LOVELY PROFESSIONAL UNIVERSITY

ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

Edited By
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SYLLABUS

Entrepreneurship and Small Business Management

Objectives:

1. To enable students understand entrepreneurship, its relevance and importance in the 21st century.
2. To enable students understand how to become an entrepreneur.
3. To enable students understand the role of entrepreneurial leadership plays in the nurturing and growth of a startup.
4. To enable students understand the importance of small business management.

Sr. No.	Topics
1.	Entrepreneurship: meaning, importance of entrepreneurship, concepts, Characteristics, classifications of entrepreneurship, problems faced by entrepreneurs in India.
2.	Entrepreneur v/s intrapreneur, entrepreneurial models, Legal issues for Entrepreneur: Intellectual property rights: Copyrights, Trademarks, Trade secrets, Patents.
3.	Women Entrepreneurs, working environment, challenges in the path of women entrepreneurs, empowerment, Grassroots entrepreneurs through self help groups (SHG).
4.	Building the business plan- Feasibility study: Setting up of Small business enterprises,
5.	Financial Considerations: Basic financial statements, Managing Cash Flows, Preparation of projected financial statements, Applications of Business ratios, Sources of finance: Debt and Equity.
6.	Marketing: Marketing considerations- selecting the target market, market strategy. Pricing strategies and marketing of services, export marketing.
7.	Production management in Small business: production and material management, Break even analysis.
8.	HRM in Small business: Importance of HRM, HRD, Industrial relations, labour laws, pollution control laws.
9.	Institutions supporting small business enterprises: Introduction, Central level institutions, state level institutions, other agencies.
10.	Sickness in small business enterprises: Definition and status of Sickness of SSI's in India, causes of sickness, Symptoms and cure of sickness.

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Unit 1: Entrepreneurship: A world of Opportunity

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1.6 Summary

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Objectives

After studying this unit, you will be able to:

- Explain the meaning of entrepreneurship
- Discuss the importance of entrepreneurship
- Explain the concepts of entrepreneur and entrepreneurship
- Discuss the characteristics of an entrepreneur
- Describe the factors that influence entrepreneurship

Introduction

Everyone is aware of the term 'entrepreneurship' which refers to a process by which individuals launch and manage their business and industrial enterprises. Entrepreneurs are the ones who risk and invest their own capital into the business and industrial-ventures.

The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them. But the fact is that virtually everybody is entrepreneurial in some part of his or her life. Entrepreneurial in terms of self-development (an athlete constantly practicing to improve his/her performance and stamina), in terms of self-decision making (a man deciding not to marry and devoting the rest of his life in the service of God), in terms of creativity (a housewife using waste material for making a piece of art), risk-taking (a teenage boy trying bungee jumping).

Hence, anyone who exhibits the characteristics of self-development, creativity, self-decision making and risk-taking can be rightly called as a person with entrepreneurial traits. When these traits are exhibited by a person running a business he can rightly be called an entrepreneur. The reverse is also true – a businessman who does not take risks, or does not aim for self-development,

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is not creative and one who cannot make a decision on his own, cannot be rightly called as an entrepreneur. And in the present competitive world, the latter is thrown out of the business by the market forces over a period of time.

Despite its current prominence, entrepreneurship still remains a rather vague concept. According to the dictionary the word "Entrepreneur" can be defined as "one who reorganizes and manages only enterprise specially involving high risk". If taken literally, this definition seems fine, but it is quite incomplete. Researchers have shown that entrepreneurs are not necessarily high risk-takers. However, a clever entrepreneur performs to reduce risk and increase the likelihood of success. The definition nowhere mentions anything about opportunities or resources allocated to achieve the success. The only point mentioned in the definition is regarding high risk, which might not even be necessary to be successful.

1.1 Meaning of Entrepreneurship

The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them. But the fact is that virtually everybody is entrepreneurial in some part of his or her lives. Entrepreneurial in terms of self-development (an athlete constantly practicing to improve his/her performance and stamina), in terms of self-decision making (a man deciding not to marry and devoting the rest of his life in the service of God), in terms of creativity (a housewife using waste material for making a piece of art), risk-taking (a teenage boy trying bungee jumping).

Hence, anyone who exhibits the characteristics of self-development, creativity, self-decision making and risk-taking can be rightly called as a person with entrepreneurial traits. When these traits are exhibited by a person running a business he can rightly be called an entrepreneur. The reverse is also true – a businessman who does not take risks, or does not aim for self-development, is not creative and one who cannot make a decision on his own, cannot be rightly called as an entrepreneur. And in the present competitive world, the latter is thrown out of the business by the market forces over a period of time.

Task

Consider an entrepreneur you know personally. What was the most significant reason for his or her following an independent business career? If you don't already know the reason, discuss it with that person.

Entrepreneurship is the process of creating something new, with value, by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

Entrepreneurship is often viewed as a function, which involves the exploitation of opportunities, which exist within a market. Such exploitation is most commonly associated with the direction and/or combination of productive inputs. Entrepreneurs usually are considered to bear risk while pursuing opportunities, and often are associated with creative and innovative actions. In addition, entrepreneurs undertake a managerial role in their activities, but routine management of an ongoing operation is not considered to be entrepreneurship. In this sense, entrepreneurial activity is fleeting. An individual may perform an entrepreneurial function in creating an organization, but later is relegated to the role of managing it without performing an entrepreneurial role. In this sense, many small-business owners would not be considered to be entrepreneurs. Finally, individuals within organizations (i.e. non-founders) can be classified as entrepreneurs since they pursue the exploitation of opportunities.

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Did u know? According to George Bernard Shaw, "The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, they make them." It seems George Bernard Shaw was talking about entrepreneurs, because this is what entrepreneurs do; they create their own future. The entrepreneur understands possible futures and creates the future of his or her choice.

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably, using all the qualities of leadership, decisions making and managerial caliber etc. The term "entrepreneur" is often used interchangeably with "entrepreneurship". Entrepreneurship is a role played by or the task performed by the entrepreneur. The central task of the entrepreneur is to take moderate risk and invest money to earn profits by exploiting an opportunity. For this he must possess far-sightedness to perceive an opportunity so that he can exploit it well in time. Although an entrepreneur has to perform diverse functions yet he must manifest many qualities in himself to be a good entrepreneur.

Self Assessment

Fill in the blanks:

1. Entrepreneurship is often viewed as a …… which involves the exploitation of opportunities, which exist within a market.
2. Entrepreneurship is the …….. of a person to organize the business of his own and to run it profitably.
3. Entrepreneur must possess …….. to perceive an opportunity so that he can exploit it well in time.
4. Individuals within organizations can be classified as entrepreneurs since they pursue the exploitation of ……

1.2 Importance of Entrepreneurship

Prosperity of a nation depends on the development of its economy. Every nation has a responsibility to ensure economic development to improve the living standards of the people, eliminate poverty and backwardness. The process of economic development involves improvement in Gross National Product and depends on the utilization of physical natural resources by the human resources to realize the productive potential of the nation. It requires increase in production and level of consumption.

In a labor abundant but capital short economy like India, there is limitation to the government in directly involving itself in increasing productivity considering the severe budgetary constraint for funds and the pressing need for higher investment in the frontiers of social development. Hence, the people have to come forward to engage themselves in productive activities by starting their own industrial unit's livelihood. When more and more persons come forward to start their own enterprises, however small it may be, and run the enterprise, efficiently and effectively, the productivity of the nation will automatically improve. The government implements a number of programmes to induce self-employment and to develop entrepreneurship in the country. Hence, development of entrepreneurship and entrepreneur are sine-qua-non for the economic prosperity of the nation. Following are the reasons why entrepreneurship holds vital role in an economy:

1. ***Creates wealth for nation and for individuals as well:*** All individuals who search business opportunities usually, create wealth by entering into entrepreneurship. The wealth created

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by the same play a considerable role in the development of nation. The business as well as the entrepreneur contributes in some or other way to the economy, may be in the form of products or services or boosting the GDP rates or tax contributions. Their ideas, thoughts, and inventions are also a great help to the nation.

2. ***Provides employment to huge mass of people:*** People often hold a view that all those who do not get employed anywhere jump into entrepreneurship, a real contrast to this is that 76% of establishments of new business in the year 2003 were due to an aspiration to chase openings. This emphasizes the fact that entrepreneurship is not at all an encumbrance to an economy. What more is that approximately 34 million of fresh employment opportunities were created by entrepreneurs from the period of 1980. This data makes it clear that entrepreneurship heads nation towards better opportunities, which is a significant input to an economy.

3. ***Contributed towards research and development system:*** Almost 2-3% of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.

Caution Earning money is easy and spending is even easier but spending money wisely is difficult. Saving your resources and maximizing its potential is a huge challenge. Unplanned spending also leads to mismanagement of terms of credit and sales cycles, and ultimately a quick closure of the entrepreneur venture becomes inevitable.

4. ***It is a challenging opportunity for the people:*** Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates. It does not only reward an entrepreneur at financial levels but also on individual level. It provides self-satisfaction to the entrepreneur.

5. ***Entrepreneurship provides self-sufficiency:*** The entrepreneur not only become self-sufficient but also provide great standards of living to its employees. It provides opportunity to a number of people working in the organization. The basic factors which become a cause of happiness may be liberty, monetary rewards, and the feeling of contentment that one gets after doing the job. Therefore the contribution of entrepreneurs makes the economy an improved place to live in.

6. ***Sky-scraping heights of apparent prospect:*** The individual gets maximum scope for growth and opportunity if he enters into entrepreneurship. He not only earns, the right term would be he learns while he earns. This is a real motivating factor for any entrepreneur as the knowledge and skills he develops while owning his enterprise are his assets for life time which usually, lacks when a person is under employment. The individual goes through a grooming process when he becomes an entrepreneur. In this way it not only benefits him but also the economy as a whole.

Self Assessment

Fill in the blanks:

5. Entrepreneurship provides opportunities of employment to huge mass of ……..
6. The entrepreneur not only become self-sufficient but also provide great …… of living to its employees.
7. It does not only reward an entrepreneur at financial levels but also on …….. level.
8. The individual goes through a …….. process when he becomes an entrepreneur.

Notes

1.3 Concepts: Entrepreneur and Entrepreneurship

The concept of entrepreneurship has evolved for a long time but its popularity has not gained so much for a long while. But through resurrection, the concept has attained so much popularity that after its observation, a firm idea has been grown up about its sudden discovery. Entrepreneurship is one of the four mainstream economic factors, viz., land, labor, capital and entrepreneurship. The word itself has been derived from the French word entrepreneur in the 17th century, which means the person who undertakes the risk of new enterprise. The persons would undertake the work of a contractor and bear the risk of profit or loss. Early references to the entrepreneur can be traced out in the 14th century when the term indicated about tax contractors who paid a fixed sum of money to a government for obtaining the license to collect taxes in their region.

Thereafter, entrepreneurship was a common topic in economic essays in the 18th and 19th centuries. The early French, British and Austrian economists were notable in this respect and wrote impressively about entrepreneurs as the changing agent of progressive economies. A French economist, Richard Cantillon was the first man to be credited with giving the concept of entrepreneurship a central role in economics as described in his publication in 1755. In the opinion of Cantillon, entrepreneurs consciously make decisions about resource allocation. He identified the entrepreneurs as the agents who purchase means of production in order to combine them to produce a product to sell at price that are uncertain at the moment at which he commits himself to his cost.

Adam Smith interpreted the work "enterpriser" in his famous book, *Wealth of Nation* in 1776 as an individual undertaking the formation of an organization for commercial purposes. In his view, entrepreneurs reacted to economic change, thereby becoming the economic agents who transformed demand into supply. A few decades later from Cantillon, the concept of entrepreneurship has gained transparency. Another French economist, J.B. Say in his book, *A Treatise on Political Economy* originally published in 1803 identified an entrepreneur as a person who possessed certain arts and skills of creating new economic enterprises and who had also an exceptional insight into society's needs and was able to satisfy them. In 1848, the British economist, John Stuart Mill analyzed the necessity of entrepreneurship in private sector.

Did u know? The term 'entrepreneur' subsequently became common as an identification of business founders and the fourth factor of economic activities was strongly established in economic literature as encompassing the ultimate ownership of a commercial undertaking.

In the nineteenth century the entrepreneurs were regarded by new names, as captains of industry. They were then the risk-takers, decision-makers and as persons desirous of wealth earning. They would develop new enterprises by means of collection and management of resources.

Some two decades or more from the proclamation of J.S. Mill, an important movement was noticed in Austria. This movement subsequently influenced the 20th century concept of entrepreneurship. Carl Menger in his book, Principles of Economics in 1871 established the subjectivist perspective of economics in which he viewed that economic change does not arise from circumstances but from an individual's awareness and understanding of those circumstances. In his opinion, an entrepreneur is regarded as the change agent who converts the resources into useful goods and services, thus creating the circumstances leading to industrial growth.

In the 19th century entrepreneurs were recognized as the captains of industry, the risk-takers and decision-makers. They were the individuals who desired to acquire wealth and who gathered and managed resources to create new enterprises. The implication of an entrepreneur has changed

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from captains of industry to an elusive individual who reaped profits at the expense of others. The term 'entrepreneur' was relegated to obscurity in economic literature for several decades and management writers and thinkers focused their attention on factory efficiency and administration.

Another Austrian Economist, Joseph Schumpeter revised the concept entrepreneurship. He was the first who recognized the importance of an entrepreneur as a human agent in economic development. Schumpeter in his series of economic articles and treatises between 1911 and 1950 described entrepreneurship as a force of creative destruction by which the established methods of doing things are destroyed by the creation of a new one. According to him, entrepreneurship is a process and it is essentially a creative activity. The entrepreneurs are the innovators who introduce something new into the economy through new combinations of resources and new methods of commerce. It is his view that such types of innovators are rare in society and they appear on the scene of development periodically.

Max Weber (1864-1920), a German sociologist emphasized his opinion that creative and entrepreneurial initiatives are generated by adopting exogenous beliefs which, in turn, produce three intense efforts in occupational goals and accumulation of productive assets leading to manufacture of goods and services. In his opinion entrepreneurs are influenced by a particular social condition in which they live and society itself shapes the personality of the individuals as entrepreneurs.

In recent times, as regards entrepreneurial aspect, a few psychological theories have been developed by a number of famous psychologists, like McClelland, Hagen and Kunkel and some sociological theories developed by Thomas Cochran and Frank Young. McClelland stressed the importance of achievement motivation assisting to expose the personality of entrepreneurs and leading to economic and social development. Hagen identified the emergence of a group of creative individual resulting on withdrawal of status in society. Thus it led to the development of entrepreneurs and taking off the process of economic development. Kunkel conceived that the behavioral pattern of individuals is the significant matter for the development. Such a behavioral pattern can be directed by external stimulus. In their theories, Cochran and Young did not lay so much importance of the society in shaping the personality of the entrepreneurs and they suggested that certain factors, viz, agricultural values, social sanctions, role expectation and inter-group relations in society are responsible for emergence of entrepreneurs.

Till the nineteenth century various concepts of entrepreneurship had emerged. Since then in respect of managing the enterprise, the task of management has been recognized as an important matter. For management, the responsibility of entrepreneurs has been delegated to the managers. Now the term entrepreneurship cannot be clearly defined or the entrepreneurs cannot be clearly identified as a particular person. According to modern management experts, entrepreneurship can be considered as a behaviour encompassing an individual's pursuit of opportunity irrespective of the resources controlled.

In view of discussions above, it may be concluded that different researchers have expressed their divergent opinions as regards emergence of entrepreneurship. On analysis of various researches and their results as regards evolution of entrepreneurship, the following matters may be observed:

Entrepreneurship has been recognized in different names at different times in various countries of the world. Some of the different names are risk-taking, decision-making, free thinking, agency of a change, an act of innovation, etc.

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Caselet

Kudos to Modern Entrepreneurs

Is the concept of entrepreneurship new to India? At a superficial level it seems to be as old as the Gupta and Chola dynasties, which traded spices with the rest of the world, followed by the Mughals and the Britishers. But during all these eras, entrepreneurship was more about creation and accumulation of wealth in the hands of few. The essence of entrepreneurship is creation of wealth - Yes, not mere accumulation, but rather distribution of wealth. And when it comes to distribution of wealth none of the dynasties and the rulers of the past pass the qualification. In this context, it is only the entrepreneurs of the post-liberalization era who fit the bill. Entrepreneurs of the recent era not only work for their own growth but also for the growth of all those who are associated with them. Narayana Murthy of Infosys is a good example for this. Narayana Murthy not only created wealth (the Infosys) but also distributed the fortune of Infosys to all its members by introducing ESOP (Employee Stock Option Plan) through which he made all its employee as partners in growth and development. He recently retired from the post of CEO after attaining the age of 60 and made way for the younger generation. Hence the essence of entrepreneurship is not creation and accumulation of wealth but distribution of wealth amongst all those who are associated with the business.

Source: Lall.Madhurima, Sahai.Shikha (2008), *"Entrepreneurship,"* Excel Books Pvt.Ltd.

The entrepreneurs have tried to accelerate the economic development by means of establishing their own enterprises. By allocating resources properly, that is, by using various productive factors, they made endeavours to accelerate the pace of development.

The entrepreneurs have been playing the important role sometimes as economic agents and sometimes as innovators. Up to the 19th century, their role was restricted to the sphere of risk-taking, decision-making and economic agency propounded by Cantillon, Adam Smith, J.B. Say and J.S. Mill. But the role of an entrepreneur as innovator was first recognised by Joseph Schumpeter.

Self Assessment

Fill in the blanks:

9. Entrepreneur means the person who undertakes the ……. of new enterprise.
10. An entrepreneur is regarded as the ……..… who converts the resources into useful goods and services, thus creating the circumstances leading to industrial growth.
11. According to modern management experts, entrepreneurship can be considered as a …….. encompassing an individual's pursuit of opportunity irrespective of the resources controlled.

1.4 Characteristics of an Entrepreneur

Entrepreneurs possess the following vital characteristics:

1. ***An especially skillful person:*** The entrepreneur is recognized as a person having a special skill and at the same time a person providing others for motivation. He may be either a single individual or an individual in a group. Whatever he may be, he possesses that special skill which is not generally found in common man.

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2. ***An innovator:*** He is rightly known as an innovator who engages himself to innovate new varieties of products, explores new market horizons, and introduces new techniques of production and methods of reconstruction of industries. According to Schumpeter, the main characteristic of an entrepreneur is to innovate something. Through such innovation, the execution and effective use of a creative idea are ensured. Its success brings for commercial achievement and new horizon of economy emerges.

Example: Sasken Communication technologies: HQ at Bangalore has introduced an innovative people policy to attract and retain talent in the organization. Hibernation is one of its policies in which employees after completing four years of service with the organization goes on hibernation i.e. six weeks of paid leave. Apart from hibernation they have two weeks of paternity leave, no time in and time out and a liberal leave policy. All these policies go a long way in creating work-life balance and help in attracting and retaining employees.

3. ***Providing completeness to the factors of production:*** An entrepreneur procures necessary resources from various sources for the purpose of production and by utilizing them he provides completeness to the factors of production. Moreover, he endeavours to make contact with various markets for his products. He is a risk-taker and functions as a coordinator.

4. ***Decision-making person:*** The entrepreneur is such a person who is endowed with a power to make a proper decision as regards the establishment of a business, its management, and procurement of different factors, methods of distribution and coordination of various scarce resources. Since he has a strong power of decision-making, he can take decisions on various maters rapidly. His achievement largely depends on the ability of his decision-making.

5. ***A man of creative personality:*** As the term implies, he is known as an employer who makes optimum utilization of economic resources and thus carries on productive activities. He has a quality of creating something new and as such he is a person of creative personality. For this, he is known as a creative innovator. He creates new ideas, nurtures them in the light of his own experience, knowledge and intellect. Through all such activities, his creative personality and mentality are exposed.

6. ***A basic plan-maker:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator. For this, he is regarded as a pioneer of economic development.

7. ***A pioneer of economic development:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator.

8. ***Dynamic leader:*** He provides proper motivation to his workers by means of leadership so that the workers can give their best efforts to the interest of the organisation.

9. ***Creator of wealth:*** The entrepreneur uses various resources for running his products or services are produced. Hence, the entrepreneur creates his personal wealth and at the same time he helps to increase social wealth, because new wealth is created due to increase in demand for product or services. As such, creation of wealth is one of the basic features of an entrepreneur.

10. ***Self-confident and ambitious:*** In the opinion of John Hornaday, one of the important features of an entrepreneur is that he should be self-confident as well as ambitious. Self-confident is regarded as one of the remarkable characteristic features for his success. This self-confidence leads him to face any situation boldly. Self-confidence relates to harmonize between word and work. Similarly, he should always have in himself, high ambition.

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Notes While having a high ambition, he should not build castle in the air. He should have to fix up a well-defined goal through well-thought planning. Thereafter with the help of his efficiency, ability and initiative, he should try to achieve the goal.

11. ***Risk-bearer:*** It is needless to say that an entrepreneur has to bear the various risks concerning the enterprise. Without risk bearing, his enterprise activities cannot be conducted. The capacity of an entrepreneur to bear the risks is his inherent feature. He has to bear always the risks in case of production of any new product or service. There are various types of risks to be borne by him. These are risks associated with procurement of raw materials and capital and marketing of goods, etc. this risk bearing is the prerequisite to his success. This is the part and parcel of his daily activities.

12. ***Adventurer:*** After thinking over various matters, an entrepreneur undertakes his venture and after evaluating pros and cons of all the matters, he selects the most suitable one. While making selection, he requires to be a bit adventurer. This quality is such an outlook, which leads him to accept the challenge in various adverse situations.

Self Assessment

Fill in the blanks:

12. Entrepreneur possesses that special …….. which is generally not found in common man.

13. …… is rightly known as an innovator who engages himself to innovate new varieties of products, explores new market horizons, and introduces new techniques of production and methods of reconstruction of industries.

1.5 Factors Influencing Entrepreneurship

Following are the various factors that influence entrepreneurship:

1. ***Educational:*** There is a need to have drastic changes in educational pattern to make it more relevant to the needs of the time, economic, social and political environment. More and more young minds should be trained to create avenues for self-employment. Designing a suitable programme of entrepreneurial education and introduction of entrepreneurship, as a subject for study even at the school level to make the young minds realize the importance of entrepreneurship are the need of the hour.

2. ***Legal:*** The law must protect the weak till the time they need it. Entrepreneurs in small sectors have limited resources and cannot compete with large-scale manufactures. Reservation of certain items of products for exclusive production in small sector is one such legal measure to protect the interests for small-scale entrepreneurs.

