

Entrepreneurship Developments



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Lecture No.1**ENTREPRENEUR****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 foster a spirit of enterprise for the welfare of mankind.

Urges of an Entrepreneur

An urge to exercise powers 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 energizer in the modernization of societies.

The entrepreneur is a critical factor in the socio-economic change. He is the key person who envisages new opportunities, new techniques, new lines of production, new products and coordinates all other activities. The true entrepreneur is one who is endowed with more than average capacities in the task of organizing 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 organizational 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:

1. Perceives opportunities for profitable investments
2. Explores the prospects of starting such a manufacturing enterprise
3. Obtains necessary industrial licenses
4. Arranges initial capital
5. Provides personal guarantees to the financial institutions
6. Promises to meet the shortfalls in the capital; and Co
7. Supplies technical know-how.

Entrepreneurship may be defined in various ways, but the four key elements involved in it are:

1. Innovation
2. Risk-taking
3. Vision, and
4. Organizing 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.

Importance of an Entrepreneur

The Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial competence makes all the difference in the rate of economic growth. In India, State and private entrepreneurship co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. It is in this context that an increasingly important role has been assigned to the identification and promotion of entrepreneurs for this sector.

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, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth.

Several factors go into the making of an entrepreneur. Individuals who initiate, establish, maintain and expand new enterprises constitute the entrepreneurial class. The social-political and economic conditions, the availability of industrial technology and know how, state of art and culture of business and trading, existence of markets for products and services and the incentives and facilities available for starting an industry or business, all have a bearing on the growth of entrepreneurship. A conducive environment is created through the policies and interest of the government in economic and industrial development.

Entrepreneurial Behaviors

- Grasping opportunity
- Taking initiative
- Solving problems creatively
- Managing autonomously
- Taking responsibility for, and ownership of things
- Seeing things through
- Networking effectively to manage interdependence
- Putting things together creatively
- Using judgment to take calculated risk.

Entrepreneurial Attributes

- Achievement orientation and ambition
- Self confidence and self esteem
- Perseverance
- High internal locus of control (autonomy)

- Action orientation
- Preference for learning by doing
- Hard-working
- Determination
- Creativity

Entrepreneurial Skills

- Creative problem-solving
- Persuading
- Negotiating
- Selling
- Proposing
- Holistically managing business/projects/situations
- Strategic thinking
- Initiative decision-making under certainty
- Networking

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LECTURE NO.2

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-economic climates, particularly in industry both in developed and developing countries. The experience in the industrialized 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 endeavor to sustain and improve it are the outward expression of this process of development of his personality. Such process is crystallization 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 projects that creates wealth open up many employment opportunities and leads to the growth of other sectors.

How can I decide if I have the needed entrepreneurship?

You can assess your business skills by evaluating past jobs, volunteer work, positions in organizations, and personal traits. Consider your experiences and qualifications under each of the following headings.

1. Organization and planning: setting and attaining goals, managing time commitments, and keeping work schedules.

2. Handling money: determining budgets, securing loans, raising funds, keeping financial records, and completing income tax forms.
3. Selling ideas and products: determining sales quotas and projections; presenting projects for committees, organizations and/or administrative groups; direct selling to customers or clientele; handling criticism and rejection.
4. Management: experience in managing all or part of a small business or an agency; serving as director or major officer of an organization.
5. Working with people: mediating or arbitrating between people with opposing views when the situation requires; organizing and planning large public events; assuming officer or executive secretary positions in an organization, and/or handling complaints for an organization or company; getting along well with most people.
6. Ability to take risks: taking moderate, calculated risks in varied situations (situations where the chance of winning was not so small as to be a “gamble” or so large as to be a “sure thing” situations where there was a reasonable and challenging chance of success).
7. Willingness to lead and to work alone: being self-disciplined; handling situations which were ambiguous and full of uncertainty as to the job requirements; working calmly and efficiently in the midst of an emergency or crisis.
8. Personality traits: taking the initiative in situations requiring it; accepting and accomplishing more than your share of the work; willingness to work hard even if the financial rewards are slow in coming; establishing high standards of performance and raising them once they are met.
9. Knowledge of products and/or skills in the service offered by your business or in producing your product: willingness to do self-study, research, and planning to improve business operations.

Do I need all these skills?

Not all of these experiences are necessary for every business. Few, if any, persons who start a business are experts at everything. You must be able to assess your strengths and weaknesses before deciding whether you can take time to learn what you need to

know, or can afford to hire staff or consultants. Expertise is more important in some businesses than in others. Only you can assess whether you have the right expertise to succeed.

How can I assess my skills for entrepreneurship?

Make a list of your work experiences, hobbies, interests, and acquired skills. You are preparing your own “resume” so be careful not to exaggerate or deceive yourself about things on this list. Be honest and objective. After completing the list, it should be fairly evident what you can bring to your new business and where your interests lie. Keep this inventory available and use it when selecting the type of business you will launch.

What kind of Enterprises should I start?

What are the kinds of businesses you might consider starting? Make a list of ones you could consider, eliminating only those that are obviously not for you. Rule out ones that require talents and skills you did not list when you prepared your “resume” and ones in which you have no interest. You may have an original idea for a business that no one has considered or for a product that doesn’t exist. Try not to limit your thinking only to this new business or product. To do this you must gather information. Evaluate your idea against other possibilities.

What are some possible sources of information?

You might try one or more of the following sources for information:

- Telephone yellow pages can indicate what is and is not available in your area.
- Public libraries have a number of business directories, including the Thomas Register.
- Entrepreneurial magazines often have articles about new business ideas that have Potential.
- Ask friends, coworkers, neighbors, and relatives if they have product or service needs that is not currently being met.

What are some strategies for making a decision?

After considering business ideas on your list, narrow down the possibilities. To complete the selection process, talk with people in the same or a similar business who are located outside of the area where you are considering locating your business. Let them know that you would value their advice. Usually they will be flattered and willing to share their experience and advice. Another strategy involves checking success and failure reports. You can find this type of information at most public libraries. Ask for professional advice. There are four professionals you should get to know early in your business planning: an attorney, accountant, marketing consultant, and banker. Share your plans with them. They may point out factors you hadn't yet considered. Share your thoughts with your family, friends, and associates. They may come up with considerations that may discourage you from one idea, or they may offer real encouragement for pursuing another idea. Having the support and involvement of those close to you can be an added benefit. Make the final decision yourself. If you can answer, "yes" to all four of the following questions, you are ready to make a commitment:

1. Does the business satisfy most of my wants and desires? (business selection criteria)
2. Do I have, or can I develop (or hire), the attributes and capabilities that are required for success in this business?
3. Is the current condition and outlook for this type of business favorable?
4. Am I, and is my family, willing to accept the risks that will accompany my starting the proposed business?
5. If the answer to question four is "no," you might want to consider your proposed business ownership more carefully before proceeding. If you can answer, "yes" to two of the first three, you may need to rely on your instincts. Remember, there is probably no perfect business. You will undoubtedly be making compromises no matter what you choose.

Lecture 3

CLASSIFICATION OF ENTREPRENEURS

I. According to the Type of Business

Entrepreneurs are found in various types of business corporations 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 materialize 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 videocassette tape factory and the like.

Corporate Entrepreneur:

Corporate entrepreneur is a person who demonstrates his innovative skill in organizing and managing corporate undertaking. A corporate undertaking is a form of business' organization, which is registered under some statute or Act, which gives it a separate legal entity. A trust registered under the Trust Act, or companies 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 agriculture through mechanization, irrigation and application of technologies for dry land agriculture products. They cover a broad spectrum of the agricultural sector and include its allied occupations.

II. According to the Technology use

The application of new technology in various succors 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.

III. According to the Entrepreneur 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 to 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-fulfillment. 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 Entrepreneur. They are persons with initiative, boldness and confidence in their_ ability, which activate, them, underage entrepreneurial activity. Such entrepreneurs have a strong conviction and confidence in their inborn ability.

IV. According to the 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.

V. According to the 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.

VI. Others

Innovating entrepreneurship is characterized 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, and 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 reorganization of an existing enterprise.

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LECTURE 4

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 specializes in the work of planning, organizing, leading and controlling the efforts of others by the systematic use of classified knowledge and principles. He subscribes to the standards of practice and code of ethics established by a recognized 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 fulfill his job requirements;
- iii. have a performance-oriented relationship with his subordinates, superordinates and colleagues based on mutual respect to facilitate team work for collective contribution to the organization;
- 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 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 organizes 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.

Specialization: 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 recognized 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 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 bide or aggravate 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.

Similarities between Managers and Entrepreneurs

- . • To produce results
- . • To produce results through people
- . • To take decisions
- . • To cooperate under constraints
- . • To follow sound principles of management

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

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 trackless 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 predetermined 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 recognizes 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.

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:

Distinctive Features of Entrepreneurs and Professional Manager

Professional Manager

1. Setting of objectives
2. Policy formulation
3. Strategic Planning
4. Formal communication
5. Organising

6. Motivating
- 7 Controlling
8. Administrator
9. Skilled, knowledgeable
10. Confident
11. Specialist
12. Loyal
13. Planner
14. Implementer

Entrepreneur

1. Perception of an/opportunity
2. Risk-taking
3. Tactical Planning
4. Interpersonal communication
5. Negotiating
6. Troubleshooting
7. Making it a growing concern
8. Innovator
9. Motivator
10. Determined
11. Idealist
12. Committed
13. Visionary
14. Planner

Entrepreneur vs. Manager: The, entrepreneur is a person who is motivated 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-à-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 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 organization and pertinent to management.

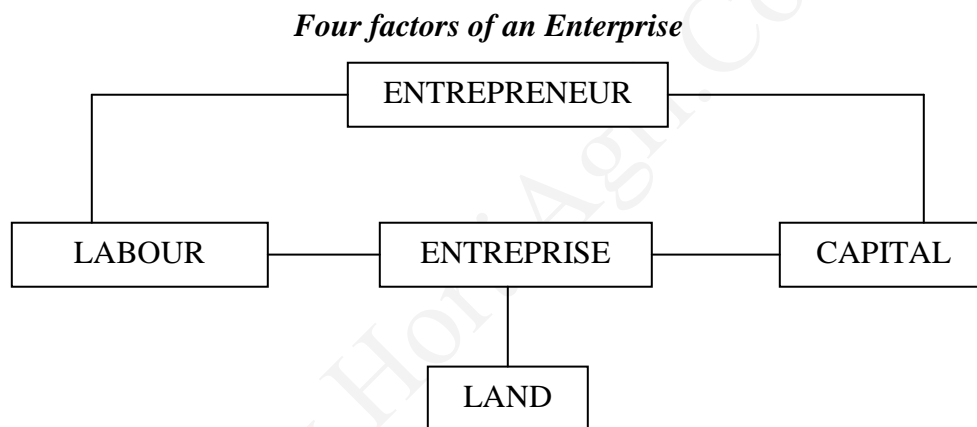
The entrepreneur differs from the professional manager in that he undertakes a venture for his personal gratification. As such he cannot live within the framework of occupational behaviour set by others. He may engage professional manager to perform some of his functions such as setting of objectives, policies, procedures, rules, strategies and 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.

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.” 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 practiced.”

Intrapreneurs

Of late, a new breed of corporate entrepreneurs has come to the fore in large organizations. 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.

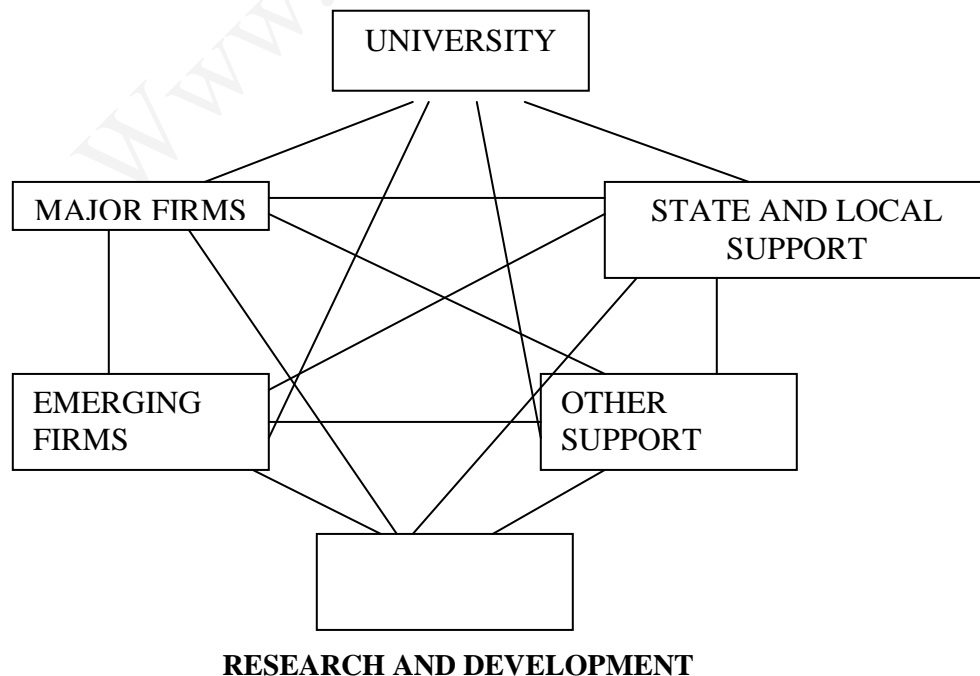
The administrator in a large firm is primarily concerned with those activities relevant to predictive management processes, that is, with activities related to prediction

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.

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 owner-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 an 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.



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The Entrepreneurial Network

Entrepreneurship is a dynamic process which requires links not only among and 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.

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, organizations, 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 responsible 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 socioeconomic development.

Lecture 5

ENTREPRENEURIAL PROCESS AND STRUCTURE, BARRIERS TO ENTREPRENEURSHIP

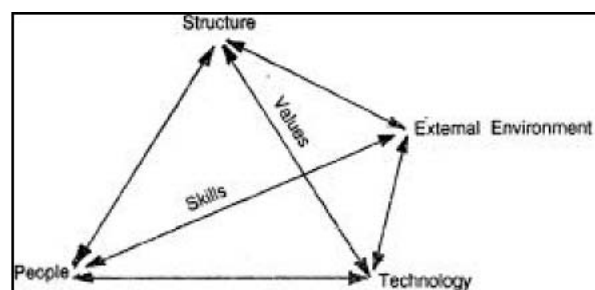
Entrepreneurial Process

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. Inter alia, the change creates needs for new goods and services. The **second** stage is by starting a new venture. The **third** process is intrapreneurship. It is the process of extending the enterprises domain of competence 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.



Entrepreneurial Structural Relationship

Entrepreneurial activity confines to the tasks of planning, directing, controlling, 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 organized 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 entrepreneur 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 organization 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.

Barriers to Entrepreneurship

1. A large number of entrepreneurs particularly in the small enterprises fall due to several problems and barriers.
2. Lack of a viable concept.
3. Lack of market knowledge
4. Lack of technical skills
5. Lack of seed capital
6. Lack of business know-how
7. Complacency - lack of motivation
8. Social stigma
9. Time presences and distractions
10. Legal constraints and regulations
11. Monopoly and protectionism
12. Inhibitions due to patents

Lecture 6 Entrepreneurial- business - practices and policies

Entrepreneurial management requires policies and practices in four major areas

- I. The organizations must be made more **receptive to innovation** and willing to perceive change as an opportunity rather than threat. Policies and practices are needed to create such an entrepreneurial climate within the organization.
- II. **Systematic measurement or appraisal of company's performance** as entrepreneur and innovator is mandatory as well as built in learning process to improve performance.
- III. Entrepreneurial management requires **specific practices pertaining to organizational structure** to staffing and managing and to compensation, incentives and rewards.
- IV. There are **don't things** that are not to be done in an entrepreneurial management.

I. Receptiveness of Organizations to Innovation - Entrepreneurial policies

Specific entrepreneurial policies are required to make innovation as a part and parcel of the ordinary, the norm to address the following reasons.

1. Innovation must be made more attractive and beneficial to managers rather than holding on to what already exists.
2. There must be clear understanding inside the organization that innovation is the best means to preserve and perpetuate the organization and that it is the foundation for individual managers' job security and success.
3. Importance of the need for innovation and dimensions of its time frame must be both defined and spelled out.
4. There needs to be an innovation plan with specific objectives laid out.

Receptive to innovation - Policy Implementation at Organization level

A. As a first step, every three years or so, the enterprise must put every single product, process, technology, market, distributive channel on trial for its life.

- Innovation requires a major effort. It requires hard work on the part of performing, capable people, the scarcest resource in any organization
- To allow innovating, the business has to be able to free its best performers for the challenges of innovation
- Equally the enterprise has to be able to devote financial resources to innovation
- If the company executives clearly know that they have to innovate or get abandoned, they would be motivated to innovate by turning themselves in to entrepreneurs - A form of organizational hygiene

B. The second step is to face up the fact that all existing products, services, markets, distribution channels, processes, technologies have limited and usually short health and life expectancies.

C. The enterprise should be continuously diagnosed which requires judgment, knowledge of the business, products markets, customers, its technologies and experience. This kind of analysis may be termed as business X-ray. Business X-ray is a tool for decision making. It enables us and forces us to allocate resources to results in the existing business. It also makes possible for us to determine how much is needed to create the business of tomorrow and its new products, new services and new markets. It enables us to turn innovative intention to innovative performance.

The Business X-ray furnishes the information needed to define how much innovation a given business requires, in what areas within what time frame.

Michael Kamis Approach

The company lists each of its products, services, the markets that each serves, the distribution channel it uses, in order to estimate their position on the product life cycle. This enables the company to estimate where to confine itself and shows the gap between what can be expected realistically and what a company still needs to do to achieve its objectives in sales, market share or profitability.

Finally the one thing certain about any major innovative effort is that there are going to be last minute hitches and last minute delays.

D. Systematic Abandonment

The Business X ray and the definition of innovation gap and innovation need altogether help the company to formulate an entrepreneurial plan with objectives of innovation and deadlines.

Such a plan ensures that the budget for innovation is adequate and it determines how many people are needed with what abilities and capacities. The people are provided with tools, money and the information to work on the innovation with clear deadlines.

There are the fundamental policies needed to endow a business with entrepreneurial management; to make the business and its management greedy for new things, to make the business to perceive innovation as a healthy normal, necessary course of action.

Receptive to innovation - Entrepreneurial Practices

Entrepreneurship in the existing business also requires managerial practices.

1. Focusing managerial vision on opportunity

- People only see what is presented to them and what is not presented gets overlooked.
- What are presented to most managers are problems like areas where performance falls below expectations.
- Management even in small companies gets a report on operating performance once a month which lists,
 - ❖ Areas in which performance has fallen below budget
 - ❖ Areas in which there are problems.
- The operating report should have two “first pages” The traditional one must list the areas of poor performance and problems the other one list all the areas in which performance was better than expected, budgeted or planned for.
- The unexpected successes in ones own business is a symptom of innovative opportunity.
- Typically in companies that are managed for entrepreneurship there are two meetings on operating results. One to focus on the problems and the other one to focus on opportunities.

2. The other practice is to hold a two day management meeting for all executives. The top performing executives are made to present before the group their achievements and the measures that have been required to achieve it. The opportunities are also explained. This has a huge impact on the attitude and values of other executives to plan and execute opportunities and to be more enterprising and successful.

Entrepreneurial companies always look for the people and units that do better and do differently. They single them out, feature them and constantly ask them

- What are you doing that explains your success?
- What are you doing that the rest of us are not doing?
- What are you not doing that the rest of us are doing?

3. The third practice in a large company is organizing a session where a member of top management group sits down with junior people from research, engineering, manufacturing, marketing so on, to listen to them on their personal aspirations, opportunities for the company and any possible threats. This gives the seniors badly needed insights in to the values, vision and concern of their younger colleagues. Above all these sessions are one of the most effective ways to instill entrepreneurial visions throughout the company.

II. Measuring innovative performance

In the normal assessments of a business, innovative performance is conspicuous by its absence.

1. The first step is to build suitable mechanisms for feed back of expectations and results from each innovative project
2. The second step is to develop a systematic review of innovative efforts altogether
3. The efforts that need more attention, more resources, emerging new opportunities, the not really improving areas and the meeting of deadlines for the efforts could be documented and discussed.
4. Entrepreneurial management entails the company's total innovative performance against the company's innovative objectives, against its performance and standing in the market, and against its performance as a business altogether.

Lecture 7

Sources of innovative opportunities

Source: The Unexpected

No other area offers richer opportunities for successful innovation than the unexpected success. In no other area are innovative opportunities less risky and their pursuit less arduous. Yet the expected success is almost totally neglected; worse, managements tend actively to reject it.

The Unexpected failure

Failures, unlike successes, cannot be rejected and rarely go unnoticed. But they are seldom seen as symptoms of opportunity. A good many failures are, of course, nothing but mistakes, the results of greed, stupidity, thoughtless bandwagon-climbing, or incompetence whether in design or execution. Yet if something fails despite being carefully planned, carefully designed, and conscientiously executed, that failure often bespeaks underlying change and, with it, opportunity.

The assumptions on which a product or service, its design or its marketing strategy, were based may no longer fit reality. Perhaps customers have changed their values and perceptions; while they still buy the same “thing,” they are actually purchasing a very different “value.” Or perhaps what has always been one market or one end use is splitting itself into two or more, each demanding something quite different. Any change like this is an opportunity for innovation.

The unexpected outside event

Unexpected successes and unexpected failure have so far been discusses as occurring within a business or an industry. But outside events, that is, events that rare not recorded in the information and the figures by which a management steers its institution, are just as important. Indeed, they often are more important.

Here are some examples showing typical unexpected outside events and their exploitation as major opportunities for successful innovation.

Source: Incongruities

An incongruity is a discrepancy, a dissonance, between what is and what “ought” to be, or between what is and what everybody assumes it to be. We may not understand the reason for it; indeed, we often cannot figure it out. Still, an incongruity is a symptom of an opportunity to innovate. It bespeaks an underlying “fault,” to use the geologist’s term. Such a fault is an invitation to innovate. It creates an instability in which quite minor efforts can move large masses and bring about a restructuring of the economic or social configuration. Incongruities do not, however, usually manifest themselves in the figures or reports executives receive and pay attention to. They are qualitative rather than quantitative.

Like the unexpected event, whether success or failure, incongruity is a symptom of change, either change that has already occurred or change that can be made to happen. Like the changes that underlie the unexpected event, the changes that underlie incongruity are changes within an industry, a market, a process. The incongruity is thus clearly visible to the people within or close to the industry, market, or process; it is directly in front of their eyes. Yet it is often overlooked by the insiders, who tend to take it for granted – “This is the way it’s always been”, they say, even though “always” may be a very recent development.

There are several kinds of incongruity:

- An incongruity between the economic realities of an industry (or of a public-service area);
- An incongruity between the reality of an industry (or of a public service area) and the assumptions about it;
- An incongruity between the efforts of an industry (or a public service area) and the values and expectations of its customers;
- An internal incongruity within the rhythm or the logic of a process.

