs in the maintenance of records and books.
11. Innumerable laws relating to labour, excise, taxes and other areas required to be complied with by the unit holder.
12. Lack of professionalism on the part of bankers in rendering timely and adequate financial assistance and consultancy to SSI entrepreneurs.

Inappropriate Support

While inappropriate regulation may distort, it is also clear that specific government measures of infrastructure assistance to small enterprises may, unless carefully designed, actually discourage the efficient operation of these units. Public support for small enterprises is frequently justified, for example, on the basis that they act as a *"breeding ground"* for entrepreneurs. This argument needs to be looked into closely. Clearly, entrepreneurship is an essential element in economic development; risks must be taken in introducing innovations; businessmen are more likely to take risks, and *usually better* at gauging *them than public* servants. They are able to *"think small"* and, as *"economic lubricants,"* to search for identity, and needs look into the overlooked by the public sector. Moreover, businessmen are more likely to terminate activities which the public will not pay for.

Nevertheless, certain limitations must be recognised if programmes to assist small enterprises are to be appropriately designed. Entrepreneurs are by definition self-reliant, energetic and innovative, and do not generally need to be coddled by promotion programmes that can develop entrepreneurship. Not all — or even most — artisans and petty traders are capable of developing the capacity to innovate by taking the special courses that have sometimes been provided under Government rules.

In general, the skills and aptitudes of most proprietors of small firms are best utilised if concentrated on a narrow range of activities, leaving the more innovative entrepreneurial functions to other organisations such as trading companies or larger firms which then sub-contract to smaller ones. As economies develop and their structures change, a large workforce may, in fact, be absorbed into larger organisations as workers and supervisors. The exceptionally entrepreneurial small businessman will usually survive and grow (and eventually stop being small) if he is left free to operate, subject only to the basic ground rules of public safety.

Follow economies of scale

Industrial development everywhere has proved that economies of scale does exist. What is economy of small-scale is diseconomy of large-scale and *vice versa*. The economies of scale is bound to undergo a change with the advance of science and the progress of technology. Yesterday's economies of large-scale may become very productive economies of small-scale today or tomorrow. Thus, the concept of economies of scale is a changing concept, depending upon the dynamics of science and technology as well as the stage of economic growth and marketing prospects. Small industries make their appearance in the initial stages of industrialisation in any economy. When they grow in volume and strength, some of them taking their cue from the unmistakable signs of expanding markets at home or abroad develop by vertical or horizontal integration and become either medium or large industries. But this process does not create a dent in the ranks of small industries, because when they grow into medium and medium into large, the number of small industries also grow — in sequential progression. One cannot conceive of any national economy merely based on a few large industries. An economy having a strong and broad base of small industries and an apex consisting of large industries, with some middle layers of medium

industries can be said to have a pyramidal structure and it is this type of economy that possesses in ample measure elements of stability and dynamism. This is very true in the present-day context, and in respect to both the developed and the developing economies.

But that is the techno-economic aspect of industrialisation. In underdeveloped countries, one must not think of development on techno-economic considerations alone. There are certain social compulsions also, which assert themselves through political exigencies. It is the complex of techno-socio-politico-economic obligations that ultimately determine the pattern of industrialisation, particularly in the developing countries. Here modern technology is more or less conspicuous by its absence. The standard of living is generally not much above the subsistence level. With the economic liberalisation, the expectations of the masses are rising high and they produce from time to time political upheavals, small or great, shaking the very foundations of the national institutions. Mere industrialisation based strictly on techno-economic imperatives may make the development lopsided and may, in its wake, usher in forces that will create social and political tensions. Mere enunciation of social objectives would not keep these forces in check. People would expect and demand positive action to scale down regional imbalances and remove social inequalities. In addition to all this, hunger and poverty stare right into the eyes of that vast mass of humanity which inhabits the underdeveloped world.

Well-designed programme

Broad programmes designed to provide equal incentives and access to scarce resources for all enterprises, irrespective of size, are likely to be more beneficial in the long run than special programmes tailored exclusively to suit small-scale enterprises, which, as seen, can often yield perverse results.

A well-designed programme is likely to include many of the following components:

Credit: The availability of credit to small enterprises can often be increased by removing — or at least raising — the interest rate ceilings and permitting a "spread": that makes it worthwhile for banks to lend to small enterprises; or by increasing the number and range of intermediaries allocating foreign exchange for investment. Refinancing facility can be useful, as can credit guarantee schemes (with costs passed on to borrowers) and training of local bank staff in simplified project appraisal and supervision methods. More importantly, credit should be made available at the appropriate time.

Imported raw materials: Reform of trade regimes may be necessary to remove abuses of the import licensing system. It is not uncommon, for instance, for middlemen to find their way on to the allocation lists and then resell their supplies at black market prices to small enterprises that desperately need imported inputs to survive in business but lack influence over the licensing authorities. Fees access to foreign sources and lower levels of protection for domestic alternatives would be desirable. If possible, attempts should be made to reduce the layers of middlemen in procuring raw materials for an enterprise.

Labour: The objective here is to increase labour skills and mobility by supplementing on-the-job training and by reducing labour market rigidities (particularly those affecting wages) which prevent the free flow of workers. Useful advice and assistance in training can often best be provided by the suppliers and customers of small enterprises, but governmental vocational training programmes can also be adapted to small-scale enterprise needs and circumstances (through such media as mobile demonstration units and night schools). In-plant training is much suited in this direction.

Technology and equipment: Changing policies that have the effect of subsidizing imported machinery would stimulate domestic engineering industries and machine shops, which are potentially important in helping small-scale enterprises improve their equipment. Technology should be easy but productive.

Buildings and utilities: "Industrial estates" are valuable to small enterprises but are generally subsidized sometimes built above the necessary standards. Removing the subsidies, levying charges adequate to recover costs and thereby permitting wider replication, and adopting appropriate, more modest standards are likely to produce economic rewards in the long run. *"Sites and services"* programmes for small enterprises, under which they build to their own specifications, also are useful.

Advisory services: Advisory services are needed but should be charged for on a full-cost basis so that the providing agencies — or preferably consulting firms — have ready evidence, from the market, of their utility. Public technical assistance institutions are more likely to be useful and responsive if they are specialized to cover all areas of need. Also, their utility is more likely to be assured if their intended beneficiaries are adequately represented on their governing bodies.

Markets: The demand for small enterprise products and services can be increased by eliminating *"unfair"* competition in the form of subsidies given to large-scale industry. Often barriers to the trading companies which market the products of small firms exist and should be removed. Export markets can be tapped more fully by ensuring that small firms as well as the large firms benefit from import duty rebates or exemptions on imported materials and components incorporated into exported products. Government can also directly enlarge the markets for small enterprises by sub-contracting maintenance and repair services that public agencies might otherwise perform themselves. Domestic market should be competitive but protected from foreign goods. Export market should be open to small-scale enterprises, especially set up for this purpose.

This list is not, of course, exhaustive. The best overall tonic for small enterprise will be an economic climate combining minimum regulation with maximum openness.

Manufacturing and Technical Problems in Small-Scale Industries

Manufacturing and technical problems arise right at the stages of project planning and feasibility report preparation. Problematic areas are product planning selection of right equipments, plant and machinery, selection of personnel and training them, technical know-how, technology transfer, industrial engineering, production engineering, use of standards, quality control and use of hightech equipments.

Product Planning

Selection of product depends on technical know-how, Infrastructural facilities available, technical and managerial abilities of entrepreneurs to complete the project successfully.

At the product planning stage itself, it is better the SSI should consult consultants, experts, leading organisation so that SSIs can get complete expertise and technical know-how, instead of doing it themselves.

Selection of equipments, plant and machinery

While selecting equipments, plant and machinery, entrepreneurs should give importance to production capacity, process capability, accuracy requirements and other supporting facilities. They should look for alternative and appropriate high-tech equipments, if they are technoeconomically feasible. These high-tech equipments are known for their quality, quantity, reliability, and high productivity. Because of these qualities, the productivity increases, lowers the cost of production, ROI (Return on investment) is very high and the entrepreneurs could recover their investment within two or three years. SSI should get the help of organisations like CMTI for selection of plant and equipment. At CMTI they have high-tech machines, where in SSIs entrepreneurs can try their production job on these high-techo machines as an alternative to their existing production methods for evaluating techno-economic feasibility of newer method of production even before purchase of these costly equipment at very nominal cost. After this techno-economic feasibility study, they can take a decision whether to go for this newer technology or not. This ensures the entrepreneurs about the profitability of such procurement.

Human Resource Development

Selecting the right person for the right job would contribute for smooth and efficient working of SSIs. After selecting the right personnel on scientific line, it is very essential to train them at appropriate organisations to give them proper training, both theoretical and "on the job" training in improving productivity of SSIs. Training and retraining of personnel (infused as) should be continuous process and invaluable assets of any organisation.

Entrepreneurs should know that it is not machines that work, but it is people behind machine make it work. Government organisations like FTI, CMTI, advanced training Institutes are coming forward in a big way to help SSIs to train the personnel of SSI and should make use of these opportunities to train their personnel to the best of their abilities to use sophisticated equipment to exploit the fullest capability of these high-tech equipments.

Technical Know-how

For doing a job, there are numerous ways of doing it. But there is only one best way of doing it, which is the most cost effective, efficient and highly productive. This concept has not been realised by many entrepreneurs and they try "trial and error" methods, wasting their time, money, energy and other resources. It is better the entrepreneurs should consult/contact organisations who are doing pioneer work in the

areas of technology development and technology transfer. These are organisations owned by Government which are non-profit organisations, established for the purpose of helping industries. It has been found that, many a time entrepreneurs have gone for foreign technical collaborations. These foreign technical collaborators normally give us a technology which is already outdated in their country and try to dump on us (of course that may look new to us in the beginning.) As we get deep into the technology, we find that foreign technology which is already outdated in their country and may not be good enough to compete international market. In addition to this, we have to pay very heavy collaborators fee for the know-how they are transferring. Further, the language problem (for example, Japaneses language, German language, Russian language, documents) which need meticulous and correct translation of technical words to give correct meaning to the context.

Other Problems

Regional economic or industrial surveys can identify both the growth points or potentially expanding areas in the country and the industrial projects that are likely to be developed successfully in the areas. This stage should be followed by the preparation of industrial projects and appraisal of all aspects — economic, marketing, financial, social, commercial, managerial, technological and environmental. In other words, a cost-benefit analysis of the projects, including the likely social impact, should be prepared.

The preparation of a project and cost-benefit analysis are, however, highly skilled jobs and the services of experts of consultants and advisers with appropriate skills in more than one discipline may be needed. A further important requirement is the availability of a group entrepreneurs willing to initiate projects, take risks and put in capital (although financing agencies are necessary to help with credit). Obtaining, information about technologies available and their appropriateness to the identified projects present a serious problem to the intending industrialists. Thus technical advice, counselling and information become very important. No projects in an area can develop without essential infrastructure, such as, transport, power supply etc. In addition, industrial training designed to impart to the available labour force a variety of skills must also be given priority.

The SSI units are bound to face unequal competition as there are possibilities for the larger units or even the multinational corporations venturing into the same business in which the small units are already in; thus leading to unequal competitions and failure of the smaller units. The larger units with their economies of scale and all related advantages like aggressive marketing and impeccable products designs are bound to fight out the small units.

The non-availability as well as inadequacy of the necessary infrastructure is another problem which is being faced by the SSI units. The SSI sector is wholly dependent on the Government for the provision of the infrastructural base required for the small scale entrepreneurs. Failures and inadequacies in this is bound to have devasting effect on the running as well as profitability of these units.