3. ***Infrastructure:*** Land and factory sheds at concessional rates, adequate supply of power, water, coal and other sources of energy, transport facilities, availability of wagons, supply of raw materials and other physical facilities should be provided by the Government to facilitate setting up of new enterprise.

4. ***Institutional:*** Entrepreneurs need advice on the lines of manufacture, which may be suitable, sources of raw materials, finance and other facilities like technical know-how, tools and equipments, etc. The entrepreneurs also need to know about the opportunities

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and threats to their business, government policies, developments in international economic scene, technological changes, etc. Institutions have to be established to keep the entrepreneurs informed about all these matters of their interest and also to enable them to present their problems before the authorities in the government.

5. ***Financial:*** The needs for fixed and working capital should be adequately needed; if the new enterprises are to serve and grow. The lack of financial resources deters potential entrepreneurs to start new ventures. The problems become more acute in the capital short developing countries where the business and industry how to put up with underdeveloped capital market. The governments, in these countries should see that the capital market is developed with newer and innovative capital market instruments and strong financial institutions.

6. ***Procedural:*** The bureaucratic procedure of government offices, industries departments and financial institutions is a great hindrance to the growth of new enterprises. The entrepreneurs have to run to different jobs; and complete a number of offices in government for different jobs; and complete a number of formalities prescribe) by several laws, rules and regulations. It would be better for the potential and existing entrepreneur, if the number of procedural and legal restrictions of the entrepreneurs is reduced and an administrative mechanism is developed to look after all the needs and requirement the entrepreneurs.

7. ***Communicational:*** The information gap pushes many entrepreneurial ventures towards extinction. Unless an entrepreneur known about the market potentials, competition in the market, technological and other developments, the entrepreneurs is not likely to succeed in the venture. The government departments, organizations of entrepreneurs, financial institutions and business consultants have a role to play in this regard. It is very important for an entrepreneur to succeed.

8. ***Information technology and communication:*** Modern technology such as Information Technology has entered every walk of human life. Faster mode of communication through email, networking, web technologies have revolutionized the industrial scene with the fast and up to date information at different levels of management, the management processes also have gone considerable changes in decision making and implementation.

9. ***Rapid Changes:*** IT and communication revolution, the networking within the industry and outside the industry has increased many fold. The exchange of information and availability of resources is bringing changes in the industry faster than ever before in the history.

10. ***Large size:*** There is considerable increase in automation and introduction of computerized production and process controls in industries. The demand for the goods and the geographical reach is bringing large size industries as well as services. The size gets advantage of economies of scale in manufacturing marketing.

11. ***R&D Technology:*** Companies today are investing lots of money in R&D activities to develop new products and new processes to compete in the global market.

12. ***Stakeholders:*** The stakeholders of today are more knowledgeable and get up to date information about the industry developments as well as the progress of particular industries were interested. Thus there is awareness by the stakeholder, which gives him closer involvement than ever before.

13. ***Globalization:*** Now business operates in an open environment, as there is no geographical boundaries exist. So competition has become very intense. To survive in today's market company has to be very competitive in terms of quality, price and delivery.

Self Assessment

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Fill in the blanks:

14. Entrepreneurs in small sectors have …….. resources and cannot compete with large-scale manufactures.

15. The …… gap pushes many entrepreneurial ventures towards extinction.

Case Study

The Rise and Fall of Ramalinga Raju

The Rise and Fall of Ramalinga Raju Abstract: The case discusses the rise and subsequent fall of one of the visionary leaders in the Indian IT sector, Ramalinga Raju (Raju). US-educated Raju founded Satyam Computers Services Limited (Satyam) and under his leadership, the company grew to become one of the leading IT services companies in the world. In an announcement that surprised the IT and investor communities both in India and across the world, Raju confessed to a major accounting fraud that marked his fall, drawing comparisons to Bernard Madoff. The case examines in detail the inception and growth of Satyam, vision and leadership skills of Raju, the problems Satyam faced due to growing competition, the Maytas fiasco and the events leading to confession of accounting fraud by Raju. The case concludes with a discussion on the events that occurred after the confession, and the reasons that led to the fall of Raju.

Issues

1. Study the inception and growth of Satyam.
2. Analyze the importance of visionary leadership for the growth of a company.
3. Examine the importance of having a strong board and governance structure.
4. Understand the reasons that led to the fall of Raju.
5. Appreciate the importance of ethical leadership.

Contents

Fall from GraceBackground NoteAll is Not Well with RajuRaju's Fall BeginsRaju Confesses to FraudThe Aftermath"Satyam, for all its glitter, was a firm whose owner ran his software company in the manner his forefathers did land deals. It failed to make the jump between the two centuries."

—*Far Eastern Economic Review*, in January 2009

"In many ways, the Satyam scandal is having the same effect in India that the Madoff scandal is having here (in the USA). Mr. Madoff was an important, highly respected figure on Wall Street, just as Mr. Raju was an important, highly respected figure in the Indian business world."

—*Joe Nocera, 3, New York Times,* in January 2009

Fall from Grace

On January 07, 2009, B. Ramalinga Raju (Raju), Founder and Chairman of India's fourth largest IT services company, Satyam Computer Services Limited (Satyam), claimed that the company had been inflating the revenue and profit figures for several years.

Contd...

Notes

He confessed to an accounting fraud that amounted to ₹ 70 billion. In a letter addressed to the board of directors of the company, he declared that the ₹ 50 billion of cash balances reported by Satyam for the quarter ending September 30, 2008, did not exist, that the revenues were ₹ 21.12 billion as against ₹ 27 billion reported earlier, and the operating margins were only 3% as against the 24% declared by the company earlier.

He wrote that the gap arose due to the difference between actual profits and the profits reported, which kept on growing over the years. In his confession, Raju wrote, "Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in the takeover, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten."

Raju was one of the pioneers in the Indian IT industry. He started Satyam with 20 employees in 1987, when the industry was still at a nascent stage. At that time, Satyam's main objective was to provide software services to large companies based mainly in the US. Over the next two decades, Satyam grew to become the fourth largest IT services company in India with operations in 63 countries and revenues of over US$ 2 billion for the year ending March 31, 2008.

Though the company had been declaring healthy profits and dividends year after year, it found itself unable to maintain the pace of growth in revenues that it had achieved in the early 2000s.

Industry insiders were of the view that Satyam's growth was not matching up to that of the top three companies in the Indian IT industry, namely, Tata Consultancy Services Limited (TCS), Infosys Technologies Limited (Infosys), and Wipro Technologies (Wipro). At the same time, analysts warned that if Satyam did not keep up its growth momentum, it could lose its coveted position to multinational companies like IBM or Accenture that had ventured into India, or to home-grown companies like HCL Technologies. Analysts blamed the slowdown at Satyam on Raju shifting his focus to his family promoted real estate businesses – Maytas Properties Pvt. Ltd. (Maytas Properties) and Maytas Infrastructure Limited (Maytas Infra). Raju faced severe criticism in mid-December 2008, when Satyam made its intentions of acquiring the two Maytas companies public.

The deal was called off within a few hours due to the opposition from investors and the adverse reaction from the stock markets. Satyam's problems continued and on January 07, 2009, Raju who till then, had been hailed as a visionary, accepted responsibility for committing the biggest corporate fraud in India.

Raju's revelation shocked not only investors, employees, and clients of Satyam but also corporate India as a whole. The repercussions of the fraud were felt not only by the Indian IT industry but also by overseas investors who had invested heavily in the American Depository Receipts (ADRs) issues of major Indian IT companies including Satyam.

India's image as a global outsourcing hub was also badly affected. The international media was taken aback by Raju's shocking revelation. Commenting on Raju, Forbes, in its January 2009 issue wrote, "It was a horrifying turn for a man long considered one of India's self-made success stories - and active philanthropists".

Background Note

Raju was born on September 16, 1954. His father Byrraju Satyanarayana Raju was an agriculturist. Raju did his MBA from Ohio State University and returned to India in 1977. According to him, "I was just back from the US in the late 1970s after completing my business administration and was in two minds on the way forward.

Contd...

Notes

I had all the enthusiasm and passion to do something… of being an entrepreneur. A friend told me about part-time teaching opportunity at the Administrative Staff College of India (ASCI). This really appealed to me. But, in late 1977, over dinner one night, my father told me, 'It is always important to stay focused and to avoid distractions'...''

All is Not Well with Raju

While Raju had been praised over the years for his vision and leadership, which were the driving force for Satyam's success, he also received some adverse media coverage. It was reported that he had taken a loan of ₹ 5.2 million from the Andhra Pradesh Industrial Development Corporation (APIDC) way back in 1982, to set up Satyam Spinning Mills.

Raju's Fall Begins

On December 16, 2008, Raju announced that Satyam planned to use the cash reserves to acquire two companies - Maytas Infra and Maytas Properties. Maytas Infra was a public, listed infrastructure development company that had been operational for more than two decades.

Maytas Properties was involved in developing residential townships and urban infrastructure. For the six months ended September 30, 2008, Maytas Infra reported revenues of ₹ 7.37 billion and a net profit of ₹ 0.37 billion.

Raju Confesses to Fraud

However, before Raju could take a breather, on January 06, 2009, DSP Merrill Lynch announced that it was terminating its advisory agreement with Satyam. In its communication, it said, "We have terminated our advisory engagement with Satyam Computer Services Ltd. for considering various strategic options on January 06, 2009...''

The Aftermath

After Raju announced that the accounts had been fudged, analysts were able to piece together the real picture behind the abandoned Maytas acquisition. They realized that Maytas' acquisition was an effort to save Satyam, and replace fictitious assets with real ones.

Questions

1. Comment on the ethical part of Ramalinga Raju.
2. How can Satyam to be saved? Comment.
3. Make a plan from your side to save satyam out of the crunch.

Source: Lall.Madhurima, (2009), "Entrepreneurship and Business Plan" Excel Books Pvt. Ltd.

1.6 Summary

- The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them.
- Entrepreneurship is the process of creating something new, with value, by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

Notes

- Almost 2-3% of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.
- The individual gets maximum scope for growth and opportunity if he enters into entrepreneurship. He not only earns, the right term would be he learns while he earns. This is a real motivating factor for any entrepreneur as the knowledge and skills he develops while owning his enterprise are his assets for life time which usually, lacks when a person is under employment.
- Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates.
- Entrepreneurship is one of the four mainstream economic factors, viz, land, labor, capital and entrepreneurship. The word itself has been derived from the French word entrepreneur in the 17th century, which means the person who undertakes the risk of new enterprise. The persons would undertake the work of a contractor and bear the risk of profit or loss.
- Adam Smith interpreted the work "enterpriser" in his famous book, Wealth of Nation in 1776 as an individual undertaking the formation of an organization for commercial purposes. In his view, entrepreneurs reacted to economic change, thereby becoming the economic agents who transformed demand into supply.
- In the 19th century entrepreneurs were recognized as the captains of industry, the risk-takers and decision-makers. They were the individuals who desired to acquire wealth and who gathered and managed resources to create new enterprises. The implication of an entrepreneur has changed from captains of industry to an elusive individual who reaped profits at the expense of others.
- Till the nineteenth century various concepts of entrepreneurship had emerged. Since then in respect of managing the enterprise, the task of management has been recognized as an important matter. For management, the responsibility of entrepreneurs has been delegated to the managers.
- Now the term entrepreneurship cannot be clearly defined or the entrepreneurs cannot be clearly identified as a particular person. According to modern management experts, entrepreneurship can be considered as a behaviour encompassing an individual's pursuit of opportunity irrespective of the resources controlled.

1.7 Keywords

Employment: Employment is a contract between two parties, one being the employer and the other being the employee.

Entrepreneur: Someone who organizes a business venture and assumes the risk for it.

Entrepreneurship: Entrepreneurship is the act and art of being an entrepreneur or one who undertakes innovations or introducing new things, finance and business acumen in an effort to transform innovations into economic goods.

Factors of Production: Factors of production are the inputs to the production process.

Far-sightedness: Ability of planning prudently for the future.

Initiative: The power or opportunity to act or take charge before others do.

Innovator: An innovator in a general sense is a person or an organization who is one of the first to introduce into reality something better than before.

Notes

Leadership: The action of leading a group of people or an organization.

Opportunity: A set of circumstances that makes it possible to do something.

Wealth: Wealth is the abundance of valuable resources or material possessions.

1.8 Review Questions

1. Who is an entrepreneur and how is he different from a businessman?
2. Define the term entrepreneurship in your own words.
3. Tabulate the changing definition of entrepreneur and entrepreneurship.
4. Differentiate between entrepreneur and entrepreneurship.
5. Discuss the views of some eminent social scientists on entrepreneur and entrepreneurship. You can take help from online sources.
6. Discuss the characteristics of entrepreneurs.
7. What is the importance of entrepreneurship for an economy?
8. How will you classify entrepreneurship?
9. Discuss the factors that influence entrepreneurship.
10. How does information gap may create problems for entrepreneurial ventures?

Answers: Self Assessment

1.	Function	2.	Tendency
3.	Far-sightedness	4.	Opportunities
5.	Society	6.	Standards
7.	Individual	8.	Grooming
9.	Risk	10.	Change-agent
11.	Behaviour	12.	Skill
13.	Entrepreneur	14.	Limited
15.	Information		

1.9 Further Readings

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Notes

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Unit 2: Classifications and Models of Entrepreneurship

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Objectives

After studying this unit, you will be able to:

- Classify the entrepreneurship on several basis of ownership
- Discuss the emerging models of entrepreneurship
- Explain the problems faced by entrepreneurs in India

Notes

Introduction

In the previous unit we dealt with the meaning and importance of entrepreneurship and also discussed about the various characteristics of an entrepreneur. This unit will help you to understand the classification of entrepreneurship and various emerging models of entrepreneurship. The various sections and sub-sections of this unit will also summarize the problems faced by entrepreneurs in India. Entrepreneurship is the best tool for creation of money, specifically for people with a business mind. There are various types of entrepreneurs and each and every one of them has their good and bad traits. In order to be successful in business, one must know what kind of entrepreneur he is and be aware of himself. This is the first step on the way to transform oneself into a better person. An individual can become a very proficient entrepreneur within no time at all.

2.1 Types of Entrepreneurship

By simple definition – all active owner-managers are entrepreneurs. They can be classified into following categories:

2.1.1 Classification on the Basis of Ownership

Entrepreneurship can be classified on the basis of ownership as follows:

Founders or "Pure Entrepreneurs": As the term suggests, they are those individuals who are the Founders or "Pure Entrepreneurs"**:** founders of the business. They are the ones who conceptualize a business plan and then put in efforts to make the plan a success. For example, Dhirubhai Ambani of the Reliance Group.

Second-generation operators of family-owned businesses: They are the individuals who have inherited the business from their fathers and forefathers. Like Mukesh Ambani and Anil Ambani sons of Dhirubhai Ambani of the Reliance Group now split into two: Reliance – Reliance Industries Limited and Reliance – Anil Dhirubhai Ambani Group.

Franchisees: Franchisee has been derived from a French word which means free. It is a method of doing business wherein the parent owner (the franchiser) licenses his trademarks and tried and proven methods of doing business to a franchisee in exchange for a recurring payment. Here, the franchisee has not conceptualized the business but has invested his money and time in the business.

Example: NIIT has given its franchisee operations to local players after thorough scrutiny and proper training. These franchisees follow the same curriculum, use the same set of books, have the same pricing strategy and award the same degree. They share the profit margins and get training, curriculum design and books from the parent company i.e., NIIT.

Owner-Managers: When a person buys a business from the founder and then invests his time and resources in it he is called the owner-manager. Like Sabeer Bhatia is the founder entrepreneur of Hotmail, whereas Microsoft's Bill Gates became its owner-manager after buying it for $400 million.

2.1.2 Classification on the Basis of Personality Traits and their Style of Running Business

The Achiever: These types of entrepreneurs have personal desires to excel. The only drive that pushes them is the desire to achieve something in life, the desire to make a mark in society, the desire to prove their excellence. No matter how many hurdles come in their way, they are

totally determined. They do not need any external stimulus but are self-driven. Their characteristics can be termed as achievement personified. They can rightly be called go-getters. This personality often will cause them to build their business around their own personal brand. These entrepreneurs have dreams and dare to fulfill their dreams.

Example: Narayan Murthy, who had a settled life and was working, quit his job and ventured out on his own to start Infosys.

The Induced Entrepreneur: These types of entrepreneurs are induced by some external factors to start a business. The external factors could be like supporting government policies, unemployment, family support, facilitating institutional support, etc. These types of entrepreneur turn out to be more realistic in their approach. For instance, when the government announced subsidies, tax rebates and financial support to small scale industries, several entrepreneurs started their business as SSIs.

The Idea Generator: These kinds of entrepreneurs are highly creative people who are always in search of innovative ideas for setting up new business ventures. They have the ability to sense the demand much ahead of others.

Notes Idea generator entrepreneurs enjoy the First Movers' Advantage and are able to skim higher profits from the market. They can rightly be given the title of 'Essence of Entrepreneurship'. Like Bill Gates of Microsoft, who began the manufacturing of microcomputer softwares.

The Real Manager: The real managers run the business in a systematic manner. They analyze business situations, assess the demands of future, both in terms of opportunities and threats and then take actions based on the above assessments. They believe in incremental changes rather than radical transformations.

The Real Achievers: The real achievers are full of life. They are looking for the achievement of not even their own goals but also of people associated with themselves like employees, suppliers and distributors.

2.1.3 Classification based on the Type of Business

Industrial Entrepreneur: Industrial entrepreneur is an entrepreneur who is into manufacturing of a product. He identifies the needs and wants of customers and accordingly manufactures products to satisfy these needs and wants. It would include all the entrepreneurs essentially into manufacturing.

Trading Entrepreneurs: Trading entrepreneur is one who undertakes trading activities (buying and selling of goods and services) and is not concerned with the manufacturing of products. He identifies potential markets, stimulates demands and generates interests among buyers to purchase a product.

Corporate Entrepreneur: Corporate entrepreneur is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking (which is registered under some statute or act that gives it a separate legal entity).

Agricultural Entrepreneur: Agricultural entrepreneurs are those entrepreneurs who undertake business related to agricultural activities. Like farm equipments, fertilizers and other inputs of agriculture. They provide supportive products that can increase the agricultural production through biotechnologies, mechanization and improvement in agricultural yield.

Notes

2.1.4 Classification based on the Stages of Development

First Generation Entrepreneur: A first-generation entrepreneur is one who starts an industrial unit by means of an 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 business to satisfy the contemporary demands of the market. They undertake those ventures which suit the current socio-cultural trends.

Classical Entrepreneur: A classical entrepreneur a stereo-type entrepreneur is one whose aim is to maximize the economic returns at a level consistent with the survival of the firm, with or without element of growth.

Caselet

Learn to be on your Own

Murli and Mohan were the two sons of a businessman named Biswajeet–a famous builder. Biswajeet was a self-made man, he had risen from 'rags to riches' and had worked hard all his life to attain his current position of being one of the best builders in the town, both in terms of quality of construction and in public relations. His two sons also had an inclination towards the construction business and wanted to join their father after completing their Bachelors in Architecture and their Masters in Business Administration. They had happily returned home and expressed their wish of joining the family-owned business. But Biswajeet had different plans. The brothers were surprised when Biswajeet announced at the dining table, "Murli and Mohan, I have an important thing to discuss. As both of you know that I am a self-made man, I have gone my way and have taken no direction from anyone. In fact, I have taken the onus of all the decisions, good or bad. So now when both of you have armed yourself with formal education, I would like both of you to take over from me and run the show on you own".

"But Dad your experience will only add to our education" exclaimed Murli.

"And Dad, your vision will guide us towards greater success. Moreover, you have a good image in market and it will take ages for us to develop the same market image all over again", retorted Mohan.

"Son, I want you to be on your own. I have performed all the duties of a father till now and now I want you to take over the show. You are right that I have experience and an image which can be built only over period of time, but remember, I have done it all by myself and without even financial backing. Believe me, my sons, the kind of self-respect that you would gain for yourself and the kind of business acumen you would evolve on being on your own is not possible under my umbrella.", replied Biswajeet.

"But Dad, how would we do it without you?" asked Murli.

"Let me correct you here again. It's not we but I want both of you to takeup independent charge of your fortune and hence I have decided to divide my entire property into two equal halves and transfer it to both of you. I wish that both of you work independently for your own good and also for a good relationship between brothers. In a way, both of you would become business rivals but then there would be not just one but many more business players in the field. So get yourself charged and start drawing your independent business plans," said Biswajeet.

Source: Lall.Madhurima, Sahai.Shikha (2008), *"Entrepreneurship"*. Excel Books Pvt. Ltd.

Notes

2.1.5 Other Classifications

Innovative Entrepreneurs: Innovative entrepreneurs are the forbearers of change in the business. They are full of creative ideas and offer innovate products to the society. It is because of these innovative entrepreneurs that many important changes occur in our society. They experiment and conduct permutations and combinations of ideas to yield new products and services. Thanks to these innovative entrepreneurs, our society is more networked now; we started off networking by transfer of letters through a messenger (stories even speak of pigeons as messengers), then came formal postage system, then communication evolved to telephonic conversation, mobile, internet, email, and video conferencing. The innovations in networking have been tremendous and are still happening which is bringing the world closer every day. One need not invent but add incremental values (like ringtones, camera, mobile television, mobile radio in mobiles), or change the utility of the same thing (like using mobile for net surfing).

Imitative Entrepreneurs: Imitative entrepreneurs adapt a successful innovation. They are risk-aversive and so they do not try out new ideas or products, but if a new idea is accepted by the market, they imitate the new idea and hence join in the competition.

Fabian Entrepreneurs: Fabian entrepreneurs are highly cautious and sceptic in their approach. They are not readily interested in introducing any change in their organization and when they do so it is because unless they the change they would be out of the market.

Drone Entrepreneurs: Drone entrepreneurs are not open to creativity and change. They do not like changing the working of organizations with the changing times. They prefer facing losses to introducing changes in their present processes, equipments and policies. In the present competitive world, these entrepreneurs are simply kicked out of the business for not being able to adapt themselves to the changing dynamics of business.

Task

Who has been awarded with the title of 'the third richest Man in the world'? Find out more about his life and success story.

Women Entrepreneurs: In 1988, for the first time, the definition of Women Entrepreneurs' Enterprise was evolved that termed an SSI unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in propriety concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent as company/ members of a cooperative society, as a Women's Enterprise.

Copreneurs: When both husband and wife together start and run a business venture then they are called copreneurs. Emergence of copreneurs in the present times is a reflection of the fact that women's role in business is increasing.