Source: Process need

“Opportunity is the source of innovation” has been the leitmotif of the preceding chapters. But an old proverb says, “Necessity is the mother of invention”. This chapter looks at need as a source of innovation, and indeed as a major innovative opportunity.

The need we shall discuss as a source of innovative opportunity is a very specific one: I call it “process need”. It is not vague or general but quite concrete. Like the unexpected, or the incongruities, it exists within the process of a business, an industry, or a service. Some innovations based on process need exploit incongruities, others demographics. Indeed, process need, unlike the other sources of innovation, does not start out with an event in the environment, whether internal or external. It starts out with the job to be done. It is task-focused rather than situation-focused. It perfects a process that already exists, replaces a link that is weak, redesigns an existing old process around newly available knowledge. Sometimes it makes possible a process by supplying the “missing link”.

In innovations that are based on process need, everybody in the organization always knows that the need exists. Yet usually no one does anything about it. However, when the innovation appears, it is immediately accepted as “obvious” and soon becomes “standard”.

There are, however, some important caveats

1. The need must be understood. It is not enough for it to be “felt” Otherwise one cannot define the specification for the solution.
2. We may even understand a process and still not have the knowledge to do the job.
3. The solution must fit the way people do the work and want to do it. Amateur photographers had no psychological investment in the complicated technology of the early photographic process.

Source: Industry and Market Structures

Industry and market structures sometimes last for many, many years and seem completely stable. The world aluminum industry, for instance, after one century is still led by the Pittsburgh-based Aluminium Company of America which held the original patents, and by its Canadian offspring, Alcan of Montreal. There has only been one major new comer in the world's cigarette industry since the 1920s, the South African Rembrandt group. And in an entire century only two newcomers have emerged as leading electrical apparatus manufactures in the world. Philips in Holland and Hitachi in Japan. Similarly no major new retail chain emerged in the United States for forty years, between the early twenties when Sears. Roebuck began to move from mail order into retail stores, and the mid-sixties when an old dime-store chain, Kresge, launched the K-Mart discount stores. Indeed, industry and market structures appear so solid that the people in an industry are likely to consider them foreordained, part of the order of nature, and certain to endure forever.

Actually, market and industry structures are quite brittle. One small scratch and they disintegrate, often fast. When this happens, every member of the industry has to act. To continue to do business as before is almost a guarantee of disaster and might well condemn a company to extinction. At the very least the company will lose its leadership position; and once lost, such leadership is almost never regained. But a change in market or industry structure is also a major opportunity for innovation.

In industry structure, a change requires entrepreneurship from every member of the industry. It requires that each one ask anew; "What is our business?" And each of the members will have to give a different, but above all a new, answer to that question.

Source: Demographics

The unexpected; incongruities; changes in market and industry structure; and process needs – the sources of innovative opportunity discussed so far in Chapter 3 through 6 – manifest themselves within a business an industry, or a market. They may actually be symptoms of changes outside, in the economy, in society, and in knowledge. But they show up internally.

- Demographics
- Changes in perception, meaning and mood
- New knowledge

The remaining sources of innovative opportunity are external. They are changes in the social, philosophical, political, and intellectual environment.

Of all external changes, demographics – defined as changes in population, its size, age structure, composition, employment, educational status, and income – are the clearest. They are unambiguous. They have the most predictable consequences.

Demographics have major impact on what will be bought, by whom, and in what quantities. American teenagers, for instance, buy a good many pairs of cheap shoes a year; they buy for fashion, not durability, and their purses are limited. The same people, ten years later, will buy very few pairs of shoes a year – a sixth as many as they bought when they were seventeen – but they will buy them for comfort and durability first and for fashion second. People in their sixties and seventies in the developed countries—that is, people in their early retirement years form the prime travel and vacation market. Ten years later the same people are customers for retirement communities, nursing homes, and extended (and expensive) medical care. Two-earner families have more money than they have time, and spend accordingly. People who have acquired extensive schooling in their younger years, especially professional or technical schooling, will, ten to twenty years later, become customers for advanced professional training.

Source: Changes in perception

In mathematics there is no difference between “The glass is half full” and “The glass is half empty”. But the meaning of these two statements is totally different, and so are their consequences. If general perception changes from seeing the glass as “half full” to seeing it as “half empty”, there are major innovative opportunities.

Source: New Knowledge

Knowledge-based innovation is the “super-star” of entrepreneurship. It gets the publicity. It gets the money. It is what people normally mean when they talk of innovation. Of course, not all knowledge-based innovations are important. Some are truly trivial. But amongst the history – making innovations, knowledge-based innovations rank high. The knowledge, however, is not necessarily scientific or technical. Social innovations based on knowledge can have equal or even greater impact.

Knowledge-based innovation differs from all other innovations in its basic characteristics: time span, casualty rate, predictability, and in the challenges it poses to the entrepreneur. And like most “super-starts”, knowledge-based innovation is temperamental, capricious, and hard to manage.

The characteristics of knowledge-based innovation

Knowledge-based innovation has the longest lead time of all innovations. There is, first, a long time span between the emergence of new knowledge and its becoming applicable to technology. And then there is another long period before the new technology turns into products, processes, or services in the marketplace.

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Lecture 8

MARKETING RESEARCH

Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company. Marketing research process can be segregated into five major steps, - defining the problem and research objectives, developing the research plan, collecting the information, analyzing the data and presenting the findings.

1. Define the Problem and Research Objectives

Some research is exploratory - its goal is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. Some research is descriptive - it seeks to ascertain certain magnitudes, such as how many people would buy sauce at Rs.180 per Kg. Some research is causal - its purpose is to test a cause and effect relationship. For example what would happen if the price of the product is increased, or expenditure on market promotion activities is increased?

2. Develop the research plan

Designing a research plan calls for decisions on the data sources, research approaches, research instruments, sampling plan, and contact methods.

Data Sources The researcher can gather secondary data, primary data or both. Secondary data are data that were collected for another purpose and already exist somewhere eg., data available from Economic Survey of India. Primary data are data gathered for a specific research project.

Research Approaches - It refers to methods of collecting data. Primary data can be collected in five ways: observation, focus groups, surveys, behavioral data, and experiments.

Research Instruments It refers to means of collecting data. Marketing researchers have a choice of two main research instruments in collecting primary data: questionnaires and mechanical devices.

Sampling Plan After deciding on the research approach and instruments, the marketing research must design a sampling plan. This plan calls for three decisions.

- a) **Sampling unit:** Who is to be surveyed? The marketing researcher must define the target population that will be sampled.

- b) **Sample size:** How many people should be surveyed?
- c) **Sampling procedure:** How should the respondents be chosen?

Contact Methods Once the sampling plan has been determined, the marketing research must decide how the subject should be contacted: mail, telephone, personal, or on-line interviews.

3. Collect the Information

The data collection phase of marketing research is generally the most expensive and the most prone to error. In the case of surveys, four major problems arise. Some respondents will not be at home and must be contacted again or replaced. Other respondents will refuse to cooperate. Still others will give biased or dishonest answers. Finally, some interviewers will be biased or dishonest.

4. Analyze the data

The next-to-last step in the marketing research process is to extract findings from the collected data. The researcher tabulates the data and develops frequency distributions. Averages and measures of dispersion are computed for the major variables. The researcher will also apply some advanced statistical techniques and decision models in the hope of discovering additional findings.

5. Present the Findings

As the last step, the research presents the findings to the relevant parties. The research should present major findings that are relevant to the major marketing decisions facing management.

Lecture 9

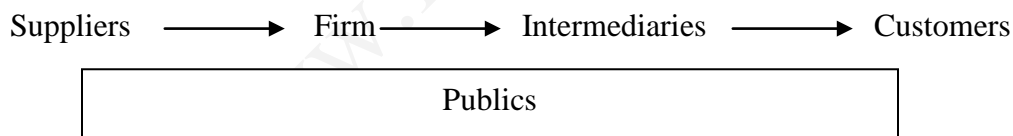
Business environment – Micro environment

Most of successful companies have now realized that firms encounter a never ending series of opportunities and threats. The responsibility for identifying significant changes in the macro-environment falls on company's decision makers. Managers should realise that environmental scanning would provide a continuous link between them, their customers and others in the environment. A Manager has to design his marketing strategies based on the emerging marketing environment.

The marketing environment can be classified as micro environment and macro environment. Micro environment includes all elements which have greater interaction with the firm and those that could be influenced by the firm's policies. The macro environment includes all elements that have an indirect influence on the performance of the company.

Micro Environment

The micro environment comprises of suppliers (raw materials or finished goods to the firm), the firm, intermediaries, customers and publics.



- a) **Suppliers:** the suppliers include raw material and other inputs or finished goods suppliers to the firm. The performance of the suppliers can influence the success of the firm to a greater extent. Delay in delivery of supplies, supply of low quality inputs, high cost of inputs, irregularity in supply of inputs would affect the production of the firm. Therefore every firm must build good relations with their suppliers so that both of them benefit in the long run. The firm may provide technology, capital, managerial assistance to the suppliers so that they can improve their performance.
- b) **Firm:** The activities of the firm have a direct bearing on the success of the firm. The firm should have a customer orientation. It should examine the needs of their customers

and then design their products and services such that they fulfill the needs of the customers. This would enable greater customer satisfaction thereby increasing the number of loyal customers. This goodwill would enable the firm to launch new products and services for the customers.

- c) **Intermediaries:** It includes distributors, retailers, advertising firms, market research firms, etc. The success of the firm also depends on the role of the intermediaries. The firm must build healthy relationship with the intermediaries such that the firm and the intermediaries benefit in the long run.
- d) **Customers:** They are the key element in the micro environment. In the competitive market winning a customer is a difficult task for the firms. Therefore they should formulate strategies to fulfill the customer needs. Customers have varied taste and preferences hence the firm must monitor their changing needs and capitalize them by providing suitable products and services.
- e) **Publics:** The publics includes NGOs, consumer forums etc. These organizations are there to protect the interests of the customers and society. The individuals can seek justice by approaching the publics. The publics will also fight against the firms who produce controversial advertisement, products that affect the society, environmental pollution etc.

Lecture 10

Business environment – Macro environment

Macro environment

It may broadly be classified into (1) Economic environment, (2) Demographic environment, (3) Socio-cultural environment, (4) Technological environment (5) Political environment, and (6) Legal environment

1. Economic Environment

Economic environment is the most significant component of the marketing environment. It affects the success of a firm. The economic environmental forces can be studied under three broad categories: (a) General economic conditions (b) Industrial conditions, and (c) State of supply of resources for production.

a. General Economic Conditions

General economic conditions in a country are influenced by various factors. The following factors are important.

- i) Agricultural trends
- ii) Industrial output trends
- iii) Per capita income trends
- iv) Pattern of income distribution
- v) Pattern of savings and expenditures
- vi) Price levels
- vii) Employment trends
- viii) Impact of government policies and
- ix) Economic systems

b) Industrial Conditions

Economic environment of a country is influenced by the prevalent industrial conditions as well as industrial policies of a country. A Manager needs to pay attention to the following aspects of the industrial conditions.

- i) Market growth of the industry
- ii) Demand patterns of the industry, and

- iii) Its stage in product life cycle

c) *State of Supply of Resources for Production*

Supply of resources required for production determines inputs which are available for production. These are the most important resources required for production.

- i) Land
- ii) Labour
- iii) Capital
- iv) Machinery and equipment, and
- v) Managers

The above-stated environmental forces determine the economic environment of a country.

To sum up, economic environment describes the overall economic situation in country and helps in analysing GNP per capita, rate of economic growth, inflation rate, interest rates, unemployment problems, etc. Therefore it is necessary to examine carefully the economic environment of the country.

2. Demographic environment

Demographic environment explains the pattern and changes in the society based on age, sex, educational background, marital status, family size, family life style, religion, nationality, etc. Demographic environment is useful for marketing decisions, market segmentation and formulation of marketing strategies. Knowledge of the demographic environment is very important to a marketer for performance of his functions. People constitute the market and market depends on customers. Demography provides quantitative as well as qualitative aspects of population.

3. Socio-cultural environment

The social environment of a nation determines the value system of the society which in turn affects the marketing of products. Social factors are caste. Customs, conventions, cultural heritage and respect for seniority, etc. For example, the nature of goods and services in demand

depends upon people's attitudes, customs, social values, etc. In India, social environment is continuously changing.

Changing social values and increased acceptance of improved birth control methods have resulted in a rise in the mean age of various countries. The social environment has the following dimensions.

- Changes in people's lifestyles
- Concerns for social problems and
- Growth of consumerism

Culture influences every aspect of marketing. Marketing decisions are based on recognition of needs and wants of the customers, which is a function of customer's perceptions. These help in understanding of lifestyles and behaviour patterns as they have grown in the society's culture in which the individual has been groomed. Thus a person's perspective is generated, groomed and conditioned by culture.

4. Technological environment

Technological environment provides both opportunities and threats, and its impact is direct as well as indirect. Certain aspects to which a marketing planner should pay attention are;

- i) High expenditure on research and development
- ii) Concentration on product improvement and development
- iii) Unlimited innovations in technology
- iv) Accelerating pace of technological change and
- v) Greater emphasis upon the regulation of technological change

Advances in technology are difficult to predict. However, the manager should consider potential, technological development determined from resources committed by major industries or the government. Being in a market that is rapidly changing due to technological development, will require the manager to make careful short-term marketing decisions as well as being prepared with contingency plans given any new technological developments that may affect product or services.

5. Political environment

Political factors play a major role in shaping the environment in which business organizations operate. Thus a business organization has to attempt to study and analyse political environment. Such a study and analysis help in estimating risks opportunities and threats involved, and then adjusting their decisions and operations to anticipated changes.

To conclude, the various political factors that should be considered are;

- i) Role of private sector in the economy
- ii) Government procedures and changes in government policy
- iii) Type of government and stability in government
- iv) Role of small-scale industry in the economy and
- v) Role of service sector in the economy

6. Legal environment

Decisions are strongly affected by laws pertaining to competition, price setting, distribution arrangements, advertising, etc. It is necessary for a manager to understand the legal environment of the country and the jurisdiction of its courts. The following laws affecting business in India are important.

- 1) Indian Contract Act, 1872
- 2) Factories Act, 1948
- 3) Minimum Wages Act, 1948
- 4) Essential Commodities Act, 1955
- 5) Food Products Order
- 6) Securities contracts Regulation Act, 1956 (Now replaced by SEBI Act)
- 7) The Companies Act, 1956
- 8) Trade and Merchandise Marks Act, 1958
- 9) Monopolies and Restrictive Trade Practices Act, 1969
- 10) The Water (Prevention and Control of Pollution) Act, 1974
- 11) The Air (Prevention and Control of pollution) Act, 1981
- 12) Sick Industrial Companies (Special provision) act, 1985
- 13) Environment Protection Act, 1986

- 14) Consumer Protection Act, 1986
- 15) Securities and Exchange Board of India Act, 1992
- 16) Taxation laws covering Corporate tax, indirect taxes like Excise, Customs, Sales tax and Wealth tax)

Importance of Environment Analysis

The manager needs to be dynamic to effectively deal with the challenges of environment. The environment of business is not static. The some of the following benefits of environment scanning are as follows:

- It creates an increased general awareness of environmental changes on the part of management
- It guides with greater effectiveness in matters relating to Government
- It helps in marketing analysis
- It suggests improvements in diversification and resource allocation
- It helps firms to identify and capitalise upon opportunities rather than losing out to competitors
- It provides a base of objective qualitative information about the business environment that can subsequently be of value in designing the strategies.

Lecture 11

ENTREPRENEURIAL ENVIRONMENT

Learning Outcome

- . • To study different segments of entrepreneurial environment
- . • To analyse the environment

Introduction

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

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

Environment

- **Political**-Political Atmosphere, Quality of Leadership
- **Economic**-Economic Policies, Labour, Trade, Tariffs, Incentives, Subsidies
- **Social**-Consumer, Labour, Attitudes, Opinions, Motives
- **Technological**-Competition And Risk, Efficiency, Productivity, Profitability
- **Legal**-Rules, Regulations
- **Cultural**-Structure, Aspirations And Values

Private Enterprise and Development

The existence of uncertainty in the economic 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 risk, 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 environments 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 utilize non-renewable resources within planned limits. With potential development 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 remain 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 opportunity 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.

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. Conceptualization 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 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 realize 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, backing 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 finalized 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 "developed agriculture sector provides wage goods and savings capacity" needed to support rapid industrialization. If agricultural development does not create savings for inducements 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 lead to a development is the real development area 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 infrastructure facilities created to pave the way for nucleus industries are extended to cover 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 farmers in the benefit of an assured market and an enhanced income.

If a large number of farmers are producing soyabean, a central Soya oil 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 its ancillaries 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 its in the capabilities of the target-beneficiary group whom we ant 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, hose and simple power-tillers and bicycles, not air conditioners or expensive cars and equipment’s.

Much of the recent criticism of inefficient, high cost industrialization behind high walls of protection and quantitative restriction 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: “Industrialization 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 areas; and the essential infrastructure so development that it would be capable of sustaining active linkages between the subsidiary units in the villages and the central unit.

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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 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 group
2. Analyse the environment for immediate feasible enterprises in an integrated manner;
3. Delineate the linkage and institutional arrangement;
4. Recommend appropriate organizational structures to provide necessary promotional support.

Unfortunately, in most of the studies on backward areas, there is a tendency to make generalization and ignore the details of really feasible project. 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-group 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 standardized 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 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.”

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Lecture 12

Venture feasibility – Technical and Marketing

Technical Feasibility

The technical analysis concerns the projects inputs (supplies) and outputs (production) of real goods and services. It is extremely important, and the project framework must be defined clearly enough to permit the technical analysis to be thorough and precise. The other aspects of project analysis can only proceed in light of the technical analysis, although the technical assumptions of a project plan will most likely need to be revised as the other aspects are examined in detail. Good technical staffs are essential for this work; they may be drawn from consulting firms or technical assistance agencies abroad. They will be more effective if they have a good understanding of the various aspects of project analysis, but technical staff, no matter how competent, cannot work effectively if they are not given adequate time or if they do not have the sympathetic cooperation and informed supervision of planning officials.

Marketing Feasibility

I. INTRODUCTION

- A. Describe your background, relevant experience
- B. Your goals and objectives: at least sales and net income, time frame

II. PRODUCT MARKET DEFINITION

- A. Customer Need – Discuss the fundamental, underlying customer need.
- B. Generic Product Class – Discuss the category of product types which customers believe are substitute in satisfying the underlying need.

III. CUSTOMER PROFILE

1. If your product competes directly with other brands within one product type, develop a profile of customers who buy or may buy this product type.

2. If your product is a unique offering and the only member of a product type, then describe the customers who buy your product as well as customers of what you think are the closest substitute(s).

Justify your choice of (1) or (2) and develop a customer profile.

3. Description of Customers – Describe the market segment.

-For consumer markets:

First, segment the market on benefits sought. How does the customer want to satisfy the need identified in #2.

Then describe the market segment in other ways: usage situations, usage rates, activities or interests, demographics, life-style, etc.

- For industrial (organizational) markets:

First, segment the market on benefits sought. How does the customer want to satisfy the need identified in #2.

2? Then describe the market segment in other ways: usage situations, usage rates, activities or interests, demographics, life-style, etc.

IV. COMPETITOR PROFILE

A. Industry Analysis

- Industry structure
- Industry size and growth rate
- Anticipated industry changes
- Industry marketing practices

B. Key Competitors (those with the biggest market share OR those whose offerings are the closest substitutes for your offering)

- (1) If the your product competes directly with other products at the brand level within one product type, then key competitors are those firms which sell offerings of this product type.
- (2) If the client's product is a unique offering and the only member of a product type, then key competitors are those firms which supply the product which customers believe is the closest substitute.

Justify your choice of (1) or (2) and develop a key competitor profile. Be sure you analyze the firm and not the product.

- Describe key competitors
- Discuss their major strengths and weaknesses
- Analyze their goals, objectives, and likely moves if you enter

V. MARKET SIZE ESTIMATION

Describe method used, its limitations and your assumptions. You may want to create a range of potentials / forecasts based on different assumptions.

A. Market Potential & Market Forecast

What is the potential (upper limit on total units sold or sales dollars under ideal conditions) for this market (i.e., product type)? What is the market forecast (total industry sales that can be realistically expected under conditions)?

B. Sales potential & Sales Forecast

What level of sales might your firm be able to achieve under ideal conditions? What level of sales can your firm expect to achieve given competition, capabilities of firm. etc.?

VI. EVALUATE THE MARKET OPPORTUNITY

Your evaluation of whether this is a good opportunity and why?

- How well does your product offering meet customer wants/requirements?
- How well are competitors meeting customer wants/requirements?
- How well does the opportunity meet the client's expectations?

Lecture 13

Venture feasibility

Financial feasibility

A food processing firm would like to expand the existing business or modernize the same or establish new business. Such ventures necessitate the firm to commit large amount of funds in creation of fixed assets in the current year or within few years, which will generate cash flows during many future periods. Investment decisions pertaining to creation of additional fixed assets or modernizing the old areas are generally known as Capital Budgeting or Capital Expenditure decisions.

Capital budgeting decisions may be defined as the firm's decision to invest its current funds most efficiently on long-term assets in anticipation of an expected flow of benefits over a period of time. Investment in the long term assets invariably required funds to be tied up in the current assets such as inventories. The investment decisions require special attention because i) they influence the growth in the long run, ii) it may reduce or increase risk in business, iii) it is necessary to arrange huge funds internally or externally, iv) most investment decisions are irreversible or the firm will incur heavy losses if decisions are reversed, and v) the investments decisions are made based on the assumptions about cash flow in future.

The capital budgeting techniques may be grouped in to following categories;

- i) Discounted techniques
- ii) Undiscounted techniques

The major difference between these two measures is based on consideration of time value of money. Investment decisions involving expansion or modernization of existing business or venturing into new business involves utilization of funds for creation of assets in a year or few years, which will generate cash flows during many future periods.

Time Value of Money

Interest rate serves as the pricing mechanism for the time value of money. The rate of interest is considered as an exchange price between the present and future rupees. Thus one rupee today exchanges for $(1 + i)$ rupees at the end of period one in future. Or alternatively a one rupee payment made at a period in the future exchanges for $1/(1 + i)$ rupees now.

Compounding is the process of finding future value of present amount

Future value = $PV \times (1 + \text{interest rate per conversion period})^{\text{no. of conversion periods}}$

$$V_n = V_n (1+i)^n$$

PV = Present Value

$(1+i)^n$ = is the compounding factor

n = number of conversion period (years)

The term $(1+i)^n$ can always be computed. However, the procedure becomes tedious for higher values of n. fortunately, numerical results of such equations have been tabulated for widely ranging value of i and n.