Militant trade unionism is another serious problem faced by the SSI the SSI sector particularly in the State of Goa. Many a times what we find is that the union instead of using democratic and constitutional measures for redressing their grievances resort to terrorising the small units under the guise of trade unionism.

Problems of Women Entrepreneurs in India

(1) *Need for Achievement, Economic Independence and Autonomy are absent:* Need for achievement, independence and autonomy are the basic ingredients required in a successful entrepreneur but these basic requirements are absent or found in neglible quantities in a women in India. She is held back by her own pre-conceived motions of her role in life. She sees herself only in the image of a perfect mother, wife and housemaker. She is proud to bask in the glory of her husband, father, son etc. This results in a conflict which inhibits achievement, independence and progress. Therefore, when the very urge is absent, how can she be motivated to be an entrepreneur?

(2) *No Risk Bearing capacity:* All throughout her life time, she has led a protected life dominated by the family members. In her childhood, she relied on her parents or elder family members. In her adulthood, she relied on her husband and in laws and again in her old age, she depended on her husband and sons, i.e., at no time has she faced the risk of life all alone. Therefore, she has no confidence to bear the risk all alone. Then how can she be an entrepreneur, when business is nothing but a risk-bearing enterprise?

(3) *Lack of Education:* The overall literacy percentage among females is only 39.3% in India. A woman is discouraged to learn more than the male members of the family. Due to this lack of education, she is unaware of technological knowledge, marketing knowledge etc. Moreover, whatever the bookish knowledge she gathers is not sufficient to meet the various problems in the business field.

(4) *Family Involvement:* In India, it is almost only a woman's duty to look after the children and other members of the family. Man plays a secondary or an insignificant role. Her involvement in family problems leaves very little energy and time to come out of her shell and play a significant role in economic development.

(5) *Male Dominated Society:* Equal treatment to men and women is absent at the family level and social level. When a woman steps into the middle management or top management level, she has to face hostile reactions from her male colleagues, especially from those who are subordinates or at par with her. The male superiority ego complex creates a barrier in the pathway of success. This situation is found sometimes even between a husband and wife and usually under such circumstances, a woman feels pressurised by male domineering ego.

(6) *Lack of Information and Experience:* The lack of information and experience makes it very difficult for her to select technology, market and location, and also to tackle problems related to labour and finance. The Government realising the need and importance of women entrepreneurs' participation in the contribution to the economy has offered some assistance, thereby trying to create a favourable climate for woman entrepreneurs to play a significant role in the rapid development of India.

(7) *Then comes the problem of liquidity and easy availability of finance:* As about half of all informal sector small enterprises world wide are run by women, access to

bank credit is vital for them, since few women have personal savings available for investment. At present, women are just marginally covered by the banking system. It has been estimated that only around 11 per cent of the total borrowings are by women in India. Many factors have been responsible for this inadequate utilisation of bank credit by women, e.g.,

- Inadequate size of loans;
- Margin money requirements;
- Insistence on collateral;
- Time taken to process loans;
- Tight repayment schedule;
- Ignorance of banking procedure due to illiteracy;
- Lack of experience informulating bankable projects;
- Lack of marketing, accounting and management skill leading to failure of projects and consequent inability to pay loans.

As a result of the above factors, small women entrepreneurs are frequently in debt to middlemen or moneylenders in India, who provide raw material or credit at extremely high rates of interest. To relieve these women from the vicious circle of indebtedness, exploitation and social disabilities and promoting self-employment amongst women, the nationalised banks and other financial institutions provide them credit at concessional terms.

For providing training and extension services to the women entrepreneurs, the Industrial Development Bank formulated a scheme of organising EDPs for the women entrepreneurs. Under this scheme, a subsidy of Rs. 10,000 per beneficiary was provided by the IDBI to cover expenditure incurred on training, post-training follow-up, consultancy and escort services. Further, the women entrepreneurs who have successfully undergone an entrepreneurial programme are eligible for interest subsidy equivalent to the amount of interest payable by the industrial unit for a period of one year, subject to a ceiling of Rs. 25,000 per annum in the case of small-scale units and for medium sector units, the interest for the first six months with a ceiling of Rs. 50,000 is subsidised.

Though many concessional facilities are given for training entrepreneurs for enabling them to start and successfully run commercial and industrial enterprises, by and large, a majority of women entrepreneurs do not bother to keep themselves up-to-date on various incentives available. Commercial banks, too, cannot be said to have been very enthusiastic in equipping themselves for their role in developing women entrepreneurship. To meet organisational deficiency, the Punjab National Bank established a special cell at its head office.

The immediate tasks of the cell are:

- To monitor the progress made by the bank in financing women entrepreneurs.
- To collect and disseminate information to branches about the various facilities given by IDBI and Government agencies to women entrepreneurs.

- To establish liaison with specialised agencies, voluntary organisations, etc. involved in this task.
- To organise entrepreneurial training programme for women entrepreneurs.
- To explore possibilities of bringing about specific schemes for women entrepreneurs.

Some of the important recommendations that were drawn at the AWAKE conference were:

1. There should be better support for voluntary agencies like AWAKE by the State Governments.
2. More awareness programmes should be conducted jointly by development agencies and voluntary agencies like AWAKE.
3. Simple technology demonstrations and training be made available at different parts of the State by organisations like SISI and CFTRI.
4. There should be a State Advisory Committee for development of entrepreneurship among women.
5. Systematic enumeration of women entrepreneurs should be carried out and further registration of women entrepreneurs should have separate coding so that data can be generated without difficulty. Both Commercial Tax Department and the Industries Department should have such coding.
6. The period of EDPs being conducted by various agencies is anywhere between three days to 6 weeks. Only a few of these are recognised for the purposes of incentives. There should be a separate nomenclature for those who are recognised or there should be a clear announcement to this effect as many of the participants in short-term EDPs are now being refused the incentives.
7. The age limit of 45 for training in EDPs should be raised to 50 as many women start their enterprises late in their life at least at this point of time.
8. The employment clause of 50% women should be removed from the definition of women entrepreneurs.
9. There should be a better co-ordination between development agencies, voluntary agencies and financial institutions in putting together entrepreneurship development programmes, as many times the same area or cities have many programmes while others go without any. Instead organisations could work at complementary and supplementary levels. The present State Co-ordinating Committees should look at the pooled programmes of all agencies rather than only those proposed by TECSOK.
10. Preference in Government purchases should be accorded to women entrepreneurs, especially items of downstream supplies.

The present trend does indicate qualitative and quantitative growth in terms of industrial production, exports, investments, modernisation and upgradation of technology, etc., but there is need also to give shape to the policy frameworks adopted till now.

The next decade would witness certain changes in the structure of small industry, if the present developments are any indication. Locationwise, small units would be established outside the metropolitan areas and mainly in small towns or large villages, thus providing more opportunities for convergence of agriculture and industry. The entrepreneurs are likely to play a pivotal role in accelerating the industrial process in the country.

Conclusion

Whether in small industry or large, problems always exist. Some face problems as if they are a challenge because that is the road to advancement. If there is no problem or challenge, we tend to feel complacent, which is the beginning of our degeneration. The problems of small industries should, therefore, be treated in this spirit. This, of course, does not mean that the Government, the local bodies, financial institutions and banks should create unnecessary obstacles in the path of industrialists; nor that industrialists should function in isolation. Rather, they should be increasingly aware of the fact that they are a part of a larger society, each section of which has its own strong and weak points.

In the post-independence period, the Governments at the Centre and in the States have established a number of specialised institutions to cater to the varied needs of small-scale units. These promotional institutions assist all and sundry in setting up small units with a view either to fulfilling their objective or over-reach their target; but they do not ensure the provision of adequate working capital, raw materials, power supply, nor do they help them in developing marketing outlets for the sale of their products. This situation has arisen because of the absence of a meaningful coordination among the concerned agencies.

The entrepreneur needs to re-orient his attitude and develop special leadership qualities necessary for taking decisions based on wider implications rather than trodding the narrow path of urge satisfying action alone. His problem, therefore is one of growing from professional entrepreneur into a professional manager and finally into an administrator in order to successfully come out of the growth crisis which he starts facing once his enterprise grows from a small business into a large enterprise.

The problems of entrepreneurs are multidimensional. These can be solved by the co-ordinated efforts of entrepreneurs, co-ordinated functioning of promotional agencies, and governmental assistance without red tape or bureaucratic delays. The entrepreneur has to be educated; and he should have a proper training in acquiring the necessary skill in running an enterprise. In fact, the entrepreneur is the kingpin of the industrial spectrum.

CHAPTER 47

SICKNESS IN SMALL-SCALE INDUSTRIES — REASONS AND REMEDIES

Introduction

Rapid industrial growth has brought in its wake incidence of sickness in the industrial sector including small-scale industries.

Sickness in industrial units is a gradual process and does not develop suddenly. In the initial stages, it gets reflected in the form of defects and mistakes in the unit's functional areas like production, finance and management. Later it is observed in the form of symptoms like irregular or unsatisfactory turnover in the account, slow and unsatisfactory movement of stocks, decline in production, sales and profitability frequent violation of terms and condition and asking for additional grants.

Definition

The term *industrial sickness* has been defined in a number of ways and its concept lacks uniformity. A sick industrial unit may be defined as one when it fails to generate surplus on a continuous basis and depends on frequent infusion of external funds for its survival. According to the Reserve Bank of India (RBI), a S.I. unit should be considered so if it has "incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year, and has an erosion on account of cumulative cash losses to the extent of 50 per cent of those of its net worth." A unit is likely to continue to incur cash losses for the current year as well as the following year and which has imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt-equity ratio. According to ICICI "a sick industry is one whose financial viability is threatened by adverse factors present and continuing. The adverse factor might relate to management, market fiscal burden, labour relations or any other. When the impact of factors reaches a point where a company begins to incur cash losses leading to erosion of its funds, there is threat to its financial stability."

The sick industrial companies (special provision) Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses

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The sick industrial companies (special provision) Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses

equalling or exceeding the net worth of the company at the end of the second financial year.

The definition of sick SSI units has been modified as under: "A small-scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years" (Bihar Chambers of Commerce, Sep. 1989).

An analysis of all the definitions given above indicate that sickness, more or less, has a perfect positive correlation with profitability. Profitability alone can generate cash surpluses for an industrial unit to meet its various obligations to the creditors like financial institutions, the government and others.

Table 47.1
INDUSTRIAL SICKNESS

	Sick/Weak units		
End of	*Large & Medium*	*Small*	*Total*
Number of units			
Dec. 1980....	1,401	23,149	24,550
Dec. 1985....	1,823	1,17,783	1,19,606
Mar. 1990....	2,269	2,18,828	2,21,097
Sept.1992....	2,427	2,33,441	2,35,868
Mar. 1993.....	1,867 *	2,38,176	2,40,043
Mar. 1994.....	1,915 *	2,56,452	2,58,367
Outstanding bank credit (Rs. crores)			
Dec. 1980....	1,502	306	1,809
Dec. 1985....	3,200	1,071	4,271
Mar. 1990....	6,926	2,427	9,353
Sept. 1992...	9,241	3,346	12,586
Mar. 1993....	7,901 *	3,443	11,344
Mar. 1994....	8,152 *	3,680	11,832

* Excluding weak units.