Self Assessment

Fill in the blanks:

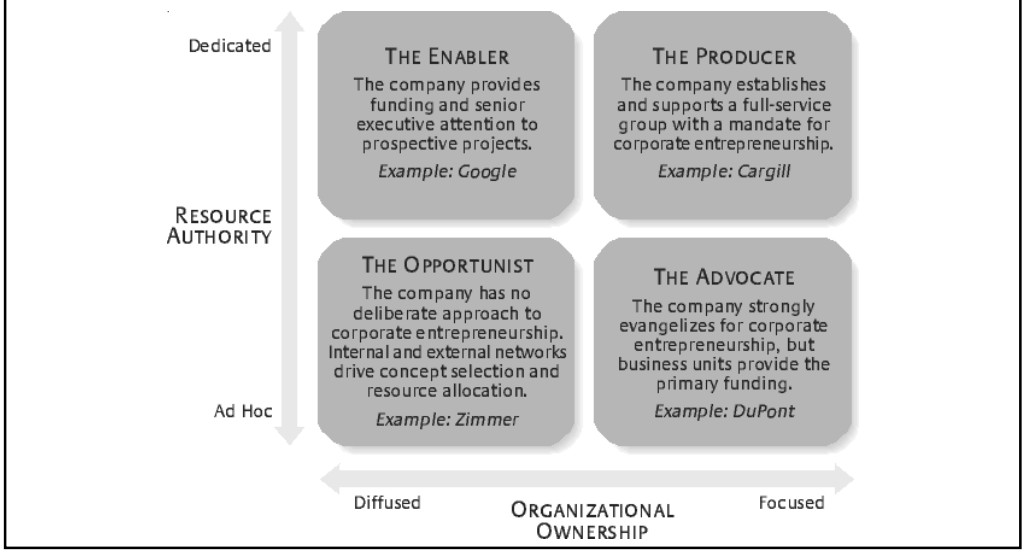
1. When a person buys a business from the founder and then invests his …….... and …… in it he is called the owner-manager.
2. …… can rightly be called go-getters.
3. Idea generators are highly creative people who are always in search of …….. ideas for setting up new business ventures.
4. Industrial entrepreneur is an entrepreneur who is into …….. of a product.
5. Trading entrepreneur is one who undertakes …….. activities and is not concerned with the …….. of products.
6. …….. entrepreneur is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking.

Notes

2.2 Entrepreneurial Models

First, though, what exactly is corporate entrepreneurship? We define the term as the process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company but leverages the parent's assets, market position, capabilities or other resources. It differs from corporate venture capital, which predominantly pursues financial investments in external companies. Although it often involves external partners and capabilities (including acquisitions), it engages significant resources of the established company, and internal teams typically manage projects. It's also different from spinouts, which are generally constructed as stand-alone enterprises that do not require continuous leveraging of current business activities to realize their potential.

Figure 2.1: Emerging Models of Entrepreneurship



Source: http://sloanreview.mit.edu/files/2008/12/49115-si1-lo6.png

2.2.1 The Opportunist Model

All companies begin as opportunists. Without any designated organizational ownership or resources, corporate entrepreneurship proceeds (if it does at all) based on the efforts and serendipity of intrepid "project champions" – people who toil against the odds, creating new businesses often in spite of the corporation.

The opportunist model works well only in trusting corporate cultures that are open to experimentation and have diverse social networks behind the official hierarchy (in other words, places where multiple executives can say "yes"). Without this type of environment, good ideas can easily fall through organizational cracks or receive insufficient funding. Consequently, the opportunist approach is undependable for many companies. When organizations get serious about organic growth, executives realize they need more than a diffused, ad hoc approach. As a result of its past success with minimally invasive surgical procedures, Zimmer has instituted more formalized development practices for bringing new businesses to market. As such, the company has begun to evolve beyond the opportunist model.

2.2.2 The Enabler Model

The basic premise of the enabler model is that employees across an organization will be willing to develop new concepts if they are given adequate support. Dedicating resources and processes

Notes

(but without any formal organizational ownership) enables teams to pursue opportunities on their own in so far as they fit the organization's strategic frame. In the most evolved versions of the enabler model, companies provide the following: clear criteria for selecting which opportunities to pursue, application guidelines for funding, decision-making transparency, both recruitment and retention of entrepreneurially minded employees and, perhaps above all, active support from senior management.

2.2.3 The Advocate Model

What about cases in which funding isn't really the issue? In the advocate model, a company assigns organizational ownership for the creation of new businesses while intentionally providing only modest budgets to the core group. Advocate organizations act as evangelists and innovation experts, facilitating corporate entrepreneurship in conjunction with business units.

2.2.4 The Producer Model

A few companies such as IBM, Motorola and Cargill pursue corporate entrepreneurship by establishing and supporting formal organizations with significant dedicated funds or active influence over business-unit funding. As with the enabler and advocate models, an objective is to encourage latent entrepreneurs. But the producer model also aims to protect emerging projects from turf battles, encourage cross-unit collaboration, build potentially disruptive businesses and create pathways for executives to pursue careers outside their business units.

Self Assessment

Fill in the blanks:

7. The basic premise of the …….. model is that employees across an organization will be willing to develop new concepts.
8. Advocate organizations act as evangelists and innovation experts, facilitating …….. entrepreneurship in conjunction with business units.
9. The …….. model works well only in trusting corporate cultures.
10. Dedicating resources and processes enables teams to pursue opportunities on their own in so far as they fit the organization's …… frame.

2.3 Problems Faced by Entrepreneurs in India

The problems faced by Indian entrepreneurs are depicted below:

Figure 2.2: Problems Faced by Entrepreneurs in India

Source: http://kalyan-city.blogspot.com/2012/04/what-are-challenges-before-indian.html

Notes

The Indian entrepreneurs have to face the following problems:

1. To follow marketing techniques that are result and consumer-oriented.
2. To understand, tackle and survive the era of globalization.
3. To improve production process and produce high-quality goods.
4. To take optimum advantage of business opportunities arose due to liberalization of Indian economy since 1991.
5. To replace outdated technology with improved modern technology.
6. To motivate and properly manage needs and expectations of women and young managers that make an Indian workforce.
7. To professionally manage the financial activities of the business.
8. To balance profit earning capacity and social-welfare activities.

Discussed below are the problems before Indian entrepreneurs:

2.3.1 Challenge of Globalization

A few years back the Indian entrepreneurs had to fight regional and national competition. However, today, the scenario has changed and become much more complex than what it was earlier. Now, almost all countries have opened up their economies, and the world (globe) has become one giant global market.

Caution To survive this competitive era of globalization, Indian entrepreneurs must prepare themselves with new, better, and innovative business tactics and skills. They must accept this global challenge willingly and try their best to seek business opportunities to establish their dominant place in this ever-changing and always challenging open market.

In this global competitive scenario, the Indian entrepreneurs have to compete with well-established giant foreign companies.

Example: If entrepreneurs decide to start a beverage company, their competitors are likely to be large multinational corporations such as Coca-Cola and Pepsi.

Giant multinational corporations have tremendous money power (surplus funds), branches all over the world (global presence), efficient teams of wise managers and experienced employees (skilled human resource); they sell high-quality goods and services at lower prices, and also use superior marketing techniques.

These solid advantages of multinational corporations make it very difficult for Indian entrepreneurs to compete. Hence, this is a big challenge before them.

Indian entrepreneurs will have to improve in all departments of business such as Production, Marketing, Finance, etc. They will have to use modern technology, new methods and efficient and highly motivated manpower to fight this competition.

2.3.2 Liberalization in India, 1991

Liberalization is a process of giving liberty or freedom to someone to do something, which was previously restricted, banned or prohibited.

Notes

In context of this article, liberalization means removing all restrictions imposed on the entry and growth in trade or business.

The Government of India (GOI) started the process of liberalization in India in year 1991. With its initiation, private entrepreneurs were granted liberty (freedom) to start any business in any open domain (unreserved sector) of choice. However, this openness came with few exceptions that were strictly restricted only for Indian government to operate and manage, this included Railways, Water Supply, Defence, and other reserved public sectors.

Did u know? India's liberalization of 1991 opened a gift-box of many new business opportunities for entrepreneurs. Now, the challenge before Indian entrepreneurs is how to take optimum advantage of these business opportunities in India.

The Ambani family that handles Reliance Group of Industries took full advantage of liberalization in India. Other entrepreneurs must also analyse their footsteps and try to follow them by making their own individual ways in a wise manner. Again this is not an easy task to accomplish, rising cut-throat competition has made it much more difficult for both Indian and foreign companies.

However, Indian entrepreneurs can beat this enormous competition by focusing more on selling high-quality yet unique goods and services at lowest prices feasible.

2.3.3 Adapting a Modern Technology

With each passing day, Science and Technology are developing rapidly. Modern technology not only improves quality of produced goods and services, but it also helps to reduce their cost of production. It speeds up their process of production. High-quality commodities, lower cost of production and faster production rate makes any company a highly competitive one. Therefore, it becomes mandatory for every company to keep pace with new emerging technologies and adapt it regularly to remain as cut-throat as possible.

So, it is always better to replace outdated technology with the new technology. Old machines must be replaced by modern machines. This is a big challenge before an Indian entrepreneur. If he has a financial problem, then he must try to maintain a good balance between old and new technology. He also has a challenge to train his staff well to make them able to use (handle) the modern machines and technology properly.

2.3.4 Changing Workforce in India

In the recent decade, the workforce in India has undergone a remarkable change. Statistics indicate the dominance of men in the workforce is shrinking day-by-day. A new breed (generation) of highly educated Indian women has entered the workforce in India. Breaking all traditional and social barriers, they have established themselves as efficient employees and professional managers. Today, it is very common to see a lady professional working in a corporate office. This presence of women in the workforce has brought new challenges before Indian entrepreneurs.

Task

Find the life histories and success stories of three successful Indian entrepreneurs. What are the characteristics that they share with each other?

Notes

To handle women's workforce-related challenges efficiently, Indian entrepreneurs must know and follow all the special Labour Laws for women. They must provide women staff with better working conditions, safe environment, and other essential facilities. Special care must be taken to see to it that they are treated with dignity and respect. Their grievances or complaints, if any, regarding physical or mental harassment must be addressed immediately and seek prompt actions. Working women experience more stress than their male counterparts. It is so since they perform dual duties on a day-to-day basis. Along with managing their professional jobs they also have to look after their children, family and domestic chores. This overall increase in their personal responsibilities and causes them both mental and physical stress.

Understanding women's dual roles, an employer can try to some extend alleviate their stress by granting satisfactory maternity leave, providing separate toilets and washrooms, implementing favorable work timings that don't disturb their domestic lives, providing a health insurance or at least a free routine medical checkup, employee benefits that can improve their lives.

Employer must remember that a happy, sincere and hard-working woman always gives her best to the organization she works for. This ultimately pays an employer a good return over his kind and humane investment.

Along with handling women in the workforce, Indian entrepreneurs also face a great challenge to tackle young-generation in the workforce. Today, managers hired by most companies are young, energetic and ambitious graduates that have big dreams to accomplish. These managers are eager to work hard but expect a good reward in return, which is satisfactory to their monetary, physical and psychological needs. These restless youngsters must be continuously motivated by keeping them engage in challenging tasks and interesting work assignments, providing attractive salaries, incentives, perks or employee benefits, etc. If not, they will resign and leave the company and then join the competitors. Loyalty is not a big factor nowadays as it was a few years ago.

The Indian entrepreneur has to face this challenge by training and developing these young minds and motivating them continuously.

2.3.5 Marketing is a Big Challenge

Today, companies have formulated many new techniques to market their products and services. High pressure salesmanship is used. Children are often targeted in the many advertisements. It is so since kids compel their parents to buy products they are lured by. Advertising is done to propagate marketing message and this is done through various media like television, newspapers, magazines, the internet, radio, cell phones, hoardings, etc. Advertising is now become an inseparable part of modern marketing.

Marketing is a big challenge before every Indian entrepreneur. He has to select an efficient and experienced marketing team. He must train and develop this team into a result-oriented one. He must motivate his marketing team with high salaries, attractive incentives and good commissions.

Indian entrepreneur must try his level best to satisfy needs and expectations of his customers. He must use marketing research and produce his product by taking into consideration the consumers likes and preferences. He must sell high-quality goods at lower prices. He must also provide after-sale services. In short, he must make his business a consumer-oriented and service-oriented one. He must always give his customers full value for their money. If not, they will lose trust in his brand and go to the competitors.

Notes

2.3.6 Managing the Finance of Business

Finance is the life blood of a business. It can either make a business or break it. Under-capitalization and Over-capitalization are very harmful to the business. Managing the finance of his business is a big challenge for an Indian Entrepreneur. He must manage both Fixed and Working capital properly. He must borrow money from the right source. He must manage his Cash Flow properly. He must invest his excess funds correctly. He must create sufficient Reserves and surpluses. He must provide enough depreciation for his fixed assets, so that he can replace them when they become old and outdated. He must provide for repairs and maintenance of machines. He must also take steps to provide for but avoid bad debts.

2.3.7 Challenges in the Field of Production

The Indian entrepreneurs have to face many challenges in the field of production. They must replace all outdated plants and machineries with new modern ones. They must provide continuous training to their production staff. They must use good quality raw-materials to produce high quality finished goods. They must have a good Inventory Control system. This will avoid Over-stocking and Under-stocking. Over-stocking will block the working capital, and Under-stocking will block the production process. Indian entrepreneurs should use a part of their profits for Research and Development (R&D). They must pay special attention to Quality Control (QC). Nowadays most companies also use Total Quality Management (TQM) to ensure their finished goods are of good quality.

2.3.8 Balancing Economic and Social Objectives

This is also a big challenge before Indian entrepreneurs. They must balance between earning high profit and doing social-welfare activities. They must use modern machines without causing unemployment and harm to the environment. They must earn a profit without reducing quality of their goods and services. They must earn a profit without charging high prices for their products. They must not cause any type of pollution in the society. They must accept their communal responsibilities and donate a small part of their profit (money) for social causes. They must pay all their taxes and duties. They must not use unfair and unethical practices to fight cutthroat competition.

Self Assessment

Fill in the blanks:

11. …… entrepreneurs must prepare themselves with new, better, and innovative business tactics and skills.
12. Modern technology not only improves quality of produced goods and services, but it also helps to reduce their ……. of production.
13. Replacement of old machines with modern machines is a big …….. before an Indian entrepreneur.
14. Presence of …… in the workforce has brought new challenges before Indian entrepreneurs.
15. Working women experience more …… than their male counterparts.

Notes

Case Study

Shanti Batteries

Shanti Batteries was established by the late Mr Santosh Kumar way back in 1961. At that time it mainly manufactured batteries for four-wheelers. It had made its name in the local market, was getting good clientele, was obtaining good return on investment and Santosh was quiet happy with his earnings. But in 1994 he met with a fateful accident on the road and after a series of operations, in order to save his life doctors had to amputate his legs. It was a real testing time for the family, for the sole earning member of the family was completely bedridden. He had a family of six – his wife, three children (Priya 20, Sudhanshu 19, Mayank 12) and an old mother all dependent on the earnings coming from Shanti Batteries. It was during this period that Sudhanshu left his studies and took over his father's business. Sudhanshu, with his sharp business acumen and father's guidance, was able to bring back the business in running condition within a year. But Sudhanshu was himself not satisfied as he was looking for more opportunities. After a market survey he found that power cuts (load shedding) were a problem growing day by day. The reasons for power cuts were rising consumption and the government's inability to supply enough power to the people. Sudhanshu found an opportunity in this problem and decided to expand his business from just manufacturing batteries to manufacturing and assembling inverters. He discussed the business plan with his father and got a go ahead from him.

The Industry

The inverter industry in Hapur was in its nascent stage. There were a very few local and national brands. But since the entry barriers were very low, the number of small operators had grown drastically within a period of one year. Hapur at present has 28 inverter manufacturers in all and three of them were in the same local area as Shanti Batteries.

The Product

The key features of the product include:

(a) MOSFET based PWM Technology.

(b) SCR Phase control Constant Current & Constant Voltage (CC/CV) Charging to give longer battery life.

(c) New Technology SCR + Transformer Electronic Controlling. (long battery life & charging even at low voltage 140V)

(d) Battery Status on front panel

(e) Automatic overload reset with buzzer warning.

(f) Automatic Inverter ON at input below 110 VAC and above 290 VAC

- Automatic Pre-Information with buzzer at the time of low battery (discharged) condition.
- Fast changeover when power goes (within less than 10 milli seconds) - Regulated Output Voltage & Frequency on inverter mode (safe for appliances)
- Inverter mode (safe for appliance)
- PCB's on connectors (safe side and easy to service)

Contd...

Notes

The Services

The key services by Shanti Inverters include:

- Annual maintenance contract
- Warranty repair
- Out of warranty repairs
- Factory parts
- Extended warranties
- Technical assistance
- UPS start-up assistance

The Price

The pricing plan was that since competition was growing, the best strategy for pricing would be – maintaining prices that were neither priced too high (to skim the competition thrown up by national players) nor too low (to lose its premium quality image that the company had earned in the last 35 years).

The price that was originally set was ₹ 12,000 but due to rising demands and markets it was further raised to ₹ 15,000. The price package included the inverter, free trolley and installation.

The Manufacturing

Manufacturing was done at the same place because the main component was still batteries and hence the present plant capacity was able to sustain the manufacturing of the major components, the secondary components i.e., inverters cabinet and trolley parts were purchased and assembled in the factory. The cost of setting up the new machines and assembly plant was as low as ₹ 1,25,000.

The Growth

Shanti Inverters witnessed immediate returns. The company started getting corporate and residential orders and all appreciated the product. Sudhanshu shifted the factory to a new premise four times the present size in terms of area and capacity, bought few more sophisticated machines and became the leader in the inverter market in Hapur. He also went ahead and got ISO 9000 quality certification for the product and since then there has been no looking back. But Sudhanshu's quest for more has not yet ended and he wants to venture into something else.

Questions

1. Amongst the various classification of entrepreneur, what kind of entrepreneur is Sudhanshu? Give reasons for your answer.
2. Do you think Sudhanshu should revise his earlier prices? What should be the criteria for revising the prices?
3. Do a market research of your local inverter manufacturers and find out what are the salient features of their product and what challenges do they face in this industry.

Source: Lall.Madhurima, Sahai.Shikha(2008), "*Entrepreneurship*". Excel Books Pvt.Ltd.

Notes

2.4 Summary

- In the initial stages of economic development, entrepreneurs tend to be shy and humble but as the development process picks up speed, they tend to become more enthusiastic and confident. They help make the business environment healthy and development oriented.
- Highly enthusiastic and innovative entrepreneurs exist only in developed countries as level of their -economic and technological development has reached a certain level whereas in developing and under-developed countries, imitative entrepreneurs are more successful.
- Business entrepreneurs are those entrepreneurs who conceive the idea of a new product or service and then translate their ideas into reality. Entrepreneur examines the various possibilities of sources of finance, supply of labour, raw-materials or finished product as the case may be.
- A trading entrepreneur has to be creative enough as he has to identify the market. He has to identify potential market, create demand through extensive advertisement of his product and thus inspire people to buy his product.
- An industrial entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. Manufacturer of leather products, textiles, electronics, food items and the like are industrial entrepreneurs.
- Corporate entrepreneur is the one who plans, develops and manages a corporate body. He is a promoter, an essential part of board of directors, an owner as well as an entrepreneur. He gets his corporate body registered under the requisite Act which gives his company the status of separate legal entity.
- Induced entrepreneur is attracted by the various incentives, subsidies and facilities offered by the government. 'An entrepreneur is not born' – this is no doubt true as every person can be trained to become a good entrepreneur. Most of the entrepreneurs who enter into business are induced entrepreneur as various kinds of financial, technical and managerial facilities are provided by the government to promote entrepreneurship.
- According to stages of development entrepreneurs can be: (a) First generation entrepreneur are those entrepreneurs who do not possess any entrepreneurial background. They start an industrial unit by means of their own innovative skills. (b) Second generation entrepreneur are those entrepreneurs who inherit the family business firms and pass it from one generation to another. (c) A classical entrepreneur is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the unit but with or without an element of growth.
- In developed countries, people are highly developed and consistently look forward for change. They want to consume such products which do not commonly exist in the world. They want progress as they have achieved high level of development. Innovating entrepreneur played a key role in the rise of modern capitalism, through their enterprising spirit, hope of making money, and ability to recognize and exploit opportunities.
- Fabian entrepreneurs are cautious and skeptical in experimenting change in their enterprises. Such entrepreneurs are shy, lazy and lethargic. They are imitative by nature but are not determined and also lack power. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position of the enterprise.

2.5 Keywords

Copreneurs: Copreneurs are the wife and husband running a business venture together.

Corporate: The term corporate relates to large companies, or to a particular large company.

Notes

Franchise: It is an arrangement between a franchisor and franchisee through which the franchisee uses the company name of the franchisor and is provided specified business services in exchange for a franchise fee.

Opportunist: A person who exploits circumstances to gain immediate advantage rather than being guided by principles or plans.

Over-capitalization: It is a situation when a company has issued more debt and equity than its assets are worth.

Stereotype: A widely held but fixed and oversimplified image or idea of a particular type of person or thing.

Under-capitalization: It is the situation when a company does not have sufficient capital to conduct normal business operations and pay creditors.

Venture: It is an undertaking that is dangerous, daring, or of uncertain outcome.

2.6 Review Questions

1. Define the basis on which entrepreneurship may be classified.
2. What do you mean by the term "pure entrepreneurs"?
3. Who is an induced entrepreneur? What are the factors that affect him?
4. Differentiate between real managers and real achievers.
5. Compare a trading entrepreneur with industrial entrepreneur. Give one example of each.
6. Discuss the activities undertaken by an agricultural entrepreneur.
7. Classify entrepreneurs on the basis of stages of development.
8. Briefly describe drone entrepreneurs.
9. Write a brief note on innovative entrepreneur. Give two examples of entrepreneurs with good innovations in the industry.
10. What do you understand by the term 'copreneurs'?
11. What are the models of entrepreneurship?
12. What is the effect of liberalization on entrepreneurship?
13. Why marketing is a big challenge for entrepreneurs?
14. What is the effect of changing workforce on entrepreneurship?