Discounting is the process of finding the present value of future amount

$$\text{Present value (V}_o\text{)} = \frac{\text{Future amount}}{(1 + \text{interest rate})^n}$$

$$V_o = \frac{V_n}{(1+i)^n}$$

$$\frac{1}{(1+i)^n} = \text{discount factor, } i = \text{interest rate, } n = \text{no. of conversion periods}$$

The effects of time and interest on present and future values:

The important variables determining present and future values of payment are:

- 1) The number of conversion periods and
- 2) The size of interest rate per compounding period

Discounted Measures

In discounted measures of investment analysis the time value of money is taken into consideration. Following are the discounted measure of investment analysis.

- i) Net present worth or value (NPV or NPW)

- ii) Benefit cost ratio (BCR)
- iii) Internal rate of return (IRR)

Discounting factor

In calculation of net present worth or benefit cost ratio, discounting factor must be chosen prior to investment analysis. Usually the discounting factor used is the opportunity cost of capital. The bank rate given on long term deposit (12%) is chosen as the discount factor,(alternatively, the entrepreneurs instead of investing in the proposed investment can deposit in a bank and earn 12% of interest).

i) Net present worth

This is the present worth of incremental net benefit or incremental cash flow stream. It is interpreted as the present worth of the income stream generated by an investment.

$$NPW = \sum_{t=1}^N \frac{B_t}{(1+i)^t} - \sum_{t=1}^n \frac{C_t}{(1+i)^t}$$

Bt = Benefit in year 't'

Ct = Cost in year 't'

Selection criterion

Accept all independent projects with a zero or greater net present worth when discounted at opportunity cost of capital. Ranking of acceptable alternative independent project is not possible with net present worth criterion because it is an absolute and not a relative measure. It is also the preferred selection criterion to choose among mutually exclusive project.

ii) Benefit Cost Ratio

This is the ratio of present worth of benefit stream to present worth of cost stream.

$$BCR = \frac{\sum_{t=1}^n B_t / (1+i)^t}{n}$$

$$\sum_{t=1}^N C_t / (1+i)^t$$

Selection criterion

Accept all independent projects with a benefit cost ratio of 1 or greater when the cost and benefit streams are discounted at opportunity cost of capital.

iii) Internal Rate of Return (IRR)

In NPW and BC ratio, market rate of interest is chosen and the project is assessed whether it is rewarding at this standard (interest). The IRR is a method to assess the maximum interest that the investment could generate for the resources used.

Internal rate of return is that discount rate which makes the net present worth of incremental net benefit equal to zero.

$$\sum_{t=1}^N \frac{B_t}{(1+i)^t} - \sum_{t=1}^n \frac{C_t}{(1+i)^t} = 0$$

$$\text{IRR} = \text{LDR} + \text{Difference between the two X discount rates}$$

Present worth of incremental net benefit stream (cash flow) at lower discount rate
--

Sum of the absolute values of present of cash flow at two discount rates
--

IRR = Internal rate of return

LDR = Lower discount rate

Lecture 14

Venture Feasibility

Institutional – Organizational – Managerial aspects

A whole range of issues in project preparation revolves around the overlapping institutional, organizational and managerial aspects of projects, which clearly have an important aspect on project implementation.

One group of questions asks whether the institutional setting of the project is appropriate. The sociocultural patterns and institutions of those the project will serve must be considered. Does the project design taken into account the customs and culture of the farmers who will participate? Will the project involve disruption of the ways in which farmers are accustomed to working? If it does, what provisions are made to help them shift to new patterns?

To have a chance of being carried out, a project must relate properly to the institutional structure of the country and region. What will be the arrangements for land tenure? What size holding will be encouraged? Does the project incorporate local institutions and use them to further the project? How will the administrative organization of the project relate to existing agencies? Is there to be a separate project authority?

The organizational proposals should be examined to see that the project is manageable. Are authority and responsibility properly linked? Does the organizational design encourage delegation of authority? Does the proposed organization take proper account of the customs and organizational procedures common in the country and region. Are ample provisions included for managers and government supervisors to be obtaining up-to-date information on the progress of the project?

Managerial issues are crucial to good project design and implementation. The analyst must examine the ability of the available staff to judge whether they can administer such large-scale public sector activities as a complex water project, an extension service, or a credit agency. When managerial skills are limited, provision may have to be made for training, especially of middle-level personnel.

Social Aspects

We have mentioned the need for analysts to consider the social patterns and practices of the clientele a project will serve. More and more frequently, project analysts are also expected to examine carefully the broader social implications of the proposed investments. We have noted proposals to include weights for income distribution in the formal analytical framework so that project benefiting lower-income groups will be favoured.

Commercial Aspects

On the output side, careful analysis of the proposed market for the project's production is essential to ensure that there will be an effective demand at a remunerative price. Where will the products be sold? Is the market large enough to absorb the new production without affecting the price? If the price is likely to be affected, by how much? Will the project still be financially viable at the new price? What share of the total market will the proposed project supply? Are there suitable facilities for handling the new production? Perhaps provision should be included in the project for processing, or may be a separate marketing project for processing and distribution is in order. Is the product for domestic consumption or for export? Does the proposed project produce the grade or quality that the market demands? What financing arrangements will be necessary to market the output, and what special provisions need to be made in the project to finance marketing? Since the product must be sold at market prices, a judgment about future government price supports or subsidies may be in order.

A major objective of the financial analysis of farms is to judge how much farm families participating in the project will have to live on. The analyst will need budget projections that estimate year by year future gross receipts and expenditures, including the costs associated with production and credit repayments farm families must make, to determine what remains to compensate the family for its own labour, management skills, and capital. Part of the income the family will receive may in food that is consumed directly in the household, so judgment must be about the quantity and its value. Even if a family realize a considerable increase in income or "net incremental benefits" by participating in the project – as a result, say of borrowing to purchase fertilizers to increase rice production – is absolute income may still be so low that nearly all of the incremental production is consumed in the household. Financial analysis must

judge whether the family will then have sufficient cash to repay the production credit for fertilizer. If not, the analyst may have to make a policy judgment about how much to subsidize families with very low income.

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Lecture 15

Starting new business or buy firms

Start from scratch, buy a business, or buy a franchise? Once you've decided to start a business and have a good idea of what kind of business, you have these three basic start-up options. Each has advantages and disadvantages.

Starting a Business

Most entrepreneurs start their business from scratch. Why is this so? Many do not even consider the two other options.

Here are a few of the most common advantages to starting your business from scratch:

- You can create a business, image, and reputation that reflect your personality.
- It gives you the opportunity to provide a unique service or product to the market.
- Customer contacts and relationships are new. There is no prior ill will.
- You can evaluate and choose new suppliers.
- You can evaluate and choose new employees.
- You can identify and acquire or lease an optimum location
- No equipment, supplies, or inventory exist, so you can choose exactly what you want.
- You can develop and nurture new credit and banking relationships.

On the other hand, be aware of these disadvantages:

- Starting a business is riskier than buying an existing business.
- Starting and organizing a new business takes more time and energy than buying an existing business.
- Capital and credit may be more difficult to obtain because of lack of history and experience.
- It may take time to develop a solid customer base.
- You may need supplemental income in the early years, until the business becomes profitable.
- You are less sure of the marketability of your product or service.
- Talented and experienced employees may be difficult to obtain and compensate adequately.
- Costs are more difficult to estimate.

Buying a Business

Buying an existing business might be the way for you to go. Even if you have clearly decided to start a business from scratch, you can learn a great deal by investigating and analyzing

similar businesses for sale. The more information you can obtain, the more businesses you look at, and the more questions you ask, the more likely your start-up will be successful. Take the time to search. You may even find a gem.

The major advantages of buying an existing business are:

- You can buy at a bargain price and bargain terms because the owner is often eager to sell.
- You can inherit proven inventory, supplies, equipment, and a facility at a bargain price.
- You can inherit good employees and loyal customers.
- You can be the beneficiary of goodwill and a positive reputation.
- There is less risk because the business has a track record.
- You can be profitable sooner.
- You can obtain a good proven location.
- You can save time by obtaining everything in one transaction.
- You can take advantage of established credit and supplier relationships.
- The financial records of the business can be a valuable starting point in running and growing the business.
- The seller may be available for valuable future assistance.
- You eliminate one competitor.

The major disadvantages of buying an existing business are:

- The price may be too high.
- The business or owner may have a bad reputation.
- The personality and decor of the business may not reflect your tastes.
- You may inherit incompetent or inflexible employees.
- The business may be in a poor location or facility.
- You may inherit antiquated or obsolete inventory, fixtures, and equipment.
- The existing policies and procedures may be ineffective.
- You may inherit inappropriate customers or be unable to retain the valuable customers.
- You may not get along well with the existing landlord.
- You may be liable for contracts entered into by the prior owner.

- There may be some hidden debts and liabilities that unexpectedly show up later.
- The owner may take the customer base and goodwill to a new business or location.

Where do you find businesses for sale? Here are a few sources to consider:

- your local business or legal newspaper
- Check the classified ads in the business Journals.
- Check the classified ads in trade and industry magazines.
- Contact real estate brokers and business brokers.
- Visit or call your local Chamber of Commerce. They may maintain lists or may know of interested sellers.
- Talk to trade sources such as suppliers, distributors, manufacturers, and trade associations.
- Check with advocates, accountants, bankers, friends, and acquaintances. Let them know that you are looking for a business opportunity.
- Directly contact business owners and ask whether they, or someone they know, want to sell.
- Keep an eye open for opportunities that suggest a business may be for sale. Examples include death, divorce, illness, bankruptcy, and co-owner disagreements.

Factors to be considered before buying a business

Personal criteria:

- Identify your personal goals for purchasing the business. Will the business you are considering match these goals? Think about your expertise. What are your strengths and weaknesses? Do they complement the venture? Will your knowledge and skills be of help in operating the business?
- Consider your lifestyle. Does this business fit your status and image needs?
- Decide about location. Is the location convenient for you? Does it have enough traffic flow? Is the location convenient to your target customers? What is the history behind the location?
- Look at the surroundings and physical conditions. Do you need to remodel? What are the estimated costs?

- Consider your financial needs. How much money do you want to make? How much money will you need to purchase the business?

Business criteria:

- Obtain past and projected profit and sales figures. Ask for the past 3 to 5 years of audited financial statements, if they have them. Have your accountant review them.
- Review the business' operating ratios. How do they compare with industry ratios. Ask the owner to explain any significant deviations.
- Obtain a list of all assets and liabilities. Examine the age and condition of inventory, equipment, and other assets. Evaluate debts and other liabilities. Are there any pending legal actions? Is product liability a concern? Analyze the number, amount, and ages of the receivables. How many did they write off as uncollectible in the past three years?
- Review the past 3 to 5 years' tax returns. Obtain income tax, sales tax, and other tax returns. Have your accountant review them. Compare them for consistency with each other and with the financial statements. If you doubt that these are the filed returns, obtain written authorization from the seller to obtain copies directly from the taxing agency.
- Obtain copies of all current contracts, including leases, loans, supplier and customer agreements, and insurance policies.
- Review all legal issues with your attorney.
- Review corporate minutes. If the entity is a corporation, obtain copies of all relevant corporate documents to review.
- Determine the value and legal protection of names, logos, trademarks, patents, and copyrights that are necessary for continued business success.
- Run necessary background and credit checks.
- Assess the current staff. If there are current employees, check their personnel files and interview them individually. Analyze compensation, skills, training, fringe benefits, union obligations, and turnover.
- Evaluate local economic and political conditions. What are the industry trends for this business? Is the market increasing or decreasing? What is the growth potential? What is the competitive environment?

- Meet with customers. Determine their level of satisfaction with the business. Talk to walk-in customers and former customers.
- Deal with a cooperative seller. Will the seller be willing to assist with an orderly transition? If you don't get along with the seller, or if the seller is reluctant to disclose all the information you request, be concerned. Don't be afraid to walk away from the deal. There are many more opportunities out there.
- Good price and good terms are essential when you finally decide to buy. Knowing the seller's motivation is imperative for you to negotiate the best deal.

Why do people sell businesses? The reason they volunteer is often not the real underlying reason. Remember that the seller wants to paint a bright picture to obtain the best price and terms. However, people don't generally sell businesses that are doing well, have a bright future, and are enjoyable to own and run. Your job is to determine the real reason for selling before you go too far in the transaction. It will put you in a much stronger bargaining position. Recognize that the seller has only one business to sell. You have many possible businesses you could buy, if you even do buy. You should be in the power negotiating position.

Here are some of the most common reasons owners claim that they are selling the business:

- Owner wants to retire.
- Owner wants to collect his winnings and enjoy them.
- Owner wants to live somewhere else.
- Illness is pressuring the owner to leave the business.
- Owner needs to deal with estate and inheritance problems.
- Owner is not happy with the line of business.
- There is a dispute between co-owners.

Here are some reasons owners are less likely to volunteer:

- Owner has family pressures.
- Owner has marital problems.
- Owner sees a better business opportunity.

- Owner dislikes coping with unions, regulations, taxes, consumer groups, stockholders, inflation, or insurance costs.
- Company needs more financing than the owner can raise.
- The market for what the company sells is currently depressed.
- Company is losing money for reasons the owner cannot diagnose.

Here are some reasons owners will rarely volunteer:

- Bigger companies are squeezing out smaller companies.
- New zoning laws are too restrictive.
- Competitors are moving in with more effective products or methods.
- Union settlements are cutting into profit.
- Owner wants to start a competitive firm with greater potential.
- Plant has become worn out or obsolete.
- New government regulations are too expensive.
- Supply sources have become restricted or eliminated.
- Location is becoming obsolete.
- Product or service the company sells is becoming obsolete.
- Franchise is being canceled.
- Company needs more cash than operations can justify.
- Key employees are leaving, perhaps as competitors.
- There is an impending threat of a major lawsuit.
- Major customer returns are likely from previous sales.
- There is a backlog with major built-in losses.

The key for you is to determine the real reason or reasons. Some reasons may necessitate walking away from the deal. Others may signify a great opportunity. You will decide, but do so knowing all the facts.

What is the value of a business? Entire books describe valuation techniques in great detail. This section discusses highlights of the major techniques. There is no single correct approach to valuation. Professional business appraisers will apply several techniques. However,

what a business eventually sells for is often dependent on the buyer's and seller's subjective views and negotiating skills.

The three generally accepted methods of valuation are:

1. Balance Sheet Method: Assets minus liabilities give a value to the business. Variations include pure book value (historic cost), adjusted book value (fair market value), and liquidation value (immediate sale).
2. Income Statement Method: Capitalize earnings or sales with a chosen capitalization rate. Make decisions on what years to average for earnings or sales, what adjustments to make to earnings (taxes, interest, depreciation, owner compensation), and what growth and capitalization rates to use.
3. Discounted Cash Flow: Project cash flow of the business into the future, choosing an appropriate discount rate, and discounting the cash flows back to today's present value.

You need accurate data from the seller to perform a proper analysis. You may want to hire an accountant or a specialized business appraiser to perform a detailed analysis. Now that you have found a great business at a great price, don't forget the terms. They can often be more important than the actual price. Generally you want to put as little down as possible and have the owner carry the balance at a low interest rate for as long as possible. This serves two purposes. One, you improve your cash flow position. Two, if there are any future problems that you feel the seller did not disclose and should be liable for, you have substantial leverage since you are still paying the seller.

Locate a good lawyer and a good arbitrator to help you close the transaction. If you and your lawyer can draft the contract, do it. If the seller drafts the contract, have your lawyer carefully review it.

Here are some typical provisions to include:

1. Names and addresses of all parties and their spouses
2. Total price
3. Complete detailed description of all tangible and intangible assets with price allocation
4. Payment terms with interest rate and due dates
5. Adjustments to make at closing
6. Contracts and liabilities the purchaser assumes

7. Seller's warranties as to ownership, liabilities, disclosure, and authority
8. Duration of seller's warranties
9. Conduct of business up to closing
10. Buyer's rights as to cancellation of contract
11. Non-compete agreement by seller detailing type, time, and location
12. Employment or consulting agreement with seller
13. Responsibility for closing details
14. Indemnification of buyer by seller
15. Broker compensation payment
16. Arbitration agreement and attorneys' fee agreement
17. Approval of contract with all parties signing and indicating their signing capacity

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Lecture 16

Business strategy - concept - long term and short term focus

Strategy - what is strategy?

Johnson and Scholes define strategy as follows:

"Strategy is the *direction* and *scope* of an organisation over the *long-term*: which achieves *advantage* for the organisation through its configuration of *resources* within a challenging *environment*, to meet the needs of *markets* and to fulfill *stakeholder* expectations".

In other words, strategy is about:

- Where is the business trying to get to in the long-term (**direction**)
- Which markets should a business compete in and what kinds of activities are involved in such markets? (**markets; scope**)
- How can the business perform better than the competition in those markets? (**Advantage**)?
- What resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (**resources**)?
- What external environmental factors affect the businesses' ability to compete? (**environment**)?
- What are the values and expectations of those who have power in and around the business? (**stakeholders**)

Strategy at Different Levels of a Business

Strategies exist at several levels in any organization - ranging from the overall business (or group of businesses) through to individuals working in it.

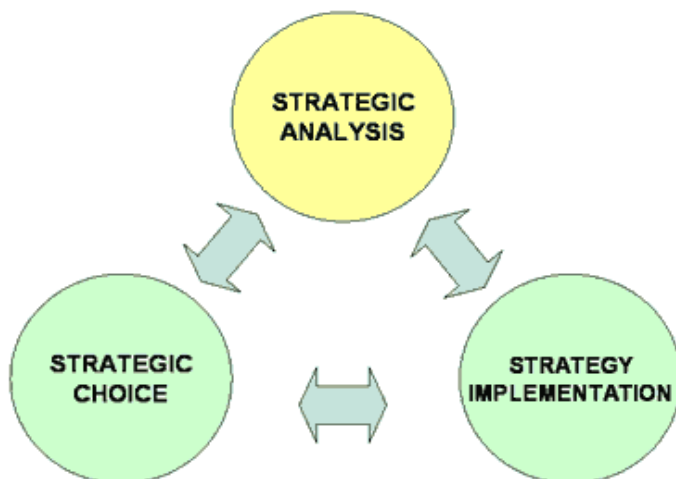
Corporate Strategy - is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement".

Business Unit Strategy - is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities etc.

Operational Strategy - is concerned with how each part of the business is organised to deliver the corporate and business-unit level strategic direction. Operational strategy therefore focuses on issues of resources, processes, people etc.

How Strategy is Managed - Strategic Management

In its broadest sense, strategic management is about taking "strategic decisions" - decisions that answer the questions above. In practice, a thorough strategic management process has three main components, shown in the figure below:



Strategic Analysis

This is all about the analyzing the strength of businesses' position and understanding the important external factors that may influence that position. The process of Strategic Analysis can be assisted by a number of tools, including:

PEST Analysis - a technique for understanding the "environment" in which a business operates

Scenario Planning - a technique that builds various plausible views of possible futures for a business

Five Forces Analysis - a technique for identifying the forces which affect the level of competition in an industry

Market Segmentation - a technique which seeks to identify similarities and differences between groups of customers or users

Directional Policy Matrix - a technique which summarizes the competitive strength of a businesses operations in specific markets

Competitor Analysis - a wide range of techniques and analysis that seeks to summarize a businesses' overall competitive position

Critical Success Factor Analysis - a technique to identify those areas in which a business must outperform the competition in order to succeed

SWOT Analysis - a useful summary technique for summarising the key issues arising from an assessment of a businesses "internal" position and "external" environmental influences.

Strategic Choice

This process involves understanding the nature of stakeholder expectations (the "ground rules"), identifying strategic options, and then evaluating and selecting strategic options.

Strategy Implementation

Often the hardest part. When a strategy has been analyzed and selected, the task is then to translate it into organizational action.

A global industry

A global industry can be defined as:

- An industry in which firms must compete in all world markets of that product in order to survive

- An industry in which a firm's competitive advantage depends on economies of scale and economies of scope gained across markets

Global markets are international markets where products are largely standardized.

Michael Porter argued that industries are either multi-domestic or global.

Global industries: competition is global. The same firms compete with each other everywhere.

Multi-domestic industries: firms compete in each national market independently of other national markets.

In general businesses adopt a global strategy in global markets and a multi-local strategy in multi domestic markets.

Global strategy

Companies such as Sony and Panasonic pursue a global strategy which involves:

- Competing everywhere
- Appreciating that success demands a presence in almost every part of the world in order to compete effectively
- Making the product the same for each market
- Centralized control
- Taking advantage of customer needs and wants across international borders
- Locating their value adding activities where they can achieve the greatest competitive advantage
- Integrating and co-coordinating activities across borders
- A global strategy is effective when differences between countries are small and competition is global. It has advantages in terms of

Economies of scale

Lower costs

Co-ordination of activities

Faster product development

However, many regret the growing standardization across the world.

Multi domestic strategy

- A multi-domestic strategy involves products tailored to individual countries
Innovation comes from local R&D
- There is decentralization of decision making within the organization
- One result of decentralization is local sourcing
- Responding to local needs is desirable but there are disadvantages: for example high costs due to tailored products and duplication across countries

Comparison of the two strategies

Four drivers determine the extent and nature of globalization in an industry:

(1) Market drivers

- Degree of homogeneity of customer needs
- Existence of global distribution networks
- Transferable marketing

(2) Cost drivers

- Potential for economies of scale
- Transportation cost
- Product development costs
- Economies of scope

(3) Government drivers

- Favor trade policies e.g. market liberalization
- Compatible technical standards and common marketing regulations
- Privatization

.

(4) Competitive drivers

- The greater the strength of the competitive drivers the greater the tendency for an industry to globalize

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Lecture 17

Business organization

Learning Objectives

- Factors to Be Considered While Choosing an Organization
- Types of Organizations

Introduction

The selection criteria of a proper form of organisation is crucial for the success of business enterprise. Every entrepreneur has to decide, at the outset, about the type of organisation, which he plans to select for his private enterprise. Its unimportant 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 regulations.
- 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 organizational 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 mobilize 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 organizing 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 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.

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 organize it on a small-scale unit if he has a limited capital and skill, and cater for the local market. If he is unable to do so, he will call-for responses from partners, join his in this business. In this way, new ability and more capital will be brought into the businesses. Partnerships are common in commercial businesses.