Table 47.2
VIABILITY OF SICK/WEAK UNITS
(As at end March 1993)

	Viable	*Non-viable*	*Viability not decided*	*Total*
No. of units....	22,584	214,866	3,250	240,700
SSI sick units...	21,649	213,804	2,723	238,176
Non-SSI sick and weak units....	935	1,062	527	2,524
Outstanding bank credit (Rs. crores)	5,257	5,047	2,830	13,134
SSI sick units...	799	2,507	137	3,443
Non-SSI sick and weak units...	4,458	2,540	2,693	9,691

Extent of Sickness

The number of ailing small-scale units, according to RBI data rose from 23,149 in December 1980 to 2,56,452 in March, 1994.

The number has been increasing year after year, and the malady if not checked, might erode the roots of industrialisation in the country, which is a vital component of the economy of the country. A number of reasons could be attributed for the sickness of small-scale industries in the country, prominent among them being:

(a) Management deficiency.

(b) Inadequate and timely availability of finance.

(c) Outdated technology; and

(d) Marketing problems.

Causes of Sickness

A. Internal Causes

(1) Planning

(a) Technical feasibility

Inadequate technical know-how
Locational disadvantage
Outdated production process

(b) Economic viability

High cost of inputs
Break-even point too high
Uneconomic size of project
Under-estimation of financial requirements
Unduly large investment in fixed assets
Over-estimation of demand.

(2) Implementation

Cost overruns resulting from delays in getting licences and sanctions etc.
Inadequate mobilisation of finance.

(3) Production

(a) Production management

Inappropriate product-mix
Poor quality control
Poor capacity utilisation
High cost of production
Poor inventory management
Inadequate maintenance and replacement
Lack of timely and adequate modernisation etc.
High wastage

(b) Labour management

Excessively high wage structure
Inefficient handling of labour problems

Excessive manpower
Poor labour productivity
Poor labour relations
Lack of trained skilled labour or technically competent personnel

(c) Marketing management

Dependence on a single customer or a limited number of customers/ single or a limited number of products
Poor sales realisation
Defective pricing policy
Booking of large orders at fixed prices in an inflationary market
Weak market organisation
Lack of market feedback and market research
Lack of knowledge of marketing techniques
Unscrupulous sales/purchase practices

(d) Financial management

Poor resources management and financial planning
Faulty costing
Liberal dividend policy
General financial indiscipline and application of funds for unauthorised purposes
Deficiency of funds
Over-trading
Unfavourable gearing or keeping adverse debt-equity ratio
Inadequate working capital
Absence of cost consciousness
Lack of effective collection machinery

(e) Administrative management

Over centralisation
Lack of professionalism
Lack of feed-back to management (Management Information System —
Lack of controls
Lack of timely diversification
Excessive expenditure on R & D

Dividend loyalties (where the same management has interest in more than one unit, cases are known where promoters of limited companies who also own private ownership firms tend to look after the interests of the latter, often at the cost of the former)

Dissension within the management
Incompetent management
Dishonest management

B. External Causes

(a) Infrastructural bottlenecks

Non-availability of irregular supply of critical raw materials or other inputs

Chronic power shortage
Transport bottlenecks

(b) *Financial bottlenecks*
Non-availability of adequate finance

(c) *Government controls and policies, etc.*
Government price controls
Fiscal duties
Abrupt change in Government policies

Procedural delays on the part of the financial/licensing/other controlling or regulating authorities (Banks, Reserve Bank of India, financial institutions, Government departments, licensing authorities, Monopolies and Restrictive Trade Practices Board, etc.)

(d) *Market constraints*
Market saturation
Revolutionary technological advances rendering one's products obsolete

(e) *Extraneous factors*
Natural calamities
Political situation (domestic as well as international)
War
Sympathetic strikes
Multiplicity of labour unions.

Management Deficiency

It could be said that management deficiency is one of the biggest reasons for poor performance and sickness of small-scale units. The new entrants in the fields of small industries in many cases did not have any prior training or background in management of their enterprises and were adverse to innovations and changes. In the beginning of our industrial development era, this problem was not so critical but with growing sophistication and modernisation of market-requirements for the items produced by the small-scale sector, it has become very important for small entrepreneurs to employ modern methods of management, be it in the field of advanced technology or marketing.

Recent experiences have proved that entrepreneurship is not only an inborn gift, but it could also be cultivated through application and training. American Universities and colleges offering courses in starting and managing a small enterprise. The Carnegie Mellon University of USA is one of the prominent universities offering entrepreneurial training courses. In our country, similar entrepreneurship development training, programmes are organised by organisations, viz., Centre for Development of Entrepreneurs, Gandhi Nagar (Gujarat), Small Industries Extension Training Institutes, Hyderabad, and other units of the Small Industries Development Organisation. The Centre for Development of Entrepreneurs has trained over 6,000 entrepreneurs till recently, out of which around 3,000 are running their own units successfully. The Small Industries Development Organisation has also been helpful in motivating a good number of entrepreneurs of the first generation. Recently, the Government of India has

also established a National Institute for Entrepreneurship and Small Business at New Delhi which would shortly start its own programmes.

Finance

Financial inadequacy is also reported to be one of the most important causes leading to sickness of small-scale units. Undoubtedly, the Government has extended a number of incentives for the growth of small industries and some people feel that these have had negative effect on the small industries. Some others feel that in order to obtain more and more finance and concessions, the small entrepreneur often runs from one agency to another and consequently, cannot concentrate on his industry. There have also been reports that some of these incentives have been misused. However, the discussion here is related to small industries who have genuinely suffered for want of adequate and timely financing facilities. It is well-known that a Committee set-up by the Government of India under the Chairmanship of Prof. A. M. Khusro, Ex-Member, Planning Commission is already looking into the financing/credit problems/ needs of small-scale industries and it is hoped that a separate Apex financing Institution for small industries might be recommended. In addition, a separate legislation to protect the genuine interests of small-scale industries, including tiny and ancillary sector, is under consideration of the Government. It could also be expected that the Apex Financing Institution or Bank solely devoted to meet the credit needs of small industries in the country would bring out some hitherto unknown difficulties of the sector and come out with remedial measures to improve health of the weaker small units. The Bank may also provide expertise in guiding small entrepreneurs in their financial management problems and offer preventive assistance to them in case where sickness is anticipated.

Technology

Notable technological innovations and changes are taking place in industrially advanced countries of the world and small-scale industries in those countries are also correspondingly responding by upgrading their technology. For example, use of computers is being made in the design and production of individual components in job shops at costs comparable with costs of mass produced techniques. This has meaningful implications for a country like India, where at present a large number of small and ancillary industries are competing with large industries in a number of common product areas. While fiscal incentives given to small-scale industries are, indeed, of help, the ultimate answer will, of course lie in the small-scale industries upgrading and updating their own technology and skills to meet the stringent within the country and by importers abroad. Small units will have to be technologically modern and price-wise competitive to play a significant role and keep their place in the total industrial structure of the country. In this task, technocrat-entrepreneurs particularly, may have to play a leading role.

There is a misconception in some quarters that modernisation and upgradation of technology necessarily involves costly equipment and labour reduction. While the initial investment cost in modern plant facilities may be somewhat higher, the investment would ultimately result in long-term benefits to economy through higher

and consistent quality and higher productivity achievements. Modern technology also need not necessarily mean adopting automation in every case. In case of small industries, the process of modernisation and upgradation of technology could be undertaken in phases depending upon the resources available with the units. Modernisation would, of course need higher and better skills to operate, maintain and run modern plant facilities to get the maximum productivity. While this might mean less demand for uneducated and unskilled personnel, it would on the other hand create opportunities for many skilled and educated operators, technicians and engineers in modern small industries.

Marketing

The last but not the least, the important factor causing sickness is the small industries' inability to market their products in a systematic way. It is well-known that small-scale industries are mostly one man show or a family business and professional marketing is often not practised in such units. However, it may also be stated that during the last decade and a half, some of the progressive small-scale industries have also realised the need for scientific marketing methods and have therefore organised their own marketing networks on regional and national basis. This is true in some cases of manufacturers of domestic electrical appliances where these small-scale industries have a national network and a chain of distributors and retailers. Some of the large marketing organisations have also been helpful in undertaking the field of the products of small-scale industries mostly in the field of domestic electrical appliances. Such contacts have been educative for small industries in learning marketing techniques from their large-scale partners. In this context, it may be admitted that concept of forming consortia of small industries to share the marketing efforts has not been very successful and effective. A view is often expressed that marketing is purely an entrepreneurial function and the Government should only provide necessary training and other facilities with the financing institutions providing necessary financial help in initiating market surveys and other allied marketing activities.

In this context, it may also be stated that the Government has been quite responsive to the marketing needs of small-scale entrepreneurs producing a variety of items and has reserved over 800 items to be procured exclusively from small-scale sector under the Central Government Store Purchase Programme implemented by the DGS & D. In addition, instructions have been issued to the public sector enterprises and purchasing organisations of the Central Government to provide price preference to the products of the small-scale industries, wherever they compete with large scale manufacturers against tenders floated by the purchasing organisations. While the above measures are indeed helpful in providing some sort of marketing assurance to small scale industries, this meets only a small part of small industries production. For a bulk of their production the small industries have necessarily to depend upon their own initiative, drive and innovations. It is here that training programme in modern methods of marketing will be helpful to small industries in upgrading their marketing technology on modern lines.

Constraints in modernisation

While the need for upgradation of technology and modernisation of production processes and marketing methods is appreciated by small-scale industries, there are certain constraints experienced in bringing about the desired level of modernisation in a definite limited time. These constraints may briefly be stated as follows:

Investment Limits

A view is very often expressed by number of responsible people in various quarters that modernisation cannot be brought out by small-scale industries within the present investment limits of Rs. 3 crore in the case of small-scale industries and Rs. 3 crore in the case of small-scale ancillary units. The investment level of tiny sector has been raised to Rs. 25 lakh with effect from 07.02.97. An opposite view is also expressed that since more than 90% of small units have an investment in the plant and equipment of less than Rs. 5 lakhs any increase in the investment limits would only benefit a very small percentage of small-scale units. Since both points of view have their own merits, the whole question would need to be studied in greater depth to weigh the pros and cons of bringing in an increase in the investment limits of the small-scale industries.

Pace of change in technology

Due to increase in R & D activities, undertaken by industries in the advanced countries, technological changes of far reaching importance are taking place rapidly and small-scale industries often find it extremely difficult to keep pace with these changes. Even in case of foreign technical collaboration from abroad into this country, only such technologies are given which have become partly out-moded in the collaborating countries. Many examples of this type are not difficult to seek in the field of electronics, electrical, automobiles, components, etc. This rapidly changing technology in certain industries in developed countries like USA, Japan, UK and West Germany have often forced them to vacate certain areas of production in favour of developing countries where the cost of labour element is still less. The investment dynamics in the field of electronics have resulted in a large number of US and European countries establishing a part of their manufacturing processing facilities in far eastern countries like Malaysia, Taiwan, Korea, Indonesia and Thailand. Even in these countries there has not been any marked transfer of technology or technology upgradation in the small-scale sector. It has also been experienced in these countries that in most cases, the foreign collaborators have not bothered to upgrade the technology of small or medium sector units. The situation in India is perhaps not totally different.

Technology Vs. Employment

One of the biggest constraints felt in upgrading the technology through automation is the fear that it might result in reduction of labour required. Since employment generation is one of the basic objectives for growth of small-scale industries in India, any proposal to induct modern technology, which would ultimately result in loss in employment, is not likely to be received with favour. Here also perhaps such

industrial activities could be identified where modernisation would not necessarily mean automation resulting in reduction in overall employment in small-industries.