Answers: Self Assessment

1.	Time, resources	2.	Achievers
3.	Innovative	4.	Manufacturing
5.	Trading, manufacturing	6.	Corporate
7.	Enabler	8.	Corporate
9.	Opportunist	10.	Strategic
11.	Indian	12.	Cost
13.	Challenge	14.	Women
15.	Stress		

Notes

2.7 Further Readings

Books

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Notes

Unit 3: Entrepreneur v/s Intrapreneur

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Objectives

After studying this unit, you will be able to:

- Describe the entrepreneurial process
- Explain the concept of intrapreneur
- Explain the similarities and economic differences between entrepreneur and intrapreneur

Introduction

In the previous unit, we dealt with the various classifications and models of entrepreneurship and also discussed about the problems faced by the entrepreneurs in India. This unit will help you to understand the concepts of entrepreneur and intrapreneur. Intrapreneurship is the practice of entrepreneurial skills and approaches by or within a company or at home. The notion of

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intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others.

What is needed in large bureaucratic companies is a strong and healthy risk-taking culture, where risk-taking managers are assured security and rewards. An entrepreneurial culture requires a constant generation of ideas. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.

Investigate any big innovation in an organization and you will find an entrepreneur.

"Look back at any great business or invention of just any big company and you will find that an intrapreneur created it," says Gifford Pinchot, who invented the word and popularized the term in his book Intrapreneuring.

Though Pinchot invented the term, the concept (of internal entrepreneurial efforts in an organization to alter its status quo, harness energies of talented employees and sponsorship to promising ideas and innovations by them) was being relied upon by forward thinking organizations for decades.

3.1 Entrepreneurial Process

At its simplest what entrepreneurs do, can be viewed as a six-stage procedure:

- They see opportunities where others don't.
- They have a 'vision', a clear understanding of the concept and of what they're trying to do.
- They persuade others of their vision, they can communicate the concept effectively.
- They gather resources to make their vision become a reality (money, people, things).
- They organize these resources to create a new venture, product or market (leadership, teams).
- They constantly change/adapt themselves according to the changing demands of the market.

3.1.1 Identify an Opportunity

According to Timmons (1989), entrepreneurship is about sensing an opportunity where others see chaos, contradiction and confusion.

Identification of an opportunity is the first step towards building and running successful business enterprise. Entrepreneurs identify opportunity where others see obstacles and impossibility. Identification of opportunity at the right time is of utmost importance as it gives "first mover's advantage" and takes an enterprise ahead of others who take time to catch up. The first mover's advantage not only provides product identification and higher market credibility but also provides better profits and faster economies of scale.

Example: Paul Scagnetti, an engineer at Intel came up with the concept of handheld computer aimed at helping people do just one thing – record and plan their fitness and nutrition. The gizmo 'Vivovic Fitness Planner' hit the market successfully.

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Entrepreneurs sense opportunities since they are creative and are open to the new ideas, they seek challenges even at the time of smooth running of the operations. [Like Kushagra Bajaj of Bajaj's Hindustan; after coming back from US in 2000 with a master's degree in management, he found a big opportunity in the sugar industry in India. The demand for sugar was on rise and there were 100 sugar mills declared sick out of a total of 553 mills in the sugar industry. He took this problem as an opportunity and took Bajaj Hindustan to the top notch position in 2005, in the process, becoming the leader in sugar industry in India].

3.1.2 Establish a Vision

Merely seeking opportunity is not enough; an entrepreneur further moves to establish a vision – a dream for future which can be achieved only if opportunities are tapped at the right time. He has complete faith in his vision and it is quite clear to him i.e. he can visualize his own optimism. Even if some market forces change, he would readjust his vision to keep his dream viable and fruitful. And believe it, entrepreneurs have big visions, something which others might consider as impossible.

Example: Steve Jobs and a group of 20 young engineers created the Macintosh Computer without any adult supervision.

Dhirubhai Ambani of Reliance had dreamt that he would put a mobile phone in every individual's hand, and the rest is history. [We all know that today, even vegetable-sellers, farmers, milkmen, gardeners etc. are all carrying mobile]. Dreaming this big in a poverty-stricken country like India needs guts.

3.1.3 Persuade Others

An entrepreneur does not work alone; he understands that multiple skills are required to make business successful. Kathleen Alen, an American academician calls this phase of entrepreneurial process 'forming the foundation team' i.e. an entrepreneur forms a group of individuals who would work together to realize his dream. An entrepreneur prepares a business plan to make the vision and means of achieving the vision clearer to 'the others' who would join the team. These individuals are not just the skilled people who would join in, but also include financiers and even family members who put in their trust in the entrepreneur. Like Narayan Murthy of Infosys was supported by wife for financial and psychological backing and was joined by couple of friends – who together lead to what Infosys is today. These trusted people are still part of Infosys and are still working together for the further growth of business.

3.1.4 Gather Resources

Identifying an opportunity, establishing a vision and persuading others to join is not enough; a business enterprise needs resources to become successful. This is the phase, which can convert an entrepreneur's dream into realty. Although we are presenting this process as it happens step by step, implying that issues pertaining to resources are considered here, the reality is that part of the early evaluation of the concept will inevitably involve a preliminary evaluation of whether it can be properly resourced.

Resources can be considered under four categories:

- Financial
- Operating
- Human
- Information

Notes

3.1.5 Create New Venture

Once the entrepreneur has arranged for the resources mentioned above, the next step is the creation/establishment of the new venture and running the business venture successfully while the former task (creation of new venture) requires lot of enthusiasm, persuasion so that he is able to gather optimum resources. The latter task (running the business venture) requires lot of perseverance and passion to believe in self.

3.1.6 Change/Adapt with Time

As change has become the rule of the game in today's business environment the entrepreneur needs to continuously keep the organization upgraded and abreast of changing times. This is not an easy task as it not only involves availability of funds for introducing change but also (which is even more difficult) the adaptability of human resources towards the changed environment.

Did u know? Is the concept of entrepreneurship new to India? At a superficial level it seems to be as old as the Gupta and Chola dynasties, which traded spices with the rest of the world, followed by the Mughals and the Britishers. But during all these eras, entrepreneurship was more about creation and accumulation of wealth in the hands of few. The essence of entrepreneurship is creation of wealth – Yes, not mere accumulation, but rather distribution of wealth. And when it comes to distribution of wealth none of the dynasties and the rulers of the past pass the qualification. In this context, it is only the entrepreneurs of the post-liberalization era who fit the bill. Entrepreneurs of the recent era not only work for their own growth but also for the growth of all those who are associated with them. Narayana Murthy of Infosys is a good example for this. Narayana Murthy not only created wealth (the Infosys) but also distributed the fortune of Infosys to all its members by introducing ESOP (Employee Stock Option Plan) through which he made all its employee as partners in growth and development. He recently retired from the post of CEO after attaining the age of 60 and made way for the younger generation. Hence the essence of entrepreneurship is not creation and accumulation of wealth but distribution of wealth amongst all those who are associated with the business.

Self Assessment

Fill in the blanks:

1. Entrepreneurs identify …….. where others see obstacles and impossibility.
2. …….. sense opportunities since they are creative and are open to the new ideas.
3. Running the business venture requires lot of ……. and …….. to believe in self.
4. An entrepreneur prepares a business plan to make the ……. and means of achieving the vision clearer to 'the others'.
5. Identification of opportunity at the right time is of utmost importance as it gives "……. advantage" and takes an enterprise ahead of others who take time to catch up.

Notes

3.2 Intrapreneurship

The term 'intrapreneur' emerged in during the seventies. Several senior executives of big corporations left their jobs to start their own small businesses because the top bosses in these corporations were not receptive to innovative ideas. These executives-turned-entrepreneurs achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. These types of entrepreneurs came to be known as 'intrapreneurs'. This kind of brain drain phenomena is not limited to the US, but has spread all over the world. Companies, as a result, have started devising ways and means to stop this outflow of talent, experience and innovation.

Task

Visit two organizations of your choice and identify and list intrapreneurial characteristics by having a discussion with some senior managers.

The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others.

What is needed in large bureaucratic companies is a strong and healthy risk-taking culture, where risk-taking managers are assured security and rewards. An entrepreneurial culture requires a constant generation of ideas. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.

3.2.1 Intrapreneuring: Definition

Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results. Intrapreneuring aims at boosting the entrepreneurial spirit within the limits of organization, thus creating an environment to develop.

In-tra-pre-neur a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation.

"Intrapreneurship is Entrepreneurship practiced by people within established organizations".

Intrapreneurship revolves around the restructuring and reemergence of the firm's capacity to develop innovative skills and new ideas. Intrapreneurship is not just limited to the germination of new ideas, but includes even the implementation of those ideas.

3.2.2 Characteristics of Intrapreneurs

Following are the characteristics of intrapreneurs:

1. Intrapreneurs bridge the gap between inventors and managers. They take new ideas and turn them into profitable realities.
2. They have a vision and the courage to realize it.

Notes

3. They can imagine what business prospects will follow from the way customers respond to their innovations.
4. They have the ability to plan necessary steps for actualization of the idea.
5. They have high need for achievement and they take moderate calculated risks.
6. They are dedicated to their work that they shut out other concerns, including their family life.

3.2.3 Reasons for Promoting Intrapreneurs in Organisation

Following could be the reasons for promoting intrapreneurs in organization:

Intrapreneurs thrive and vibrate in all organizations (big or small): Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas. These executives termed as 'entrepreneurs' achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. Companies, as a result, started devising ways and means to stop this outflow of talent, experience and innovation and therefore nested the development of intrapreneurs.

Through their expertise and rich experience in the organization: Intrapreneurs understand the needs and wants of the customers. They generate innovative ideas from these needs and wants. Intrapreneurs do not just limit their energies to the development of these innovative ideas as they have an insatiable desire to achieve and succeed. They are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself.

3.2.4 Intrapreneurs as Dreamers and Change Agents

Intrapreneurs are the "dreamers who do." In most organizations people are thought to be either dreamers or doers. Both talents are not generally required in one job. But the trouble with telling the doers not to bother about their dreams is that they dream anyway. When they are blocked from implementing dreams of how to help your company they're dreaming dreams of revenge. A mind is meant to imagine and then act. It is a terrible thing to split apart the dreamer and the doer.

Caution Intrapreneurs perform their own market research. If your scientists and engineers are not allowed to do their own market research, then you have a major barrier to innovation.

Intrapreneurs ask questions such as: "Who would I need to help me with this? How much would it cost? What things have to happen first?" and so forth. They may ask "Could we release this technology – onto the marketplace in product form aimed at such-and-such a customer need? No. If we did that it would immediately – bite into a very important market of one of our competitors who has the ability to respond and before we produced our second generation products there would be a tremendous competitive response.

Change Agents are the most genuine executives those who are progressive and innovative, intolerant of complacency and constantly striving to invent better organization. Change agents possess a commitment level that drives them to enhance core competence and organizational capability. Change agents make all employs both below and above their authority feel a sense

of urgency to perform better. Most importantly change agents are the "good consciousness" of the industry or organizations; their management decisions protect people.

Notes Generally a new idea is so ugly that only its mother could love it. Consequently, it is unrealistic to think that people in Marketing will understand a research idea in its early stages well enough to do valid marketing research.

Change agents fight for optimizing management environments by challenging every one below and above the authority. True agents will have a communication system where uncomfortable questions are asked and explored because they know how idea or management decisions are shaped into efficient processes. Change agents raise expectations by seeking hire more capable than they are. Change agents never compromise for their high standards. Great leaders have encouraged the hiring the best in order to be the best.

Self Assessment

Fill in the blanks:

6. For an entrepreneur to survive in an organization he/she needs to be ……. and given adequate freedom to implement his ideas.
7. An entrepreneurial …… requires a constant generation of ideas.
8. Intrapreneurs ……. the gap between inventors and managers.
9. …… understand the needs and wants of the customers.
10. Change agents possess a …….. level that drives them to enhance core competence and organizational capability.

3.3 Similarities and Economic Differences between Entrepreneur and Intrapreneur

The spirit of entrepreneurship exists in within an organization. Intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment. Thus, Intrapreneurs are inside entrepreneurs.

Entrepreneurs are builders of a society and create great influence. Many developing countries owe their success to those entrepreneurs who despite their comfort working in a company jumped out to build an enterprise to give jobs to other people and to help the nation. In India, despite the fate of our economy there are still individuals who, not only pursues their own entrepreneurial interest but helps budding entrepreneurs and encourage the youths to become entrepreneurs.

Notes The entrepreneurs can be both the originators as well as value enhancer of a product or service. The entrepreneur perceives opportunities that other business executives do not see or do not care about. Say for example, Akio Morita, the President of the Japanese consumer electronics giant, Sony, saw that his company's existing products could be adapted to create a new one – the Walkman Personal Stereo. Not only did he create a Walkman, it is said that an entirely new generation was created, named as the "Walkman Generation".

Notes

Intrapreneurship is the practice of entrepreneurial skills and approaches by or within a company or at home. Employees, perhaps engaged in a special project within a larger firm are supposed to behave as entrepreneurs, even though they have the resources and capabilities of the larger firm to draw upon. Capturing a little of the dynamic nature of entrepreneurial management (trying things until successful, learning from failures, attempting to conserve resources, etc.) is claimed to be quite valuable in otherwise static organizations.

This is the reason, why founders behave differently to his/her successor. In a flourishing business the entrepreneurial spirit is very little or not present to those successors because everything is spoon fed. Unlike the founders who experienced struggles and conflicts.

3.3.1 Economic Differences

The difference between the entrepreneur and the intrapreneur is that an entrepreneur is starting a business while intrapreneur is developing a new product in an already existing business.

There are many definitions of an entrepreneur and the simplest and the most appropriate is one who recognizes opportunities and organizes resources to take advantage of the opportunity.

Example: When a company's growth begins to dwindle, boardroom meetings grow strained and the finger pointing starts.

3.3.2 Corporate vs. Intrapreneurial Culture

Corporate culture is the sum of the values, customs, traditions and meanings that make a company unique. Corporate culture is often called "the character of an organisation" since it embodies the vision of the company's founders. The values of a corporate culture influence the ethical standards within a corporation, as well as managerial behaviour.

Intrapreneurship is a strategy for stimulating innovation by making better use of entrepreneurial talent. When effectively promoted and channeled, intrapreneurship not only fosters innovation, it also helps employees with good ideas to better channel the resources of a corporation to develop more successful products.

Caselet

The Intrapreneur, the New Change Maker

The report revealed that the social intrapreneur think there are many advantages for the corporation when it comes to projects that align societal needs and business value: creating new revenue streams, expanding core capabilities into new areas, fueling innovation, enhancing brand equity, retaining talent, or achieving competitive advantage in new markets.

"The result is not immediately obvious, but it is important to have a presence in these markets," said Orlando Ayala, who led the Microsoft Unlimited Potential initiative that promoted technology affordable for people to low income and is now vice president of emerging markets in the company.

There are other examples of social intrapreneurs:

- Vijay Sharma Shakti project led to Hindustan Unilever to train and support women entrepreneurship in India

Contd...

Notes

- Dan Vermeer, who worked on Coca-Cola Global Water Initiative to develop solutions to water scarcity.

Regarding the support of the League of intrapreneurs, about 100 candidates participated in the competition so far. Only the 15 best submissions were to form the first class of the League of Intrapreneurs, becoming a member of the elite World Changemakers. These presentations were also to receive media recognition and press. In addition, candidates were to be presented in a publication as world intrapreneurs with innovative solutions. In this league, the top four were to be featured on the blog of Fast Company, Co.EXIST and receive advice from Accenture Development Partnership to strengthen their work.

Competitive solutions may include those that target:

- ***Product innovation:*** socially and/or environmentally responsible product development
- ***Supply chain:*** innovative approaches to enhancing supplier or producer welfare; reduction in social or environmental footprint
- ***Human capital:*** processes or systems to harness employee talent and skills for corporate change-making.
- ***Business models:*** new models for reducing the environmental footprint of consumption and increasing social prosperity.

Accenture and Micro World have their own partnership to develop intrapreneurship spirit. Other firms has their own platform with Micro World with the same goal.

Source: http://www.microworld.org/en/news-from-the-field/article/intrapreneur-new-changemaker

Some of the greatest business leaders of the past century made their early mark in business as intrapreneurs. Former General Electric chairman Jack Welch made a name for himself by building GE's engineering plastics business as if he were starting his own company. Lew Lehr, former chairman of 3M, similarly built his career on his intrapreneurial pursuit of 3M's expansion into the healthcare industry.

It is essential to create an elevating and encouraging environment that provides talented and entrepreneurial minded people the freedom to innovate, whilst at the same time supporting them with the resources to quickly bring their innovations to market. For small-to-midsize firms, innovation and speed-to-market are two ways to compete successfully against dominant and well-entrenched companies. Creating, fostering, and sustaining the right environment really are intrapreneurial imperatives.

Self Assessment

Fill in the blanks:

11. Entrepreneurs are …….. of a society and create great influence.
12. ……. is the practice of entrepreneurial skills and approaches by or within a company or at home.
13. Corporate ……. is the sum of the values, customs, traditions and meanings that make a company unique.
14. Intrapreneurship is a strategy for stimulating innovation by making better use of …….. talent.
15. The entrepreneur perceives …….. that other business executives do not see or do not care about.

Notes

Case Study

GE the Jack Welch Way

In September 6, 2001, John Francis Welch Jr. (Jack Welch), Chairman and Chief Executive Officer of General Electric Co. (GE), retired after spending 41 years with GE. During the period, he made GE the most valuable company in the world. Analysts felt that, with his innovative, breakthrough leadership style as CEO, Jack Welch transformed GE into a highly productive and efficient company. During Jack Welch's two decades as CEO, GE had grown from a US$13 billion manufacturer of light bulbs and appliances in 1981, into a US$480 billion industrial conglomerate by 2000. Analysts felt that Jack Welch had become a 'deal-making' machine, supervising 993 acquisitions worth US$13 billion and selling 408 businesses for a total of about US$10.6 billion.

Jack Welch was in fact described as 'the most important and influential business leaders of the 20th Century' by some Wall Street analysts and academics alike.

Management experts felt that Jack Welch's reputation as a leader could be attributed to four key qualities; he was an intuitive strategist; he was willing to change the rules if necessary; he was highly competitive; and he was a great communicator.

The Making of a CEO

Jack Welch graduated in chemistry from the University of Massachusetts and in 1959 got a Ph.D. in chemical engineering from the University of Illinois. In 1960, he started his career at GE as a Junior Engineer.

However, in 1961, Jack Welch decided to quit the US$10,500 job as he was unhappy with the company's bureaucracy. He was offended that he was given a raise of only US$1000, the same amount given to all his colleagues. He had even accepted a job offer from International Minerals and Chemicals in Skokie, Ill. However, Reuben Gutoff, an executive at GE convinced Jack Welch to stay back. Reuben Gutoff promised that he would prevent him from getting entangled in GE red tape and would create a small-company environment with big-company resources for him. This theme of 'small-company environment' with 'big-company resources' came to dominate Jack Welch's own thinking as the leader of GE.

Jack Welch quickly rose to become the head of the plastics division in 1968. He became a group executive for the US$1.5 billion components and materials group in 1973. This included plastics and GE Medical Systems.

In 1981, Jack Welch became GE's youngest CEO ever (Refer Exhibits I & II). His predecessor, Reg Jones said, "We need entrepreneurs who are willing to take well-considered business risks - and at the same time know how to work in harmony with a larger business entity…The intellectual requirements are light-years beyond the requirements of less complex organizations."

The Welch Era at GE: 1981-2001

During the first five years as CEO, Jack Welch emphasized that GE should be No.1 or No.2 in all businesses or get out of them.

He disposed off the businesses with low-growth prospects, like TVs and toaster ovens. He expanded the financial-service provider GE Capital into a powerhouse. He also entered the broadcasting industry with the acquisition of RCA Corp., the owner of NBC TV network.

Contd...

Notes

Jack Welch's Leadership Style

Analysts felt that Jack Welch's profound grasp on GE stemmed from knowing the company and those who worked for it. More than half of his time was devoted to "people issues". Most importantly, he had created something unique at a big company – Informality. The hierarchy that Jack Welch inherited with 29 layers of management was completely changed during his tenure. Everyone, from secretaries, to chauffeurs to factory workers, called him 'Jack'. Everyone could expect – at one time or another – to see him. Analysts felt that Jack Welch gave employees a sense that he knew them. Commenting on the informality at GE, Jack Welch said, "The story about GE that hasn't been told is the value of an informal place. I think it's a big thought..."

Jack Welch – The Strategist

Analysts felt that Jack Welch was focused and analytical. He restructured GE's portfolio from 350 businesses during 1980s down to two-dozen core activities by late 1990s. During his initial years as CEO, he either expanded internally or made acquisitions to position all GE's businesses as either number one or number two in their fields. The planned acquisition of Honeywell, Inc., which didn't materialize, was expected to redefine GE for the years to come...

Jack Welch – The Leadership Guru

After stepping down as the CEO, Jack Welch became an advisor to William Harrison, CEO, JP Morgan Chase. He also entered into an agreement to become a leadership guru to several other clients. He was also named the special partner at New York investment firm, Clayton, Dubilier & Rice. Jack Welch also authored his autobiography, "Jack: Straight from the Gut'', which was at the top of the best-sellers list in 2001. Analysts felt that Jack Welch's influence did not end at GE. Many executives who had worked under Jack Welch went on to head more than a dozen U.S. companies.

Questions

1. Make a classification of jack Welch as a intrapreneur or entrepreneur.
2. Comment on intrapreneurship in an organization.

Source: Lall Madhurima (2009), *Entrepreneurship and Business Plan,* Excel Books Pvt. Ltd.

3.4 Summary

- The entrepreneur is an individual (or team) who identifies the opportunity, gathers the necessary resources, creates and is ultimately responsible for the performance of the organization. Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organization (or sub-organization) with the expectation of creation of value to the participants.
- Entrepreneur and entrepreneurship are two sides of the same coin; while entrepreneur is an individual who creates and establishes a business, entrepreneurship is the process adapted by entrepreneur to do so.
- Entrepreneurs have a high need for achievement. They are hardworking, independent, innovative and risk-taking individuals. These characteristics of an entrepreneur especially (high need for achievement and innovative) differentiates him from a normal businessman.
- The entrepreneurial process consists of following steps: (a) identify an opportunity (b) establish vision (c) persuade others (d) gather resources (e) create a new venture/ product/market (f) change/adapt with time.