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

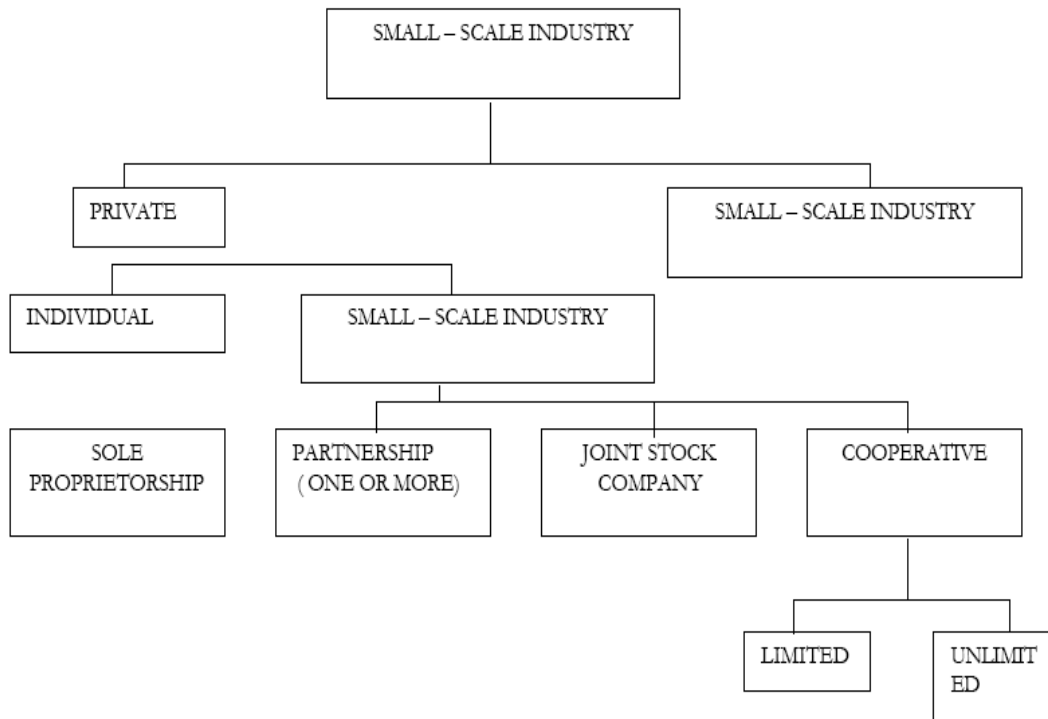
State Policy

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 organization in a small-scale industry

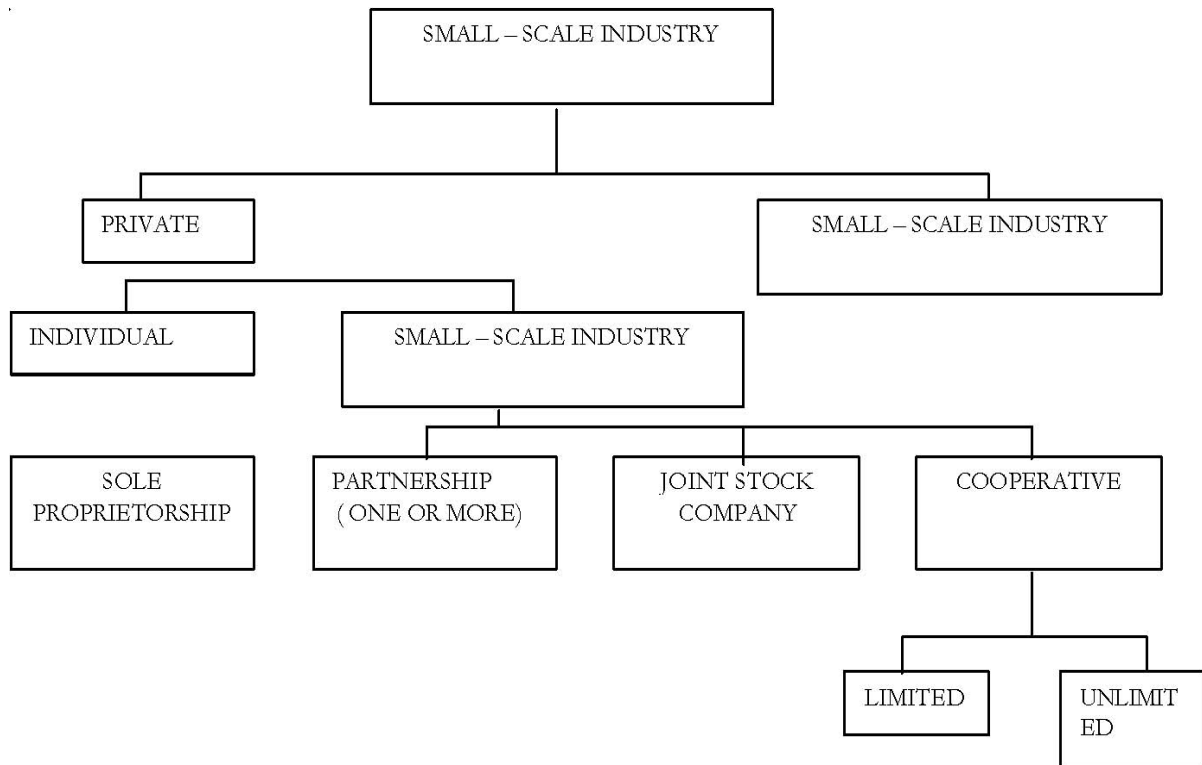
Sole Proprietorship

“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 his 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 important 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 for of organization has the: following advantages:

- i. **Easy and simple formation:** The greatest advantage of this form of organization 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 organization 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 he 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 matters 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, taut “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 specialized 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 all will 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 noninterference, 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 specialization and division, of labour; and to share the risks. In India, the Indian Partnership Act, 1932, governs such organizations. 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 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 in agreement; to run a charitable institution will not constitute a partnership. Business here necessarily implies a lawful business. (iv) The business must be earned 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. Contractual 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 proper4ty 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 factitious 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 as eventuality, the partner loses the capital invested in the firm as well as his personal property.

Advantages of Partnership Organization

A partnership organisation has certain advantages as compared to the sole proprietorship or joint – stock company organisation. We discuss below these advantages:

1. **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 to be observed to establish it. At the same time, unlike a company, not much of expenses are incurred for its formation.
2. **Flexibility:** A partnership organisation is highly flexible as well as mobile. Changes can be introduced without'm\lct'1 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.
3. **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 bi 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.
4. **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.
5. **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 partner with, which they always remain vigilant.
6. Less incidence of tax. As compared to joint-stock company, the burden of taxes on a firm or its partners individually is lower.
 7. Encouragement of mutual trust, personal element in business: Partners act in cooperation 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 that 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 resources by its partners, it is not possible to raise a 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.
- 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

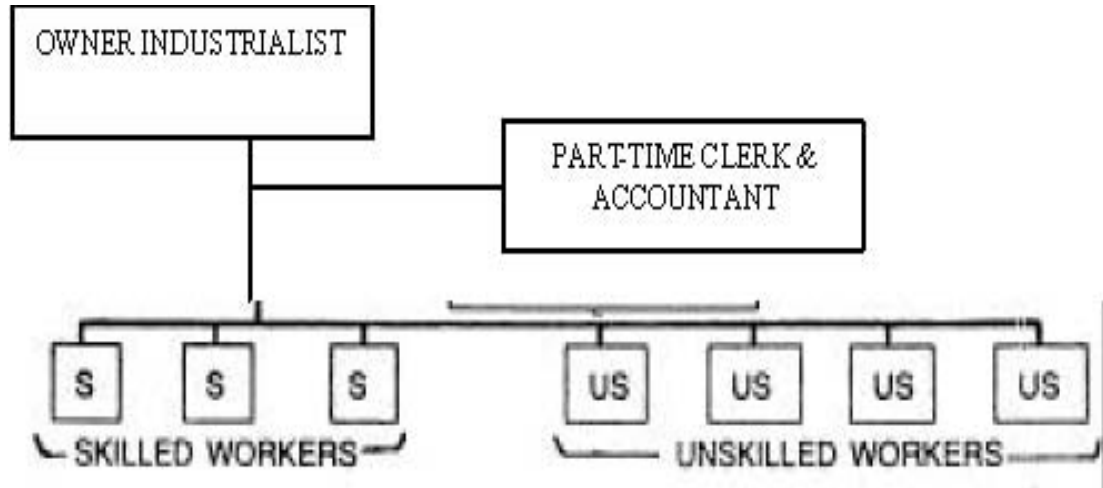
partners to carry on business with him.’ Any misunderstanding may prove ruinous-for it. It is also unstable because death, retirement, and insolvency of a partner may dissolve the partnership. It is quite true that the partnership provides better means to perpetuate itself “but existence of that ‘self’ 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 cooperation 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 anyone 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 the above table. 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

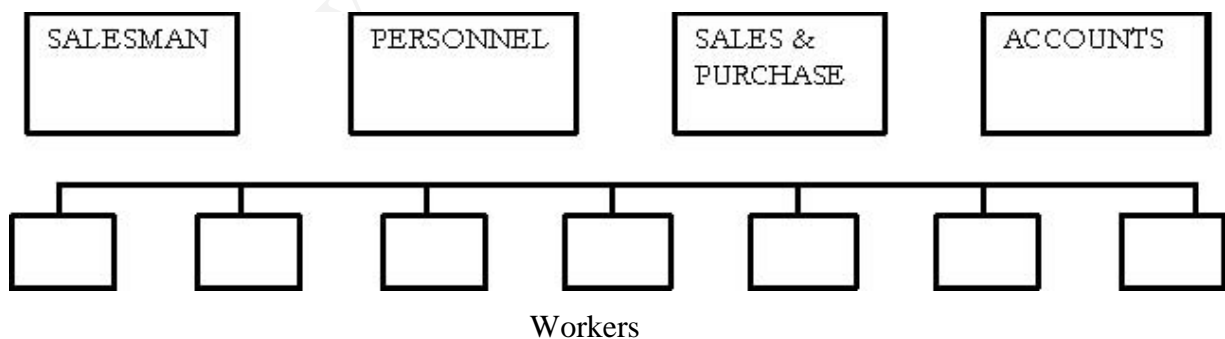
investment is necessary, and the family resources are generally too meager for such a venture. The capital resources are increased by converting the industrial unit into a non – family partnership.



Functioning of one-man small scale entrepreneur doing all the work: (phase 1)

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; cooperation of workers, a very large percentage of these units come under category of individual proprietorship.

OWNER INDUSTRIAL



Functioning of a single small-scale entrepreneur with the assistance of supporting staff:
(Phase 2)

The growth of joint-stock companies constitutes 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 managing 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 this 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 promote. Securing capital for an undesirable concern this system has not made any headway in the-small scale industries sector.

The Co-operatives

A cooperative society is essentially an association of persons who join together on 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, idiomatically ‘controlled business

organisation, making an equitable contribution to the capital required and accepting 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 which industries as, wooden furniture, and fixtures utensils, agricultural hand tools and implements, printing, and washing soaps.

Forms of Organisation

The selection or 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, Specialized, Advisory. In other words, the organisational structure is based on:
 - a) Division of labour;
 - b) Co-ordination;
 - c) Accomplishment of goals and objectives; and
 - d) Authority – responsibility.

Comparative Evaluation of Different Forms of Business Ownership (See Table Below)

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.

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 Compulsory	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 status	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	One the basis of shares held	On the basis of shares held
8. Management and control	Quick decision, specialization, management & ownership lie in the same hands.	Unanimous decision, limited specialization, management lies where ownership is.	Board decisions, greater specialization, ownership and control go together	Board decision, specialization, divorce between ownership and management

9. Business Secrecy	Perfect secrecy No audit or reports Practically none,	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	flexibility of operations	Very little, sufficient flexibility With mutual consent	Considerably, limited flexibility, privileges, & exemptions Restricted as Articles of Association	Excessive, no flexibility
11. Transferability of interest	full	Low at small level of income,	Low at medium level of income,	Freely transferable Low at high level of income,
12. Tax Burden	Low at small level of income, progressive rate	Progressive rate	flat rate, double taxation	flat rate, double taxation
13. Stability or continuity	Unstable, life fully dependent on the owner	Less stable, may be dissolved 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

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

1. It is simple to form and easy to operate.
2. In it, line executives enjoy decision-making powers.
3. It has a systematic organisational structure.
4. It maintains a balance between authority, responsibility and accountability.
5. Discipline can be maintained easily.
6. Communication is easy and quick.

Disadvantages

1. It becomes autocratic or dictatorial.
2. It suffers from lack of specialization.
3. There is an overload of responsibility.
4. It hampers initiative.
5. There is absence of co-ordination, among the different departments.
6. 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 specialization of management activities. Under functional foremanship, office work is separated from shop or plant work.

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 specialization.
- iv. It promotes coordinated work.
- v. It ensures systematic organisation.

Disadvantages

- i. The unity of command is absent.
- ii. There is a tendency towards over – specialization.
- 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 importance 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 Indus by 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 recognize the obstacles that stand in the way of a true delegation of authority. He should create an atmosphere in which the line staff is 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 rivet, 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 organizational evolution is an ongoing process through interaction with the social, political and economic environment. The best and the bright 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.

Lecture 18

SOURCES OF FINANCE AND GOVERNMENT POLICIES

Learning Objectives

- Sources of finance for small and medium-sized businesses.
- Types of financial assistance

Finance is needed throughout a company's life. The type and amount of finance required for a business depends on many factors: type of business, success of firm and state of the economy. There are two main types of money that a company needs.

Capital expenditure: Used for buying fixed assets where large sums of money are involved but they are not purchased often e.g. new premises.

Working capital: Day to day money required for running the business. There are two main sources of finance, these are internal sources and external sources.

Internal sources include:

Retained profit - profit made is reinvested into the business. Controlling working capital - reducing costs, delaying outflows and speeding up inflows. Sale of assets - Assets the company owns can be sold and then leased back, which frees up a large amount of capital in the short term.

External sources of finance:

Increasing trade credit - delaying payments on purchases for as long as possible.

Factoring - use a company to collect all debts.

Overdraft - an agreement with a bank to be allowed to overdraw a certain amount.

Grants - an agreed amount of money given for a special reason by government or other organisation.

Venture capital - people invest in the company when it is unable to float on the stock market.

Debentures - business equivalent of a mortgage. Loan for a set length of time at a set interest rate.

Share issues - selling of new shares to raise capital.

Owners savings - the owners investing money into the business.

Bank loans - medium or long term loans but interest is charged.

Leasing - instead of buying. Top of Form

Sources of finance for small and growing businesses

Introduction

In this revision note, we concentrate on how small and medium- sized businesses (“SME’s”) obtain finance.

SME’s can be defined as having three main characteristics:

- Companies are not quoted on a stock exchange – they are “unquoted”
- Ownership of the business is typically restricted to a few individuals. Often this is a family connection between the shareholders
- Many SME’s are the means by which individuals (or small groups) effectively achieve self-employment

The SME sector is a vital one in the UK economy. In 1999, the Department for Trade and Industry (DTI) estimated that there are 3.7 SME businesses in the UK. Sole traders account for the majority of the businesses in the UK (63 per cent) but a smaller proportion of the number of employees (23 per cent) and an even smaller proportion of turnover (9 per cent). As a proportion of all businesses in the UK, SME’s account for some 55 per cent of employment and 45 per cent of turnover.

Why do SME’s find financing a problem?

The main problem faced by SME’s when trying to obtain funding is that of uncertainty:

- SME’s rarely have a long history or successful track record that potential investors can rely on in making an investment;
- Larger companies (particularly those quoted on a stock exchange) are required to prepare and publish much more detailed financial information – which can actually assist the finance-raising process;
- Banks are particularly nervous of smaller businesses due to a perception that they represent a greater credit risk.

Because the information is not available in other ways, SME’s will have to

provide it when they seek finance. They will need to give a business plan, list of the company assets, details of the experience of directors and managers and demonstrate how they can give providers of finance some security for amounts provided.

Prospective lenders – usually banks – will then make a decision based on the information provided. The terms of the loan (interest rate, term, security, repayment details) will depend on the risk involved and the lender will also want to monitor their investment.

A common problem is often that the banks will be unwilling to increase loan funding without an increase in the security given (which the SME owners may be unable or unwilling to provide).

A particular problem of uncertainty relates to businesses with a low asset base. These are companies without substantial tangible assets, which can be, use to provide security for lenders.

When an SME is not growing significantly, financing may not be a major problem. However, the financing problem becomes very important when a company is growing rapidly, for example when contemplating investment in capital equipment or an acquisition.

Few growing companies are able to finance their expansion plans from cash flow alone. They will therefore need to consider raising finance from other external sources. In addition, managers who are looking to buy-in to a business (“management buy-in” or “MBI”) or buy-out (management buy-out” or “MBO”) a business from its owners, may not have the resources to acquire the company. They will need to raise finance to achieve their objectives.

Sources of finance for SME’s

There are a number of potential sources of finance to meet the needs of small and growing businesses:

- Existing shareholders and directors funds (“owner financing”)
- Overdraft financing
- Trade credit

- Equity finance
- Business angel financing
- Venture capital
- Factoring and invoice discounting
- Hire purchase and leasing
- Merchant banks (medium to longer term loans)

A key consideration in choosing the source of new business finance is to strike a balance between equity and debt to ensure the funding structure suits the business.

The main differences between borrowed money (debt) and equity are that bankers request interest payments and capital repayments, and the borrowed money is usually secured on business assets or the personal assets of shareholders and/or directors. A bank also has the power to place a business into administration or bankruptcy if it defaults on debt interest or repayments or its prospects decline.

In contrast, equity investors take the risk of failure like other shareholders, whilst they will benefit through participation in increasing levels of profits and on the eventual sale of their stake. However, in most circumstances venture capitalists will also require more complex investments (such as preference shares or loan stock) in addition to their equity stake.

The overall objective in raising finance for a company is to avoid exposing the business to excessive high borrowings, but without unnecessarily diluting the share capital. This will ensure that the financial risk of the company is kept at an optimal level.

Types of Financial Assistance

The financing tools available to manufacturers take many forms, but four types predominate: debt, equity, tax incentives, and grants. Different tools are best suited to different needs, and manufacturers need to understand these variations in order to come up with the best fit with their financing needs.

Debt–Loans, Loan Guarantees, and Other Tools

Most public assistance to manufacturers seeks to make financial resources more available to businesses through loans, loan guarantees, and various types of interest

subsidies. Manufacturers should recognize that the general goal of all these programs is this: to make loan capital more available at the best rates and terms possible.

At the same time, manufacturers need to understand the context in which all these programs operate, namely, that they are usually available to all qualifying businesses, no matter what sector of the economy. Most programs only limit company participation on the basis of size (usually, number of employees or annual sales). The Small Business Administration (SBA) is the leading Federal agency in this arena; many States have similar programs in place as well. These programs either subsidize the cost of capital or help ensure its availability. Typically, rates of interest are at or below prevailing market rates, depending on the program's objectives and constituency. These debt programs often are used to help attract capital for expansion projects or general business operation. They also seek to support promising firms that private lenders view as high risk, as well as otherwise solid companies unable to meet standard commercial lending terms.

Depending on the specifics of any given program (i.e., what's eligible for assistance, private match required, etc.) manufacturers can use them for a variety of business capital needs—financing building construction, acquiring equipment and machinery, funding plant expansions, or supporting export activity. Some programs meet a company's need for working capital, chronically in short supply for smaller manufacturers. In recent years, SBA loan guarantees have helped a number of manufacturers who needed capital to incorporate new technologies or make important efficiency improvements.

Debt programs are designed to improve the availability and affordability of capital. Manufacturers need to realize, though, that most public program officials follow their own guidelines to minimize risk, and these may be rigid as well. They are accountable to State or Federal agency oversight, and are just as concerned about business failure as their private-sector counterparts. Therefore, to the extent, they can, manufacturers need to shape their requests for financial assistance to meet the requirements of the program being considered. As a result, capital access remains a problem for many new or small operations, despite considerable State and Federal attempts to improve it.

Although debt financing is the primary Federal financing approach, and well suited to many situations, manufacturers need to realize that debt programs will not work in every case. Loans and loan guarantees may not fit with the financial needs of various new or expanding business situations, modernization or efficiency improvements, or of manufacturers engaged in technology-related projects. Many such firms, while economically sound overall, have initial cash-flow difficulties, and debt programs require a constant stream of repayments beginning almost immediately. Manufacturers trying to modernize or diversify often must borrow considerable sums to invest in production facilities and equipment. As small manufacturers are only too well aware, many small firms fail—not from lack of demand for their products or services—but because they cannot meet debt installments. The time lag on accounts receivable, for instance, can cause an insurmountable cash-flow barrier for small businesses.

Equity

Equity-finance programs can address concerns over cash flow, because they do not feature a strict repayment schedule. Equity programs make capital more available through direct investment (and a potential return based on the success of the company), rather than by lump-sum loan proceeds (which must be repaid in installments). They promote development by investing funds in capital-poor but otherwise competitive enterprises, many of which are technologically innovative. Equity programs on a significant scale are a relatively new public-sector financial assistance phenomenon. A few States have explored venture capital-style assistance programs. At the Federal level, only SBA's Small Business Investment Company (SBIC) operates as an equity assistance program.

In terms of equity programs, manufacturers need to realize that, in practice, SBA and similar State programs makes equity investments much like a private equity investor or venture capitalist. SBA and its program partners—licensed Small Business Investment Companies (SBICs) are looking for deals that work. Investors, (in the case of SBA programs, through the SBICs), take an ownership interest in a company in exchange for funds. Equity is a riskier channel of investment than debt. If there are no profits or the business folds, the investor makes nothing or even loses its money. On the other hand, if

the company does well, the investor (private, State or SBIC) can reap a substantial return.

Equity programs operate more like a stock purchase than a debt investment, structured to give a company relief from redeeming its obligation until a certain level of return is reached. In contrast to debt financing, equity usually is more “patient” money. Because returns are a function of profit, and profit is linked to the company’s success, they are not expected immediately. The timing and size of payments are geared to the company’s financial condition, thus removing early cash-flow pressures and giving the firm time to use its cash to advance restructuring or modernization efforts. At the same time, though, investors usually expect a greater return on an equity investment than traditional lenders do from loans.

Tax Incentives

The only significant Federal tax incentives specifically targeted to manufacturers are industrial development bonds (IDBs) which can be used for a variety of financial needs including site preparation and equipment acquisition. IDBs are available in every State, and each State sets its own eligibility conditions and authorizes its own set of issuing entities; typically, they include State agencies, local governments, development authorities, and similar organizations.

State and local governments offer most of the tax incentives to promote manufacturing including abatements, investment incentives, exemptions or moratoriums for capital improvements, and incentives for job creation. State and local tax incentives often are linked to or packaged with Federal financing assistance. They are offered on the premise that reducing taxes lowers the cost of doing business in an area, making it more attractive for companies to locate there or to maintain or expand existing operations. The latter rationale often is cited when long-time manufacturing companies seek help to retool. Thus, manufacturers can make a stronger case for State and local tax relief or tax-code linked assistance by showing the community impact and local benefits of their proposed project.

Grants

Many manufacturers, when they decide to seek public financing assistance, think of grants. Grants are direct transfers of money to the recipient, usually with no payback

obligation. Manufacturers need to know that little direct grant assistance is available, and the competition for it is fierce—and not just from other companies, but also from healthcare facilities and social service organizations. The average grant dollar amounts for each project are kept as low as possible because grants are designed to help leverage other sources of financing. Many grants are cost-shared—requiring financial commitments from grant recipients. Most grants are done as “pass throughs”—funds are provided to an intermediary, such as a city or development organization, which, in turn, provides funds to the private company. Virtually all Federal grant assistance is delivered this way. In short, manufacturers can tap several types of public resources, and use them in a variety of ways to help finance manufacturing efficiency and modernization projects, develop new technologies and products, and help attract private investment. The most suitable approach depends on the specifics of any given program, the current development climate in a given area, and the financial requirements of the companies wanting to carry out improvements. It is limited only by the creativity of the participants.