For example, in the field of electronic industry, the technological upgradation, which is continuously taking place, is also providing lot of scope for horizontal growth of ancillary, as well as assembly based industries in small-scale sector providing thereby increasing scope of employment. It is one of the major industries where small industries are thriving. New technologies are also coming in the field of automobiles an area where the scope of ancillarisation is considered to be of a very high order. Instead of replacing labour from the Small-scale sector, the input of technology will provide more employment in the ancillary and auxiliary sectors in these groups of industries.

Inadequate availability of inputs

Another factor which restricts the pace of modernisation is the non-availability of necessary financial, technical, raw material and other inputs needed by small-scale industries for modernisation. Also many small-scale industries would find it difficult to pay the cost of new technology individually and therefore, it would be necessary to identify and design an effective mechanism for import of modern technology in selected fields and delivering them to the needy small scale industries. There could be several ways for transfer of technology imported from abroad and the large-scale industries in the private sector have to play a very important role in acting as carriers of technology from foreign countries to the small sector in India. An alternative may be to identify a Government Organisation to negotiate and buy appropriate modern technology in selected areas of development and industrial production.

Diagnosis

The normal diagnosis to find out the reasons for sickness starts from a series of interviews with people across the organisational structure. The major purpose of the interviews is to have a detailed insight into the working of the organisation, its strengths and weaknesses, the market situation and also the changes expected over a period of time. The following seven steps will enable a proper diagnosis of the orgnaisational sickness:

(1) Interview people across the organisational structure (including workers) and the subsidiary structure of unions, suppliers, customers — to have a general feel of the problems that lead to the sickness.

(2) Hold fact finding sessions with individuals/groups in the middle/senior management level — to list the known/possible factors contributing to the sickness.

(3) Hold discussions with departmental/divisional heads to assess the nature and depth of the departmental problems (production, quality, conduct of business/routine activities in various departments.)

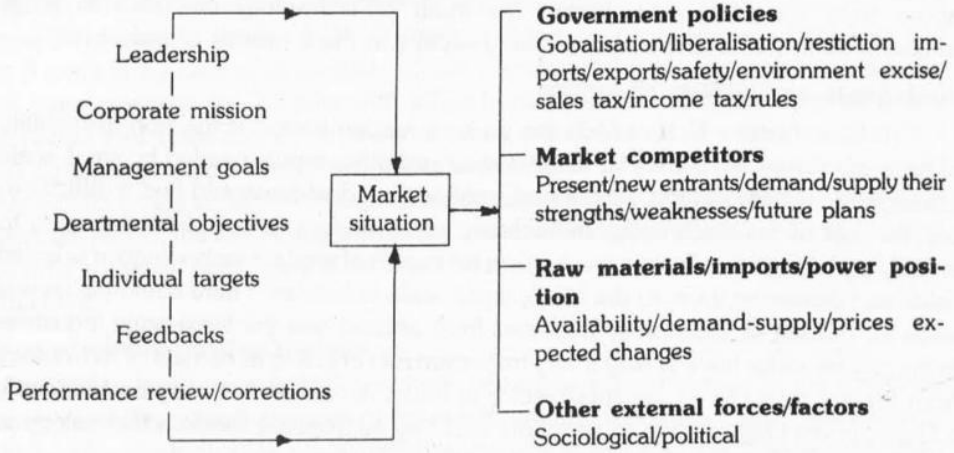
(4) Set up feedback/monitoring/audit control systems to periodically assess the performance, deviations and the needed corrections.

(5) Implement the use of modern management tools, techniques, information technology (cost control, TQM, JIT, inventory control, budgetary control...), to improve the bottomline.

(6) Plug the loopholes and make up the present deficiencies to achieve optimal production, high productivity, improved efficiencies, lower cost of resources, lower consumption factors and finally better realisations.

(7) Adopt business process reengineering in an effort to do the "Right Things" effectively and to achieve major breakthroughs in costs, quality and profits. This will help in planning expansions, closing unprofitable units and diversifications.

ORGANISATIONAL STRESS



The tougher the market situation, the greater is the tension on the link chain and the organisational factors.

Fig. 47.1

THE KEY FEATURES OF SICB VIS-A-VIS SICA

Features	*New SICB 1997*	*Old SICA 1985*
Definition of sickness	Debt default for four or more quarters in any two successive years to banks, FIs or any other secured creditors	Net worth erosion: i.e., accumulated losses having wiped away paid-up capital plus reserves
Reference to BIFR	Voluntary or optional in case of debt default, but mandatory if net worth has been eroded by 50 per cent from peak net worth (in last four years)	Mandatory
Role of BIFR	Of the nature of a mediator or facilitator	Like a court

Decision-making	Three well-defined time-bound stages before BIFR, failing which liquidation	No time limits Average time for decision-making almost two years
Appellate authority (AAIFR)	To be dissolved. No order or scheme of BIFR shall be appealed against and no Civil Court will have the jurisdiction to grant an injunction to grant an injunction or stay	Appeal against BIFR orders could be made to AAIFR and also high courts
Rights of secured creditors	To vote on scheme, which would deemed to be passed if there is assent from secured creditors representing 75 per cent of the value of secured debt	*De jure,* to vote a scheme under Section 19(2). *De facto,* had to often acquiesce to BIFR and AAIFR decisions

Revival Plan

In short, the diagnosis will be a SWOT analysis of the organisation describing the Strengths, Weaknesses. Opportunities and Threats. This analysis will lead us to a meaningful revival plan and will also help in determining the right tools, techniques and remedies to be adopted. It may be emphasised that the revival plan has to be time-bound to achieve the expected changes and results.

The method of planning, defining the objectives and setting up of Targets etc. is the subject of a separate chapter, not dealt herewith. However, the seven steps for the Revival Plan are given below:

(1) Finalise the goals/objectives/targets for performance at all levels to meet the organisation's mission.

(2) Issue policy guidelines on major aspects that affect the image of the company in public and the work culture inside the organisation.

(3) Initiate the preparation of detailed systems manuals for the maintenance, budgets, costs, distribution, transportation, purchase, marketing inventory, personnel etc.

(4) Analyse past reports on production, quality, costs, performance, accounts receivables etc. and the connected financial and audit reports — to get an overall idea of the present working systems and results.

(5) Meet senior executives from marketing/finance/personnel/materials/secretarial/legal departments and (if possible) with competitors — to assess the external situations (Govt. policies, competitor's activities, raw materials position, union-political-social factors.)

(6) Brain storm with a select group — to get creative ideas for improvement.

(7) Apprise the Board about the diagnosis and request them to spell out a clear "Mission" of the Company.

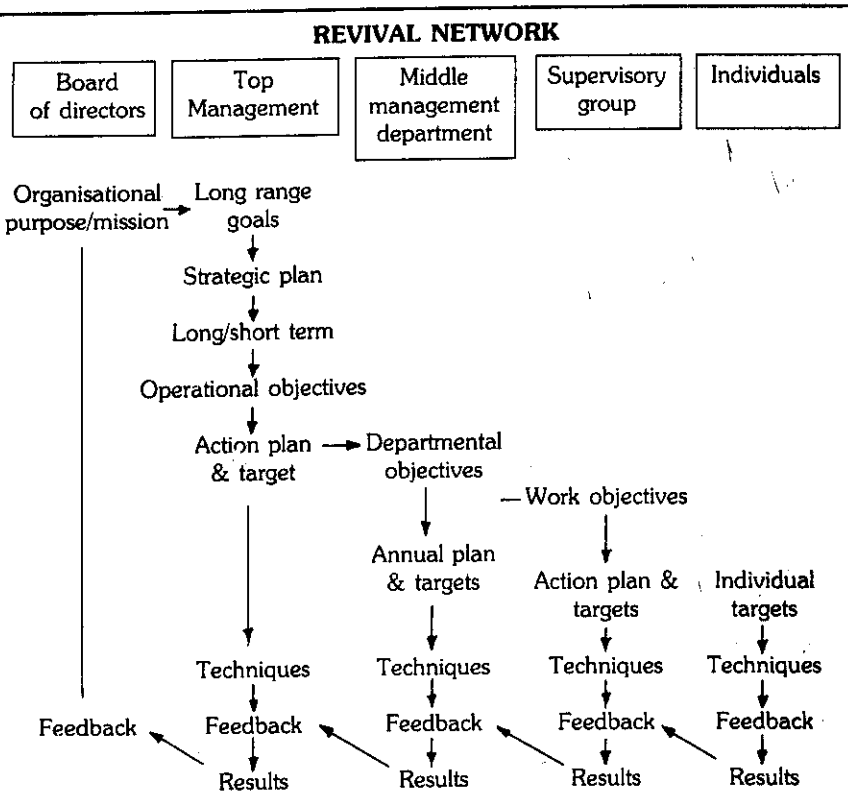


Fig. 47.2

These measures would bring about cost effective functioning of production units.

Institutional Mechanisms

Pursuant to the entactment of the Sick Industrial Companies (Special Provisions) Act, 1985, a Board for Industrial and Financial Reconstruction (BIFR) was set up in May 1987 under the administrative control of Ministry of Finance.

The BIFR has power to prepare rehabilitation schemes for revival of sick industrial companies in consultation with the agencies concerned. Till March 31, 1998, BIFR has received 3148 references. The Board has sanctioned rehabilitation schemes for 625 units, recommended winding up for 579 units and declared 200 units no longer sick.

A sick industrial company has to report its sickness to the BIFR, once its accumulated losses at the end of financial year exceed 50% of the peak net worth attained during the period of four years immediately preceding the financial year. BIFR provides a forum where the agencies concerned are brought together for analysing, diagnosing and evolving a reasoned decision for revival, or otherwise of the sick industrial unit. The agencies concerned are:

(i) Sick Industrial Unit
(ii) State Government
(iii) Banks and financial institutions
(iv) The concerned Departme. of the Central Government.

SICA has invested BIFR with the following powers:

(i) Potential sickness has to be reported to BIFR;

(ii) Mismanagement of industrial units by any person can be looked into by BIFR and the BIFR may direct that person to restore the losses; and

(iii) BIFR can initiate changes in management, amalgamation of the sick indusrial company with any other healthy company, sale or lease of a part, or whole of the industrial unit, or any other preventive/remedial measures.

Remedial Measures

(1) Early detection of sickness, it was generally felt, could go a long way in initiating remedial measures for restoring potential sick units to health. Need was stressed for the establishment of a proper management information system for providing early warning signals from within.

(2) Financial institutions and banks should initiate necessary corrective action for sick or prone-to-sickness units based on diagnostic studies. In case of growing sickness, they should also consider assumption of management responsibility where they are confident of restoring a unit to health.

(3) Wherever possible, attempts should be made to restore sick units to financial health. However, where the judgement is that a sick unit cannot be retrieved, it should be allowed to be wound up. The divestment of a sick unit, if desired by an industrial group, for handing it over to someone else with the requisite experience of running such a unit should be allowed expeditiously so that it can be restored to health before the situation gets out of control.

(4) Excessive concern over unemployment resulting from the closure of a sick unit is unwarranted. This can be taken care of through other measures, such as the setting up of a national fund for the purpose and strengthening of the facilities for retraining of workers.

(5) The proposal to set up a special institution — the Board for Financial and Industrial Reconstruction — appears to be a sound one. It should play the role of a single window clearing agency. However, the Board should not be asked to go merely by mechanical indicators to determine sickness in industry. For instance, the criterion of erosion in net worth for determining the seriousness of sickness, although it does indicate that everything is not well with a unit, is not meaningful. Erosion could take place by internal as well as external factors. There is, therefore, no justification for punishing management for erosion in net worth if it is caused by factors beyond its control.