Notes

- The scope of entrepreneurship is tremendous in a country like India which faces problems of population, unemployment, underemployment and disguised unemployment.
- The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas.
- Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results.
- Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas.
- Intrapreneurs are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself.
- Intrapreneurs ask questions such as: "Who would I need to help me with this? How much would it cost? What things have to happen first?" and so forth. They may ask "Could we release this technology- onto the marketplace in product form aimed at such-and-such a customer need?
- Change agents possess a commitment level that drives them to enhance core competence and organizational capability. Change agents make all employs both below and above their authority feel a sense of urgency to perform better.
- Intrapreneurship is a strategy for stimulating innovation by making better use of entrepreneurial talent. When effectively promoted and channeled, intrapreneurship not only fosters innovation, it also helps employees with good ideas to better channel the resources of a corporation to develop more successful products.

3.5 Keywords

Authority: The power or right to give orders, make decisions, and enforce obedience.

Change-agent: A person whose presence or thought processes cause a change from the traditional way of handling or thinking about a particular activity.

Entrepreneurship: It is the pursuit of a discontinuous opportunity involving the creation of an organization (or sub-organization) with the expectation of value creation to the participants.

Intrapreneuring: It means the entrepreneurial activities that acquire organisational sanctions and commitments of resources for the sole objective of innovative results.

Intrapreneurship: It is the practice of entrepreneurial skills and approaches by or within a company or at home.

Leader: The person who leads or commands a group, organization, or country.

Persuade: To make somebody do something by giving them good reasons for doing it.

Static: Lacking in movement, action, or change, especially in a way viewed as undesirable or uninteresting.

Strategy: A plan of action or policy designed to achieve a major or overall aim.

Vision: Vision is being able to see where you're going in both literal and figurative senses.

Notes

3.6 Review Questions

1. Critically analyse the entrepreneurial process.
2. Managers inside the firm should be encouraged to be entrepreneurs within the firm rather than going outside. Comment.
3. Managers, Entrepreneurs and Intrapreneurs are different pieces of the same maze. Comment.
4. Discuss the developments that should be made in climate and culture of the organization to promote entrepreneurs.
5. Analyse the contribution of leadership and networking skills in becoming a successful intrapreneur.
6. Intrapreneurs should know how to manage relationships in an organization. Explain briefly.
7. Scale down the economic differences between entrepreneurs and intrapreneurs. Does it hamper the organizational growth?
8. Bring out the cultural differences between corporate and intrapreneurhip.
9. Do you agree that interpreneurship, helps the firm grow to a new level? Give reasons.
10. Critically examine the role of interpenuers in shaping an organization.

Answers: Self Assessment

1.	Opportunity	2.	Entrepreneurs
3.	Perseverance, passion	4.	Vision
5.	First mover's	6.	Sponsored
7.	Culture	8.	Bridge
9.	Intrapreneurs	10.	Commitment
11.	Builders	12.	Intrapreneurship
13.	Culture	14.	Entrepreneurial
15.	Opportunities		

3.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.

Notes

Online links

http://andthentherewerebooks.wordpress.com/2011/09/06/entrepreneur-vs-intrapreneur/

http://www.ourknowledge.asia/1/post/2012/05/entrepreneur-or-intrapreneur-whats-the-difference.html

http://www.rmci.ase.ro/no12vol5/12.pdf

www.entrepreneurship.org

Notes

Unit 4: Legal Issues for Entrepreneur

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Objectives

After studying this unit, you will be able to:

- Explain the Intellectual Property Rights (IPR)
- Discuss the IPR's in India
- Discuss the legal considerations before starting a business

Introduction

The basic legal steps before doing business are: handling issues with your prior employers, choosing a company name, filing all the documents with the secretary of the chosen state, paying all the required fees with the chosen state, working on the capital structuring of the equity, drafting employee agreements and legal documents for incentive stock options.

We know that you will need legal help in the following areas: Incorporation; copyrights; trademarks; patents; contracts and agreements; personal needs of the venture team; real estate and leasing agreements; employee stock ownership plans; franchising and licensing; formal litigation; delinquent accounts; liability protection; merger and acquisitions; employee benefit plans; tax planning and review; government and regulatory reporting.

4.1 Intellectual Property Rights

Intellectual Property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.

Notes

Did u know? Intellectual property is divided into two categories: Industrial property, which includes inventions (patents), trademarks, industrial designs, and geographic indications of source; and Copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs.

Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.

1. The term Intellectual Property (IP) reflects the idea that its subject matter is the product of the mind or the intellect. These could be in the form of Patents; Trademarks; Geographical Indications; Industrial Designs; Layout-Designs (Topographies) of Integrated Circuits; Plant Variety Protection and Copyright.
2. IP, protected through law, like any other form of property can be a matter of trade, that is, it can be owned, bequeathed, sold or bought. The major features that distinguish it from other forms are their intangibility and non-exhaustion by consumption.
3. IP is the foundation of knowledge-based economy. It pervades all sectors of economy and is increasingly becoming important for ensuring competitiveness of the enterprises.

Following are the various components of intellectual property rights:

4.1.1 Copyrights

Copyright is a form of intellectual property protection granted under Indian law to the creators of original works of authorship such as literary works (including computer programs, tables and compilations including computer databases which may be expressed in words, codes, schemes or in any other form, including a machine readable medium), dramatic, musical and artistic works, cinematographic films and sound recordings.

Figure 4.1: Symbol of Copyright

Source: http://cdn.differencebetween.com/wp-content/uploads/2010/12/copyright.jpg

Copyright law protects expressions of ideas rather than the ideas themselves. Under section 13 of the Copyright Act 1957, copyright protection is conferred on literary works, dramatic works, musical works, artistic works, cinematograph films and sound recording. For example, books, computer programs are protected under the Act as literary works.

Notes

Copyright refers to a bundle of exclusive rights vested in the owner of copyright by virtue of Section 14 of the Act. These rights can be exercised only by the owner of copyright or by any other person who is duly licensed in this regard by the owner of copyright.

Notes Copyrights include the right of adaptation, right of reproduction, right of publication, right to make translations, communication to public etc.

Copyright protection is conferred on all Original literary, artistic, musical or dramatic, cinematograph and sound recording works. Original means, that the work has not been copied from any other source. Copyright protection commences the moment a work is created, and its registration is optional. However it is always advisable to obtain a registration for a better protection. Copyright registration does not confer any rights and is merely a prima facie proof of an entry in respect of the work in the Copyright Register maintained by the Registrar of Copyrights.

As per Section 17 of the Act, the author or creator of the work is the first owner of copyright. An exception to this rule is that, the employer becomes the owner of copyright in circumstances where the employee creates a work in the course of and scope of employment.

4.1.2 Trademarks

The Trade Marks Registry was established in India in 1940 and presently it administers the Trade Marks Act, 1999 and the rules there under. It acts as a resource and information centre and is a facilitator in matters relating to trade marks in the country.

The objective of the Trade Marks Act, 1999 is to register trademarks applied for in the country and to provide for better protection of trade mark for goods and services and also to prevent fraudulent use of the mark.

The main function of the Registry is to register trademark which qualifies for registration under the Act and Rules.

Task Make a presentation on the Intellectual property rights with text and images.

Trademark means a different mark of authenticity, through which the products of particular manufacturers or different commodities of particular manufacturer, trader, or vendor may be distinguished from those of others. Trademark in India is mainly governed by the rules and regulations laid down in Indian Trademark Act, 1999. According to Act trademark is a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of goods. The definition of mark as contained in the Act is not exhaustive and there is practically no limit to the combination of various types of marks.

Brand name/Trademark protection in India is governed under The Trademark Act, 1999. The provisions of Trademark Act, 1999 provides the process of registration of trademark and liabilities after the registration of trademark. The law defines "Brand name/ Trademark" includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colors or any combination thereof. The trademark filing under trademark law in India can be done by a proprietor, partner, trust/society and company with a principle place of business.

Notes

Figure 4.2: Trademarks of various companies

Source: http://connorlaw.com/Raleigh_Business_Law/wpcontent/uploads/2012/08/20120829-Trademark-Picture1.jpg

Caution Principle place of business is important to determine the appropriate office for filing the trademark application. The appropriate offices for trademark filings are headed in Delhi, Mumbai, Kolkata and Chennai. If you don't have a principle place of business in India you can provide the address of your service provider (trademark agent/attorney).

Copyright and Trademark Law

Copyright and Trademark forms an intrinsic part of Intellectual property rights. Copyright gives long lasting rights pertaining to literary, artistic and musical creations whereas trademarks are protected against imitation as long at least as they continue to be employed in trade. According to Indian legislation governing Intellectual property rights all artistic, literary, musical, dramatic works are comes within the purview of copyright but if it has to be used in context with goods than a certificate concerning the same has to be obtained from the Registrar of Trademarks. Thus though they are governed by different laws they are two sides of same coin.

4.1.3 Trade Secrets

Trade secret is a formula, process, device, or other business information that is kept confidential to maintain an advantage over competitors. It is an information-including a formula, pattern, compilation, program, device, method, technique, or process that-

1. Derives independent economic value, actual or potential, from not being generally known or readily ascertainable by others who can obtain economic value from its disclosure or use, and
2. Is the subject of reasonable efforts, under the circumstances, to maintain its secrecy.

"Trade Secret is an effective tool to protect Intellectual Property Rights of an entrepreneur."

Notes

According to Chambers 21st Century Dictionary, (Reprint on 2000, page 1491) the term Trade Secret means – an ingredient, technique, etc. that a particular company or individual will not divulge because they see it as giving them an advantage over their rivals.

Figure 4.3: Symbol Depicting Secret Content

Source: http://polymerinnovationblog.com/wp-content/uploads/2011/12/Trade-Secret.jpg

Again, according to Oxford advanced learners Dictionary the term Trade Secret means a piece of information about how a particular product is made, that is only known to the company that makes it.

Any confidential business information which provides an enterprise a competitive edge may be considered a trade secret. So, a trade Secret is a formula, practice, process, design, instrument, pattern, or compilation of information used by a business to obtain an advantage over competitors or customers. Sometimes these trade secrets are also known as "confidential information." A trade Secret is any formula, pattern, physical device, idea, process, compilation of information or other information that:

- provides the owner of the information with a competitive advantage in the market place.
- is treated in a way that can reasonably be expected to prevent the public or competitors from learning about it, except through improper acquisition or theft.

Unlike other forms of intellectual property, trade secrets are essentially internal instruments. The responsibility for their protection is in the hands of the owner of the trade secret. They are kept confidential.

Example: Most famous example of trade secret is the coca-cola formula. This formula is kept locked in a bank vault in Atlanta, can be opened only by a resolution of the company's board and is known to only two employees at the same time. The public has no access to the name of those employees and they are not allowed to fly on the same air plane.

Trade Secret is confidential information not generally known to others. The information must derive independent economic value, actual or potential. The secret must give the holder a competitive edge. However, the English Law does not distinguish between various types of confidential information. But, generally, Trade Secrets, relate to different types of information.

Some of these are given below:

- Technical and Scientific information
- Commercial information
- Financial information and
- Negative information

Notes

Caselet

Coca-Cola moves 'secret formula' to new vault in Atlanta

Since its creation 125 years ago, Coca-Cola has kept its formula a jealously guarded trade secret.

Coca-Cola has moved the "secret formula" for its international brand-name soft drink to an impressively high security-looking vault in Atlanta.

On Thursday, the company released photos of the formula's new home as part of a promotional campaign for its shrine-like World of Coca-Cola museum, where the recipe is now entombed in a massive steel vault.

Since its creation 125 years ago, Coca-Cola has kept its formula a jealously guarded trade secret, spinning elaborate marketing mythologies about the ingredients and the people who know them.

For example, until this week, the only official written copy was supposedly held under lock and key in a bank vault. Only two people at any given time are supposed to know the secret formula. And the same two people are prohibited from taking the same plane in the event it crashes and the trade secrets are taken to the grave.

According to Beverage Digest, the secret formula was moved from a SunTrust bank vault in Atlanta.

Earlier this year, weekly radio show "This American Life" out of Chicago, claimed it had decoded the recipe after finding the original recipe buried quietly in the back pages of the Atlanta Journal-Constitution circa 1979 — a publication dedicated to the birthplace of this caramel-colored soda pop. Among the purported secret ingredients are coriander, nutmeg, orange and lemon oils.

Source: http://www.nydailynews.com/life-style/eats/coca-cola-moves-secret-formula-new-vault-atlanta-article-1.989170

4.1.4 Patents

Patent Right varies from country to country. In India the law which govern patent right is "Indian Patent Act 1970". Indian Patent Act, 1970 grants exclusive right to the inventor for his invention for limited period of time. Generally 20 years time has been granted to the patent holder but in case of inventions relating to manufacturing of food or drugs or medicine it is for seven years from the date of patent. There is certain legal procedure which needs to be followed in order to register. There are several attorney helping inventor in patent registration by providing them best well informed knowledge. In India patent registration can be filed individually or jointly. In case of deceased inventor this can be done his legal representative on behalf of him. All the required documents need to be filed along with the application form. Only after verification registration certificate is provided to the applicant.

Patent Law in India

The entire patent system and the patent law in India are governed by the superintendence of General Controller of designs patients, trademark patent and by geographical indications. This office of general controller runs under department of industrial promotions and policy. There

Notes

are four patent office in India, Head office is located in kolkata and other offices are located in Delhi, Chennai and Mumbai. The examiners of each patent office have to release their work according to the direction of controllers.

Figure 4.4: A Depiction of Symbol of Patent

Source: http://1.bp.blogspot.com/u146QXbTuaw/Tz6q1YMmbeI/AAAAAAAAFro/Z8iZJXN7kA/s1600/stock-photo-patented-intellectual-property-stamp-82418215.jpg

Patent law is complex, which is essential to obtain the services of an attorney who specializes in patent law. Patent law is one of the fastest growing fields of law, which deals with issues surrounding the protection of ideas. By protecting the rights of the inventor, the government can be sure that people will continue to think of unique and new ideas to share with the world.

Patent law of India has the following most main features, which decide whether a patent will be granted or not:

1. ***The Object:*** The object of patent law in India is to encourage scientific research, new technology, and industrial progress.
2. ***Inventive Step:*** The fundamental principle of Patent law is granted only for an invention.

Self Assessment

Fill in the blanks:

1. ……. is a form of intellectual property protection granted under Indian law to the creators of original works.
2. Copyrights can be exercised only by the owner of copyright or by any other person who is duly ……..... in this regard by the owner of copyright.
3. Principle place of business is important to determine the appropriate office for filing the …… application.
4. …… and Trademark law are two sides of same coin.
5. Trade Secret is …….. information generally not known to others.

4.2 Intellectual Property Rights in India

Among the agreements of WTO, Trade Related Intellectual Property Rights (TRIPs) is of special significance to the Entrepreneurs. India has modified its laws on intellectual property to be compliant with WTO provisions. However, developed countries have still apprehensions about the enforcement of IPR Laws.

Notes

There is a well-established statutory, administrative and judicial framework to safeguard intellectual property rights in India, whether they relate to patents, trademarks, copyright or industrial designs. Well-known international trademarks have been protected in India even when they were not registered in India. The Indian Trademarks Law has been extended through court decisions to service marks in addition to trade marks for goods. Computer software companies have successfully curtailed piracy through court orders. Computer databases have been protected. The courts, under the doctrine of breach of confidentiality, accorded an extensive protection of trade secrets. Right to privacy, which is not protected even in some developed countries, has been recognized in India.

Protection of intellectual property rights in India continues to be strengthened further. The year 1999 witnessed the consideration and passage of major legislation with regard to protection of intellectual property rights in harmony with international practices and in compliance with India's obligations under TRIPS. These include:

1. The Patents (Amendment) Act, 1999 passed by the Indian Parliament on March 10, 1999 to amend the Patents Act of 1970 that provides for establishment of a mail box system to file patents and accords exclusive marketing rights for 5 years.
2. The Trade Marks Bill, 1999 which repeals and replaces the Trade and Merchandise Marks Act, 1958 passed by the Indian Parliament in the Winter Session that concluded on December 23, 1999.
3. The Copyright (Amendment) Act, 1999 passed by both houses of the Indian Parliament, and signed by the President of India on December 30, 1999.
4. A sui generis legislation for the protection of geographical indications called the Geographical Indications of Goods (Registration & Protection) Bill, 1999 approved by both houses of the Indian Parliament on December 23, 1999.
5. The Industrial Designs Bill, 1999 which replaces the Designs Act, 1911 was passed in the Upper House of the Indian Parliament in the Winter Session which concluded on December 23, 1999 and is presently before the Lower House for its consideration.
6. The Patents (Second Amendment) Bill, 1999 to further amend the Patents Act, 1970 and make it TRIPS compliant was introduced in the Upper House of Indian Parliament on December 20, 1999.

In addition to the above legislative changes, the Government of India has taken several measures to streamline and strengthen the intellectual property administration system in the country. Projects relating to the modernization of patent information services and trademarks registry have been implemented with help of WIPO/UNDP. The Government of India is implementing a project for modernization of patent offices at a cost of ₹ 756 million incorporating several components such as human resource development, recruiting additional examiners, infrastructure support and strengthening by way of computerization and re-engineering work practices, and elimination of backlog of patent applications. An amendment to the Patent Rules was notified on June 2, 1999 to simplify the procedural aspects.

The Trade Marks Registry is also proposed to be further strengthened and modernized. A project for modernization was earlier implemented during 1993-96. Further strengthening of the Registry is being taken up at a cost of ₹ 86 million. The main thrust now is to strengthen the infrastructure of the Trade Marks Registry and the early removal of backlog of pending applications, transfer of records to CD-ROMs, re-engineering of work processes, appointment of additional examiners, etc.

As regards the aspect enforcement, Indian enforcement agencies are now working very effectively and there has been a notable decline in the levels of piracy in India. In addition to intensifying

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raids against copyright infringers, the Government has taken a number of measures to strengthen the enforcement of copyright law. Special cells for copyright enforcement have been set up in 23 States and Union Territories. In addition, for collective administration of copyright, copyright societies have been set up for different classes of works.

Self Assessment

Fill in the blanks:

6. India has modified its laws on intellectual property to be compliant with ..... provisions.
7. Indian enforcement agencies are now working very effectively and there has been a notable decline in the levels of ..... in India.
8. The Government of India is implementing a project for ..... of patent offices.
9. Computer ..... companies have successfully curtailed piracy through court orders.
10. There is a well-established, statutory, administrative and judicial ..... to safeguard intellectual property rights in India.

4.3 Legal Issues to Consider when Starting Your Business

There are a multitude of legal issues to think about when it comes to starting your business. Everything from your business name to its structure to its operation has legal implications. What follows is a sampling of some of the legal concerns you may want to address with your attorney before you start your business.

Business Name

You will need to make sure that the business name you plan to use is not already being used by another business. You can do this by doing a name search with the appropriate state agency, which is usually the office of the Secretary of State. If your chosen name is not already in use, you can reserve it with the Secretary of State's office for a period of time, about 120 days, while you prepare your articles of incorporation, articles of organization, or a partnership agreement.

Business Structure

You will need to decide which business structure best suits your business. Your business could be structured as a sole-proprietorship, partnership, limited partnership, corporation, S-corporation, or limited liability company. To decide what form is best, you will need to consider liability issues associated with your business and which form will provide the best tax structure for your business.

Business Licenses

Depending on what type of business you plan to engage in, you may need a variety of licenses or permits.

Non-disclosure Agreements

If you will be setting up financing for your business or entering into contracts with suppliers, you should consider confidentiality and non-disclosure agreements. Since these outside firms

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will have access to business information that you may want to keep private, you should consider having them sign these agreements. If you are ordering a thousand gizmos for your grand opening, you don't want the supplier to call your competitor to see if they want a thousand gizmos so that they can offer them on the same day. The more confidential information your business plan contains, the more important these agreements are.

Zoning

When you are selecting the location for your business, you will need to make sure it is properly zoned for the type of business you plan to operate. It is not okay to just assume that, if your business is of the same type as the one that is currently there, the zoning is appropriate. Zoning may have changed while the other business was operating, and that business might have been provided an exemption that won't be provided to yours.

Task

Conduct a survey of your local area and study the legal issues of the business while they are initiated.

Self Assessment

Fill in the blanks:

11. One may need a variety of licenses or permits depending on what type of business he plans to engage in, he may need a variety of …….. or……..
12. When one is selecting the ……for the business he will need to make sure it is properly zoned for the type of business you plan to operate.
13. Non-disclosure agreements are more important if the business contains more …….. information.
14. A business could be structured as a sole-proprietorship, partnership, limited partnership, corporation, S-corporation, or ……. liability company.
15. Entrepreneur will need to make sure that the business ……. he plans to use is not already being used by another business.

Case Study

Pfizer's IPR Battles in China for Viagra

In November 2006, the Bangbu Intermediate People's Court in the Anhui Province of the People's Republic of China (China) sentenced a Chinese man, Xi Yongli (Yongli), to eight years in prison for producing and selling counterfeits of Viagra, a drug for erectile dysfunction4 (ED), developed by the world's largest pharmaceutical company, Pfizer Inc. (Pfizer).

In December 2006, a Beijing court upheld Pfizer's Chinese patent for Viagra and ordered two Chinese companies to stop making generic versions of the drug and to pay compensation of 600,000 yuan (US$ 76,726) for infringing on the registered trademark of Pfizer.

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Analysts saw these incidents as some of the successes achieved by Pfizer in its efforts to thwart the challenge posed by manufacturers of generic and fake drugs in a country that was known to offer weak Intellectual Property Rights (IPR) protection.

Many also saw these rulings as an indication of China's increasing commitment to provide adequate IPR protection in order to conform to the Trade Related Intellectual-Property Rights (TRIPS) agreements.

Viagra is a widely popular drug and was considered as a great success story in marketing. It has raked in billions of dollars worldwide for Pfizer. Its success also made Viagra the most counterfeited drug in the world. However, its performance in China had been far below par. Ever since its launch in China in 2000, sales of Viagra had failed to take off in the world's most populated country. This was despite the fact that China had a huge market for drugs that enhanced sexual performance.

In late 2001, Pfizer was granted a patent for Viagra in China. But Pfizer soon became engaged in numerous patent litigations. An alliance of Chinese pharmaceutical companies petitioned the State Intellectual Property Office's (SIPO) Patent Re-examination Board (PRB) to invalidate the patent. They contended that Viagra should not be provided a patent as it failed to fulfill the "novelty" requirement under China's patent law. In July 4, 2004, PRB invalidated Pfizer's patent for Viagra citing that it had failed to accurately explain the uses of the Viagra's key ingredient, Sildenafil citrate (Sildenafil). Pfizer argued that at the time of filing of the patent application, there was no requirement for that data, and to invalidate the patent on that basis was a flawed, "retroactive" judgement.

The invalidation of the patent led to a huge international outcry. Free trade supporters viewed this as an attack on IPRs of foreign companies and an indicator of China's reluctance to provide adequate protection to IPRs.