Short Term Financing

Provides information about short term financing for businesses, it also provides some examples of sources of short term financing.

What is Short Term Financing?

Short term financing is essentially to provide capital deficit businesses funds for a short term period of a year or less.

What is short term financing for?

These funds are usually for businesses to run their day-to-day operations including payment of wages to employees, inventory ordering and supplies.

An example of short term financing could be when a firm places an order for raw materials, it pays with finance and anticipates to recoup this finance by selling these goods over the period of a year.

Difference Between Short Term and Long Term Financing

In contrast long-term financing decisions are involved when a firm purchases a special machine that will reduce operating costs over, say, the next five years.

Following from the earlier explanation that short term borrowing should be used for working capital requirements for day to day operations of a business. Industries with

seasonal peaks and troughs and those engaged in international trade will be heavy users of short term borrowing finance.

Short Term Financing and Lenders

Lenders favor businesses that exhibit strong management, steady growth potential and reliable projected cash flow (demonstrating the business ability to pay the monthly interest payments on this line of credit from its projected.

However Lenders normally charge a higher base rate of interest for operating loans reflecting this relatively weaker security position

Example of Short Term Financing Sources

There are many methods for which a firm can seek short terms financing some of these include:

- Overdrafts
- Short-term loans
- Bills of exchange
- Promissory notes/commercial paper
- Inventory loan
- Letters of credit
- Short term Eurocurrency advances
- Factoring

Long Term Financing

Provides information on long term financing including financing sources and products.

What is long term financing?

Long term financing provides capital deficit businesses funds for the period over 1 year. It contrasts to short term financing because short term financing provides funds for the period of 1 year or less Whether an established corporation or new business entity it is common that many small and large companies have some kind of debt throughout the life of their business.

These businesses normally turn to lenders not only to expand their companies or to purchase equipment, but also to finance operating capital to even out cash flow.

What is Long-Term Debt Financing used for can include:

- Fixed Assets
- Large Capital Equipment Purchases
- Large Scale Construction Projects
- Expansion of Facilities

Corporations Vs Companies

Depending on what type of business entity you are. Which could be a sole proprietorship; partnership or corporation can affect the debt products available for the business.

Non-Corporations are limited to using debt finance while Corporations can use both debt and equity products in their long term financing strategies.

Where does the financing come from?

The basic sources of long term financing products depending on the business entity are from:

- Debt
- Equity
- Derivatives .

Types of Long term debt products include:

- Debentures
- Secured and unsecured notes
- Convertible notes
- Fixed deposit loans
- Mortgages
- Eurobonds
- Interest rates swaps
- Forward rate agreements (FRA's)
- Interest only futures
- Option on future contracts.

- Convertible notes
- Subordinated debt
- Preference shares

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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

- Issue of shares
- Issue of debentures
- Loans from banks and other financial institutions
- Public deposits (for existing concerns)
- Ploughing back of profits (for existing concerns)

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Lecture 19

Venture capital financing - concept, purpose and schemes

1. Venture Capital Institutions

Concept of Venture Capital

Venture capital is a form of equity financing designed specially for funding high risk and high reward projects. It not only plays an important role in financing hi-technology projects, but also helps to turn research and development projects into commercial production. Venture capital, besides financing the technology, is also involved in fostering the growth and development of enterprises. In the western countries much of this capital is put behind establishing technology and expanding business or is used to help the evolution of new management teams.

Venture Funds in India

The venture fund or venture capital scheme is of recent origin in India. The following are some of the institutions which have established venture funds in India:

(1) Risk Capital Foundation of IFCI

The first venture fund in the name of Risk Capital Foundation was sponsored by the Industrial Finance Corporation of India (IFCI) in March, 1975. It was re-constituted as Risk Capital and Technology Finance Corporation Limited (RCTC) in January, 1988. At present RCTC operates three schemes, viz., Risk Capital Scheme, Technology Finance and Development Scheme and Venture Capital Unit Scheme. Under the first two schemes, the Corporation provides supplementary assistance to new entrepreneurs particularly technologists and professionals for promoting medium-size industrial projects both in the form of rupee loans and direct subscription to their share capital. While under the Venture Capital Scheme the venture capital fund of Rs. 30 crores (Rs. 20 crores from IFCI and Rs. 10 crores from the World Bank) was set up in July, 1991. The aim of the scheme is to provide venture capital for potentially highly profitable ventures involving innovative products/technology/service aimed at futuristic or new markets.

(2) Venture Fund of IDBI

The Industrial Development Bank of India (IDBI) also started venture capital scheme in 1986.

(3) Venture Capital Fund of SIDBI

The Small Industries Development Bank of India (SIDBI) has also set up a venture capital fund with an initial corpus of Rs.10 crores during the year 1992-93. The fund is exclusively meant for providing financial assistance for innovative ventures in small-scale sector.

(4) Venture Capital Fund of Technology Development and Infrastructure Corporation of India (TDICI)

The corporation has been set up by Industrial Credit Investment Corporation of India (ICICI) for providing technology information and financing commercial research and development schemes. It also manages the venture capital fund of Rs. 30 crores which ICICI had established along with in 1988.

(5) Other Venture Capital Funds

Besides the public financial institutions (IDBI, IFCI, ICICI and SIDBI), as discussed above, certain banks, viz., State Bank of India, Canara Bank and Grindlays Bank have also set up venture capital funds. The State Bank of India has set up the venture capital fund through its subsidiary SBI Capital Markets Limited. Canara Bank has also set up a venture capital fund through its subsidiary Canbank Financial Services Limited. Grindlays Bank has also launched India Investment Fund. The funds are raised from NRIs abroad. It is going to provide venture finance to suitable projects out of this fund.

In the private sector, the Credit Capital Corporation has set up the Credit Capital Venture Fund India Ltd. The Corporation intends to involve multinational bodies like Asian Development Bank and Commonwealth Fund in its financing.

Guidelines for Venture Capital Fund Companies

The Government of India announced on November 25, 1989 certain guidelines regarding

establishment and functioning of Venture Capital Funds Companies. These guidelines were found to be restrictive and were repealed on 25-7-1995. The new guidelines for functioning of Venture Capital Fund in the country were announced by SEBI on 4th December, 1996. The basic features regulating Venture Capital Fund can be summarised as follows

1. **Meaning.** *VCF* means a fund established in the form of a company or trust which raises money through loans, donations, issue of securities, or units, as the case may be, and makes or proposes to make investments in accordance with these regulations.

2. **Registration with SEBI.** Any company or trust proposing to carry on any activity as venture capital fund has to apply to SEBI for grant of a certificate. The existing venture capital funds were also required to make such application.

3. **Eligibility Criteria.** The eligibility criteria for the grant of certificate requires fulfilling of the following conditions:

(a) If the application is made by a company:

- (1) Memorandum of association has the main objective as carrying on of the activity of a venture capital fund.
- (ii) It is prohibited by its memorandum and articles of association from making an invitation to the public to subscribe to its securities.
- (iii) Its director or principal officer employee is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant.
- (iv) Its director, principal officer or employee has not at any time been convicted of any offence involving moral turpitude or any economic offence.

(b) If the application is made by a trust:

- (i) The instrument of trust is in the form of a deed and is duly registered.
- (ii) The main objective of the trust is to carry on the activity of a venture capital fund.
- (iii) The directors of its trustee company, if any, or any trustee is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant.

(iv) The directors of its trustee company, if any, or any trustee has not at any time been convicted of any offence involving moral turpitude or of any economic offence.

(c) The company or trust has not been refused a certificate by *SEBI* or its certificate should not have been cancelled or suspended as per the regulations framed for the purpose.

4. **Grant of certificate.** If *SEBI* is satisfied that the applicant is eligible for grant of certificate, it will on receipt of requisite fee from the applicant grant such certificate. Any applicant whose application has been rejected shall not carry on any activity as a venture capital fund.

5. **Investment.** A venture capital fund may raise money from any investor whether Indian or non-resident Indian. However the minimum investment from the concerned investor should not be less than Rs. 5 lakhs.

6. **Restrictions on Investment.** All investments made or to be made by a venture capital fund shall be subject to the following restrictions:

(a) The venture capital fund shall not invest in the equity shares of the company or institutions providing financial services.

(b) At least 80% of funds raised by a venture capital fund shall be invested in:

- (1) the equity shares or equity related securities issued by a company whose securities are not listed on any recognised stock exchange;
- (ii) the equity shares or equity related securities of a financially weak company or a sick industrial company, where securities may or may not be listed on the recognised stock exchange; and
- (iii) providing financial assistance in any other manner to companies in whose equity shares the venture capital fund has invested under clauses (b) (1) and (b) (ii) above.

1. **Prohibition on listing.** No venture capital fund is entitled to get its securities or units, as the case may be, listed on any recognised stock exchange till the expiry of three years from the date of issuance of securities or units, as the case may be, by the venture capital fund.

Lecture 20 &21**ROLE OF FINANCIAL INSTITUTIONS FOR FUNDING ENTERPRISES****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 preindustrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries has 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 counseling to the entrepreneurs to start new ventures as well as mode diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operation of various development banks (institutions) that have been rendering financial assistance, directly or indirectly, to entrepreneurs and their various ventures. .

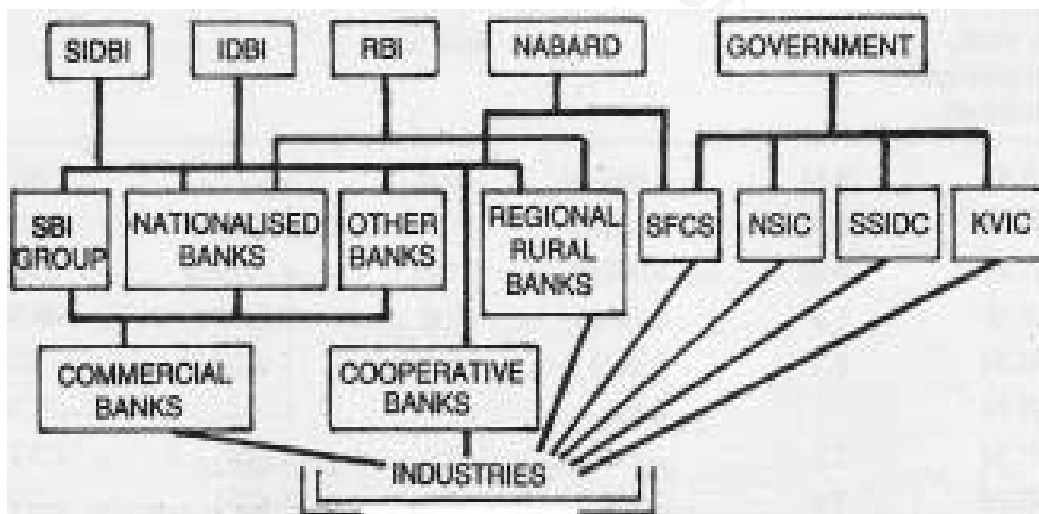
Development Function

Development being the function of capital, as the tempo of development grows NS, 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 deployment 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 a higher scale as well as diversified in a 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 a 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.



Institutional Framework for Industry

Institutional finance for -large, medium, small and tiny industries by commercial banks - the State Bank of India group, nationalized 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 development banks. 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 LIC I (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.

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 setup 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

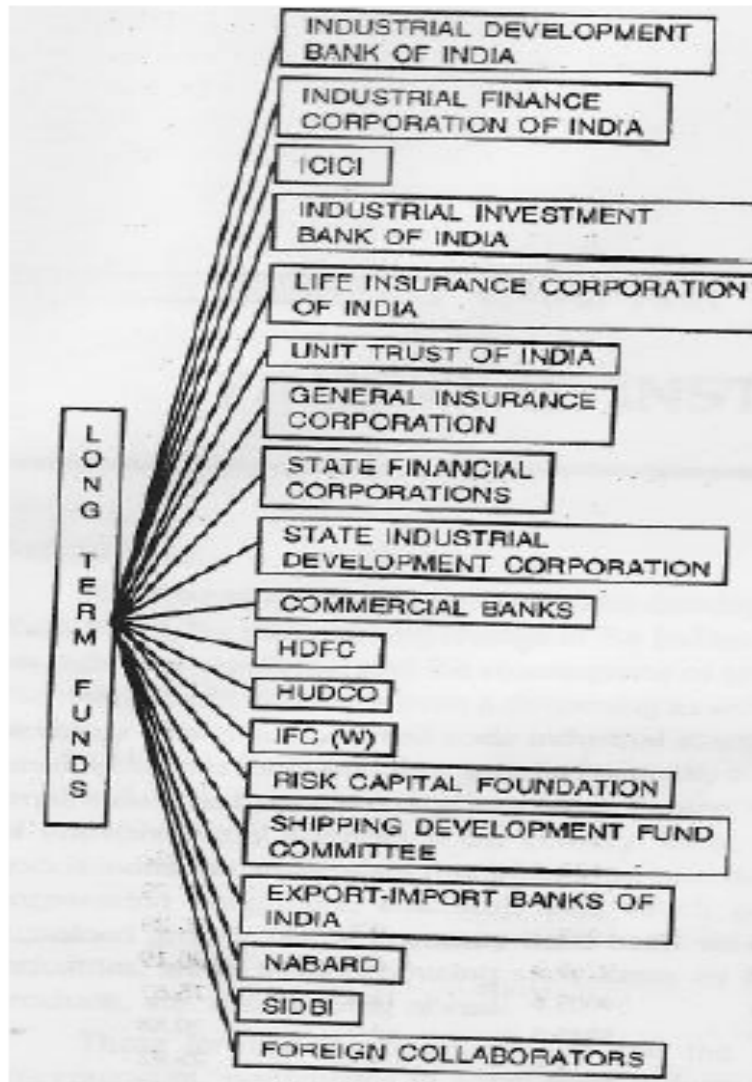
Corporation (Rs. 90,000 crores), General Insurance (Rs. 20,000 crores), and mutual funds and other financial companies (Rs. 100,000 crores). Even IDBI, ICICI, SIDBI have commenced mopping up deposits from the public. The aggregate resources available for investment with financial institutions adds up to over 7,50,000 crores. Sources of funds (long-term funds) for development are given in the following figure.

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 all-scale industrial units for:

1. Participation in equity capital.
2. Acquisition of fixed assets by way of term loans; and
3. Working capital.



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.

- 1) Granting loans on subscribing to debentures repayable within a period not exceeding 25 years. (1948)
- 2) 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).
- 3) Guaranteeing loans ———
 - a. raised by industrial concerns, which are repayable within a period not exceeding 25 years and are floated in the market. (1948)
 - b. raised by industrial concerns from scheduled banks or state cooperative banks (1960)
- 4) Guaranteeing deferred payments due from any industrial concern
 - a. In connection with the import of capital goods from outside India

- b. In connection with the purchase of capital goods within India
- 5) 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)
- 6) 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)
- 7) 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 Corporation on the same basis as industrial projects in the private and joint sectors.

Public sector projects are also eligible for financial assistance from the Corporation 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 projects and for the expansion, diversification, renovation or modernization 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 Kreditanstalt für Wiederaufbau allocated to the Corporation from time to time. The promotional activities undertaken by the Corporation - which are, no doubt, still modest- in their scope are in consonance with the measure which need to be taken to achieve the objective of broadening the entrepreneurial bases 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 forming and fishing.
- Scheme of subsidy for consultancy to industries based on or related to agriculture, horticulture, sericulture and Pisciculture.
- Scheme of subsidy for promotion of ancillary and small-scale industries.
- Scheme of subsidy to new entrepreneurs for meeting cost to market research surveys.
- Scheme of subsidy for Providing Marketing Assistance to Small Scale Units.
- Scheme of subsidy for Consultancy on Use of Non-Conventional Sources of Energy and - Energy Conservation Measures.
- Scheme of Subsidy for Control of Pollution in the Village and Small Industries Sector.
- Own generation by way of repayment of past borrowings and plough-back of profits.

Interest Subsidy Schemes

- Scheme of Interest Subsidy for Self-Development and Self-Employment of Unemployed Young Persons.
- Scheme of Interest Subsidy for Women Entrepreneurs.
- Scheme of Interest Subsidy for Encouraging Quality Control' Measures in Small Scale Sector.
- Scheme of Interest Subsidy for Encouraging the Adoption' of Indigenous Technology.

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 Rationalization in a Sick Industrial Unit in the' Organised sector Undergoing a Process of Rehabilitation/Revival.

The Consultancy for Subsidy Schemes is aimed at providing subsidized 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, amassing 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 suffering of people, who have to face retrenchment due to implementation of modernization, 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 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 16 the 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

- 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.
- To plan, promote and develop industries to fill gaps in the industrial structure in the country.
- To provide technical and administrative assistance for promotion, management or expansion of industry.
- To undertake market and investment research and surveys as also technical and

economics studies in connection with development of industry.

- 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 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 channeled 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 channeled 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 the small and medium industrial units flows through 18 SFCs and 28 SIDCs, commercial banks and regional rural banks.

IDBI Schemes

IDBI is having the following schemes for the benefit of enterprise and entrepreneurs in the small and medium scale sector;

Direct Assistance

Project finance scheme (loans, underwriting, direct subscription and guarantees);
Project Finance Scheme (loans, underwriting, direct subscription and guarantees)

- Modernization Assistance Scheme for all industries;
- Textile Modernization 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 Modernization 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 modernization, 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 modernization 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:

- Underwriting of public and private issues and offers of sale of industrial securities ordinary shares, preference shares, bonds and debenture stock;
- Direct subscription to such securities;
- Securing loans in rupees, repayable over periods up to 15 years.
- Providing similar loans in foreign currencies for the payment for imported capital equipment and technical services;
- Guaranteeing payments for credits made by others;
- 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 enterprise in 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

modernization 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 implantation 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 cooperation 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 modernization 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 suppliers credit, equipment, leasing, installment sale and venture capital and renders merchant banking services. Technology, development and information company of India Ltd. (TBICI), established by ICICI in 1988, provides technological information and finances

technology intensive development activities including commercial 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 Cooperative Rural ", Banks. This Bank is now the-'coordinating agency in relation to the Central Government, planning Commission, state government 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 programme 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 cooperative banks and Regional Rural Banks, in to 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 calamities, 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 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 cooperative 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 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) there of 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 (Stabilization) 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 natural 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 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 cleared by industrial 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, banking 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 cast 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 implements 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, charges that 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.

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

Shift in Business Mix

The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focusing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, delayed realization of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalised based on ongoing review process. The procedures have been simplified with gradual decentralization and progressive 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 can bank factors Ltd. have been established with SIDBI as a partner with 20% shareholding, SIDBI

has enlarged the list of 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 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, and 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 provides infrastructure facilities, consultancy, managerial and merchant banking services. During 1993-94, as a part of its merchant banking services, IRSI 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 nationalization of the life insurance business in the country. LIC took over the life insurance business from private companies to carry on the business and deploy the funds in accordance with the

Plan priorities. UC 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 privatization and restructuring of UC 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 India 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. UC 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. UC 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 nationalization 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 liberalized 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 institution 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, suppliers credit, and 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 refining 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 focused on catalyzing 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 up gradation 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.

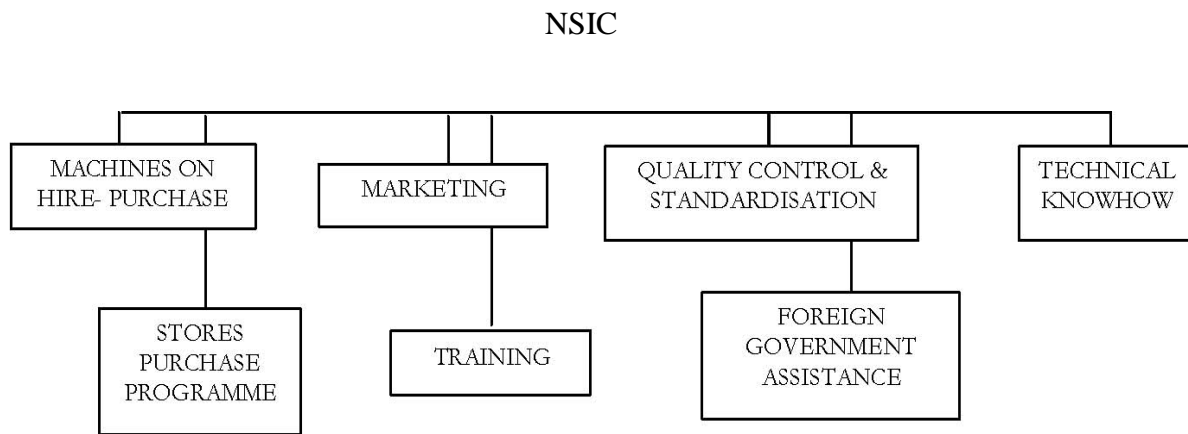
11. National Small Industries Corporation Ltd.

The National Small industries Corporation Ltd. (NSIC) was 'setup '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 modernization 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.

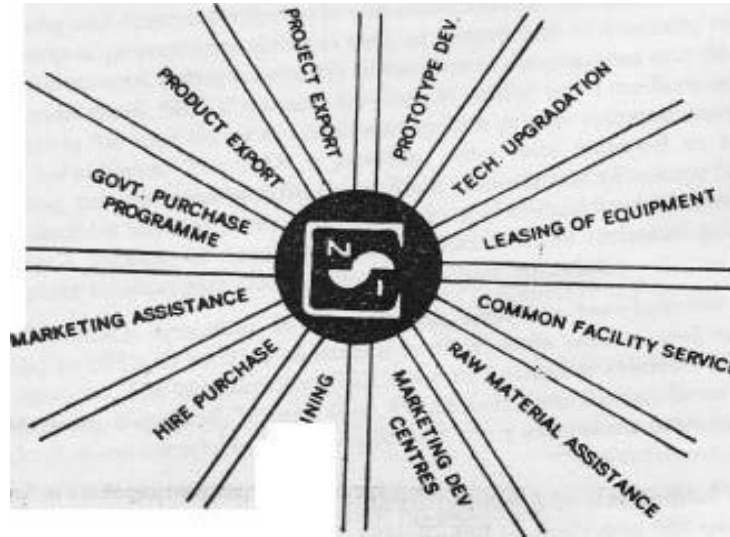
Activities of National Small Industries Corporation (NSIC)

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 setup 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 several industrial trades, with a view to create technical culture in the young entrepreneurs. .
- Development and up gradation of technology and implementation of modernization 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 modernization.
- 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, Yeomen, Chandrapur, Bhandara, Buldhana, Aurangabad, Nanded, Seed, Osmanabad, etc. all backward districts in Maharashtra.