(6) Similarly, the proposal visualising that the management of a unit that has lost net worth in entirety will not be allowed to manage that unit any more, needs to be reconsidered. Before branding the management as a bad one, all the aspects of the case ought to be examined.

(7) The proposal that managements responsible for mismanagement should not be allowed assistance from financial institutions even for new ventures, too, needs re-thinking.

(8) Nothing will do greater damage to the development of the spirit of entrepreneurship in the community than the fear that one is likely to be punished for sickness which is not of one's own market but is the result of lapses committed elsewhere.

(9) It is important that in any scheme of reconstruction of a sick unit, all the stake-holders bear sacrifices on equitable and just basis.

(10) The important criterion for take-over of a sick unit by another company should be whether the company taking over the sick unit has skill, technology and finance to save it. Considerations on MRTP/FERA accounts should not come in the way.

(11) There is need for a fresh look at Section 72-A of Income-tax Act to remove the inhibition caused to companies taking over sick units by insistence on the part of income-tax authorities for prior full implementation of the revival schemes before tax benefits can accrue.

(12) Debt-equity ratio ought to be realistic. Fiscal policy, too, requires rationalisation.

(13) Incentives should be provided to professional managers helping in reviving sick units.

(14) Treatment of capital-intensive units prone to sickness has to be on a different footing than tackling of sickness in industry in general.

Conclusion

Sickness in industry, especially in the small-scale sector in particular is a cause for concern. The banks, financial institutions and the Government should address to redressal strategies for these sick units. Revival of sick units should be taken on a priority basis.

In the present context, the only healthy way is to nurse these millions of small units for overall progress. This is easier said than done, due to wide gap in enlightened managers. Our employment scenario does not compel the management graduates to serve these units, at least for some initial period, neither do the owners show an openness for such managerial interaction.

A possible alternative is to counsel these units, without hurting the sentiments of the owner at the very first stage. After some success is achieved, trust is built and confidence is created, one can slowly advance and undertake further reform process, always holding the flag as an external catalyst. This will evidently be time consuming, but expected to be result yielding at slow pace.

While conceptualising and designing the coverage of business consultancy for small and medium scale industries, one essentially needs to consider the totality of its dimension, for understanding, acceptance and application by such clientele. Piecemeal advice may not serve their purpose. The idea is to offer turnkey solutions and induce things to happen. Psychological barrier may hinder the process initially, but once the link is established, demand will cross every hurdle.

Analysing the scope of such total counselling, welcome across three principal areas, for need based steering:

- Technical aspects related to present or proposed activity.
- Managerial functions in isolation and integration.
- Commercial proceedings, with applicable rules and regulations.

Once again, it will require lot of expertise and exposures to plan and extend counselling on all these areas, preferably from a single window. For this, pooling of resources will be necessary. A tall order indeed, but there seems to be no short cut.

The empirical studies show that by adopting better practices, right technology, new work culture and professional management, small-scale industries can improve their health and elevate from smaller status. In the process improve the health of the industry as well as of the economy.

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UNIT 9

CASE STUDIES

1. Technical Entrepreneur
2. Financial Assistance
3. Project Planning
4. Case Study of a Small-scale Unit

Project work is an important segment of management studies in enhancing knowledge about the subject. It imbibes insight and broadens understand. Project work in industrial and entrepreneurial management is vital factor in gaining practical experience.

The objective of project work is primarily to understand the intricacies of management at first hand. Secondly, to understand the varied concepts, principles, methods, perceptions and values involved in industrial management and nurtured by entrepreneurs through ages.

Project work result in building case studies for analysis, evaluation and corrective steps in fostering development for the betterment of society.

Small enterprises have distinct advantages, both economic and social. Some of these are:

(a) They create immediate and permanent employment at a relatively small capital cost;

(b) They meet a substantial part of increased demand for consumer goods, including mass consumption goods;

(c) They facilitate mobilisation of resources of capital and skills which often would remain inadequately utilised;

(d) They bring about integration of rural economy with large-scale enterprises;

(e) They offer a method of ensuring equitable distribution of national income;

(f) They involve a short gestation period;

(g) They do not require as heavy and costly infrastructure as the larger enterprises;

(h) They have a favourable capital-output ratio;

(i) The products of these enterprises earn a substantial foreign exchange.

(j) They assist the dispersal of industries and avoid problems which unplanned urbanisation tends to create.

Due to all these advantages, the development of small enterprises has been assigned a crucial role in India's five year plans. With a view to protect, support and promote small enterprises to become self-supporting and to facilitate a balanced growth of small and large sectors, a number of policy and promotional measures have been taken by the government. The policy measures include reservation of certain items for the exclusive production in the small-scale sector, and exclusive purchase under the stores purchase policy, and differential excise duty. Promotional measures have included development of entrepreneurship backed by a package of consultancy services, improvement in techniques, institutional support in respect of supply of credit and raw materials, factory accommodation in industrial estates, capital subsidy, and rebates on the sales of certain products.

With a view to help the students, four case studies are presented here to give an insight into project work.

These four case studies are indicative and the students are requested to build their own case studies after visiting studying industrial enterprises in their locality and gain maturity in understanding the genesis of industrial enterprises in general.

CHAPTER 48

PROJECT WORK

The Scope

The Project Work should be undertaken in the batches not exceeding 5 students in each batch.

(1) Visit to Industrial Estates and Industrial Areas.
(2) Study of Problems of Finance and Marketing.
(3) Visit to training institutes offering training for entrepreneurs in small sector.
(4) Study of Environmental Problem.
(5) Influence of environment on the working of Small Industries.
(6) Study of tax benefits available from time to time.
(7) Preparation of Project report in relation to opportunities available.
(8) Preparation of Feasibility report of a project.
(9) Preparation of Profile of Successful Entrepreneurs — Small Sector.
(10) Study of sick units (in Small Sector).
(11) Survey of export-oriented Small-Scale Units.
(12) Visit to Banks to study financial assistance to industries and analysis of their feasibility.

Why Start Own Business?

This is aptly reflected in replies to a typical questionnaire from an entrepreneurship development institute for prospective entrepreneurs, as follows:

I want to be on my own.
Demand is very high.
For economic gain.
Status in society.
Opportunity to serve society.
Somebody else is doing it successfully.

1. TECHNOCRAT-ENTREPRENEUR

Here is a case of a technocrat-entrepreneur, who took to jobbing through a mechanical workshop. Mr. Saha is one of the first technocrats who were assisted by a bank under its special scheme. He is a highly qualified mechanical engineer, with post-graduate degrees and diplomas in industrial management and industrial engineering from some leading universities of the world, including the famous MIT. He also has had a considerable amount of practical experience in leading companies in the United States, Britain, and India. At the time he approached the bank for assistance to start his own industry, he was drawing a salary of about Rs. 2,500 per month. Quite an impressive background indeed!

The project submitted by Mr. Saha envisaged the manufacture of a stationery item — staple removers — and job work on ancillary items and precision turned and pressed parts. The machinery required by him was: a power press, an Automat and tool room equipment, i.e., a lathe, a milling machine, a shaping machine, a bench grinder etc. The project was estimated to cost as under:

Plant and machinery	Rs.	136,000
Working Capital	Rs.	56,000
Deposit for shed	Rs.	10,000
Total	Rs.	2,02,000

Of this amount, the borrower offered to bring in Rs. 10,000. The bank sanctioned e remaining amount by way of:

Loan against hypothecation of machinery	Rs.	1,36,000
Cash Credit against hypothecation of stock	Rs.	30,000
Clean Loan	Rs.	26,000
	Rs.	1,92,000

The entrepreneur anticipated an annual sales of Rs. 4.72 lakhs with a pretax ofits of Rs. 83,000.

Mr. Saha was looking for a shed admeasuring 2,000 sq. ft., for he had an eye future expansion, although, his immediate need was for about 1,000 sq. ft. However, quite some time after the sanction of the loan, he could not locate a suitable shed. th permission of the bank, he decided to take delivery of his Automat, to operate ich he had adequate job orders in hand, and installed it in a friend's shed as a stop- arrangement. Pending the finalisation of the arrangements for his own shed, he lved his programme to manufacture staple removers.

After a month's working, Mr. Saha found to his surprise and annoyance that most his products were rejected by his customers. He became furious and let loose his th upon his workers. Matters did not improve in the second month either. Soon, materials worth Rs. 15,000 were used up and no revenue worth the name was erated. Unfortunately, this particular branch of the bank was deposit-oriented. ally, therefore, no stock inspection was carried out, and raw material bills were paid hout questions. However, the Head Office soon come into the picture, and assisted

the branch in supervising the account. From then onwards, disbursements were made only with the sanction of the Head Office.

Before, the expiry of six operational months, the sanctioned working capital limits had been utilised; but there were hardly any assets expect bills receivable. To keep the unit operating, an additional facility of Rs. 20,000 by way of book debts was sanctioned by the bank in January 1972. About this time, Mr. Saha had moved into his own shed on a long-term basis and on a monthly rent of Rs. 1,800. He was now confident that with all the facilities he had, he would have no difficulty in controlling production and that the rejections would not exceed 5 per cent.

However, this was not to be. Rejections continued as before, and the responsibility for these was once again thrown upon the workers. A senior engineer, with a salary of Rs. 1,200 p.m., and inspectors for quality control were appointed. Mr. Saha himself was drawing a living allowance of Rs. 1,500 p.m., plus car expenses. But, in spite of all his care and high expenditure, he did not realise more than 50 per cent of his bills.

The financial structure was crumbling; therefore, in September 1972, his book debt limit was raised to Rs. 40,000. The production picked up to some extent. The monthly output crossed Rs. 20,000, but with heavy overheads, the break-even amount was as high as Rs. 28,000 p.m. The progress in output, however, was maintained for a few months; it even improved a title, touching a maximum of Rs. 24,000.

In the meantime, the customers, of the borrower started delaying the payment of his bills, and the book debts started mounting. The book-debts account was overdrawn by about Rs. 13,000. Finding the units in difficulties once again, and having regard to the slight improvement in the output and confidence in the integrity of Mr. Saha, the book depths limit was raised to Rs. 80,000 in February 1973. At this time, the bank did not have any misgivings about the ability of the borrower to manage the unit successfully. Nevertheless, he was told that this would be his last chance. Till then, 100 per cent finance had been given against book debts. But no a margin of 20 per cent was deducted and adjusted against past bills, so that they could be gradually liquidated.

Some time after this, a new situation arose. Mr. Saha lost all his customers, and the unit was starving for orders. But despite the difficulties he had passed through, Mr. Saha refused to economies and change his life style. He was advised to let out a part of his shed, half the area of which was not utilised, move to a cheaper residential flat — he was paying Rs. 900 p.m. — and sell off his car. But this advice fell on deaf ears.

Finally, he managed to enter into a contract for a job with a new customer, who supplied him the raw materials to keep his entire workshop, including the power press, busy for 2 working shifts. Mr. Saha did not initially inform the bank about this arrangement. He thought he had discovered a gold mine and that, in a few months, his affairs would not only be put in order but this debts would be completely paid off. However, during a routine inspection, the new arrangement was discovered by the bank and he agreed to deposit some funds in the account after paying off his day-to-day working capital needs. At this stage, the bank hoped that tide had turned in Mr. Saha's favour.