Critics lambasted China for failing to properly enforce IPR laws and called for political pressure to make China conform to TRIPS.

Roger Pilon (Pilon), vice president for legal affairs at the Cato Institute, explained the reason for the outcry: "On average, from the time a company first applies for a patent, it takes 12 to 15 years and $800 million before the first pill reaches the market. Obviously, if others were free to copy and sell that pill, having incurred none of those costs, there would be no incentive to make that kind of investment – and none of the modern "miracle" drugs that investment produces. No one grows crops if others are free to harvest them."

However, some analysts felt that there were significant positives relating to the litigation. It showed that Chinese companies had begun to appreciate the importance of IPRs. The decision of these companies to take legal recourse rather than infringing on the IPRs was appreciated. It indicated that China was keen to project its transition to become fully compliant with the WTO agreements.

Background Note

Pfizer, the largest pharmaceutical company in the world, sold its products in more than 150 countries (Refer to Exhibit I for a brief note on Pfizer). In the early 1990s, Pfizer's scientists realized that a drug being developed by it to control hypertension was a potential drug to treat male impotence.

On May 13, 1994, Pfizer submitted an application for a patent called "Pyrazolopyrimidinones for the treatment of impotence" with China's SIPO. The same day, Pfizer submitted similar patent applications in the US Patent and Trademark Office and the European Patent Office.

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SIPO Invalidates Viagra's Patent

In May, 2004, Pfizer announced that it was partnering with the Chinese government to enforce its patent on Viagra that had been granted in 2001. But on July 7, 2004, the SIPO revoked the patent. The alliance cited six alleged grounds for invalidity. Pfizer won on three and lost on one and two others remained undecided. The review board said that Pfizer was on the wrong side of the patent law as it had failed to accurately explain the uses of the Viagra's key ingredient, Sildenafil.

SIPO Ruling Leads to International Outcry

Due to the huge market potential for ED drugs and the dispute between local and foreign firms, the Viagra patent litigation issue generated a lot of interest around the world. The decision of SIPO to invalidate Pfizer's patent for Viagra led to an international outcry. They viewed the adverse ruling as an indication that China was unwilling to comply with the guidelines set by its membership in the WTO. Some accused it of regressing back to the past when IPRs were violated by Chinese firms while the Chinese government looked the other way.

Analysts See a Silver Lining

But some experts felt that the legal challenge to Viagra had a silver lining as it indicated the continuing development and progress of the Chinese IPR regime. The Chinese pharmaceutical companies' decision to legally challenge Pfizer's patent demonstrated significant progress by China toward the rule of law in the IPR arena. They noted that on earlier occasions Chinese firms had blatantly violated IPRs and this new emphasis on seeking legal routes was indicative of the Chinese companies' growing appreciation of the value of patent laws.

China's Huge Market can't be Ignored

Analysts did not read too much into Pfizer and other MNC pharmaceutical companies' assertion that the ruling against Pfizer would lead to decreased investment in China. China continues to be an attractive market for multinational pharmaceutical companies. Alan Adcock, senior associate Rouse & Co. International said that the Chinese pharmaceutical market was "too attractive" for the foreign players to ignore.

Pfizer's Viagra Patent Restored

In late 2004, Pfizer sued SIPO's PRB for wrongfully invalidating its patent for Viagra. It appealed to the court to withdraw the PRB's decision. The case was argued in March 2005. Pfizer's attorney, Tai Hong (Hong), argued before the court that Pfizer had provided the information that was needed for granting of the patent.

She said, "The decision made by the PRB had errors in facts and [was an] erroneous application of the law." Hong also argued that SIPO's decision violated the TRIPS agreements. She also hinted that the right decision was not reached because the attorney applying for invalidation of the patent, Xu Guowen, was a retired official with the PRB.

China Cracks Down on Counterfeiters

In November 2006, the Chinese government cracked down on Viagra counterfeiters. A Chinese man, Xi Yongli (Yongli), was jailed for eight years for producing 60 tonnes of fake pills for ED. It was alleged that Yongli and his accomplices had sold pills worth 21.8 million yuan ($3.6 million) under the names, America Number One, Male Exclusive, Great Big Brother.

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Pfizer Loses Viagra Trademark Row

When Pfizer launched Viagra in China it could not use the popular Chinese equivalent brand name 'Wei Ge' as the name was already registered by Guangzhou Viaman Pharmaceutical Co. Ltd. (Viaman). Viaman had registered this brand name in 1998, when Pfizer launched Viagra in the US. Viaman produced another ED drug by the name 'Wei Ge' containing the ingredient Phentolamine mesylate.

Outlook

Experts felt that the Chinese patent law and its market had matured considerably in a relatively short span of time. However, they felt that China still was lagging behind in providing a credible patent enforcement system. Experts were not too optimistic about the impact of the ruling on Viagra's global sales. Even with exclusive rights, Viagra's sales in China was not expected to change Viagra's global sales significantly as the brand was facing worldwide decline in sales and tough competition from Levitra and especially Cialis.

Questions

1. What do you think about the pfizer battle for getting patented viagra? Comment.
2. Do you think law of patent should vary with regard to countries? Comment.

Source: Lall Madhurima, (2009), *Entrepreneurship and Business Plan,* Excel Books Pvt. Ltd.

4.4 Summary

- Intellectual Property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.
- Among the Agreements of WTO, Trade Related Intellectual Property Rights (TRIPs) is of special significance to the Entrepreneurs.
- Copyright protection commences the moment a work is created, and its registration is optional. However it is always advisable to obtain a registration for a better protection.
- The objective of the Trade Marks Act, 1999 is to register trademarks applied for in the country and to provide for better protection of trade mark for goods and services and also to prevent fraudulent use of the mark.
- According to Indian legislation governing Intellectual property rights all artistic, literary, musical, dramatic works are comes within the purview of copyright but if it has to be used in context with goods than a certificate concerning the same has to be obtained from the Registrar of Trademarks.
- Any confidential business information which provides an enterprise a competitive edge may be considered a trade secret. So, a trade Secret is a formula, practice, process, design, instrument, pattern, or compilation of information used by a business to obtain an advantage over competitors or customers.
- Patent law is one of the fastest growing fields of law, which deals with issues surrounding the protection of ideas. By protecting the rights of the inventor, the government can be sure that people will continue to think of unique and new ideas to share with the world.
- In addition to the above legislative changes, the Government of India has taken several measures to streamline and strengthen the intellectual property administration system in the country.

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- The Indian Trademarks Law has been extended through court decisions to service marks in addition to trade marks for goods. Computer software companies have successfully curtailed piracy through court orders. Computer databases have been protected.
- Projects relating to the modernization of patent information services and trademarks registry have been implemented with help of WIPO/UNDP.

4.5 Keywords

Agreement: It is a negotiated and usually legally enforceable understanding between two or more legally competent parties.

Attorney: A person appointed to act for another in business or legal matters.

Copyright: Copyright refers to a bundle of exclusive rights vested in the owner of copyright by virtue of Section 14 of the Act.

Gizmo: A mechanical device or part whose name is forgotten or unknown.

Intellectual Property (IP): It refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.

Intrinsic Factors: The factors relating to the essential nature of a thing; inherent.

License: A permit from an authority to own or use something, do a particular thing, or carry on a trade.

Piracy: The unauthorized use or reproduction of copyrighted or patented material.

Trademark: Trademark means a different mark of authenticity, through which the products of particular manufacturers or different commodities of particular manufacturer, trader, or vendor may be distinguished from those of others.

TRIPs: Trade Related Intellectual Property Rights

4.6 Review Questions

1. Determine and analyse the relevance of intellectual property rights in India.
2. Critically analyze the role of WTO in IPR.
3. "Business involves a lot of legal hassles". Discuss how.
4. Intellectual property is the foundation of knowledge-based economy. Do you agree? Give reasons.
5. Write a note on Copyrights and Patents.
6. What do you understand by 'right to privacy'? Do you think it is relevant?
7. Write a note on any two acts related to patents and trademarks.
8. Developing countries are fighting hard to be on a same level as developed country. Examine the role of IPR in this context.
9. Give a practical example of any case related to patents and trademarks.
10. As an entrepreneur, how will you make sure that your IPR are well protected?

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Answers: Self Assessment

1.	Copyright	2.	Licensed
3.	Trademark	4.	Copyright
5.	Confidential	6.	WTO
7.	Piracy	8.	Modernization
9.	Software	10.	Framework
11.	Licenses, permits	12.	Location
13.	Confidential	14.	Limited
15.	Name		

4.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.

Online links

http://indiatrademarks.blogspot.in/2011/11/trademark-in-india-law-procedure.html

http://ipindia.nic.in/tmr_new/default.htm

http://www.legalserviceindia.com/article/l195-Copyright-Law-in-India.html

http://www.tm-india.com/patent-law-in-india

http://www.tm-india.com/trademark-law/

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Unit 5: Women Entrepreneurship

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Objectives

After studying this unit, you will be able to:

- Discuss the scope of entrepreneurship among women
- Discuss the working environment for women entrepreneurs
- Explain the concept of women empowerment through entrepreneurship
- Discuss the challenges in the path of women entrepreneurs

Introduction

In the previous unit, we dealt with the legal issues for an intrepreneur and also discussed about the Intellectual Property Rights in India. This unit will help you to understand the concept of women entrepreneurship. The various sections and sub-sections of this unit will also summarize the challenges in the path of women entrepreneurs.

It is estimated that presently women entrepreneurs comprise about 10% of the total entrepreneurs in India. It is also clear that this percentage is growing every year. If prevailing trends continue, it is not unlikely that in another five years, women will comprise 20% of the entrepreneurial force in India. It is perhaps for these reasons that government bodies, NGO's, Social Scientists, Researchers and International agencies have started showing interest in the issues related to entrepreneurship among women in India.

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Indian Women have come a long way with changing time. Interestingly issues related to women in India, like female foeticide, bride burning (for reasons of dowry) and 'sati' (widow burning) are a passé in Modern India. Each of these acts is a criminal act and an extremely rare occurrence is now being reported.

Did u know? Some interesting facts on status of women in modern India:

- India has the world's largest number of professionally qualified women.
- India has more female doctors, surgeons, scientists and professors than the United States.
- India has more working women than any other country in the world. This includes female workers at all levels of skill – from the surgeon and the airline pilot to bus conductors and menial labourers.

Ironically, even with such advancements made by women of modern India, on an average women in India are socially, politically and economically weaker than men. But moves are underway to empower women. The most news-making development was the introduction of the Women's Bill in Parliament in late 1998: the Bill seeks to reserve a certain percentage of seats in Parliament for women. The passing of this bill has lead the women to be a part of law making body and hence has given them a chance to protect their interest. Moreover, there is a National Human Rights Commission for Women that handle all human rights violations against women, there is National Council for Women that advocates policy for women, there is an entire ministry for women that formulates and implements policy for them. Hence the efforts are on to raise the status of women in modern India.

Notes The call of the present time is that women should be financially independent. But the problem with financial independence of women is that the availability of jobs (in general for both women and men) is very less and hence some new methods have to be sought out by women to gain financial independence.

Entrepreneurship among women can be eyed as a tool for Employment and Income Generation. The concern to develop more women entrepreneurs emerges from the fact that women represent 50% of the world population, but receive only 10% of the world income and less than 1% of the world's assets. Efforts have been made by various governmental and non-governmental agencies all over the world to promote women entrepreneurs. The results are somewhat encouraging. There is growth in the number of women opting for entrepreneurship as their career option. There is also a perceptible shift in the nature of businesses being set up by women in India. The myth that women are fit only for papad and pickle making is shattered completely. Women entrepreneurs are making a mark in the garment and service industries, as also in the computer, chemicals and construction material industries. The development of women entrepreneurs is in line with the overall entrepreneurship development in the country. 'The Women Entrepreneurship' in Modern India is there to stay.

5.1 Scope of Entrepreneurship among Women

Although many women have advanced in economic structures, for the majority of women, particularly those who face additional barriers, continuing obstacles have hindered their ability to achieve economic autonomy and to ensure sustainable livelihoods for themselves and their

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dependants. Women are active in a variety of economic areas, which they often combine, ranging from wage labour, subsistence farming and fishing to the informal sector. However, legal and customary barriers to ownership of access to land, natural resources, capital, credit, technology and other means of production, as well as wage differentials, contribute to impeding the economic progress of women. Women contribute to development not only through remunerated work but also through a great deal of unremunerated work.

On the one hand, women participate in the production of goods and services for the market and household consumption, in agriculture, food production or family enterprises. On the other hand, women also perform the great majority of unremunerated domestic work and community work, such as caring for children and older persons, preparing food for the family, protecting the environment and providing voluntary assistance to vulnerable and disadvantaged individuals and groups. This work is often not measured in quantitative terms and is not valued in national accounts.

Did u know? Indra Nooyi, at present the CEO of Pepsi Co. She was the president and CFO of PEPSI Co Incop since 2001 before being promoted to the post of CEO. She is an alumnus of IIM, Kolkata. She has been named as the world's most powerful business women by Fortune Magazine. She is not a second-generation entrepreneur, she took the tool of good education in hand and has rapidly risen to the present glory with her sharp business acumen and determination. Her present plans are to accelerate the groups to shift healthier products. She believes introducing healthier products is the demand of the market and Pepsi would definitely respond this changing demand. The acquisition of Quaker cereals goes to her credit. She predicts sustainable growth in the future. She indeed is the women in charge! She is not the only star from her family even her elder sister Chandrika Tandon has founded Tandon Capital Associates, a consulting firm that has helped the American banking industry save about $700 million. Salute to Indian Women Entrepreneurs.

Women's contribution to development is seriously underestimated, and thus its social recognition is limited. The full visibility of the type, extent and distribution of this unremunerated work will also contribute to a better sharing of responsibilities between women and men. Lack of employment in the private sector and reductions in public services and public service jobs have affected women disproportionately. In some countries, women take on more unpaid work, such as the care of children and those who are ill or elderly, compensating for lost household income, particularly when public services are not available.

Task Which women entrepreneur was awarded the Padma Shri by the Govt. of India in 2006?

In many cases, employment creation strategies have not paid sufficient attention to occupations and sectors where women predominate; nor have they adequately promoted the access of women to those occupations and sectors that are traditionally male. Considering all the reasons mentioned above entrepreneurship among women is an area which can help in Employment Generation and Income Generation among Women.

Self Assessment

Fill in the blanks:

1. Women are active in a variety of ……. areas.

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2. India has more …….... women than any other country in the world.
3. Efforts have been made by various governmental and non-governmental …….. all over the world to promote women entrepreneurs.
4. Women contribute to development not only through remunerated work but also through a great deal of …… work.

5.2 Working Environment

Women entrepreneurs operate through different environment as compared to the traditional business environment. The overall essence of women entrepreneurship can be visualized as operating to be in three different environments or spheres such as:

Micro Sphere

In many countries women experience an unequal power relationship with men which are often reflected in persistent inter-family inequalities in the distribution of tasks. Male possessiveness and dominance also weakens women's extra household bargaining power. This amounts to deprivation of influence at all the levels of operations. Gender relations also determine the ascription to men and women of different abilities, attitudes, desires and so on. These factors are seen to be important in women entrepreneurship development.

Organizations tend to militate against women and their economic empowerment as most are based on patrilineal and paralegal relationships where women rarely have access to property succession rights from fathers or husbands; where a woman is obliged to live close to the husband's family, even after the husband's demise. In the household, women are expected to carry out the domestic work, childcare and other tasks and their economic opportunities are restricted.

The requirement that women have to stay close by to domestic activities inevitably limits their potential to operate in business, which involves traveling, even over short distances, to procure supplies and meet customers. This is another strong reason for disempowerment of women entrepreneurship.

Meso Sphere

There are a large number of organizations, both government and non-government, involved in providing support services to entrepreneurs. However, for a variety of reasons, many of these organizations tend to act as barriers when it comes to providing assistance to women entrepreneurs. In some cases this can be attributed to a lack of awareness about women's concerns and insensitivity towards gender issues.

It is at the Meso level that it is found that the lack of support for women entrepreneurs by any of these organizations which implement policies and operationalize programs contribute greatly to their continued disempowerment.

Macro Sphere

The Macro environment within which women entrepreneurs develop and grow comprises many interconnecting structures and dynamics, including laws and regulations, economy, international trade: including market liberalization and globalization, availability of finance and credit, labor market, human capital resources, technology, physical infrastructure and natural resources.

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This environment has an impact on all enterprises, large and small, run by both women and men. There is much evidence to indicate that women are at a more disadvantageous position compared to men in terms of the opportunities and barriers arising from these structures and dynamics. It is partly because women's ability to bargain in the labor market, as in other arenas, critically affected by predominant gender ideology and practices.

Self Assessment

Fill in the blanks:

5. In many countries women experience an unequal …… relationship with men.
6. Organizations tend to militate against women and their …….. empowerment.
7. Male …….. and dominance also weakens women's extra household bargaining power.
8. There is a lack of …….. about women's concerns and insensitivity towards gender issues.

5.3 Challenges in the Path of Women Entrepreneurs

The problems and constraints experienced by women entrepreneurs have resulted in restricting the expansions of women entrepreneurship across the world. The major barriers encountered by women entrepreneurs can be consolidated as:

5.3.1 Lack of Confidence

Women generally lack confidence in their own capabilities. Having accepted a subordinate status for long, even at home, members of the family do not appear to have total confidence in their abilities and in their decision making capacities.

Society in general also lacks confidence on women's strength, traits and competence. This is quite apparent in the family's reluctance to finance a woman's venture, bankers are reluctant to take risks on the projects set by women, and individuals are unwilling to stand guarantee for loans to women.

5.3.2 Problems of Finance and Working Capital

Another problem faced by women entrepreneurs is lack of access to funds because they do not possess any tangible security and/or other assets. Since women do not enjoy right over property of any form, they have limited access over external sources of funds.

Caution Women entrepreneurs face serious problems in obtaining working capital for financing day-to-day operations of the enterprises, including purchase of raw materials, meeting pay rolls. The chronic shortage of working capital leaves women entrepreneurs extremely vulnerable to competition and other emergencies.

This situation needs to be improved with time and women entrepreneurs must get their financial freedom.

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Caselet

Kiran Mazumdar

"My vision is to grow into a global bio therapeutics company with very innovative and proprietary products and technologies."

– Kiran Mazumdar, CEO, Biocon

She is India's first woman Brew Master and the founder director of the Biocon Group. India's first lady biotech entrepreneur, Kiran Mazumdar was born and brought up in Bangalore. She was educated in Bishop Cotton Girls School and Mount Carmel College in the same city. Mazumdar's childhood ambition was to be a doctor, but when she was unable to get admission in a medical college, she decided to study zoology. After graduation, she was encouraged by her father (who was a brew master) to pursue a career in the science of fermentation. She went to Ballarat College in Melbourne to study malting and brewing technology and qualified as a Brew Master.

After returning to India, she worked with her father for a few years as a consultant to some breweries in Kolkata, Mumbai and Bangalore. She was on her way to join a brewery in Scotland when a chance meeting with the founder of Biocon Biochemicals (Ireland), Leslie Auchincloss, steered her into a career in business. She started Biocon India in 1978 in a joint venture with the Irish firm. The company was first set up in her garage in Bangalore and later shifted to a rented house in the suburbs of the city. Her Irish partners were willing to help her set up the company but she refused their help as she wanted to build the company totally on her own. In 1980, the company acquired 20 acres of land in Bangalore and shifted operations to the new location.

In the late 1970s, biotechnology was unheard of. As a result, it was not easy to obtain funds for the venture. Banks and financial institutions were wary of giving her loans as biotechnology was a new field and was therefore considered "high risk". Being a woman, and one with no business qualification at that, made things even more difficult. Mazumdar also faced problems recruiting people. People were reluctant to work for women entrepreneurs as they doubted their credibility. She soon overcame these problems through dedication and hard work.

In 1999, the Biocon Group was formed with the merger of all the companies under Biocon, i.e. Biocon India Ltd (founded 1978), Biochemizymes (founded 1990), Syngene (founded 1994) Biocon Quest (founded 1996) and Helix (founded 1998). Commenting on Mazumdar's foresightedness, R.A Mashelkar, director-general of CSIR said, "Kiran Mazumdar has the ability to see an opportunity much before others."

Mazumdar won a number of awards. Prominent among them were the Padmashri in 1989 and the Rotary Award for Best Model Employer. She also won the M. Visweswariah Award in 2002 for her achievements as an industrialist and her contribution to society. Mazumdar also held positions in industry councils. She was Vice President of the Association of Women Entrepreneurs of Karnataka (AWAKE) and the chairperson of the Vision Group on Biotechnology in Karnataka, which was charged with formulating the state's Biotech policy.

Under Mazumdar's leadership, Biocon grew from a small business in the garage of her house to becoming the largest biotech company in India. She was able to achieve this by attracting and retaining the best talent in the country. She said that she was able to achieve this success because of her belief in the field, her magnificent team of people who shared her passion and her determination, and her desire to succeed. Mazumdar wanted to make Biocon a global bio-therapeutics company which developed innovative and proprietary products and technologies.

Source: Janakiram.B., (2010), "Role and Challenges of Entrepreneurship Development". Excel Books Pvt. Ltd.

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5.3.3 Socio-cultural Barriers

A woman has to perform her family duties irrespective of her career as a working women or an entrepreneur. Traditionally in our society, more importance was given to educating the male child as compared to the female child. This has resulted in lack of schooling and vocational training of women, shortage of technical skills and thereby lack of awareness of opportunities available.

This adds to the constraints in establishing enterprises by women. Even the male labor force generally does not prefer to work under a lady boss. Women entrepreneurs are not taken seriously enough by the labor force. All these hinder women entrepreneurship.

5.3.4 Production Problems

Production in a manufacturing enterprise involves coordination of a number of activities. While some of these activities are in the control of entrepreneur, there are others over which she has little control. Improper coordination and delay in execution of any activity cause production problems in industry. The inability of women entrepreneurs to keep pace with implementing the latest advances in technology and lack of technical know-how results in high cost of technology acquisition and machinery utilization. These problems result in increased cost of production and adversely affect the profitability of the unit.

Task

Interview five women entrepreneurs to discuss the barriers faced by them in running their business venture.

5.3.5 Inefficient Marketing Arrangements

Heavy competition in the market and lack of self-mobility makes the women entrepreneurs dependent on middlemen. For marketing their products, women entrepreneurs are at the mercy of middlemen who pocket a major chunk of profit. Further, women entrepreneurs also find it difficult to capture the market and make their products popular because of the resistance posed by the society. In addition, women entrepreneurs face difficulty in collection of payments.