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 modernization 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 and 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 SIDCs 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.

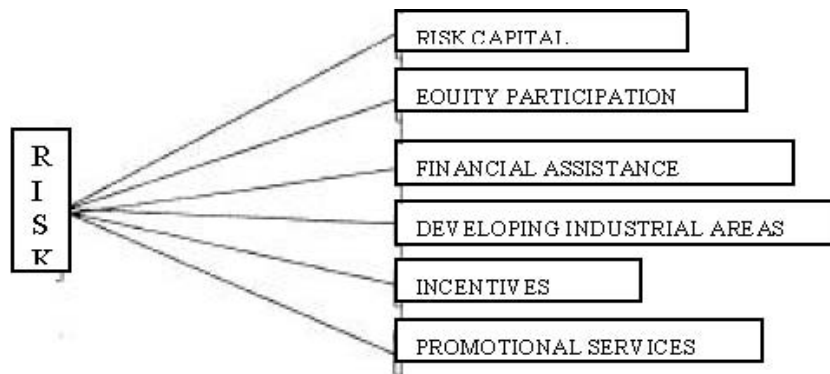
The SIDCs are agent of IDBI and SIDB for operating its seed capital scheme: Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

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 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.



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 jurisdiction. 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 counseling 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, catalyzing 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 IOBI/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 partied 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 buy 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, modernization and up gradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.
- 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), nationalized 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 status entitles the banks to avail of certain 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 grand of auth6rised dealers licenses to handle foreign exchange business. Correspondingly, banks also have certain obligations such as maintenance of Cash Reserve Ratio, Statutory Equity 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 rise by 15.1 % to Rs. 3,11,594 crore forming 96.1 % of total outstandinggross 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.

Lecture 22

ROLE OF CONSULTANCY ORGANISATIONS

Learning Objectives

- Consulting Model
- Consulting Matrix

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. Modernization 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 Seder, 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.

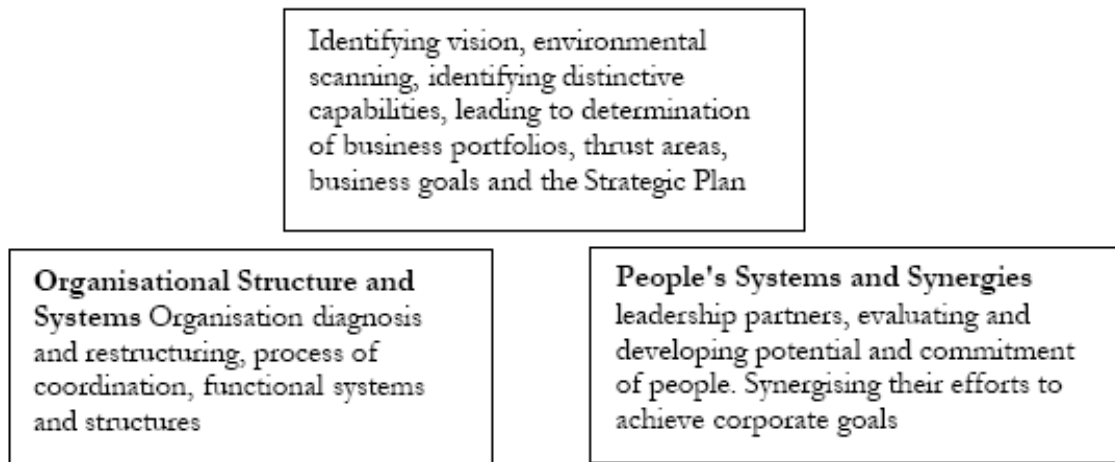
Consulting Model

In the competitive post liberalization environment characterized by rapid technological innovations on new hand, and the prospect of an increasing number of highly experienced international giants entering the domestic market, on the other, the very future of organizations seems rather foggy and endangered. The free market, being ruthless, strictly adheres to the principle of survival of the fittest.

- The vision to provide the and driving duel;
- 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 synergizing the efforts of people to achieve the business goals.

Very often one reads these days about the various modem forms of organisational

Structures, about business strategies and Identifying vision, environmental scanning, identifying distinctive capabilities, leading to determination of business portfolios, thrust areas, business goals and the Strategic Plan 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.



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 organizing, 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 business package while the franchisee, an entity that 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 manufacturers name to do. For instance, vehicle dealers from Maruti or Bajaj are product franchisees.

Trade name Franchising, the second form of franchising, allow a franchisee of use an organization’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 the 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 coordination, functional systems of people. Synergising their efforts to be the discipline through which the ‘humanities’ will again acquire recognition, impact and MHB Counsel’s Consulting Model for Business 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
Limitations	Unfamiliar with local needs Tendency to transplant solutions	Inexpensive Lack of courage of conviction to put forth ideas Low acceptance due to their being taken for granted

Two Key Roles

In facilitating practicing managers to apply this knowledge, consultants have two important roles to play:

1. Bringing new knowledge to the visible proximity of the practicing 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 conceptualizers 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 consultants 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 managements knowledge of the product and helps it to stabilize 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 demonstrations;
- 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, standardization and improved designs. In other words, technical know-how is the bedrock 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 centralized 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 ceramic 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 involving new designs, which are suitable for production in the all-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 utilization 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.

Areas of Technical Know-how to Industry

Some of the percepts of modern industrial design and what it tries to accomplish may be summarized here. A modern design should fulfill the practical need 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 fulfillment 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 specializes 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. Builders hardware; and
- vii. Plastic goods

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Lecture 23**Capital markets****shares and securities****1. Issue of Shares**

This is the most common method of raising long-term funds. Every company in India generally uses this method.

Meaning of share

A share may be defined as one of the units into which the share capital of a company has been divided. According to Section 2 (46) of the Companies Act, "a share is the share in the capital of a company and includes stock except where a distinction between stock and share is expressed or implied".

The person holding the share is known as a shareholder. He receives dividend from the company as a consideration for investing his money into the company. However, payment of dividend is not legally compulsory. The power to recommend dividend vests in the Board of Directors of the company. The recommendation of the Directors is put before the general meeting of the shareholders who may reduce the rate of dividend as recommended by the Board but cannot increase it.

Types of Shares

A public company can issue only two types of shares. They are (i) Preference shares, and (ii) Equity shares.

(a) Preference shares

Preference shares are those which carry the following preferential rights over other classes of shares:

- (i) A preferential right in respect of a fixed dividend. It may consist of a fixed amount (say Rs. 50,000 p.a.) or a fixed rate.
- (ii) A preferential right as to repayment of capital in the case of winding up of the company in priority to other classes of shares.

Merits of Preference Shares

- (i) Financing through preference shares is a flexible financing arrangement since payment of dividend is not a legal obligation of the company issuing the preference shares.
- (ii) Preference shares have no final maturity date (except redeemable preference shares) and thus, in a sense, the funds provided by them is a sort of perpetual loan.
- (iii) Preference shares add to the equity base of the company and thereby strengthen its financial position.
- (iv) Preference share capital is also a sort of cushion to the debenture holders and thus they save the company from paying higher rate of interest.,
- (vi) Preference shares are entitled to a fixed rate of dividend.
- (vii) Issuing of preference shares does not materially disturb the existing pattern of control of the company as compared to the issue of equity shares since preference shareholders are entitled to vote only on such resolutions which directly affect their interests.
- (viii) Financing through preference shares is cheaper as compared to financing through equity shares.
- (ix) Preference shares are particularly useful for those investors who want higher rate of return with comparatively lower risk.
- (x) The company can utilise huge surplus funds at its disposal by redeeming the redeemable preference shares as per the provisions of the Companies Act.

Demerits of Preference Shares

- (1) One of the principal disadvantages of financing through preference shares is that preference dividend is not deductible as an expense for taxation purpose out of the profits of the company.
- (ii) Preference shares dilute the claim of the equity shareholders over the assets of the company.
- (iii) Preference shares may pave the way for the insolvency of the company in cases where the directors continue to pay dividends on them in spite of lower profits to maintain their attractiveness.

b) Equity Shares

These are shares which are not preference shares. They do not carry any preferential right. They will rank after preference shares for the purposes of dividend and repayment of capital in the event of company's winding up. The rate of dividend on these shares is not fixed. It depends on the availability of divisible profits and the intention of the directors. The shares have the chance of earning good dividends in times of prosperity and also run the risk of earning nothing in periods of adversity. The equity shareholders control the company on account of their entitlement to vote at the general meeting of the company. These shares are preferred by persons who prefer risk to better return and also wish to have a say in the management of the company. The equity share capital is also termed as the venture capital on account of the risk involved in it.

Sweat Equity Shares

The term Sweat Equity Shares means the equity shares issued by a company to employees or directors at a discount for consideration other than cash or for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Merits of Equity Shares

- (i) Financing through equity shares does not impose any burden on the company since payment of dividend on these shares depends on the availability of profits and the discretion of the Directors.
- (ii) Capital raised through equity shares is also a sort of perpetual loan for the company since it is not repayable during the lifetime of the company. It is repayable only in the event of company's winding up and that too only after the claims of preference shareholders have been met in full.
- (iii) Equity shares do not carry any charge against the assets of the company hence the capacity of the company to raise additional funds through borrowings on the security of its assets is in no way diminished.
- (iv) The company does not face the risk of magnifying its losses in periods of adversity.
- (v) Financing through equity shares also provides the company with sufficient flexibility in the utilisation of its profits and funds since neither the payment of dividend is compulsory nor any provision is to be made for repayment of capital.

Demerits of Equity Shares

- (i) Financing through equity shares is costly. Moreover, the dividend on equity

shares is not deductible as an expense out of profits for taxation purposes.

- (ii) The control of the company can be easily manipulated through cornering of shares by a group of shareholders for their personal advantage at the cost of company's interest.
- (iii) Excessive reliance on financing through equity shares reduces the capacity of the company to trade on equity. This may ultimately result in over capitalisation of the company.
- (v) The cost of underwriting; and distributing the equity share capital is generally higher than that for preference share capital or debentures.

Methods of Issue of Shares

Shares can be issued at par, premium or discount. There are no restrictions regarding issue of shares at par. However, for issue of shares at premium or discount, a company has to follow the restrictions imposed by the Companies Act, 1956. These restrictions are as follows:

Issue of shares at premium. A company can *always* Issue shares at a premium, i.e., for a value higher than the face value of shares whether for cash or for consideration other than cash. However, according to Section 78 of the Companies Act, the amount of such premium shall have to be transferred by the company to the Securities Premium Account.' The securities premium can be used by the company only for the following purposes:

- (a) for the issue of fully paid bonus shares to the members of the company,
- (b) for writing off preliminary expenses of the company;
- (c) for writing off the expenses of, or the commission paid or, discount allowed, on any issue of shares or debentures of the company; and
- (d) for providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

Issue of shares at discount. A company can issue shares at a discount (i.e., for a consideration less than the nominal values of the, shares) subject to the following conditions laid down by Section 79 of the Companies Act.

- I . Shares to be issued at a discount must be of a class already issued.

2. Issue of shares at a discount must be authorised by an ordinary resolution of the company.
3. Issue must be sanctioned by the Company Law Board.
4. Resolution must specify the maximum rate of discount. No such resolution shall be sanctioned by the Company Law Board if the maximum rate of discount specified in the resolution exceeds 10% unless the Board is of the opinion that a higher percentage of discount may be allowed in the special circumstances of the case.
5. One year must have passed since the date on which the company was allowed to commence business.
6. Issue must take place within two months after the date of the sanction of the Company Law Board unless the time is further extended.
7. Every prospectus relating to the issue of shares shall disclose particulars of the discount allowed on the issue of shares or that amount which has not been written off at the date of the issue of prospectus.

Restrictions on the issue of shares at a discount as set out above do not apply in the case of debentures since they do not form the capital fund to the company but are merely creditor ship securities.

Lecture 24

Accounting system and book keeping principles

A student desires to know the progress he makes in the various subjects he has taken for study. Similarly a businessman likes to know the progress he makes in his business. He has to prepare profit and loss and Balance sheet only from the books of accounts maintained by him.

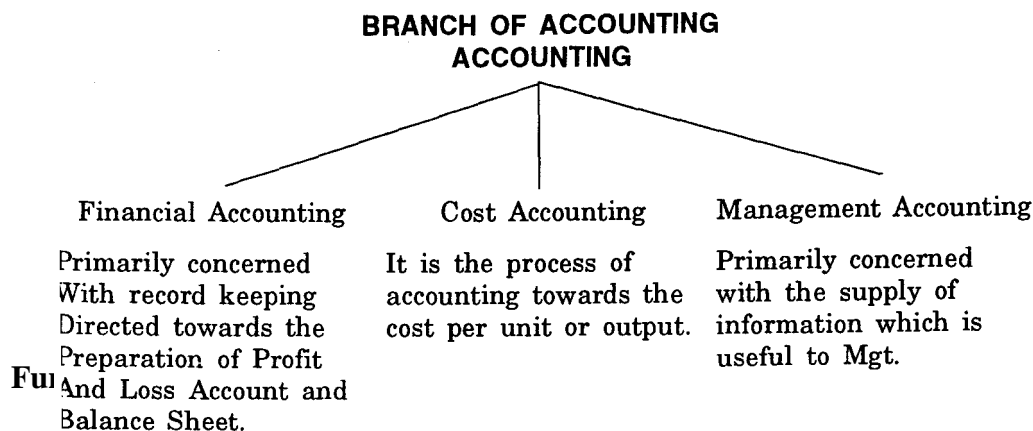
A systematic record of the daily activities of a business is to present a complete financial picture is known as accounting or in its elementary stages as book-keeping. It is difficult to get a clear distinction between book keeping and accounting. Book-keeping is to keep the books and make the accounting records.

Accounting means to decide how such records shall be kept and to apprise the significance of the information disclosed.

Meaning of accounting and Book Keeping

The American Institute of Certified public Accounts Committee defines Accounting as, "The art of recording, classifying summarising in a significant manner and in terms of money , transactions and events which are, in part it least, of a financial character and interpreting results there of". Accounting and Accountancy are often synonymous. Different uses of accounting have developed to fulfil the various objectives.

According to R.N.Charter "Book-keeping is art of correct by recording in books of accounts all those business transactions that result in the transfer of money or moneys worth.



1. Keeping systematic records i.e. to keep the records of financial transactions to prepare final accounts.
2. Protecting properties of the business. An unauthorized dissipation of assets of the concern will bring it to the threshold of un-solvency. An accountant, those have to design such a system of accounting as will protect its assets. from an unjustified use.
3. Communicating the result i.e. the results of trained from arranging of data to interested parties like proprietors, investors, creditors, employees, Govt. and researchers.
4. Meeting legal requirements i.e. accounting is a system for a concern to meet legal requirements such as sales tax and income tax.

Groups Interested in Accounting Information

1. Owners and the Management - Owners like, sole proprietor, partner, share holder are interested to know the progress of the concern from the disclosed accounting records. To measure and evaluate the performance of the organization the management is very much of interested to know the information.
2. Potential Investors - The prospective investors are in need of detailed information about the progress of the concern because only on the basis of the information they take decisions regarding the investment to be made in the particular business.
3. Creditors - The parties who provide a firm with raw materials, goods, service by either extending credit or making loans based on the disclosed Accounting information.
4. Employees - The employees are also interested in the information to properly evaluate the salary and wage benefit packages.
5. Researchers are very keen to collecting the data for research purposes.
6. The Govt. has to collect sales tax, income tax, excise duty and other relevant taxes from the business based on the property accounts made by the concern.

METHODS OF ACCOUNTING

Single Entry System of Book Keeping

The single entry system is an incomplete method of Book Keeping. Under this system the cash Book and personal ledgers only are maintained. i.e. Real and Nominal Account are not maintained. One may not end accounts relating to fixed assets, purchases, sales, expenses, incomes etc. Goods sold on credit will be recorded only in the account of the customers concerned.

Cash received from him, will be recorded both in the cash account and in ie account of the customer. Purchase of machinery on credit will not be corded at all till payment is made.

Double Entry System of Book Keeping

This system was invented by an Italian named LUCO PACIOLI in 1494 .D. According to this system, every transaction has got a two fold aspect. One is Benefit Receiving Aspect or Incoming aspect and the other one, Benefit Receiving Aspect or Outgoing aspect. The benefit receiving aspect is said to be Debit and the benefit giving aspect is said to be a Credit. For every transaction one account is to be debited and another account is to be credited i order to have a complete record of the same. Therefore every transaction affects two accounts in opposite direction.

Difference between Double Entry & Single Entry System		
Sl.No.	Double Entry System	Single Entry System
01.	Two act aspects of a transaction are recorded.	Only one aspect of a transaction is recorded.
02.	For every debit there is a corresponding and equal credit.	There may a debit without a corresponding credit and vice versa.
03.	Personal accounts, Real accounts and Nominal accounts are maintained properly.	Personal Accounts and Cash account alone are maintained.
04.	To test the arithmetical accuracy, a Trial Balance can be prepared.	As the ledger does not contain all accounts
05.	Trading Account, Profit and Loss Account and Balance Sheet can be prepared.	They can not be prepared as it has an incomplete record.
06.	Accurate net profit can be calculated directly.	Approximate net profit can be indirectly calculated.
07.	It involves more clerical labour.	It involves less clerical labour.
08.	It is a perfect and scientific system.	It is an imperfect way of book keeping.
09.	Tax authorities accept this method.	Tax authorities do not accept it as such.

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e two accounts. This system is called Double Entry system since it keeps records in two accounts for every transaction.

Therefore the basic principle under this system is that for every debit there must be a corresponding and equal credit and for every credit there must be a corresponding and equal debit.

Accounting Principles

The generally accepted accounting principles are the set of rules, concepts and guidelines used in preparing financial accounting reports. The accounting principles are described by various terms such as concept convector doctrines, assumptions, postulates etc., All these are synonymous except the concepts and conventions.

There are two approaches for the applications of Debit and Credit rules. 1. American approach 2. English Approach In American approach the transactions are divided into five categories.

	<u>Debit</u>	<u>Credit</u>
1. Capital	Decrease	Increase
2. Liability	Decrease	Increase
3. Asset	Increase	Decrease
4. Expenses	Increase	Decrease
5. Revenue	Decrease	Increase

Conceptual framework of financial accounting based on Double entry

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	Debit	Credit
Personal Account	The receiver	The giver
Real Account	What comes in	What goes out
Nominal Account	All expenses & losses	All incomes & Gains

From the above two approaches we are following the English approach.

Lecture 25
Accounting
Concepts and conventions of accounting

1. Business entity concept

The business is viewed as a distinctly different and independent of the owner and is to be viewed as an entity on its own. This means that the business transactions are to be recorded and the factors of the dual aspect are to be determined from the point of the view of the business. This means even in the case of a sole trader the owners transactions are to be recorded as if it is from any other person like.

2. Going concern concept

The business transactions are to be recorded on the basic assumption that the business will be there for a longer period and will not necessarily come to end at the close of the accounting period. This necessitates the classification of the transactions as both Capital and Revenue. To put in simple terms, if the transactions relates to the accounting period only, it may be classified as *Revenue* whereas in all other cases generally they may be classified as *Capital*. For example, *Lease* rent payments give benefits only during the month, the same is to be treated as the revenue whereas the Lease advance, the benefit of such payment being available during the entire tenure of the lease is to be classified as Capital. This distinction is very much important to determine the financial performance and to ascertain the correct financial position of a business from the financial records.

3. Money measurement concept

The accounting system attempts to record those transactions which are expressed in terms of money or money's worth. This means that those transactions which are of subjective nature however worth they may be from the point of view of the business will not be recorded. For instance, a small payment of wages may be recorded whereas the adverse effect of a government policy on the labour cost will not be recorded.

4. Accounting period concept

Even though the business is assumed to exist indefinitely in terms of the going concern concept, it is customary to study the financial performance and the financial position at regular intervals as a measure of control. Such operational results studied at regular intervals are generally referred to as accounting periods. Normally, a period of 12 months is considered to be the accounting period by the accountants and each business may adopt their accounting period to suit their needs.

Thus, a Calendar year -- January to December,

Financial year -- April to March,

or any other period like academic year, oil year, sugar year may be adopted as the accounting year comprising of 12 months therein.

5. Cost Concept

All business transactions will be recorded on the basis of the costs and not on the basis of its value to the business even though it may be important from the point of the business.

6. Revenue realization concept

Accounts record only such revenues which are actually realised or there arises a legal right has accrued to the business to receive the same.

7. Full disclosure concept

Accountants try to reveal the contents in the financial statements in such a way that the true and fair position of the financial performance and the financial position is revealed. The disclosure should be such that the classification of the items are of intelligible nature to have a correct assessment of the situation disclosed.

8. Dual aspect concept

As referred earlier, the dual aspect of the transaction – both the benefit receiving and the benefit giving aspect-- is to be recorded following the accounting rules relating to the various types of accounts.

9. Matching concept

The accounts are to be recorded in such a way that if any income is recorded, the expenditure relating to the same is also recorded to find out a true financial results. Vice-versa holds good in relation to the recording of the expenditures.

Accounting conventions

Besides the above accounting concepts, the accountants should also bear in mind the following accounting conventions for the maintenance of the accounting system

1. **Convention of Disclosure:** The accounts are to disclose all material particulars so that a rational judgement may be made of the financial position and financial performance. For example, the particulars relating to the aging of the debtors will give a better idea about the possible realization thereof. Since accounting is an art, what is to be disclosed depends upon the circumstances of the business. Disclosure should comply with the legal requirements related thereto.
2. **Convention of Materiality:** The accounts are to be recorded in consideration with the material aspects involved. Materiality refers to the factors that are relevant for the purpose of giving knowledge to the users of the data so that they may have a better understanding of the financial statements on their hand.
3. **Convention of Consistency:** It is important that the accounts are to be drawn on the basis of the accepted accounting policies and there should not be any deviation from it year or after year. This means that accountants have to follow the policies consistently throughout the business life of the organisation to enable the users of the data to have knowledge about the business.
4. **Convention of Conservatism:** The accountants always have the practice of conservatism as hallmark in the preparation of the financial statements. This means that the losses will be accounted at the earliest and the incomes will be recorded only when they get a definite right over the receipts.

Lecture 26

Problems in Accounting Systems

Limitations of Financial Accounting

Financial Accounting though may help the management to have a proper financial information to make a practical managerial decision making, the following limitations are also to be borne in mind while considering the financial statements.

- a. Financial accounts normally deal only with monetary transactions and non-monetary transactions or events however significant, are not reflected in the financial accounts.
- b. Financial accounts are more related to the historic events and the future is projected based on it and will be useful only if realistic assumptions are made.
- c. Financial accounts are drawn in certain instances on the basis of subjective assessment of the financial policies and the inferences made there will depend upon the impact of such policy changes.
- d. Financial accounts records the transactions on cost basis and no due attention is paid for the value aspect of the transactions.