But alas, this was not to be! The contract with the new party was revoked after about four or five months. Mr. Saha did not communicate this fact to the bank. Again, the situation was discovered during a periodic inspection. At this stage, the bank firmly told him that there was no question of any further assistance to him. He was asked to look for a partner to share with him the responsibilities of the unit. His drawbacks were pointed out to him. Mr. Saha scoffed at the idea; in his over-confidence, he was too greedy to share the fruits of his hard work with someone else. It was several months after the bank had put its foot down that he finally decided to look for a partner. By this time, his liabilities totalled Rs. 4.5 lakhs against a realisable value of assets of Rs. 1.5 lakhs. Who would be foolish enough to enter into a partnership with him at that stage? Naturally, not even his closest friends — not that there were many — would have anything to do with.

By the end of 1973, some of his creditors had filed legal proceedings against him. Somehow, consent decrees were obtained to the effect that he would liquidate his liabilities in instalments. In October 1973, he was so cross with the branch which had patiently born with him for nearly three years, that he asked for a transfer of his account to another branch. Unluckily for him, the agent there was a tough guy, and Mr. Saha could not cut much ice with him. With the concurrence of the Head Office, he was firmly told that his pressure tactics and arrogance would no longer be tolerated and that unless he changed his ways and showed some positive results without any further assistance from the bank, there was no hope for him.

The question of recalling the advance, filling a suit against him and invoking the RBI guarantee is now under the consideration of the bank. Today, Mr. Saha is a bitter and defeated man.

Let us now try to analyse the causes of the failure of this very highly qualified technocrat, who seemed so promising when the bank sanctioned a loan for him.

(a) The following points of weakness on the part of the bank can be identified:

(i) Despite the glittering background of the proponent, the bank appears to have placed too much confidence in his ability to succeed;

(ii) The reasons why he had changed jobs once too often in the past were not given due weight before the loan was sanctioned;

(iii) The bank sanctioned a project at nil margin (almost), though it was much larger than a small but economical unit;

(iv) The marketability of, and marketing arrangements for, his product, viz., staple removers, were not fully assessed. Later, Mr. Saha could not arrive at any settlement with his dealers;

(v) The bank's confidence in his ability to succeed was carried too far.

(b) The following weaknesses of the borrower may be identified:

(i) He is a very arrogant, self-centered and individualistic person;

(ii) His public/human relations are very immature. He could not get on with any one — his workers, his bankers and raw material suppliers and his customers. As a result, he erected a barrier between himself and all he

had to deal with. Obviously he could not depend on the cooperation of his employees, and he could not cultivate any worthwhile relationship with his customers;

(iii) He was over-confident and used to a life of luxury, and would not economise even in advertisity;

(iv) He was used to the style of working in large organised companies and tried to apply the same standards in his small-scale unit, with diastrous results;

(v) He was absolutely unimaginative;

(vi) Initially, he had not explored the market well enough. When he did get enough orders, he could not fulfil them. His was a case of many opportunities lost;

(vii) In spite of having qualified in industrial engineering and administration, he did not apply his knowledge to the practical business of running his unit successfully;

(viii) On at least two occasions, he failed to take the bank into his confidence.

2. FINANCIAL ASSISTANCE

The prime force behind the "small" trading corporation is the major partner, Mr. P.D. Narayana Menon, who had taken to entrepreneurship after achieving the status of an inventor. This is a rare case, where an inventor has successfully converted his invention into a commercial enterprise. The opportunity to assist such an enterprise is unique and may be considered to be prestigious.

Background to the Invention: Mr. Narayana Menon is an employee of Hindustan Petroleum. An inventor is always said to be on the lookout for a solution to a problem, may be of a day-to-day nature. In Mr. Menon's case, the problem was how to pour a liquid from its container into another without the help of a funnel, without spilling and wasting even a single drop. The answer to this question did not present itself to Mr. Menon in a jiffy. Night after night, he worked for into the small hours of the morning in a laboratory which was nothing nobler than the 'mori' of his two-room tenement. There could not be a more appropriate place for playing with liquid — as were.

Mr. Menon's efforts were purely personal. He was not backed by his employers or supported by any institutions or Government. In fact, no one was aware of his activities. When he was successful in his experiments, Mr. Menon mentioned the fact to his employers — a multinational who were surprised. Here was a solution to a problem which they had been looking for a long time. Eminent scientists had failed to come upon the simple device which Mr. Menon had invented. So, Mr. Menon, who was in the company's Accounts Department, realised that the problem was not only his, but that of the entire world. The company placed an order with him for the supply of liquid pourers to fit their containers. It even encouraged and guided him into obtaining a patent for this invention.

History of the Unit: Mr. Menon established a 'small' trading corporation in 1969 to manufacture and sell his liquid pourer, known technically as the safety cap pourer (SCP). He had a set of dies manufactured by an injection moulding unit. At that time, Mr. Menon was mainly engaged in marketing and developing new items rather than in fabricating them. In 1972, however, Mr. Menon decided to manufacture them. So he purchased a machine, but used in the premises of this well-wishers, it was only in 1976 that he took up his present production shed on a rental basis. Till that stage, he had not borrowed money from any source but had managed entirely with his own savings and the small surplus he had put by from his business. During this period, he jealously guarded his patent rights.

The Product: The liquid pourer (SCP) is practically a household and industrial item today. This simple device had been developed suitably for pouring liquid from all types of containers of all sizes and shapes; glass bottles, cans, plastic jerry cans, drums, jugs, and what not. Presently, there are about 20 different sizes and designs in each category of pourers, all of which are protected by patent rights.

The safety pourer plus which Mr. Menon his introduced has a great safety factor in the handling of dangerous liquids. It is a plug-cum-pourer. We are all aware of the plastic plug, which is fitted to the mouth of plastic, glass or metal containers, on top of which there is a cup. First the cup and then the plug has to be removed when a liquid is poured out. Mr. Menon's plug-cum-pourer need not be removed for this purpose. The pesticide industry has taken to this innovation with wide welcoming arms becomes of the positive safety factor involved in its use. The SCP has been further developed to provide an additional service to stop the flow of the liquid once its desired level has been achieved in the receiving container.

Location and Infrastructure: To fabricate his products, Mr. Menon has acquired a shed in the Bombay Talkies Compound at Malad, which has been patronised by a large number — about 400 — of small-scale industrial units. The shed is an independent structure, with an area of about 2,400 sq.ft. Its monthly rent is Rs. 750. It is made of brick masonary walls up to a height of about 15 ft., and is covered with a roof of asbestos cement sheets supported on a timber structure and trusses. The rent receipt is in the name of Mini Trading Corporation. The electric power bills and receipts are also in the name of the unit. It has a power allocation of 30 HP. The water supply is adequate. There is a nearby well from which supplies are drawn to cool the machines. Drinking water is also available.

Mr. Menon has made an application to the Directorate of Industries for the registration of his unit. The location is suitable for the unit's programme, since the Bombay market is most economical and easily accessible, both for the supply of raw materials and the sale of his products.

Raw Materials: The unit requires high density polyethylene, PVC, rubber, etc., all of which are easily available in the market. The monthly requirement is about 2.5 tons, valued at Rs. 40,000 for the scale of production, which is expected to be achieved shortly. With Indian Petro Chemicals Ltd. (IPCL) going into production, there will be no dearth of raw materials.

Process Know-how: The products are made by the injection moulding process. Plastic injection moulding has become quite common nowadays, and skilled operators to man hand-operated, semi-automatic and fully automatic machines are available in the required numbers. Mr. Menon and his son, Mr. Ramesh, who have now been in this line for more than three years, have adequate know-how. The very fact that Mr. Menon has developed many patented products is a testimony to his technical capability and his inventiveness.

Machinery: A list of the items of machinery installed by the unit is attached. It may be noticed that, as the unit progressed, Mr. Menon has added facilities to his establishment. New machinery was purchased in 1978 in order to meet the sizable orders that are expected following his efforts since 1977. The machinery is a standard product which has proved itself in the market over many years. Its present depreciated value is Rs. 137,679, including the latest addition of a 3-oz automatic machine.

Market: Mr. Menon is so involved in pouring devices that he has become an expert in the field. He has modified the devices to suit the variety of requirements of large companies, mainly multinationals such as Bayer, Cynamide (India), BASP, Hoechst, Sandoz, Rallis India, Hindustan Petroleum, Metal Box, Bharat Pulversing Mills, etc. Since each design has been patented by Mr. Menon, these companies have no alternative but to place their orders with him for their requirements of these products, and their requirements are indeed very large, running into lakhs of pieces. Mr. Menon is now negotiating with other companies as well.

In addition to the above which are for patented products, the Mini Trading Corporation manufactures conventional items of household consumption such as bottle/jar caps, tumblers, brushes, etc. Some dies are under production for the manufacture of pocket torches and bottle openers, which are expected to be introduced in the market within the next three months. The bottle opener will be unique in that it is an item of novelty and will also be the first one available in plastic. All these items have been introduced mainly in the local market through employed salesmen. Mr. Menon has also appointed regional distributors in Delhi, Madras and Kerala. For his household items, he has had under consideration a sales campaign in collaboration, if necessary, with the Tatas, Hindustan Lever, Godrej, Cynamide, Buyer, etc., who market such consumer products as edible oils, petroleum products, household chemicals and pesticides. The nature of the patented products is such that an immense monopoly market can be created for it. The export market is also wide open for Mr. Menon.

Administrative and Managerial Competence: Although Mr. Menon has been in business for more than three years, he has not applied his mind so far to a proper administrative set up for this unit, because his attention was concentrated on product development. Records, therefore, except those needed for financial accounting, are at present practically non-existent. He knows that a proper maintenance of all the records planning to purchase, production, despatches, sales, etc., are essential for a systematic and effective control of the affair of his business. He has therefore turned his attention to this aspect of his enterprise. Already, the financial accounts of the unit are being written up by a chartered accountant.

Inventory: Mr. Menon is a man of many ideas. He has utilised this quality not only to develop new products, but also to improve those items which are already in the market. As regards the latest set of items, he has chosen a strategy to manufacture them in bulk and then release them in the market, so that he will have the initial advantage before others copy his product and cut him down in competition. As a result, he has at present a sizable stock of finished products, which he plants to introduce in the market during the next few weeks. Such item will be released only in the local market and against cash sales, so that the money is quickly realised. The apprehension that the improved product may not have consumer appeal is well taken care of by Mr. Menon, for he places an order for a die for a product only after he has thoroughly studied consumer needs and tastes.

Working Capital: The unit shortly expects to be able to go into full capacity production, considering that substantial orders for the patented items from reputed companies are in the pipe line. On a single shift working, the production capacity of the unit may be estimated at a conservative figure of Rs. 60,000 p.m. The working capital requirements for this level of production may be estimated as under:

	Rs.
Raw material stocks — (1 month)	48,000
Goods in process, packing materials, etc. (1 week)	12,000
Finished stocks — (15 days)	30,000
1 month's recoverable (peak level) —	60,000
Total working capital	1,50,000

Working capital assistance to the unit may, therefore, be provided as under:

Facility	*Limit*	*Margin*
Pledge of stocks	Rs. 1,00,000	20% on materials
Bills Purchase — Usance 30 days (acceptance)	Rs. 50,000	30% on finished goods 10% 10%

Raw materials are purchased on cash and hence there is no purchased credit. This estimate is based on a production level of finished goods of the sales valued at Rs. 60,000 p.m.

3. PROJECT PLANNING: A CASE STUDY

Setting up one's own business is no easy matter. From the start the entrepreneur-to-be is pitilessly confronted with the many problems inherent in the initial phase. Many are inadequately prepared and quickly fall by the wayside; indeed, enthusiasm alone is no sufficient guarantee of success, as business demands a professional approach and admits of no improvisation at the beginning.