Suggestions for Improvement in the Status of Women Entrepreneurs

Hisrich has suggested six ways to help women entrepreneurs to successfully develop and manage new enterprises.

1. ***Acquire some experience in dealing with money:*** *B*y applying for some loan and repaying it back if not required, filing tax returns, managing the finances for family, obtain booking keeping experience, etc.
2. ***Conduct honest self-appraisal:*** Identify the strength and the weak areas, seek family and friends help for the same.
3. ***Gain occupational work experience:*** Rotate to various job profiles to gain experience of marketing, finance, planning.
4. ***Prioritizing responsibilities:*** Identify and delegate responsibilities at home and in business, organize and prioritize work.
5. ***Establish a support system:*** A strong network of family, friends, clients, business associates should be established.

6. ***Be determined and professional in the business:*** It is also very important; it helps in gaining respect and confidence from employees, customers financiers and other professional associates.

Self Assessment

State whether the following statements are true or false:

9. Women generally do not lack confidence in their own capabilities.
10. Women do not enjoy right over property of any form, they have limited access over external sources of funds.
11. Women entrepreneurs are taken seriously enough by the labor force.
12. Women entrepreneurs find it difficult to capture the market and make their products popular.

5.4 Women Empowerment

A nation can only be developed if its women are given ample opportunities. Developing entrepreneurship among women will be right approach for women empowerment. This would enhance their socio-economic status. Once a woman feels that she is economically strong, she will feel equal to man in all respect. This is perhaps the need of the hour.

The term 'women empowerment' has come to occupy an important position globally over the years. Educational attainment and economic participation are the key constituents in ensuring empowerment of women. The economic empowerment of women is a vital element of strong economic growth in any country.

Notes Entrepreneurship happens to be one of the best ways towards self-sufficiency and poverty alleviation for women in a country where employment is not guaranteed. Involvement of women in entrepreneurial activities would ensure effective utilization of labour, generation of income and hence improvement in quality of life. Women empowerment through entrepreneurship is must for a modern developed economy.

Women empowerment is a new phrase in the vocabulary of gender literature. In a general sense, it refers to empowering women to be self-dependent by providing them access to all the freedoms and opportunities, which they were denied in the past only because of their being women. In a specific sense, women empowerment refers to enhancing their position in the power structure of the society. Empowerment of women has five components: women's sense of self-worth; their right to have and to determine choices; their right to have access to opportunities and resource; their right to have the power to control their own lives, both within and outside the home; and their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally.

Example: Neelam Dhawan, Managing director of Microsoft India, has carved a special niche for herself in the IT industry. She looks after the company's sales and marketing division of the country in India.

In today's competitive world, there are various ways by which women get themselves empowered. The entrepreneurship of women is considered to be an effective instrument to the

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economic development and empowerment of women. While women entrepreneurship in India is encouraged by various Government policies, the Self Help Groups (SHGs) help even economically poor and socially backward women to come together and succeed by their collective efforts. The policies and programmes of the government motivate, assist and guide entrepreneurial development of women. The response of women to the programmes is large and widespread in Tamil Nadu. The success of those women entrepreneurs will significantly speed up the progress of economic development and removal of poverty in the state. As empowerment of women basically depends on gaining financial, social and cultural strength, their performance as entrepreneurs in their business becomes crucial to reach this goal.

Self Assessment

Fill in the blanks:

13. Developing entrepreneurship among women will be right approach for women ……..
14. Educational attainment and economic …… are the key constituents in ensuring empowerment of women.
15. A nation can only be developed if its women are given ample ……..

Case Study

Women's Woe

Vishal and Angeera had started their dream project, "Pragati Medical Store" a retail outlet for pharmaceutical products. Vishal started his job as a cadet in Indian Army 15 years back and had risen to the post of Colonel. Unfortunately, he lost his left arm during Kargil War. This was a critical time for both Vishal and Angeera for they had to take a decision about what to do next? Vishal was no fit to work in army; the pension given by government was not enough to support the family of five. And since he had joined army at an early age immediately after his 10+ 2 he had no other formal training to look for an alternative career. But Angeera, his wife had done her graduation in pharmacy. She suggested that they could open a pharmaceutical retail outlets, she was qualified enough to get a license to open the drug store and was willing to venture into something that both of them could together start. So they opened 'Pragati Medical Store'. Angeera did the entire ground job, got the license, visited the doctors in the nearby area, persuaded the doctors to recommend her store to their patients, stocked the store with all the medicines prescribed by the doctors. Vishal and Angeera were a perfect duo for the store, Vishal looked after the accounts and Angeera looked after the PR with doctors, the marketing and sales and maintenance of the stock.

The store started of well and made good gains in the first two quarters, Angeera was putting in lot of hard work as she was taking care of all the marketing, sales, purchase and PR. What came to her as a surprise was the behaviour of the dealers (who were supplying medicines). Medical representatives and customers was very cold towards her. They found dealing with her very distasteful, as it was the men's field, without exception all the stores in town except for Pragati were managed by men. In fact, most of them requested and a couple of them demanded that they wanted to deal with her husband. She was so shocked by their behaviour, technically she was the qualified one and it was for her efforts that doctors were recommending Pragati Store to buy medicines but the customers, Medical Representatives and suppliers of medicine would equivocally say 'Vishal Bhai Sahab

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Nahee Hae Kya' (Is Vishal not around). She really got annoyed and lost her temper at times and scorned at them, "What on earth makes you believe that I cannot handle your queries. It is for people like you that women are not getting the respect they deserve. I am more qualified than your Bhaisahab to run this shop and I am the one who has brought this dream to a reality but you guys want to deal with Bhaisahab. You should make let your sisters and daughters study as you and your bloody society can never ever digest women empowerment and women liberalization. You better get out of this place as this place belongs to me – I am the owner of 'Pragati Medical Store' and I am the one who will write its fortune. So get lost.' Later on Angeera was very upset and sat wondering "Is India actually developing? Are women's really getting liberalized? Why have women not been able to earn the respect for earning their living?".

Questions

1. What is the problem in the case?
2. How much do you think Angeera's retaliation towards her clients, MR's and suppliers justified?
3. Do you think women in India are liberalized enough to become entrepreneurs?
4. What are your recommendations to Angeera?

Source: Lall.Madhurima,Sahai.Shikha(2008), *"Entrepreneurship"*. Excel Books Pvt.Ltd.

5.5 Summary

- Entrepreneurship among women can be eyed as a tool for Employment and Income Generation.
- The development of women entrepreneurs is in line with the overall entrepreneurship development in the country. 'The Women Entrepreneurship' in Modern India is there to stay.
- Women are active in a variety of economic areas, which they often combine, ranging from wage labour, subsistence farming and fishing to the informal sector.
- In some countries, women take on more unpaid work, such as the care of children and those who are ill or elderly, compensating for lost household income, particularly when public services are not available.
- Entrepreneurship among women is an area which can help in Employment Generation and Income Generation among Women.
- In the household, women are expected to carry out the domestic work, childcare and other tasks and their economic opportunities are restricted.
- Traditionally in our society, more importance was given to educating the male child as compared to the female child.
- Women entrepreneurs also find it difficult to capture the market and make their products popular because of the resistance posed by the society.
- A nation can only be developed if its women are given ample opportunities. Developing entrepreneurship among women will be right approach for women empowerment.
- Empowerment of women has five components: women's sense of self-worth; their right to have and to determine choices; their right to have access to opportunities and resource; their right to have the power to control their own lives, both within and outside the home;

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and their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally.

- The policies and programmes of the government motivate, assist and guide entrepreneurial development of women.

5.6 Keywords

Bargaining Power: Bargaining power is the relative ability of parties in a situation to exert influence over each other.

Employment: The act of employing or using or the state of being employed.

Empowerment: To equip or supply someone with an ability to execute his or her powers.

Environment: The setting or conditions in which a particular activity is carried on.

Ideology: The ideas and manner of thinking of a group, social class, or individual.

Income: The amount of money or its equivalent received during a period of time in exchange for labor or services, from the sale of goods or property, or as profit from financial investments.

Militate: It is a circumstance of being powerful or conclusive factor in preventing.

Paralegal: A person trained in subsidiary legal matters but not fully qualified as a lawyer.

5.7 Review Questions

1. Discuss the advancements made by women of modern India.
2. What is the scope of entrepreneurship among women? Discuss in detail.
3. What are the components of working environment in which women entrepreneurs operate?
4. Discuss the women's ability to bargain in the labor market.
5. Why do women entrepreneurs face the problem of finance and working capital?
6. Discuss the various socio-cultural barriers in the path of women entrepreneurs.
7. What measures would you suggest to improve the status of women entrepreneurs?
8. How can women be empowered through entrepreneurship?
9. Discuss the challenges faced by two women entrepreneurs of India of your choice.
10. Explain the components of women empowerment.

Answers: Self Assessment

1.	Economic	2.	Working
3.	Agencies	4.	Unremunerated
5.	Power	6.	Economic
7.	Possessiveness	8.	Awareness
9.	False	10.	True
11.	False	12.	True

13. Empowerment
14. Participation
15. Opportunities

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5.8 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.

Online links

http://smallb.in/%20/fund-your-business%20/additional-benefits-msmes%20/women-entrepreneurship

http://www.caesjournals.org/uploads/IJCAES-CSE-2012-001.pdf

http://www.fiwe.org/

http://www.ijtef.org/papers/188-Q10069.pdf

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Unit 6: Grassroots Entrepreneurs through Self-Help Groups

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Objectives

After studying this unit, you will be able to:

- Define grassroots entrepreneurs
- Describe the Self-Help Groups
- Explain the concept of grassroots entrepreneurs through Self-Help Groups

Introduction

In the previous unit, we dealt with the working environment and empowerment of women entrepreneurs and also discussed about the problems faced by them. This unit will help you to conceptualize grassroots entrepreneurs. The various sections and sub-sections of this unit will also summarize how grassroots entrepreneurs work through Self-Help Groups (SHGs). Women play a very important role in the economic development of India. They are involved in business activities at all levels, making important contributions to economic growth.

Nowadays, Indian women are increasingly active in part of economy that were previously considered male domain. But the development of women entrepreneurship is very low in India, especially in the rural areas. Entrepreneurship amongst women has been a recent concern. Women have become aware of their existence, their rights and their work situation. Nowadays Self-Help Groups (SHGs) are playing very important role for women motivated in entrepreneurship through micro-finance. SHGs are not only increasing in rural women entrepreneurship but also in urban women entrepreneurship.

India has adopted the Bangladesh's model in a modified form. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. With availability of micro-finance, Self-Help Groups (SHGs) and credit management groups have also started in India. And thus the movement of SHG has spread out in India. The members of SHGs now become entrepreneurs. Innovative thinking and farsightedness, quick

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and effective decision making skill, ability to mobilize and marshal resource, strong determination and self-confidence, preparedness to take risks, accepting changes in right time, access and alertness to latest scientific and technological information these are basic qualities in women therefore they are actively running their own business with help of SHGs. They are actively running business like, food processing and preservation, catering services and fast food centers, interior decoration, DTP and Book binding, dairy, poultry, household appliances, stationeries, packing and packaging, diagnostic lab and pathology clinics, communication centers with telecom, fax, browsing and Xeroxing facilities, readymade garments, embroidering and fashion designing, retail selling, art and painting works, hiring of warehouses and godowns, floral decorations, jewellery, beauty parlors. Though women entrepreneurship is a recent phenomenon in India which came into prominence in late 1970's now we see that more and more women are venturing as entrepreneurs in all kinds of business and economic activities and service sector. Though at the initial stage women entrepreneurship developed only at urban areas, lately it has extended its wings to rural areas.

6.1 Grassroot Entrepreneurs: Meaning and Definition

Grassroots entrepreneurs are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems – in our case, to expand liberty. The idea is also known as social entrepreneurship. While profit-making is the legitimate social benefit of business entrepreneurs, grassroots ventures have another purpose, such as passing school choice legislation or organizing to oppose a tax increase. Grassroots entrepreneur can be defined as follows:

"A person who pursue an innovative idea with the potential to solve a community problem. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives."

Example: Kalamandir: This organization's initiatives with the tribals in Jharkhand to support, nurture, and disseminate a finer aesthetic sense among individuals, communities, organizations, and social groups serves as a bridge between the producers and the consumers.

Just as entrepreneurs change the face of business, grassroots entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society for the better. However, unlike business entrepreneurs who are motivated by profits, grassroots entrepreneurs are motivated to improve society. Despite this difference, grassroots entrepreneurs are just as innovative and change oriented as their business counterparts, searching for new and better ways to solve the problems that plague society.

Caselet

Grassroot Entrepreneurship, Vanguard of Growth

The absence of grassroots entrepreneurship is the very reason why sustainable economic growth has eluded Pakistan for so long. We continue to be bogged down in addressing problems related to the survival of existing businesses and that is why we never realize economic growth as achieved by many including the Asian Tiger countries, India and China over the last two to three decades.

In the true economic model it is not the government's responsibility to provide jobs; their most important job is to act as facilitators and in helping and creating an environment

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which is favorable for entrepreneurs. The entrepreneurs in turn create jobs and give back to the government the much needed tax revenue for improving infrastructure and creating an attractive investment environment.

Where have we gone wrong? Three issues stand out, which are short-term thinking and planning, lack of focus on teaching 'Entrepreneurship' in our educational institutions and third, the lack of government incentives for promising new entrepreneurs. Let us elaborate a bit on these.

Short-term Thinking and Planning

Unfortunately today, discussion and debates are centred on challenges facing existing businesses and their sustainability. No time is spent in identifying opportunities and in finding ways to encourage grassroots investment as an engine for job creation and sustainable GDP growth. A proper vision and detailed planning needs to be carried out and institutionalized.

Lack of Entrepreneurship Focused Education

We need to develop a culture of entrepreneurial thinking and integrate it into our educational system. Entrepreneurship courses need to be designed and introduced at all levels and made mandatory at graduate level. Let's take 'Engineering' curriculum as a case in point. Entire focus in these programs is on acquiring technical knowledge but no entrepreneurial skills.

Lack of Government Incentives

Taxing a business that barely exists does not add much to the government exchequer. Many businesses are booming in other nations dominated by an educated middle class but they have not taken root in Pakistan. One case in point is the still infant Information Technology (IT) industry especially as it relates to back-office outsourcing services of major corporations and software/application design and support.

Remember that every new business will not only benefit the owner, but the city, region and country as a whole. We must encourage entrepreneurship and work towards creating specialised government agencies, business incubators, science parks and lay down a strong foundation for young entrepreneur education and simple access to business capital.

Source: http://tribune.com.pk/story/358328/grassroot-entrepreneurship-vanguard-of-growth/

Grassroots entrepreneurs are:

1. ***Ambitious:*** Grassroots entrepreneurs tackle major social issues, from increasing the college enrollment rate of low-income students to fighting poverty in developing countries.

Notes These entrepreneurial leaders operate in all kinds of organizations: innovative nonprofits, social purpose ventures such as for-profit community development banks, and hybrid organizations that mix elements of nonprofit and for-profit organizations.

2. ***Mission driven:*** Generating social value – not wealth – is the central criterion of a successful grassroots entrepreneur. While wealth creation may be part of the process, it is not an end in itself. Promoting systemic social change is the real objective.

3. ***Strategic:*** Like business entrepreneurs, grassroots entrepreneurs see and act upon what others miss: opportunities to improve system, create solutions and invent new approaches

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that create social value. And like the best business entrepreneurs, grassroots entrepreneurs are intensely focused and hard-driving – even relentless – in their pursuit of a social vision.

4. ***Resourceful:*** Because grassroots entrepreneurs operate within a social context rather than the business world, they have limited access to capital and traditional market support systems.

Notes Grassroots entrepreneurs must be exceptionally skilled at mustering and mobilizing human, financial and political resources.

5. ***Results-oriented:*** Ultimately, grassroots entrepreneurs are driven to produce measurable returns. These results transform existing realities, open up new pathways for the marginalized and disadvantaged, and unlock society's potential to effect social change.

Today, grassroots entrepreneurs are working in many countries to create avenues for independence and opportunity for those who otherwise would be locked into lives without hope.

Whether they are working on a local or international scale, social entrepreneurs share a commitment to pioneering innovation that reshape society and benefit humanity. Quite simply, they are solution-minded pragmatists who are not afraid to tackle some of the world's biggest problems.

Example: Well known grassroots entrepreneurs include Prof. Muhammad Yunus, who won a Nobel prize for his work expanding micro-lending to the poor in Bangladesh, comedian Drew Carey, who is producing pro-freedom videos with Reason TV, and Ward Connerly, who pioneered ballot measures opposing racial quotas in state governments.

Examples of grassroots entrepreneurship include microfinance institutions, educational programs, providing banking services in underserved areas and helping children orphaned by epidemic disease. The main goal of a social entrepreneur is not to earn a profit, but to implement widespread improvements in society. However, a social entrepreneur must still be financially savvy to succeed in his or her cause.

Self Assessment

Fill in the blanks:

1. Women have become aware of their existence, their …… and their work situation.
2. SHGs are not only increasing in rural women entrepreneurship but also in …….. women entrepreneurship.
3. Grassroots entrepreneurs are just as innovative and change-oriented as their …….. counterparts.
4. Generating social value – not ……, is the central criterion of a successful grassroots entrepreneur.
5. Grassroots entrepreneurs operate within a …….. context rather than the business world.

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6.2 Self-Help Groups

Self-Help Group (SHG) is a group of 12 to 20 women of the same socio-economic background who come forward voluntarily to work together for their own upliftment. The unique feature of the SHG is its ability to inculcate among its members sound habits of thrift, savings and banking Regular savings, periodic meetings, compulsory attendance, and systematic training are the salient features of the SHG concept. Each group selects one animator and two representatives from among themselves. The animator is responsible for providing leadership to the group and to maintain the various registers. The representatives assist the animator and maintain the bank accounts of the group.

SHG is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members.

(a) It can be formal (registered) or informal (unregistered).

(b) The concept underlines the principle of Thrift, Credit and Self Help.

(c) Members of SHG agree to save regularly and contribute to a common fund.

(d) The members agree to use this common fund and such other funds (like grants and loans from banks), which they may receive as a group, to give small loans to needy members as per the decision of the group.

6.2.1 Need for SHGs

The rural poor are incapacitated due to various reasons. Most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process. However, in a group, they are empowered to overcome many of these weaknesses. Hence, there is need for SHGs, which in specific terms are as under:

1. To mobilize the resources of the individual members for their collective economic development.
2. To uplift the living conditions of the poor in rural areas.
3. To create a habit of savings among the poor from their little earnings.
4. Utilization of local resources which are idle through members.
5. To mobilize individual skills for group's interest.
6. To create awareness about the rights and duties and make people conscious for the same.
7. To assist the members financially at the time of need and make them free from the clutch of greedy money lenders.
8. To develop Entrepreneurship competencies by utilizing the inherent talent and skill.
9. To identify problems, encountered by the members and finding solutions for feasible implementation of the same.
10. To act as a media for socio-economic development of the village.
11. To develop linkages with institutions of NGOs for financial and non-financial assistance and support.
12. To organize training for skill development to generate entrepreneurial ability.

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13. To gain mutual understanding, develop trust and self-confidence that 'each one is for every one'.
14. To build up teamwork on the basic philosophy of 'two brains are better than one'.
15. To develop leadership qualities to lead the group and develop followers to achieve the goals.
16. To use as an effective delivery channel for rural credit, so that rural urban difference will be minimized.

Self Assessment

Fill in the blanks:

6. Self Help Group (SHG) is a group of 12 to 20 women of the same ..... background.
7. Each group selects one ..... and two ..... from among themselves.
8. Members of SHG agree to save regularly and contribute to a ..... fund.
9. Individually, a poor is not only weak in socio-economic term but also lacks access to the ..... and information.
10. SHGs need to develop Entrepreneurship ..... by utilizing the inherent talent and skill.

6.3 Microfinance as a Tool for Grassroot Entrepreneurship through SHG's

Today, rural women have acquired a secondary statue in social life, economic activities and decision making among their families. Their role in productive work, employment generation and income oriented activities is hindered by many socio-economic constraints. Hence, there is a need to formulate policies, which aims for the empowerment and entrepreneurship of women.

Figure 6.1: Self Help Groups and Microfinance

Source: http://www.kanyakumari.tn.nic.in/images/selfwork.jpg

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It is definite that if appropriate skills and opportunities of decision making are given to women, they are proving that they are, if not superior, at least equal to men. Women are considered to be good leaders in matters requiring collaboration, group integration and ability to listen and motivation. Recent trends in India and even at global level women are far more superior to men in various aspects of development. Only problem is that so far the society has given little chance to women to enter into the fields of various economic activities. Hence, it is necessary today to empower women by providing the facilities to enter into various economic activities to make themselves economically independent and socially confident in their endeavor.

Did u know? The founder and Executive Chairman of the World Economic Forum, Klaus Schwab, introduced the first grassroot or social entrepreneurship award. It was awarded through Schwab foundation to Dr. Devi Prasad Shetty founder of Narayana Hrudayalaya in Bangalore. The award was given with a view to highlight social entrepreneurship as a key to advance societies and address social problems.

Micro finance through the self help groups has a lot of role to play in the grassroots entrepreneurship as well as women empowerment. Economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. While lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts, borrowers as a part of a SHG cut down expenses on travel (to and from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans. A Non-Governmental Organization (NGO) is a voluntary organization established to undertake social intermediation like organizing SHGs of micro entrepreneurs and entrusting them to banks for credit linkage of financial intermediation like borrowing bulk funds from banks for on-lending to SHGs.

Task Identify a self help group nearby you and further your knowledge about how they help grassroots entrepreneurs.

Micro credit appears to improve the lives of those who are poor by increasing their buying and investing capability, this lifting them onto a higher economic plane. Accordingly, these small loans seem to positively affect poverty by creating entrepreneurship and greater self-reliance among the poor. SHGs now constitute the grass roots level institutions developed for social/ economic and financial intermediation with a focus on the poor. The SBLP is "overwhelmingly based on the principle of financial services being related to the cash flows of the low-income client groups and thus aim to facilitate relatively frequent and very small or micro-loan and saving transactions"(Sinha, 2003). In the financial year 2007-08, Microfinance in India through its two major channels – Self-Help Group Bank Linkage Programme (SBLP) and MFIs served over 33 million Indians, up by 9 million over the previous year. 4 out of 5 microfinance clients in India are women.