Financial Accounting Vs Management Accounting

Management Accounting is the term used to describe the accounting methods, systems, and techniques which coupled with special knowledge and ability assist management in its task of maximizing profits or minimizing losses. Thus it may be seen that it is not correct to assume that both financial accounting and management accounting are one and the same and the following important differences may be pointed out between them.

Management Accounting concerns with the use of the accounting statements for the purpose of managerial decision making whereas the financial accounting concerns with the maintenance of financial records for the purpose of finding out the financial performance and the financial position of an organization.

Financial Accounting gives input to the management accounting.

Financial accounting restricts itself to historic events whereas the management accounting tries to analyze and judge the future.

Financial accounts remain more as *data* whereas the management accounting attempts to convert the data into valuable *Information*.

The techniques that are used in the financial accounting are based on the well-laid accounting principles whereas the management accountant can adapt the common techniques to his requirements.

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Lecture 27**National Agricultural policy**

1. Agriculture is a way of life, a tradition, which, for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture, therefore, is and will continue to be central to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

2. Indian agriculture has, since Independence, made rapid strides. In taking the annual foodgrains production from 51 million tonnes of the early fifties to 206 million tonnes at the turn of the century, it has contributed significantly in achieving self sufficiency in food and in avoiding food shortages in our country. The pattern of growth of agriculture has, however, brought in its wake, uneven development, across regions and crops as also across different sections of farming community and is characterized by low levels of productivity and degradation of natural resources in some areas. Capital inadequacy, lack of infrastructural support and demand side constraints such as controls on movement, storage and sale of agricultural products, etc., have continued to affect the economic viability of agriculture sector. Consequently, the growth of agriculture has also tended to slacken during the nineties.

3. Agriculture has also become a relatively unrewarding profession due to generally unfavourable price regime and low value addition, causing abandoning of farming and increasing migration from rural areas. The situation is likely to be exacerbated further in the wake of integration of agricultural trade in the global system, unless immediate corrective measures are taken.

4. Over 200 million Indian farmers and farm workers have been the backbone of India's agriculture. Despite having achieved national food security the well being of the farming community continues to be a matter of grave concern for the planners and policy makers in the country. The establishment of an agrarian economy which ensures food and nutrition to India's billion people, raw materials for its expanding industrial base and surpluses for exports, and a

fair and equitable reward system for the farming community for the services they provide to the society, will be the mainstay of reforms in the agriculture sector.

5. The National Policy on Agriculture seeks to actualise the vast untapped growth potential of Indian agriculture, strengthen rural infrastructure to support faster agricultural development, promote value addition, accelerate the growth of agro business, create employment in rural areas, secure a fair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges arising out of economic liberalization and globalisation. Over the next two decades, it aims to attain:

- A growth rate in excess of 4 per cent per annum in the agriculture sector
- Growth that is based on efficient use of resources and conserves our soil, water and bio-diversity;
- Growth with equity, i.e., growth which is widespread across regions and farmers;
- Growth that is demand driven and caters to domestic markets and maximises benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalisation;
- Growth that is sustainable technologically, environmentally and economically.

Sustainable Agriculture

6. The policy will seek to promote technically sound, economically viable, environmentally non-degrading, and socially acceptable use of country's natural resources - land, water and genetic endowment to promote sustainable development of agriculture. Measures will be taken to contain biotic pressures on land and to control indiscriminate diversion of agricultural lands for non-agricultural purposes. The unutilized wastelands will be put to use for agriculture and afforestation. Particular attention will be given for increasing cropping intensity through multiple-cropping and inter-cropping.

7. The Government accords abiding importance to improving the quality of the country's land and soil resources. Reclamation of degraded and fallow lands as well as problem soils will be given high priority to optimize their productive use. Special emphasis will be laid on conserving soils and enriching their fertility. Management of land resources on watershed basis will receive special attention. Areas of shifting cultivation will also receive particular attention for their sustainable development. Integrated and holistic development of rainfed areas will be promoted by conservation of rain water by vegetative measures on watershed basis and augmentation of biomass production through agro and farm forestry with the involvement of the watershed community. All spatial components of a watershed, i.e. arable land, non-arable and drainage lines will be treated as one geo-hydrological entity. Management of grazing land will receive greater attention for augmenting availability of animal feed and fodder. A long-term perspective plan for sustainable rainfed agriculture through watershed approach will be vigorously pursued for development of two thirds of India's cropped area which is dependent on rains.

8. Rational utilization and conservation of the country's abundant water resources will be promoted. Conjunctive use of surface and ground water will receive highest priority. Special attention will be focused on water quality and the problem of receding ground-water levels in certain areas as a result of over-exploitation of underground aquifers. Proper on-farm management of water resources for the optimum use of irrigation potential will be promoted. Use of *in situ* moisture management techniques such as mulching and use of micro overhead pressured irrigation systems like drip and sprinkler and green house technology will be encouraged for greater water use efficiency and improving productivity, particularly of horticultural crops. Emphasis will be placed on promotion of water harvesting structures and suitable water conveyance systems in the hilly and high rainfall areas for rectification of regional imbalances. Participatory community irrigation management will be encouraged.

9. Erosion and narrowing of the base of India's plant and animal genetic resources in the last few decades has been affecting the food security of the country. Survey and evaluation of genetic resources and safe conservation of both indigenous and exogenously introduced genetic variability in crop plants, animals and their wild relatives will receive particular attention. The use of bio-technologies will be promoted for evolving plants which consume less water, are drought resistant, pest resistant, contain more nutrition, give higher yields and are

environmentally safe. Conservation of bio-resources through their *ex situ* preservation in Gene Banks, as also *in situ* conservation in their natural habitats through bio-diversity parks, etc., will receive a high priority to prevent their extinction. Specific measures will also be taken to conserve indigenous breeds facing extinction. There will be a time bound programme to list, catalogue and classify country's vast agro bio-diversity.

10. Sensitization of the farming community with the environmental concerns will receive high priority. Balanced and conjunctive use of bio-mass, organic and inorganic fertilizers and controlled use of agro chemicals through integrated nutrients and pest management (INM & IPM) will be promoted to achieve the sustainable increases in agricultural production. A nation-wide programme for utilization of rural and urban garbage, farm residues and organic waste for organic matter repletion and pollution control will be worked out.

11. Agro forestry and social forestry are prime requisites for maintenance of ecological balance and augmentation of bio-mass production in the agricultural systems. Agro-forestry will receive a major thrust for efficient nutrient cycling, nitrogen fixation, organic matter addition and for improving drainage. Farmers will be encouraged to take up farm/agro-forestry for higher income generation by evolving technology, extension and credit support packages and removing constraints to development of agro and farm forestry. Involvement of farmers and landless labourers will be sought in the development of pastures/forestry programmes on public wastelands by giving financial incentives and entitlements to the usufructs of trees and pastures.

12. The history and traditional knowledge of agriculture, particularly of tribal communities, relating to organic farming and preservation and processing of food for nutritional and medicinal purposes is one of the oldest in the world. Concerted efforts will be made to pool, distill and evaluate traditional practices, knowledge and wisdom and to harness them for sustainable agricultural growth.

Food and Nutritional Security

13. Special efforts will be made to raise the productivity and production of crops to meet the increasing demand for food generated by unabated demographic pressures and raw materials for expanding agro-based industries. A regionally differentiated strategy will be pursued, taking into

account the agronomic, climatic and environmental conditions to realize the full growth potential of every region. Special attention will be given to development of new crop varieties, particularly of food crops, with higher nutritional value through adoption of bio-technology particularly, genetic modification, while addressing bio-safety concerns.

14. A major thrust will be given to development of rainfed and irrigated horticulture, floriculture, roots and tubers, plantation crops, aromatic and medicinal plants, bee-keeping and sericulture, for augmenting food supply, exports and generating employment in the rural areas. Availability of hybrid seeds and disease-free planting materials of improved varieties, supported by network of regional nurseries, tissue culture laboratories, seed farms will be promoted to support systematic development of horticulture having emphasis on increased production, post-harvest management, precision farming, bio-control of pests and quality regulation mechanism and exports.

15. Animal husbandry and fisheries also generate wealth and employment in the agriculture sector. Development of animal husbandry, poultry, dairying and aqua-culture will receive a high priority in the efforts for diversifying agriculture, increasing animal protein availability in the food basket and for generating exportable surpluses. A national livestock breeding strategy will be evolved to meet the requirements of milk, meat, egg and livestock products and to enhance the role of draught animals as a source of energy for farming operations and transport. Major thrust will be on genetic upgradation of indigenous/native cattle and buffaloes using proven semen and high quality pedigreed bulls and by expanding artificial insemination network to provide services at the farmer's doorstep.

16. Generation and dissemination of appropriate technologies in the field of animal production as also health care to enhance production and productivity levels will be given greater attention. Cultivation of fodder crops and fodder trees will be encouraged to meet the feed and fodder requirements and to improve animal nutrition and welfare. Priority attention will also be given to improve the processing, marketing and transport facilities, with emphasis on modernization of abattoirs, carcass utilization and value addition thereon. Since animal disease eradication and quarantine is critical to exports, animal health system will be strengthened and disease free zones created. The involvement of cooperatives and the private sector will be encouraged for

development of animal husbandry, poultry and dairy. Incentives for livestock and fisheries production activities will be brought at par with incentives for crop production.

17. An integrated approach to marine and inland fisheries, designed to promote sustainable aquaculture practices, will be adopted. Biotechnological application in the field of genetics and breeding, hormonal applications immunology and disease control will receive particular attention for increased aquaculture production. Development of sustainable technologies for fin and shell fish culture as also pearl-culture, their yield optimization, harvest and post-harvest operations, mechanization of fishing boats, strengthening of infrastructure for production of fish seed, berthing and landing facilities for fishing vessels and development of marketing infrastructure will be accorded high priority. Deep sea fishing industry will be developed to take advantage of the vast potential of country's exclusive economic zone.

Generation and Transfer of Technology

18. A very high priority will be accorded to evolving new location-specific and economically viable improved varieties of agricultural and horticultural crops, livestock species and aquaculture as also conservation and judicious use of germplasm and other biodiversity resources. The regionalization of agricultural research, based on identified agro-climatic zones, will be accorded high priority. Application of frontier sciences like bio-technology, remote sensing technologies, pre and post-harvest technologies, energy saving technologies, technology for environmental protection through national research system as well as proprietary research will be encouraged. The endeavour will be to build a well organized, efficient and result-oriented agriculture research and education system to introduce technological change in Indian agriculture. Upgradation of agricultural education and its orientation towards uniformity in education standards, women empowerment, user-orientation, vocationalization and promotion of excellence will be the hallmark of the new policy..

19. The research and extension linkages will be strengthened to improve quality and effectiveness of research and extension system. The extension system will be broad based and revitalized. Innovative and decentralized institutional changes will be introduced to make the extension system farmer-responsible and farmer-accountable. Role of Krishi Vigyan Kendras

(KVKs), Non-Governmental Organizations (NGOs), Farmers Organizations, Cooperatives, corporate sector and para-technicians in agricultural extension will be encouraged for organizing demand driven production systems. Development of human resources through capacity building and skill upgradation of public extension functionaries and other extension functionaries will be accorded a high priority. The Government will endeavour to move towards a regime of financial sustainability of extension services through affecting in a phased manner, a more realistic cost recovery of extension services and inputs, while simultaneously safeguarding the interests of the poor and the vulnerable groups.

20. Mainstreaming gender concerns in agriculture will receive particular attention. Appropriate structural, functional and institutional measures will be initiated to empower women and build their capabilities and improve their access to inputs, technology and other farming resources.

Inputs Management

21. Adequate and timely supply of quality inputs such as seeds, fertilizers, plant protection chemicals, bio-pesticides, agricultural machinery and credit at reasonable rates to farmers will be the endeavour of the Government. Soil testing and quality testing of fertilisers and seeds will be ensured and supply of spurious inputs will be checked. Balanced and optimum use of fertilizers will be promoted together with use of organic manures & bio-fertilizers to optimize the efficiency of nutrient use.

22. Development, production and distribution of improved varieties of seeds and planting materials and strengthening and expansion of seed and plant certification system with private sector participation will receive a high priority. A National Seed Grid will be established to ensure supply of seeds especially to areas affected by natural calamities. The National Seeds Corporation (NSC) and State Farms Corporation of India (SFCI) will be restructured for efficient utilization of investment and manpower.

23. Protection to plant varieties through a *sui generis* legislation, will be granted to encourage research and breeding of new varieties particularly in the private sector in line with India's obligations under TRIPS Agreement. The farmers will, however, be allowed their traditional rights to save, use, exchange, share and sell their farm saved seeds except as branded seeds of

protected varieties for commercial purpose. The interests of the researchers will also be safeguarded in carrying out research on proprietary varieties to develop new varieties.

24. Integrated pest management and use of biotic agents in order to minimize the indiscriminate and injudicious use of chemical pesticides will be the cardinal principle covering plant protection. Selective and eco-friendly farm mechanization through appropriate technology will be promoted, with special reference to rainfed farming to reduce arduous work and to make agriculture efficient and competitive as also to increase crop productivity.

Incentives for Agriculture

25. The Government will endeavour to create a favourable economic environment for increasing capital formation and farmer's own investments by removal of distortions in the incentive regime for agriculture, improving the terms of trade with manufacturing sectors and bringing about external and domestic market reforms, backed by rationalization of domestic tax structure. It will seek to bestow on the agriculture sector in as many respects as possible benefits similar to those obtaining in the manufacturing sector, such as easy availability of credit and other inputs, and infrastructure facilities for development of agri-business industries and development of effective delivery systems and freeing movement of agro produce.

26. Consequent upon dismantling of Quantitative Restrictions on imports as per WTO Agreement on Agriculture, Commodity-wise strategies and arrangements for protecting the grower from adverse impact of undue price fluctuations in world markets and for promoting exports will be formulated. Apart from price competition, other aspects of marketing such as quality, choice, health and bio-safety will be promoted. Exports of horticultural produce and marine products will receive particular emphasis. A two-fold long term strategy of diversification of agricultural produce and value addition enabling the production system to respond to external environment and creating export demand for the commodities produced in the country will be evolved with a view to providing the farmers incremental income from export earnings. A favourable economic environment and supportive public management system will be created for promotion of agricultural exports. Quarantine, both of exports and imports, will be

given particular attention so that Indian agriculture is protected from the ingress of exotic pests and diseases.

27. In order to protect the interest of farmers in context of removal of Quantitative Restrictions, continuous monitoring of international prices will be undertaken and appropriate tariffs protection will be provided. Import duties on manufactured commodities used in agriculture will be rationalized. The domestic agricultural market will be liberalized and all controls and regulations hindering increase in farmers' income will be reviewed and abolished to ensure that agriculturists receive prices commensurate with their efforts, investment. Restrictions on the movement of agricultural commodities throughout the country will be progressively dismantled.

28. The structure of taxes on foodgrains and other commercial crops will be reviewed and rationalized. Similarly, the excise duty on materials such as farm machinery and implements, fertilizers, etc., used as inputs in agricultural production, post harvest storage and processing will be reviewed. Appropriate measures will be adopted to ensure that agriculturists by and large remain outside the regulatory and tax collection systems. Farmers will be exempted from payment of capital gains tax on compulsory acquisition of agricultural land.

Investments in Agriculture

29. The Agriculture sector has been starved of capital. There has been a decline in the public sector investment in the agriculture sector. Public investment for narrowing regional imbalances, accelerating development of supportive infrastructure for agriculture and rural development particularly rural connectivity will be stepped up. A time-bound strategy for rationalisation and transparent pricing of inputs will be formulated to encourage judicious input use and to generate resources for agriculture. Input subsidy reforms will be pursued as a combination of price and institutional reforms to cut down costs of these inputs for agriculture. Resource allocation regime will be reviewed with a view to rechannelizing the available resources from support measures towards asset formation in rural sector.

30. A conducive climate will be created through a favourable price and trade regime to promote farmers' own investments as also investments by industries producing inputs for agriculture and agro based industries. Private sector investments in agriculture will also be encouraged more

particularly in areas like agricultural research, human resource development, post-harvest management and marketing.

31. Rural electrification will be given a high priority as a prime mover for agricultural development. The quality and availability of electricity supply will be improved and the demand of the agriculture sector will be met adequately in a reliable and cost effective manner. The use of new and renewable sources of energy for irrigation and other agricultural purposes will also be encouraged.

32. Bridging the gap between irrigation potential created and utilized, completion of all on-going projects, restoration and modernization of irrigation infrastructure including drainage, evolving and implementing an integrated plan of augmentation and management of national water resources will receive special attention for augmenting the availability and use of irrigation water.

33. Emphasis will be laid on development of marketing infrastructure and techniques of preservation, storage and transportation with a view to reducing post-harvest losses and ensuring a better return to the grower. The weekly periodic markets under the direct control of panchayat raj institutions will be upgraded and strengthened. Direct marketing and pledge financing will be promoted. Producers markets on the lines of Ryatu Bazars will be encouraged through out the width and the breadth of the country. Storage facilities for different kinds of agricultural products will be created in the production areas or nearby places particularly in the rural areas so that the farmers can transport their produce to these places immediately after harvest in shortest possible time. The establishment of cold chains, provision of pre cooling facilities to farmers as a service and cold storage in the terminal markets and improving the retail marketing arrangements in urban areas will be given priority. Upgradation and dissemination of market intelligence will receive particular attention.

34. Setting up of agro-processing units in the producing areas to reduce wastage, especially of horticultural produce, increased value addition and creation of off-farm employment in rural areas will be encouraged. Collaboration between the producer cooperatives and the corporate sector will be encouraged to promote agro-processing industry. An inter-active coupling between

technology, economy, environment and society will be promoted for speedy development of food and agro-processing industries and build up a substantial base for production of value added agro-products for domestic and export markets with a strong emphasis on food safety and quality. The Small Farmers Agro Business Consortium (SFAC) will be energized to cater to the needs of farmer entrepreneurs and promote public and private investments in agri-business.

Institutional Structure

35. Indian agriculture is characterized by pre-dominance of small and marginal farmers. Institutional reforms will be so pursued as to channelize their energies for achieving greater productivity and production. The approach to rural development and land reforms will focus on the following areas:

- Consolidation of holdings all over the country on the pattern of north western States.
- Redistribution of ceiling surplus lands and waste lands among the landless farmers, unemployed youth with initial start up capital;
- Tenancy reforms to recognize the rights of the tenants and share croppers;
- Development of lease markets for increasing the size of the holdings by making legal provisions for giving private lands on lease for cultivation and agri business;
- Updating and improvement of land records, computerization and issue of land pass-books to the farmers; and
- Recognition of women's rights in land.

36. The rural poor will be increasingly involved in the implementation of land reforms with the help of Panchayati Raj Institutions, Voluntary Groups, Social Activists and Community Leaders.

37. Private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured markets for crop production, especially of oilseeds, cotton and horticultural crops.

38. Progressive institutionalization of rural and farm credit will be continued for providing timely and adequate credit to farmers. The rural credit institutions will be geared to promote savings, investments and risk management. Particular attention will be paid to removal of distortions in the priority sector lending by Commercial Banks for agriculture and rural sectors. Special measures will be taken for revamping of cooperatives to remove the institutional and financial weaknesses and evolving simplified procedure for sanction and disbursement of agriculture credit. The endeavour will be to ensure distribution equity in the disbursement of credit. Micro-credit will be promoted as an effective tool for alleviating poverty. Self Help Group - Bank linkage system, suited to Indian rural sector, will be developed as a supplementary mechanism for bringing the rural poor into the formal banking system, thereby improving banks outreach and the credit flows to the poor in an effective and sustainable manner.

39. The basic support to agriculture has been provided by the cooperative sector assiduously built over the years. The Government will provide active support for the promotion of cooperative-form of enterprise and ensure greater autonomy and operational freedom to them to improve their functioning. The thrust will be on:

- Structural reforms for promoting greater efficiency and viability by freeing them from excessive bureaucratic control and political interference;
- Creation of infrastructure and human resource development;
- Improvement in financial viability and organizational sustainability of cooperatives;
- Democratisation of management and increased professionalism in their operations; and
- Creating a viable inter-face with other grass-root Organizations.

40. The Legislative and regulatory framework will be appropriately amended and strengthened to achieve these objectives.

Risk management

41. Despite technological and economic advancements, the condition of farmers continues to be unstable due to natural calamities and price fluctuations. National Agriculture Insurance Scheme covering all farmers and all crops throughout the country with built in provisions for insulating farmers from financial distress caused by natural disasters and making agriculture financially viable will be made more farmer specific and effective. Endeavour will be made to provide a package insurance policy for the farmers, right from sowing of the crops to post-harvest operations, including market fluctuations in the prices of agricultural produce.

42. In order to reduce risk in agriculture and impart greater resilience to Indian agriculture against droughts and floods, efforts will be made for achieving greater flood proofing of flood prone agriculture and drought proofing of rainfed agriculture for protecting the farmers from vagaries of nature. For this purpose, contingency agriculture planning, development of drought and flood resistant crop varieties, watershed development programmes, drought prone areas and desert development programmes and rural infrastructure development programmes will receive particular attention.

43. The Central Government will continue to discharge its responsibility to ensure remunerative prices for agricultural produce through announcement of Minimum Support Prices policy for major agricultural commodities. The food, nutrition and other domestic and exports requirements of the country will be kept in view while determining the support prices of different commodities. The price structure and trade mechanism will be continuously reviewed to ensure a favourable economic environment for the agriculture sector and to bring about an equitable balance between the rural and the urban incomes. The methodology used by the Commission on Agricultural Costs & Prices (CACP) in arriving at estimates of costs of production will be periodically reviewed. The price structure of both inputs and outputs will be monitored to ensure higher returns to the farmers and bring about cost effectiveness throughout the economy. Domestic market prices will be closely monitored to prevent distress sales by the farmers. Public and cooperative agencies undertaking marketing operations will be strengthened.

44. The Government will enlarge the coverage of futures markets to minimize the wide fluctuations in commodity prices as also for hedging their risks. The endeavour will be to cover all important agricultural products under futures trading in course of time.

Management Reforms

45. Effective implementation of policy initiatives will call for comprehensive reforms in the management of agriculture by the Central and the State Governments. The Central Government will supplement/complement the State Governments' efforts through regionally differentiated Work Plans, comprising crop/area/target group specific interventions, formulated in an interactive mode and implemented in a spirit of partnership with the States. The Central Government will move away from schematic approach to Macro-Management mode and assume a role of advocacy, articulation and facilitation to help the States in their efforts towards achieving accelerated agricultural development.

46. The Government will focus on quality aspects at all stages of farm operations from sowing to primary processing. The quality of inputs and other support services to farmers will be improved. Quality consciousness amongst farmers and agro processors will be created. Grading and standardization of agricultural products will be promoted for export enhancement. Application of science and technology in agriculture will be promoted through a regular system of interface between S&T institutions and the users/potential users, to make the sector globally competitive.