In recent years, resources have been allocated to help ease the independent company through its early stages, and interesting initiatives to promote small-scale enterprises have been taken by both the authorities and the private sector in Belgium, as well as in neighbouring countries; among the initiatives have been the provision of

small business centres, sponsorship and consultancy help, as well as the offering of financial spurs. The article reviews and weighs up these endeavours, though not before first briefly taking a look at the consecutive initial stages of a small enterprise.

The Scenario for Starting a Business

According to the degree of specification, the process of establishing a small enterprise can be broken down into various stages, the official start of the business thereby being considered as the resultant of previous negotiations and decisions.

There is no doubt that a variety of personal motives and external factors play a part in the decision to set up in business. In practically, all surveys, however, the same key elements return, namely, the desire to achieve something, the wish to be creative, freedom and independence, while financial earning and profits are usually deemed to be of less importance as initial incentives. Besides this, there are also factors which, right from the start, work against any decision to establish a business, for example, the not infrequent negative attitude of parents and family or even of the other entrepreneurs, adverse social status, the lack of security (an important consideration for those working or involved in the management of a larger company) and the financial risks. For all these reasons, becoming an entrepreneur remains, for many, limited to vague intentions and desires.

A minority take the plunge, their urge expressing itself in a concrete formulation of ideas. The incentives to establish a new enterprise ideally finds its origin in the development of a new product or in identifying a gap in the market. Opportunities continually arise for young Small Manufacturing Enterprises (SMEs), given that big industries ignore particular branches as they are interested only in products having a considerable market or because they deem the commercialisation of certain products to be incompatible with their corporate strategy. Moreover, because of negative effects of scale, some commercial activities, production processes or services are better performed by small companies.

But before even the most promising business idea can be put into practice, it has to be tested for *feasibility,* implying that the potential market should certainly be plumbed. Following a positive result, a *business plan,* which includes a commercial and financial plan, is worked out. According as the starting-up process progresses, moreover, the tasks become more specific. Gradually, a definitive stage is reached, i.e., negotiating with financial institutions, identifying interested purchasers or suitable subcontractors and deciding on a location for the business. Probably the least exhilarating but nevertheless necessary task is to take care of the various administrative requirements (the notarial act detailing the form of company chosen, application for the VAT number, the trade register entry, arranging Social Security status, etc.). Their completion can be taken as the definitive signalling of the new enterprise's start.

The Big Help the Small

One of the most tangible hindrances to establishing new enterprises is the shortage of sufficient *starting capital.* Understandably enough, the banks and other traditional money lenders regard the often very high initial risks askance; indeed, normal lending to existing companies already entails sufficient risk and eventually, has always to be

practically completely financed with risk-shunning capital, i.e., deposits and medium-term bonds. Too great an accumulation of risk on the assets side of a bank's balance sheet, therefore cannot be justified. Promising new entrepreneurs can expect help from venture capitalists. These last wittingly attempt to obtain stakes in young or fast-growing companies where the risks may be high, but so too is the potential medium-term profit accompanying them. Financial resources are usually made available in return for shares, thus making a full partner of the venture capitalist. The original initiators receive founder or deferred shares in order that they should identify themselves to the utmost with the economic interest of the company. Subsequently, after 5 to 10 years, the venture capitalist sells his stake so as to collect, via the gain in value that has meanwhile accrued if the project has been successful, a considerable profit in return for the risk taken.

To surmount the problem of finding starting capital, there is, moreover, the not-to-be ignored *government aid* in the form of subsidies and fiscal advantages. For the government, indeed, a person setting up on his own represents an improvement to the unemployment figures and a means of promoting economic growth, and young jobless establishing themselves as self-employed have the possibility of calling on a special subordinated loan. This loan represents an advance on the unemployment allowance that they would normally receive over a period of 3 years, though upto a maximum of BEF 500,000. In passing, it should be said that it is also possible for those out of work to set up as self-employed while retaining their right to unemployment allowance should their enterprise not be successful within the space of 6 years. Moreover, and not just for the unemployed, there is Waaborgfonds (Guarantee Fund) which can act to make up any shortfall in guarantees vis-a-vis credit institutions. Thus, a loan that appears initially impossible to extend because of overgreat risks can indeed be granted. Naturally, besides this there are still the interest subsidies and capital investment grants, provincial alowances, etc. Among other things the fiscal measures include a deduction for investment, accelerated depreciations, exemption from the obligation to pay tax in advance and a benefit on the first employee being taken on. Many of these measures steam originally from the government's concern for existing SMEs, but, usually, new enterprises can also make use of these facilities.

Many young entrepreneurs who have successfully negotiated the financial hurdle very quickly find that they lack *management experience.* Large firms wishing to pass on part of their *corporate culture* can make a contribution here, examples of this being found in other Western European countries. Thus, in the UK, the private sector makes a substantial contribution to the growth and success of SMEs in the process of starting up, and in the local enterprise agencies, big companies work closely with the local authorities to encourage the creation of new small-scale businesses. Much is done, besides, in the way of support, whereby the big companies conduct the new SMEs through the difficult phase of starting and expanding — in other words, a sort of active sponsorship. Thus, since 1979, the London Enterprise Agency has given help to already more than 2,000 enterprises; more than 700 new companies have been set up, leading to 3,000 new jobs. Similar initiatives have been undertaken in the Netherlands, among others the 'Kleinood' foundation which was established at the end of the Seventies and with which 251 large companies are involved; so far, about 400 small concerns have been given management advice.

Support, in fact, can take various forms. Sponsoring companies can make experienced members of their own staff available or the entrepreneur can follow the training courses organised by these companies for their own personnel; further, support could be legal, administrative, commercial or financial. Examples are legion: help in obtaining subsidies, in applications for patents, in the drafting of international sale contracts, etc. It is often the case that the young entrepreneur puts too much emphasis on technical know-how, and therefore, to this will be added an awareness of market aspects, as well as a common sense approach to budgeting and financial planning.

From the supporting firm's angle, all this is usually done in understandable self-interest. Big and small complement each other, and this provides the larger company with flexibility in eventually contracting out work and the opportunity to follow the progress of such work closely. What is also fine about this approach is that the staff of the larger firm who are providing the expertise come into contact with the spirit and daily work of entrepreneurs. Lastly, sponsorship gives large companies the opportunity to polish up their social image. Nowdays, the big firms are no longer able to provide much of a boost to employment — on the contrary — and therefore sponsorship provides a counter-weight to this.

Small Business Centres

Active SME sponsorship is something that lends itself to development at local level so as to stimulate local activity. A somewhat different approach to getting new enterprises off the ground is that within the framework of the so-called small business centres, a concept which, like others, has been imported Belgium's neighbours (Great Britain, West Germany, The Netherlands). Such a centre can be described as a collection of small business areas under one roof, which are put at the temporary disposal of entrepreneurs just setting up on their own. The actual premises can just as well be a disused industrial building as custom built, and besides this are provided communal services and utilities such as telephone, telex, secretariat, reception and conference rooms, the practical and most intangible advantage being the cost-saving. Every concern has a number of minimum requirements which can be a considerable burden in the beginning, but cannot be done without; in a small business centre, however, these initial operating costs are kept to a minimum, there being no overburdensome commercial rent to pay, but a cannot modulated price as well as a flexible system for giving notice. The entrepreneur is charged a reduced rate for communal services, and then only for those made use of (typing, translation, despatch, etc.). At the same time, the whole bestows a professional cachet on the enterprise.

However, a small business centre has still more to offer, as there is also the permanent presence of a manager who takes care of the professional organisation of the centre and provides expert device for the resident enterprises. These latter operate autonomously, but can always refer their problems to the coordinator who gives advice on the basis of his own experience or calls on well-disposed companies or on institutions at the disposal of the self-employed and SMEs. Lastly, maximum period of residence is sent in advance for the companies in the centre.

The first small business centres have now been established in Belgium (Kortrijk, Bruges, Zaventem) and there has already been a decision in favour of setting up centres

in the provinces of Antwerp and Limburg; others are expected to follow. Projects currently under way depend on co-operation among government institutions, semi-public bodies and the private sector; the respective Regional Development Companies normally take a minority participation in the starting capital of the small business centre, while the remaining resources required are provided by private companies, financial institutions or semi-official bodies.

Up to now, the 'Naamloze Vennootschap' (Limited Company) has always been adopted as the legal form for the co-operation between the various partners, and it is the aim that the initiatives should be at least self-supporting, otherwise they would set a sorry example to the firms being given guidance. For backing, the centres in Flanders can count on the co-operation of the Flemish Regional Government (maximum support for expansion, exemption from withholding tax during a period of five years, accelerated depreciations). For budgetary reasons and to prevent uncontrolled growth, the number of participations for each Flemish Regional Development Company is restricted to four. Recently too, the first small business centres supported entirely by private initiative have been set up.

A variant to this type of centre is formed by the Business Technology Centres where the emphasis is placed on co-operation between science and industry. Such research parks are mostly established in the vicinity of universities or high schools and naturally enough concentrate on high technology (microelectronics, telecommunications, biotechnology); one or two such centres have already set up in Belgium.

Experience gained so far in business centres abroad is positive, small craft companies in particular, taking advantage of the opportunity offered them. Nevertheless, neither in Belgium nor in other countries, has there been much analysis of the effects on long-term employment which would normally follow from such an initiative; indeed, no details exist about companies once they have left the centre. It can be taken, though, that many small companies have been able to weather the difficult early years better because of their having passed them in a small business centre, whereby the chances for a successful continuation to the venture are considerably enhanced.

Too Much of a Good Thing?

Besides the initiatives already mentioned, there are also the 'support cells' for the newly self-employed, established by some Chambers of Commerce and Industry. Universities too, make people available to provide expert help. In addition, there are the training centres and trading class organisations, the many training seminars, information meetings, colloquia, etc., clearly no lack of well-intentioned initiatives.

In the case of substantial subsidizing and government aid right from the start, there is inevitably the risk of distortion and disturbance of normal competition; such bounty to people just starting up does little to further the interests of those already established. However, the consequences of such distortion need to be evaluated at sectoral level. In branches of industry, with high entry barriers, subsidizing new entrants can contribute towards healthy competition.

Another danger presented by government subsidy is that the incentives produce other than the expected effects, with those on employment being more felt among consultants, subsidy and fiscal experts and government services rather than at the level

of new entrepreneurs. Moreover, the exact group aimed at is often not reached just by providing subsidies. By definition, becoming an entrepreneur is for motivated people who dare; escaping from unemployment appears to be a rather weak motive for setting up one's own business. Besides this, quick-witted newcomers will adapt their planning to the subsidies they can draw, whereas it is market conditions that ought to be the decisive factor.

Finally, the government has little apparatus to test the efficiency and efficacy of its aid; relevant statistics are too sparse and , moreover, the government itself appears hardly to be interested in thorough testing.

A last objection is that the apparatus for instruction and advice threatens to lose somewhat in efficiency as a result of the gradual blurring of the structure and the multiplicity of the bodies active in it. Before long, the newly self-employed will have to make their own market analyses to determine the best and most interesting form of support!

Towards a More Integrated Setting up Policy

The value of some local initiatives does not lessen the need for a *general stimulative policy towards enterprises just getting underway:* What is needed in the first place here is macroeconomic situation wherein the entrepreneur can find sufficient new, attractive opportunities. Further, there have to be enough potential entrepreneurs possessing inventiveness and market insight; this is not just a question of training, but more of the value society places on entrepreneurship, implying climate benevolent towards business and a reasonable return on risk capital. It is only when these requirements are satisfied that the need for support and advice has to be considered.