47. The database for the agriculture sector will be strengthened to ensure greater reliability of estimates and forecasting which will help in the process of planning and policy making. Efforts will be made to significantly improve and harness latest remote sensing and information technology to capture data, collate it, add value and disseminate it to appropriate destinations for managing the risk and in accelerating the growth process. The objective will be to engage in a meaningful continuous dialogue with the external environment in the changing scenario and to have on-line and real time system of 'Agriculture on line' capacity to analyze the signals emanating from the farms and the markets for the benefit of the farmers.

48. The Government of India trust that this Statement of National Agriculture Policy will receive the fullest support of all sections of the people and lead to sustainable development of

agriculture, create gainful employment on a self sustaining basis in rural areas, raise standards of living for the farming communities, preserve environment and serve as a vehicle for building a resurgent national economy.

Source: Ministry of Agriculture, Department of Agriculture & Co-operation, GOI

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Lecture 28**GOVERNMENT POLICIES AND REGULATIONS FOR AGRIBUSINESS**

Green Revolution initiatives have to achieve self sufficiency by increasing food grains production. Simultaneously, several initiatives have been taken to promote agricultural marketing in the state. Marketing infrastructure plays a pivotal role in fostering and sustaining the tempo of rural economic development. Marketing is as critical to better performance in agriculture as farming itself. According to the National Commission on Agriculture (XII report), Agricultural Marketing is a process, which starts with a decision to produce a saleable farm commodity and it involves all the aspects relating to pre and post-harvest operations including assembling, grading, storage, transportation and distribution. These operations add value to farm produce.

In order to create the needed infrastructure, promote institutions and also to regulate the marketing practices, Government of Tamil Nadu enacted the ' Tamil Nadu Agricultural Produce Marketing (Regulation) Act 1987 and Rules 1991 ' replacing the earlier Act 1959.

The Department of Agricultural Marketing, which is functioning since 1977, with the main objective of Regulation of Agricultural Marketing, was renamed in the year 2001 as Department of Agricultural Marketing and Agri. Business in order to focus on other activities like Agri Export, Post Harvest Management, Food Processing, etc.

The main activities of the Department of Agricultural Marketing and Agri. Business are as follows:

1. Establishment and maintenance of regulated markets in order to facilitate buying and selling of agricultural produce for the benefit of the farming community.
2. To create awareness among the farmers about the benefits of marketing their produce through regulated markets by taking up publicity and propaganda.
3. Commercial grading of agricultural produce in the regulated markets and at farm holdings to help the producers to get remunerative price for their produce.
4. To take up Agmark grading of agricultural, animal husbandry and forestry products for the benefit of the consumers.
5. To set up Agriculture Export Zones for promoting export of agricultural produce by increasing the area under exportable crops, providing necessary post harvest management and other infrastructure required and information on prices prevailing at international markets as an integrated approach.
6. To set up modern cold storage facilities to enable the farmers to store and sell their produce at favourable price level (Cold chain from farm to market).
7. To promote Food Processing Industries.

Market Committees

At present 20 Market committees are functioning in Tamil Nadu covering various districts except Chennai and the Nilgiris. Now, these Market Committees are functioning with nominated Members and Chairperson elected by the members from January 2003.

Regulated Markets

There are 273 Regulated Markets, 15 Sub Markets, 15 Check Posts, 108 Rural Godowns and 108 Grading Centres functioning under the 20 Market Committees. A new Regulated Market was opened on 30.08.2003 at Sathankulam in Thoothukudi District based on the announcement made by the Hon'ble Chief Minister at Sathankulam.

Competitive and remunerative prices are ensured for the produce sold by the farmers through closed tender system in the Regulated Markets. Free Grading facilities for agricultural commodities are also made available in the Regulated Markets.

The Market Committees are collecting 1% of the value of the produce transacted as market fee from the traders. Licence fee is also collected from the traders and weighment. No fee is collected from producers / sellers for any service rendered in the Regulated Markets.

Services Rendered in the Regulated Markets

These include correct weighment, godown facilities, banking facilities, immediate payment, price information, rest sheds, drinking water facility, cattle sheds, free medical aid to farmers, input shops, payment counter for easy disbursement, phone and fax facilities, etc.

Notification of produce

So far, 40 agricultural commodities like cereals, pulses, oilseeds, cotton, turmeric, etc. have been notified.

Commercial Grading

To help the producers to get better prices for their produce according to their grades, 96 Commercial Grading Centres, 11 Kapas Grading Centers and one Tobacco Grading Centre are functioning in the Regulated Markets. Commercial grading of agricultural produce is done in the villages also. These centers are now renamed as "Post Harvest Technology Information Centers". The farmers are educated in adopting post harvest technologies on agricultural commodities by the technically qualified staff working in the above centers.

Pledge Loan Facilities to Farmers

In order to avoid distress sales by the small and marginal farmers in the peak season, Regulated Markets are issuing pledge loan to farmers. Under this scheme, the farmers can store their agricultural produce in the godowns of Regulated Markets for a maximum period of 6 months and take pledge loan of 75% of the total value of the produce upto a maximum of Rs.50, 000.

Pledge Loan Facilities to Traders

As an incentive to the traders and to help them to make immediate payment to the farmers, pledge loan is given to the licensed traders in the Regulated Markets. Pledge loan of 50% of the total value of the purchased produce or Rs. 1.00 lakh, whichever is less, is made available to the traders. The maximum stocking period is 3 months for the traders.

Tamil Nadu Farmers Development and Welfare Scheme

Under this scheme, the farmers / tenants who sell their agricultural produce of one metric tonne or more through Regulated Markets every year are eligible for a grant of a lumpsum amount upto Rs.75, 000, in case of death/permanent disability occurring due to accident. In the event of death/ disability the nominee of the farmer / tenant and in the absence of nominee, the legal heir of the family will be eligible for the lumpsum grant. The farmers need not pay any premium for this fund. The Market Committee concerned and the Tamil Nadu State Agricultural Marketing Board will bear the premium amount of Rs.10 per individual per year equally.

Agmark Grading

Grading under AGMARK has already become a symbol of quality. In order to help the consumer to get quality food products, 30 State Agmark Grading Laboratories, 15 Agricultural Officer (Marketing) Centers and one Principal Laboratory are functioning in the State. Agmark grading is done for centralised and de-centralised commodities by the technically qualified staff. Agmark labels are issued to the authorised packers under the direct supervision of the staff for certifying the quality and purity of the food products.

Construction of Drying Yards in the Villages

In order to minimise the post harvest losses in grains, the department has taken up construction of drying yards at village level. Under this scheme, so far 580 drying yards have been constructed at a total cost of Rs.10.24 crores. Construction of 150 drying yards at a total cost of Rs.3.00 crores for the year 2003-2004 is in progress due to spill over work.

Construction Of Market Complex

Paddy Market Complex

At Madurai, a market complex is being established exclusively for paddy at a total cost of Rs.12.60 crores. This market complex will cater to the marketing needs of paddy growing farmers and traders.

Agricultural Production And Marketing Information Centre

Market intelligence plays a vital role in marketing of agricultural produce. If information on commodity prices in various markets is made available, the farmers would get better price for their produce. Taking this objective into consideration, establishment of Agricultural Production and Marketing Information Centre is in progress in fourteen Regulated Markets at a cost of Rs.45.00 lakhs and another five Regulated Markets would also get this facility at a cost of Rs.20.00 lakhs during 2004-05 based on order issued in 2003-04. Based on the success and usefulness of the facility to the farmers, this scheme will be further expanded.

Agri Export Zones

Agri Export Zones Established

To promote Agricultural Exports from Tamil Nadu, three Agri Export Zones for specific commodities have been established as detailed below.

Export Zone for Cut Flowers in Dharmapuri District

An Agri Export Zone has been established by the Department of Agricultural Marketing and Agri Business exclusively for cut flowers at Hosur in Dharmapuri district at a project cost of Rs.24.85 crores. TANFLORA, a Joint venture company of TIDCO provides infrastructure facilities like common processing unit, common marketing and leasing the lands for floriculture units. This Agri Export Zone is expected to be ready with all the facilities shortly.

Export Zone for Flowers in Nilgiris District

An Agri Export Zone for flowers in The Nilgiris has been established with the participation by private sector at a project cost of Rs. 15.89 crores through the Department of Agricultural Marketing and Agri. Business. A memorandum of understanding (MoU) has been signed between APEDA and Government of Tamil Nadu - Agriculture Department on 6.2.2003. Infrastructure facilities like cold storage, refrigerated vans, common marketing facility, etc., would be created shortly.

Export Zone for Mango in Theni District

An Agri Export Zone exclusively for mango has been established in Theni and five other districts with private sector participation at a project cost of Rs.24.60 crores through the Department of Agricultural Marketing and Agri Business. A memorandum of understanding (MoU) has been signed between APEDA and Government of Tamil Nadu - Agriculture Department on 6.2.2003. Facilities like collection centres, processing units, cold storage, etc., would be completed shortly

Agri Export Zones Proposed

Export Zone for Cashew in Cuddalore District

It is proposed to establish an Agri Export Zone exclusively for cashew at Cuddalore district through private sector participation at a project cost of Rs. 10.36 crores. Necessary proposal has been sent through Government of Tamil Nadu to APEDA, Government of India for approval.

Export Zone for Banana in Tiruchirappalli District

It is proposed to establish an Agri Export Zone exclusively for banana in Tiruchirappalli District through private sector participation at a project cost of Rs. 10.00 crores. Necessary proposal has been sent through Government of Tamil Nadu to APEDA, Government of India for approval.

Establishment of Cold Chain Units

To minimise post harvest losses of agricultural produces, especially fruits and vegetables, it is proposed to set up Cold Storage Units through private sector in the following places: -

1. Oddanchatram of Dindigul district.

2. Tiruchirappalli.
3. Vellore.
4. Thalavasal of Salem district.
5. Udumalpet of Coimbatore district.
6. Batlagundu of Dindigul district.
7. Virudhunagar.
8. Vilathikulam of Thoothukudi district.
9. Chinnamanur of Theni district.

Of these 9 places, this department has already selected private entrepreneurs for setting.

The details on prices of major commodities at international markets of the past and present will be collected and analysed and future export prices will be forecast based on the analysis. The possible countries to which exports can be made would also be forecast by the cell. Visit to select markets at national and international level will be undertaken whenever needed. The information generated by the Domestic and Export Market Intelligence Cell will help to forecast the prices of the commodities in the forthcoming months and the same will be transmitted to the regulated markets and the farmers. Apart from this, the prices prevailing in nearby states will also be announced to the farmers so that they will be able to get better prices for their crops which will help them in planning crop pattern and the right time of sale of their crop output.

The cell will also guide prospective exporters on whom to approach, where to approach etc i.e. the agencies dealing with the export item so that their problems are sorted out. This is proposed to be set up at a cost of Rs. 20.00 lakhs in the first year, Rs.12.00 lakhs in the 2nd and 3rd years respectively. After that it is expected that the cell would be able to attract alternative funding/ payment for its services to ensure its continued survival and growth.

Turmeric Market Complex

A new Turmeric Market Complex will be established at Nasianur and Villarasampatti Village near Erode at a cost of Rs. 36.32 Crores. In this complex, infrastructure facilities will be provided viz., Information Centre, Conference Hall, Bank, Agmark Lab, Farmers Retiring Room etc. The State Agricultural Marketing Board and Erode Market Committee will invest a sum of Rs. 11.32 crores.

Lecture 29

Principles of taxation and tax structure in India

India has a well developed tax structure with a three-tier federal structure, comprising the Union Government, the State Governments and the Urban/Rural Local Bodies. The power to levy taxes and duties is distributed among the three tiers of Governments, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise and Sales Tax and Service Tax. The principal taxes levied by the State Governments are Sales Tax (tax on intra-State sale of goods), Stamp Duty (duty on transfer of property), State Excise (duty on manufacture of alcohol), Land Revenue (levy on land used for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions & Callings. The Local Bodies are empowered to levy tax on properties (buildings, etc.), Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, etc.

Since 1991 tax system in India has under gone a radical change, in line with liberal economic policy and WTO commitments of the country. Some of the changes are:

- Reduction in customs and excise duties
- Lowering corporate Tax
- Widening of the tax base and toning up the tax administration

Direct Taxes

Personal Income Tax

Individual income slabs are 0%, 10%, 20%, 30% for annual incomes upto Rs 50,000, 50,000 - 60,000, 60,000 - 1,50,000 and above 1,50,000 respectively.

Corporate Income Tax

For domestic companies, this is levied @ 35% plus surcharge of 5%, where as for a foreign company (including branch/project offices), it is @ 40% plus surcharge of 5%. An Indian

registered company, which is a subsidiary of a foreign company, is also considered an Indian company for this purpose.

General Tax Incentives for Industries:

- 100% deduction of profits and gains for ten years is available in respect of the following:
 - Any enterprise carrying on the business of developing, maintaining and operating infrastructure facilities viz., roads, highways, bridges, airports, ports, rail systems, industrial towns, inland waterways, water supply projects, water treatment systems, irrigation projects, sanitation and sewage projects, solid waste management systems.
 - Undertakings engaged in generation or generation and distribution, transmission or distribution of power, which commence these activities before 31.3.2006.
 - Any company engaged in scientific and industrial research and development activities, approved by the prescribed authority, before 31.3.2003.
 - Any undertaking which develops, operates, maintains an Industrial Park or Special Economic Zone before 31.3.2006.
 - Notified Industrial Undertakings set up in the North Eastern region including seven north-eastern states and the state of Sikkim.
 - Undertakings developing and building housing projects approved by the local authority before 31.3.2001 and which are completed before 31.3.2003.
- 100% deduction for seven years for undertakings producing or refining mineral oil.
- 100% deduction from income for first five years and 30% (for persons other than companies: 25%) in subsequent five years is available in respect of the following:
 - Company which starts providing telecommunication services whether basic or cellular including radio paging, domestic satellite service, network or trunking, broad band network and internet services before 31.3.2003.
 - Industrial undertakings located in certain specified industrially backward states and districts.
 - Undertakings which begin to operate cold chain facilities for agricultural produce before 31.3.2003.
 - Undertakings engaged in the business of handling, storage, transportation of food grains.
- 50% deduction for a period of five years is available to undertakings engaged in the business of building, owning and operating multiplex theatres or convention centres constructed before 31.3.2005.
- Tax exemption of 100% on export profits for ten years upto F.Y. 2009-10, for new industries located in EHTPs and STPs and 100% Export Oriented Units. For units set up in Special Economic Zones (SEZs), 100% deduction of export income for first five years followed by 50% for next two years, even beyond 2009-10.
- Tax exemption of 100% of Export profits for ten years for new industries located in Integrated Infrastructure Development Centres or Industrial Growth Centres of the North Eastern Region.

- Deduction of 50% of export profits from the gross total income. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.
- Deduction from the gross total income of 50% of foreign exchange earnings by hotels and tour operators. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.
- 50% deduction of export income due to export of computer software or film software, television software, music software, from the gross total income. The deduction would be restricted to 30% for financial year 2003-04 and no deduction is allowable subsequently.
- Deduction in respect of certain inter-corporate dividends to the extent of dividend declared.
- Exemption of any income by way of dividend, interest or long term capital gains of an infrastructure capital fund or an infrastructure capital company from investment made by way of shares or long term finance in any enterprises carrying on the business of developing, maintaining and operating infrastructure facility.

Sales Tax

Central Sales Tax (CST) - CST is 4% on manufactured goods.

Local Sales Tax (LST)

Where a sale takes place within a state, LST would be levied. Such a tax would be governed by the relevant state tax legislation. This is normally up to 15%.

Excise Duty

Excise duty on most commodities ranges between 0 to 16%. Only on seven items duty is imposed at 32%, viz., motor cars, tyres, aerated soft drinks, air conditioners, polyesters filament yarn, pan masala and chewing tobacco. Duty is charged at 30% on petrol with additional excise duty at Rs. 7 per litre. The said rates are subject to exemptions and deductions thereon as may be notified from time to time. Central VAT (CENVAT) is applicable to practically all manufactured goods, so as to avoid cascading effect on duty.

Small Scale Sector is exempted from payment of excise duty from annual production upto Rs.10 million.

Customs Duty

The rates of basic duties vary from 0 to 30%.

Salient features are:

- Peak customs duty reduced from 220% (in 1991) to 30% (in 2002).
- The general project import duty (for new projects and substantial expansion of existing projects) reduced from 85% to 25%.
- Import duty under EPCG Scheme is 5%.
- R&D imports - 5% customs duty.
- Export made with imported inputs get concessions in form of duty drawback, duty entitlement pass book scheme and advance licence.
- Many type of industries such as 100% EOU and units in free trade zone get facility of zero import duty.
- An Authority for Advance Ruling for foreign investor

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Lecture 30**SETTING UP A SMALL INDUSTRY-LOCATION AND STEPS FOR
STARTING A SMALL INDUSTRY****Learning Objectives**

- Need For Enterprise Location
- Steps In Enterprise Location
- Steps For Starting A Small Industry

Location of industry is concerned with the least cost location, so that again transport costs are a crucial element in the location decision. A German economist, Alfred Weber devised the theory of industrial location, in 1909. In the early part of the industrial revolution factories developed in areas that were already producing manufactured goods. These were the places where woolen textiles were produced in farmhouses on farms that bred the sheep. The shift was from the farmhouse to a mill, in the same area. By chance many of these textile mills were on coalfields, so that when the shift from water powered to steam coal powered mills occurred, the transition was in the same place. The same thing happened as steel production was also shifted from local forges to coal powered mills. The early industrial revolution saw mills and factories develop on coalfields, and remain entrenched there for more than a century.

By the end of the 19th century, these raw material locations were losing their ascendancy. At the beginning of the industrial revolution roads were poor quality and slow. Canals were rapidly constructed to move heavy industrial materials, but nowhere did these form a really convenient network. It was the development of railways into extensive networks by the end of the 19th century, which enabled industrial location to free itself from raw material sites. This trend continued with roads and vehicles in the twentieth century, but water transport and especially the sea, remained dominant for long distance transport of industrial goods. Weber's analysis came at the point where railway networks had developed to their ultimate extent. He was therefore concerned with the balance of location between raw material site, the market for manufactured goods, and transport.

Some Definitions

The factory or plant is an individual building or premises that produce manufactured

goods. A company may own several factories, probably in different locations. The industry comprises many factories, or plants, and a number of independent companies. Industrial location is primarily concerned with the sitting of a single factory, rather than the whole industry, although the location of the industry is in itself a locational factor. The concepts of site and situation play separate roles, although we may use the word site in relation to location when we are really looking at the situation of the factory.

The site of a factory, or group of factories, is the actual physical location, or block of land. There are some basic locational constraints for the site, such as a plentiful supply of flat land, access to transport, power and water, availability of labour, and capital and finance facilities. Almost all cities will possess appropriate industrial sites and these will be zoned by councils.

It is therefore the situation, or the relative location, in relation to other factories and the industry that is important. Like agricultural and central place location theories, Weber makes assumptions that simplify reality, but unlike these other theories, he does not assume an equal distribution. Rather he assumes that raw materials are unequally distributed in fixed locations.

Assumptions

1. There is an uneven distribution of natural resources on the plain. Raw materials are concentrated in specific sites.
2. The size and location of markets are given at fixed points on the plain.
3. There are fixed locations of labour where wage rates are fixed and labour is immobile and unlimited (capitalists love that).
4. The area has a uniform culture, climate and political system.
5. Entrepreneurs minimise costs of production.
6. Perfect competition exists.
7. Costs of land, structures, equipment and capital do not vary regionally.
8. There is a uniform system of transport over a flat surface.

Raw Material or Market Site

In the first instance we consider whether to locate an industry in the raw material or market location. If there is no weight loss or weight gain in production, you site your

factory at either location, because the transport costs are the same each way. The diagram on the handout illustrates how isotims of equal cost distance are constructed around each site, thereby creating intersection points of equal but higher values, termed isodapanes.

As transport costs are not identical for raw material and manufactured goods a relative weighting must be calculated. Weber did this with a material index, whereby the relative weight gain or loss is calculated.

$$\text{Material Index} = \frac{\text{Total weight of materials used to manufacture the product}}{\text{Total weight of the finished product}}$$

If the product is a pure material its index will be 1. If the index is less than 1 the final product has gain weight in manufacture, thus favouring production at the market place. The weight gain is most likely to come from the addition of ubiquitous materials, like water, that we can expect to occur anywhere. Such a product would be a drink, soft drinks or beer, where a small quantity of usually dried materials are added to water and bottles to make a much heavier and more fragile final product. Most products lose weight in manufacture, such as a metal being extracted from an ore. Thus their material index will be more than 1, thus favouring the raw material site.

The significance of the material index is in calculating precisely the difference between the unit transport costs of raw materials and finished products. The number of the index is used to calculate a relative weighting, which is then applied to the spacing/radius of the isotims. The locational triangles on the handout are small examples of the weighting of more than one material.

While the drawing of isotims and isodapanes is very straightforward for 2 sites, it is in adding a number of material sites and markets that the spatial model both increases in complexity and begins to provide a useful method for calculating the least cost location. As well as weight loss or gain the material index and weighting of transport costs can also take account of loss or gain in transport, of features such as perishability, fragility and hazard.

Need for enterprise location

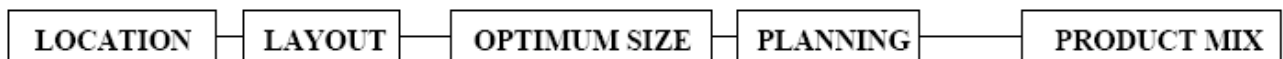
The need for plant location arises under the following circumstances:

1. When a new enterprise is to be established.

2. In the case of established enterprise, the need for enterprise location arises when expansion, decentralization 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 increasing the volume of production or distribution or both.

Steps in Enterprise Location

1. Selection of the region
2. Selection of the locality or community
3. Selection of the exact site, and
4. Selection of an optimum site



1. Analyse yourself and your objectives
2. Date with yourself for newer ideas
3. Consult publications and agencies
4. Discuss with all around you and with sisi and d.i. Office
5. Date with yourself for a decision
6. Choose a line
7. Decide on form of ownership (sole proprietary/ partnership/co-operative/company (private/public)
8. Decide whether to purchase a going concern or to start a new one
9. Obtain the project report from sisi or elsewhere or prepare it yourself
10. Decide on location and site
11. Arrange the workshed with facilities (preferably on rent)
12. Make sure what laws will particularly affect you.
13. Obtain clearance from central, state and local authorities and ssi regn. No.

14. Plan finance
15. Plan sources of machinery
16. Place order for machinery(preferably on hire-purchase)
17. Apply for materials (if imported or controlled)
18. Plan buying
19. Install machinery
20. Procure materials
21. Recruit personnel
22. Trial run
23. Decide on pricing policy
24. Organise marketing
25. Plan out record-keeping
26. Produce
27. Sell
28. Keep up-to-date
29. Plough back profits
30. Diversification
31. Modernisation
32. Compete with others
33. Grow bigger
34. Ancillary development

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