Nor can a policy for setting up new companies be divorced from one for winding them up. Obsolete companies ought no longer than necessary hinder the progress of young enterprises, while government aid to moribund companies is usually no more than a waste.

This does not complete the list of *favourable contextual factors* to be striven for. There are a number of positive facts relevant to this to be perceived, for example, the efforts being made to give a new suitable legal form to the small company. The present government is contemplating the introduction of the 'one-man business with limited liability', a difference being made between what is personally owned and what is working capital, implying the protection of personal goods in the case of bankruptcy. A (modest) start has also been made with doing away with the suffocating administrative red-tape-indeed which entrepreneur or entrepreneur-to-be is not discouraged by the labyrinth of rules and regulations? In France, recently, the administrative obligations to be complied with in setting up a company have been drastically reduced, as has been the time previously required to give legal form to the company in the process of starting up. Among other factors liable to reform in Belgium are the Social Security status and the law relating to commercial practices.

Too Much Made of the SME?

A wind of change has been blowing for some years now, revitalising the entrepreneurial spirit. Entrepreneurs are being feted and the prizes for the most

successful among them are exceeding all bounds, the enthusiasm applying particularly to small concerns. Politicians and entrepreneurs sometimes was lyrical about small and medium-sized firms, descriptions such as 'dynamic', 'creative' and 'human' being frequently bandied about.

SME advocates point fervently to reports about successful newcomers to Silicon Valley, but it is easily forgotten that the concept 'small and medium-sized' has a much wider meaning overseas, companies with less than 1000 employees also being considered as 'small businesses.' However, to bestow a similar revitalising role on Belgium traders and SMEs exhibits a certain over-optimism.

On the other hand, this is not to detract from the fact that small and medium-sized enterprises will continue to fulfil an essential and irreplaceable role in Belgium's social and economic system.

4. CASE STUDY OF A SMALL-SCALE UNIT

M/s NCL (This is true case study of a small-scale unit which was sick because of various causes. The unit was rehabilitated by the entrepreneur with the help of Government departments and his bank. This case study reflects on the positive characteristics of the entrepreneurs and their role in nursing sick units. In fact, the entrepreneur is the kingpin in nursing a small-scale unit and bringing it back to health and vitality. The case study shows that the entrepreneur is responsible for turning a healthy small-scale unit into a sick unit and that he alone can revive it by following the right path. In fact, the health of the unit solely depends upon the entrepreneur himself.)

Background

The NCL was established in 1971 to manufacture cosmetic and beauty products. It was promoted by two persons: one a technocrat, and the other who had experience in general administration. Its factory-cum-office was located in a rented shed in an industrial assistance by a public sector bank — Rs. 40,000 for the purchase of machinery and Rs. 80,000 for working capital. The advances were guaranteed by a marketing executive of a big business house in the cosmetic line. In 1973, the technocrat Director resigned and the son of the guarantor joined the NCL as Director. In 1974, the other original Director also resigned.

Irregularities

The NCL had not submitted any financial statements to the bank, which could not, therefore, review its performance. The bank account became irregular; and in the absence of any review, the bank did not extend further credit facilities to the NCL. But the latter carried on its skeleton production activities by availing itself of certain credit facilities from another bank.

Later, the advances of the second bank were adjusted on persuasion by the original bank. In 1976, the guarantor to the bank's advances, on retirement from his executive post, joined the NCL as Executive Director and assumed complete control. The balance sheet submitted by the NCL, as at December 1980, read as follows:

BALANCE SHEET

(Rupees in thousands)

Share Capital	253.00	Fixed Assets	46.00
Bank Loans	106.00	Stocks & Debtors	104.00
Loans from Directors and		Deposits/Advances	22.00
Shareholders	104.00	Accumulated Losses	373.00
Other Loans	60.00		
Creditors	10.00		
Sales Tax Payable	12.00		
	545.00		545.00

Erosion

The owners' funds of Rs. 253,000 and their loan of Rs. 104,000 were completely wiped out as a result of the accumulated losses of Rs. 373,000. Assuming that the assets are worth the values attached to them, losses of Rs. 16,000 were carried to the creditors other than the owners of the company.

The NCLs liquidity position was glarin gly negative, mainly because of accumulated losses and investment of short-term funds in long-term assets.

The causes: In the light of this background, the causes of the sickness of the NCL are diagnosed. It was evident that:

(i) NCLs Directors were not conversant with the selling techniques of the products they were manufacturing. Selling in the cosmetic industry calls for a sophisticated strategy. About four initial but crucial years were lost, during which its management did not come to grips with its marketing problems.

The NCL, had anticipated a spurt in its share of the market as a sequel to a purported change in the Government's policy of easing out the giants in the line. But this policy did not materialise.

(ii) The Directors who promoted the NCL did not possess the requisite degree of perservance to withstand the crises which normally arise in any new unit, but which are particularly acute in a unit entering the cosmetic product line as a small unit.

(ii) Four products formed the product range; but there was no proper planning. Lack of planning was noticeable in production and in marketing, and in different batches/types of production.

The Rehabilitation Plan: The new Executive Director, with his vast experience and down-to-earth approach to the problems faced by the company, was able to secure orders to run the factory at an operating level which would enable the NCL to cover the cost. Realising the limitations of his company, he changed the strategy of selling his products.

Taking advantage of the liberal concession of the Government for the encouragement of small-scale units, he concentrated on Government departments for orders. Ultimately, the new Executive Director succeeded in securing small orders from Canteen Stores Department. The value of the order was expected to go up to Rs. 30,000

per month. At this stage, the Executive Director of the NCL received further financial support from his bank.

Financial Assistance

The bank promptly extended Rs. 54,000 and agreed to further extend finance up to Rs. 80,000 on the basis of a fresh appraisal of the working capital requirements for the execution of the new orders. It also agreed to convert the outstandings in the working capital/cash credit account into a term-loan account repayable in easy instalments. However, it wanted the NCL to feed it with information on its performance on a regular basis to enable it to monitor the account.

The building up a reasonable internal information system — the maintenance of proper books of accounts, production, and stock and sales data — was made a part of the rehabilitation plan.

The fulfilment of this condition resulted in cost to the unit; but the cost was considered to be unavoidable, for it was necessary to keep track of the direction in which the unit was going. The latest results indicate that the NCL is out of the wood and is on its way to health.

Entrepreneurial Characteristics: This brief review of the NCL's history indicates that it had entered a very sophisticated industry, but its management was nowhere near the task. Marketing was its main problem.

The unit's Managing Director did dream of becoming industrialist; but the path leading to the destination was too strenuous to tread; and he was not prepared for it. Certain characteristics of the owner-managers of this unit are worth noting.

They were possessed of the need for achievement. This is evident from the fact that the owners, who were earlier in employment, left their jobs to set up an industrial unit. It is reasonable to infer that they did this on perceiving the environmental opportunities, including the encouragement of the small-scale industry on the part of the Government, the credit facilities available on easy terms from financial institutions, and the likely change in the Government's policy which was likely to favour smaller units in that particular industry against the larger ones. The owner-managers also showed the ability to accept challenges and take risks.

However, they were lacking in certain entrepreneurial characteristics, which are very vital for the success of a cosmetic unit. One such characteristic was the need for involvement. When they encountered problems in the implementation of the project, the original Directors started leaving the unit one by one.

They were also lacking in confidence to succeed in the business. They accepted the challenge; but they did not have the capacity to face the turmoil of business activity.

In other words, the commitment to the project and perseverance in seeing it through thick and thin was lacking in the project sponsors. An entrepreneur should possess the characteristic of changing his environment, or he should believe that he is capable of living with it. Openness to feedback on project implementation, say from banker and well-wishers, was yet another characteristic which the owner-managers did

Sufficient hints had been available from the financing bank that something was wrong with the implementation of the project. But the unit reacted to these hints by going to another bank for assistance. Moreover, the approach and the manner of working of the owner-managers were similar to the traditional executive pattern rather than that of a small entrepreneur.

Because of all these facts, the weaknesses inherent in the project had not been evaluated realistically in the initial stage. The reality is that a small-scale industry entails work for 24 hours a day. The deficiencies observed in the initial owner-managers were taken care of by the present incumbent; and that is the prime reason for unit's recovery from sickness.

The NCL entered a sophisticated industry to produce shampoo, shaving cream, hair oil and white tooth powder. The challenge in the marketing of these products in competition with large established companies, including a few multinational corporations, should not have overlooked at the project-idea-stage.

The Industry

The NCL started entering the consumer market by trying to sell through the sales points-dealers-in competition with large units in different parts of the country. But its ability to open sales points through the dealers proved to be grossly inadequate. Moreover, it could not match the resources of the giants in advertising campaigns and other marketing strategies.

The marketing strategy should have involved a publicity campaign and a simultaneous opening of sales points. This could not be done by a unit whose resource base was abysmally small.

The marketing strategy followed by the resourceful units in the industry could not possibly be adopted by small units like the NCL. This was realised by it very late — only when the present incumbent took over charge. That is how he turned to the Canteen Stores Department of the Defence Department for rescue!

The present owner-manager's attempt to push sales through departmental stores like the Janata Bazars proved to be costly, for his presence could not be ensured at the production point at his factory and in the department stores.

The appointment of salesmen was futile because inexperienced persons cannot accomplish this task; and the NCL could not attract experienced persons.

The Strengths

The quality of the products was comparable to any in the industry. There were no major production or technical problems.

The sincerity and the integrity of the owner-managers could not be questioned. Apart from wiping out the capital brought in by the owners as a result of accumulated losses, they never attempted to divert funds from the business.

The overhead expenses, especially of the owners were kept at the minimum possible level. In fact, the present incumbent injected fresh funds by way of deposits in the name of his wife (who is also a Director) on a reasonable rate of interest.

He did not effect any withdrawals for his family's maintenance and sustained himself on his retirement benefits. A check on overhead costs by the owner-manager and the decision of the financing bank to write off a part of the interest on the loans have made it possible for the unit to achieve its break-even sales at a lower level of operation.

This is a vital factor because the unit was not in a position to increase the prices of its products. In fact, its prices have been kept lower than those of others because it does not have the advantage of brand names. And these prices are lower because the cost of production has been pegged down.

In other, words, the overhead costs, which are crucial in keeping down the cost of production, were kept in check at some sacrifice on the part of the owner-manager and the financing Bank.

There was no labour trouble in the unit. The number of workers was small and the relations with them were cordial. The owner's human approach and considerate attitude to labour has been very helpful in running the unit without labour trouble, which normally afflicts a sick unit.

The Banker's Role

The financing bank agreed to draw up rehabilitation plan in the conviction that it would be implemented by the owner-manager in all sincerity and seriousness. The present owner-manager of the NCL was considered an excellent moral risk by the bank, other creditors and labour. Adequate funds were made available to the unit on the basis of its comprehensive re-appraisal, and a rehabilitation plan was drawn up.

This was done when the owner-manager had succeeded in getting steady orders from the Canteen Stores Department. His characteristics were the dominant factors which weighed with the Bank when it made a re-appraisal study and established the viability of the unit.

However, one may reasonably ask whether is would not have been better for the financing bank to put the unit wiser in the initial stage itself by drawing the attention of the owner-managers to the weaknesses of the project!

The Conclusion

The analysis of the factors involved in the rehabilitation of this sick unit would indicate that the key role in the entire exercise has been played by the entrepreneur himself. The others, like Government departments and the banker, played the role of felicitators. The health and vitality of the unit is nothing but the reflection of the positive characteristics of the entrepreneur.

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