Self-help groups are usually informal groups whose members have a common perception of need and importance towards collective action. These groups promote savings among members and use the pooled resources for multi dimensional development.

Caution The number of members in SHGs is normally ranges from 10 to 20, it is expected that within the group, there should be true democratic culture in which all the members must participate actively in the decision making process.

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Becoming a member in SHG ensures women to become socially and politically empowered.

The concept of SHG generally rejuvenate the rural women as it helps in breaking the vicious circle of poverty among women, thereby to become economically viable.

Self Help Groups (SHGs) have been successful in empowering rural women through entrepreneurial activities. Increase in income, expenditure and saving habits of rural women were observed. The SHGs had major impact on social and economic life of rural women.

Example: Rang De. Founded by Ramakrishna and Smita Ram in January 2008, Rang De is a peer-to-peer online platform that makes low-cost micro-credit accessible to both the rural and urban poor in India.

A study revealed an increase in social recognition of self, status of family in the society, size of social circle and involvement in intra family and entrepreneurial decision making. There was an increase in self-confidence, self-reliance and independence of rural women due to the involvement in the entrepreneurial and other activities of SHGs. SHGs could be linked to literacy programmes run by government and it could be made an integral part of SHG activities. Raised literacy level could be helpful for the SHG members to overcome cognitive constraints and to understand government policies, technical understanding and gaining required skills.

Rural women could be motivated to avail finances for starting the entrepreneurial activities. Awareness created about various credit facilities, financial incentives and subsidies through Self-Help Groups. As women were found technologically less empowered, they are to be imposed to the technologies which are labor saving, drudgery reducing, income generating and productivity increasing. Entrepreneurship education and trainings could be introduced at all levels from basic education. It could be helpful in inducing positive self-concept, self-reliance, self-confidence and independence in rural women.

Self Assessment

State whether the following statements are true or false:

11. Women are not considered to be good leaders in matters requiring collaboration, group integration and ability to listen and motivation.
12. Micro finance through the self help groups has a lot of role to play in the grassroot entrepreneurship as well as women empowerment.
13. A Non-Governmental Organization (NGO) is a voluntary organization established to undertake social intermediation.
14. Micro credit appears to improve the lives of those who are poor by decreasing their buying and investing capability.
15. Self-help groups promote savings among members and use the pooled resources for multi dimensional development.

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Case Study

KCC and Social Entrepreneurship

Alicia Polak founded Khayelitsha Cookie Co. with an intention to help local women to change their lives. The tagline of KCC - "Creating opportunity one bite at a time" clearly represents the way Alicia selected to improve the standard of living of few people living in Khayelitsha that is one of the most unprivileged areas of South Africa. Khayelitsha is one of the largest and dangerous townships near Cape Town where most of the people live in extreme poverty and unemployment. KCC employed most of the women they had never been employed earlier and were living on grants of government. Skill training is one of the major activities at KCC. Employees were trained on various aspects of business viz. business communication, customer relationship management, inventory management, computer skills etc. along with baking, packing and labeling. Full time employment raised the self esteem of the employees and made them feel proud; at the same time monetary benefits earned by them helped them to improve the way they used to live earlier.

Polak started the KCC investing her own money ($10,000) with an expectation that if this model works she will be able to help few people to change their lives. Initially, Nokwanda was the only employee working for KCC, but within two year of its inception KCC employed more than 10 employees to bake varieties of cookies (Choc Chunk, Ginger Snap, Safari, Brownies and Shortbread biscuits) and sell into coffee shops, restaurants and hotels. Within two year of its inception, KCC started selling an average of around 13,000 cookies in a month.

The Bakery manager of KCC, Zanele Bam who is in early thirties is a living testimonial depicting the success of this venture. She said "I have learned business skills, I have learned how to handle business tasks, how to work with clients and also communication skills. If you can't manage yourself, you can't manage others".

In order to help the society, KCC donates a portion of its profit to the Philani Clinic in Khayelitsha. This cookie business owned a remarkable success as it got accepted by customers and retailers. In the year 2006, Oprah Winfrey recently featured KCC and its products on her TV Show, a highest rated talk show which is being watched by more than 22 million people. Alicia Polak is highly positive that she will be able to empower more and more women and to attract more international customers by replicating this KCC model in different countries irrespective of their languages and cultures.

Questions

1. Sketch a SWOT analysis of the case.
2. What was the idea behind KCC?
3. Is it practical to replicate KCC model in different countries? If yes, explain how.

Source: Janakiram.B, (2010), "Role and Challenges of Entrepreneurship Development". Excel Books Pvt.Ltd.

6.4 Summary

- Nowadays self-help groups (SHGs) are playing a very important role to motivate women in entrepreneurship through micro-finance. SHGs are not only increasing in rural women entrepreneurship but also in urban women entrepreneurship.

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- Though at the initial stage women entrepreneurship developed only at urban areas, lately it has extended its wings to rural areas.
- Grassroots entrepreneurs are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems – in our case, to expand liberty. The idea is also known as social entrepreneurship.
- Unlike business entrepreneurs who are motivated by profits, grassroots entrepreneurs are motivated to improve society.
- Like business entrepreneurs, grassroots entrepreneurs see and act upon what others miss: opportunities to improve system, create solutions and invent new approaches that create social value.
- Each group selects one animator and two representatives from among themselves. The animator is responsible for providing leadership to the group and to maintain the various registers. The representatives assist the animator and maintain the bank accounts of the group.
- Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process.
- Recent trends in India and even at global level women are far more superior to men in various aspects of development. Only problem is that so far the society has given little chance to women to enter into the fields of various economic activities.
- Economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers.
- Small loans created by SHGs seem to positively affect poverty by creating entrepreneurship and greater self-reliance among the poor.
- Becoming a member in SHG ensures women to become socially and politically empowered.
- The concept of SHG generally rejuvenate the rural women as it helps in breaking the vicious circle of poverty among women, thereby to become economically viable. Self Help Groups (SHGs) have been successful in empowering rural women through entrepreneurial activities.

6.5 Keywords

Community: Community usually refers to a social unit larger than a small village that shares common values.

Grassroots Entrepreneurs: They are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems.

Micro Credit: An extremely small loan given to impoverished people to help them become self-employed.

Mission: A sentence describing a company's function, markets and competitive advantages; a short written statement of your business goals and philosophies.

Non-Governmental Organization (NGO): It is a voluntary organization established to undertake social intermediation.

Self-Help Group (SHG): A self-help group is a village-based financial intermediary usually composed of 10–20 local women.

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Self-reliance: Self-reliance is the ability to do things and make decisions by yourself, without needing other people to help you.

Vanguard: A group of people leading the way in new developments or ideas.

6.6 Review Questions

1. Define grassroots entrepreneurs.
2. Differentiate grassroots entrepreneurs from their business counterparts.
3. What are the basic characteristics of grassroots entrepreneurs?
4. What do you mean by SHGs?
5. Why there is a need for SHGs?
6. Explain microfinance as a tool for grassroots entrepreneurship.
7. How can grassroots entrepreneurship be achieved through SHGs?
8. What role does NGOs play in building grassroots entrepreneurship?
9. How does SHGs pool their resources? Advance your knowledge through internet and explain in detail.
10. Explain the linkage between SHGs and literacy programmes run by government.

Answers: Self Assessment

1.	Rights	2.	Urban
3.	Business	4.	Wealth
5.	Social	6.	Socio-economic
7.	Animator, representatives	8.	Common
9.	Knowledge	10.	Competencies
11.	False	12.	True
13.	True	14.	False
15.	True		

6.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

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N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development,* Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development,* Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development,* Tata McGraw Hill.

Notes

Online links

http://beyondprofit.com/%E2%80%9Ca-thinking-man%E2%80%99s-conference%E2%80%9D/

http://manipuronline.com/business-economy/women-empowerment-and-entrepreneurship-through-shgs/2011/02/14

http://www.freedomworks.org/groups/18992/post/19034

http://www.freepatentsonline.com/article/Asia-Pacific-Business-Review/200410503.html

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Unit 7: Building the Business Plan

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Objectives

After studying this unit, you will be able to:

- Explain the concept of business plan
- Discuss the scope of business plan
- Describe the value and importance of a business plan
- Explain the steps involved in building a business plan

Introduction

In the previous unit, we dealt with the concept of grassroots entrepreneurs. This unit will help you to understand the concept of business plan and how to prepare a business plan. The various sections and sub-sections of this unit will also summarize the feasibility study and importance of a business plan. A company's business plan is one of its most important documents. It can be used by managers and executives for internal planning. It can be used as the basis for loan applications from banks and other lenders. It can be used to persuade investors that a company is a good investment. For start-up ventures, the process of preparing a business plan serves as a road map to the future by making entrepreneurs and business owners think through their strategies, evaluate their basic business concepts, recognize their business's limitations, and avoid a variety of mistakes.

Virtually every business needs a business plan. Lack of proper planning is one of the most often cited reasons for business failures. Business plans help companies identify their goals and objectives and provide them with tactics and strategies to reach those goals. They are not historical

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documents; rather, they embody a set of management decisions about necessary steps for the business to reach its objectives and perform in accordance with its capabilities.

"By its very definition, a business plan is a plan for the business, clarifying why it exists, who it exists for, what products and services it provides these client groups, how it intends to develop and deliver these products and services, and where it is headed," Rebecca Jones wrote in Information Outlook. "A business plan is a roadmap for the organization, showing the destination it seeks, the path it will follow to get there, and the supplies and wherewithal required to complete the journey."

7.1 Concept and Scope of Business Plan

Planning is the first and the most crucial step for starting a business. A carefully charted and meticulously designed business plan can convert a simple idea/innovation into a successful business venture.

A business plan is a road map for starting and running a business. A well-crafted business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way, which finally leads to the success of the plan. It provides information to all concerned people like the venture capitalist and other financial institutions, the investors, the employees. It provides information about the various functional requirements (marketing, finance, operations and human resources) for running a business.

A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture. A business plan first of all identifies an innovative idea, researches the external environment to list the opportunities and threats, identifies internal strengths and weakness, assesses the feasibility of the idea and then allocates resources (production/operation, finance, human resources) in the best possible manner to make the plan successful.

The objectives of a business plan are to:

1. Give directions to the vision formulated by entrepreneur.
2. Objectively evaluate the prospects of business.
3. Monitor the progress after implementing the plan.
4. Persuade others to join the business.
5. Seek loans from financial institutions.
6. Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
7. Guide the entrepreneur in the actual implementation of the plan.
8. Identify the strengths and weakness of the plan.
9. Identify challenges in terms of opportunities and threats from the external markets.
10. Clarify ideas and identify gaps in management information about their business, competitors and the market.
11. Identify the resources that would be required to implement the plan.
12. Document ownership arrangements, future prospects and projected growths of the business venture.

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Preparing a business plan is not an easy task. A business plan makes the entrepreneur forcibly plan all the critical dimensions of business and it also ensures that entrepreneur does a thorough research about the planned business venture. The process of researching and writing the business plan helps to identify the gaps in the existing plan. For any business venture all the functional plans (marketing, operations/production, finance, human resources) have to be prepared.

Notes The functional plans reveal the resources required, strategies planned and the budgeted expenditure of each functional area and also determine when the company would break-even and when it would begin registering profits.

Here we would like to state that preparing a business plan is not just a one-time activity, but is an ongoing process. A successful business enterprise constantly keeps improvising its business plan based on market dynamics and learning experiences.

Caution The challenge in preparing a business plan for an entrepreneur is to communicate the business idea clearly and precisely to the stakeholders.

A business plan is a written document, which has to be presented to various stakeholders to get their consent. The shareholders require it to ascertain the ownership patterns and future prospects, the government needs it to give various certifications like pollution control, the financial institutions like venture capitalists need it to estimate the prospects and the risks involved in disbursing funds to the business venture.

Self Assessment

Fill in the blanks:

1. A business plan is a ……. for starting and running a business.
2. A business plan first of all identifies an …….. idea.
3. The objective of a business plan is to give directions to the …… formulated by entrepreneur.
4. The process of researching and writing the business plan helps to identify the gaps in the ……. plan.
5. A business plan is the …… of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.

7.2 Value and Importance of a Business Plan

Business plans have several major uses. These include internal planning and forecasting, obtaining funding for ongoing operations or expansion, planned divestiture and spin-offs, and restructuring or reorganizing. While business plans have elements common to all uses, most business plans are tailored according to their specific use and intended audience.

When used for internal planning, business plans can provide a blueprint for the operation of an entire company. A company's performance and progress can be measured against planned goals involving sales, expenditures, time frame, and strategic direction. Business plans also help an entrepreneur or business manager identify and focus on potential problem areas, both inside

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and outside the company. Once potentially troublesome areas have been identified, proposed solutions and contingency plans can be incorporated into the business plan.

Business plans also cover such areas as marketing opportunities and future financing requirements that require management attention. In some instances – such as scenarios in which an entrepreneur decides to turn a favorite hobby into a home-based business enterprise – the business plan can be a simple document of one or two pages. A business proposal of significant complexity and financial importance, however, should include a far more comprehensive plan.

Example: A tool and die manufacturer looking for investors to expand production capacity will in all likelihood need to compose a business plan of greater depth and detail than will a computer enthusiast who decides to launch a desktop publishing business out of his/her home.

Ideally, everyone in the company will use the information contained in the company's business plan, whether to set performance targets, guide decision-making with regard to ongoing operations, or assess personnel performance in terms of the their ability to meet objectives set forth in the business plan. In addition, workers who are informed about the business plan can evaluate and adjust their own performance in terms of company objectives and expectations.

Business plans can also be used in the restructuring or reorganization of a business. In such cases, business plans describe actions that need to be taken in order to restore profitability or reach other goals. Necessary operational changes are identified in the plan, along with corresponding reductions in expenses. Desired performance and operational objectives are delineated, often with corresponding changes in production equipment, work force, and certain products and/or services.

Caselet

Dhirubhai Ambani

The founder of the great Reliance Empire. He was not born with a silver spoon. His father was a school teacher in the small village of Chorwad in the western state of Gujarat. At the tender age of 17 he went to Aden and started working as an attendant in a petrol pump. No one knew at that time that this teenager boy would over a period of time, grow an empire which would turn out to be the first Indian company to be listed in the fortune 500 companies of the world. But Dhirajlal Hirachand Ambani – known as Dhirubhai had dreams and a vision even then. It was for these dreams that he was able to spot that there existed a discrepancy between the rial-sterling exchange rate and the intrinsic value of the silver content in Aden's coinage, which was an excellent opportunity to make money.

Using this opportunity, he made money, returned to India and established a trading house called Reliance Commercial Corporation in Bombay in 1958. He started his business with a mere ₹ 15, 000/- as capital. The first business was importing polyester yarn and exporting spices. Then he began manufacturing cloth from polyester fibre. From the textile industry he gradually diversified into chemicals, gas, petrochemicals, plastics, power and telecom services. It was he who introduced the equity culture in India by establishing trust amongst his shareholders. Dhirubhai Ambani always had big vision and worked hard to achieve that vision. He believed in the philosophy of Think Big, Think Fast and Think Ahead. He is being regarded as an icon of enterprise in India. Salute to Dhirubhai.

Source: Lall Madhurima, Sahai Shikha(2008), *Entrepreneurship.* Excel Books Pvt. Ltd.

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Banks and other lenders use business plans to evaluate a company's ability to handle more debt and, in some cases, equity financing. The business plan documents the company's cash flow requirements and provides a detailed description of its assets, capitalization, and projected financial performance. It provides potential lenders and investors with verifiable facts about a company's performance so that risks can be accurately identified and evaluated.

Finally, the business plan is the primary source of information for potential purchasers of a company or one of its divisions or product lines. As with outside lenders and investors, business plans prepared for potential buyers provide them with verifiable facts and projections about the company's performance. The business plan must communicate the basic business premise or concept of the company, present its strengths as well as weaknesses, and provide indications of the company's long-term viability. When a company is attempting to sell off a division or product line, the business plan defines the new business entity.

Self Assessment

State whether the following statements are true or false:

6. A company's performance and progress cannot be measured against planned goals involving sales, expenditures, time frame, and strategic direction.
7. Business plans also cover such areas as marketing opportunities and future financing requirements that require management attention.
8. The business plan is the secondary source of information for potential purchasers of a company or one of its divisions or product lines.
9. The business plan must communicate the basic business premise or concept of the company.
10. Business plans can also be used in the restructuring or reorganization of a business.

7.3 Preparation and Evaluation of Business Plan

A plan, which looks very lucrative/feasible at the first instance, might actually not be when the details are drawn. Hence documenting the business plan is one of the early steps that an entrepreneur should take. As discussed above, the successful entrepreneur lays down a step-by-step plan that she/he follows in starting a new business. This business plan acts as a guiding tool to the entrepreneur and is dynamic in nature – it needs continuous review and updating so that the plan remains viable even in changing business situations. The various steps involved in business planning process are:

7.3.1 Preliminary Investigation

Before preparing the plan entrepreneur should:

1. Review available business plans (if any).
2. Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.).
3. Scan the external environment and internal environment to assess the strengths, weakness, opportunities and threats.
4. Seek professional advice from a friend/relative or a person who is already into similar business (if any).

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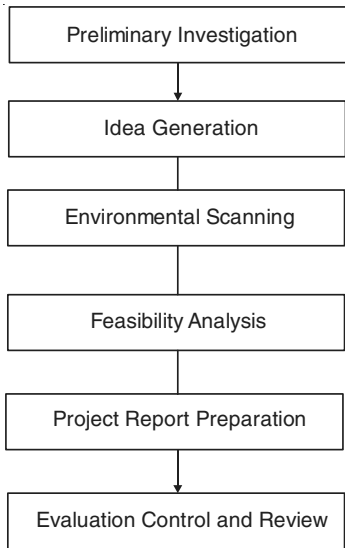
Figure 7.1: Business Planning Process



Source: Lall Madhurima (2009*), Entrepreneurship and Business Plan,* Excel Books Pvt. Ltd.

7.3.2 Idea Generation

Entrepreneurship is not just limited to innovation (generation of an entirely new concept, product or service, but it also encompasses incremental value addition to the concept/product/ services offered to the consumer, shareholder and employee).

Caution Value addition is the key word that an entrepreneur needs to keep in mind while generating new ideas even at the inception stage.

Idea generation is the first stage of business planning process. This step differentiates between an entrepreneur and a businessman. An entrepreneur is a highly creative person who gets an innovative idea about a product or service that could be brought into the market. Let us make it very clear again at this stage, that it is not necessary to have an idea which is entirely new; even value added to the new products in the market is included in the innovative products/services. Idea generation is the first stage of business planning process. It involves generation of new concepts, ideas, products or services to satisfy the existing demands, latent demands and future demands of the market. The various sources of new ideas are:

1. Consumers/Customers
2. Existing Companies
3. Research and Development
4. Employees
5. Dealers, retailers

The various methods of generating new ideas are:

1. Brainstorming, Reverse Brainstorming and Brain Writing
2. Group discussion

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3. Data collection through questionnaires/schedules etc. from consumers, existing companies, dealers, retailers
4. Invitation of ideas through advertisements, mails and the Internet
5. Value addition to the current products/services
6. Market research
7. Commercializing inventions
8. These days, even contests are being organized to identify business ideas like 'business bazigaar' on Star TV, which invites participation in the contest and rewards the best business plan.

Screening of the new ideas should be done so that promising new ideas are identified and impractical ideas are eliminated.

7.3.3 Environmental Scanning

Once a promising idea emerges through, idea generation phase the next step is environmental scanning, which is carried out to analyze the prospective strengths, weakness, opportunities and threats of the business enterprise. Hence before getting into the finer details of setting up business it is advisable to scan the environment both external and internal and collect the information about the possible opportunities, threats from the external environment and strength and weaknesses from the internal environment. The different variables to be scanned are in terms of socio-cultural, economic, governmental, technological, demographic changes taking place in the external environment and availability of raw material, machinery, finance, human resource etc. with the entrepreneur. The various sources for gathering the information are informal sources (family, friends, colleagues etc.) and formal sources (bankers, magazines, newspaper, government departments, seminars, suppliers, dealers, competitors). The objective of a successful environmental scanning should be to maximize the information and hence the entrepreneur should collect information from as many sources as possible and then analyze them to understand whether the given information would be supportive/obstructive to the business venture. The more supportive the information, the greater is the confidence regarding the success of the business.

However, few errors can also occur while carrying out this process like mechanical errors (wrong interpretation of facts, misrepresentation of facts), inability to record fast changing variables like technology, lack of farsightedness, etc. Also culture is varied so deep understanding is required.

External Environment

Following are the components of external environment:

Socio-cultural Appraisal: It assesses the social and cultural norms of a society in a given period of time. The variables that are appraised are values, beliefs, norms, fashions and fads of a particular society. It can help in understanding the level of rigidity/flexibility of a given society towards a new product/service/concept.

Example: The socio-cultural norms of United States and United Arab Emirates. Americans are experimenting and adventurous whereas Arabs are conservative. If an entrepreneur wishes to introduce an innovative product like bungee jumping, its acceptability would be more in America than in the UAE.

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Technological Appraisal: It assesses the various technological know-how available to convert the idea into a product. It can also be done to assess the various modern technologies expected in the near future and their receptiveness by the industry.

Example: An entrepreneur has an idea of manufacturing tobacco-free herbal cigarettes which would not harm the health of smokers; technological appraisal can assess whether manufacturing of this kind of product is possible or not.

Economic Appraisal: It assesses the status of economy in a given society in terms of inflation, per capita income and consumption pattern, balance of payments, consumer price index etc. A healthy economy offers greater opportunities for growth and development of the industry and therefore provides greater confidence to the entrepreneur about the success of his business venture.

Demographic Appraisal: It assesses the overall population pattern of a given geographical region. It includes variables like age profile, distribution, sex, education profile, income distribution etc. The demographic appraisal can help in identifying the size of target customers.

Governmental Appraisal: It assesses the various legislations, policies, incentives, subsidies, grants, procedures etc. formulated by government for a particular industry. The softer the government norms for the industry, the easier it is for the entrepreneur to establish and run the business. Take for example, the government policies of subsidized electricity in Uttaranchal. A manufacturing unit highly dependent on power has an added advantage for setting up industry there. On the other hand, take Uttar Pradesh. Here, the electricity is not just expensive, but there is acute shortage of it as well and entrepreneurs in UP are dependent on personal generators for electric supply, which automatically increases the cost of product. Hence it would be a wise decision on the part of an entrepreneur to set up/shift his manufacturing unit to Uttaranchal.

The outcome of government policies in other sectors too should be taken into reckoning while conducting an appraisal of its policies. One such example is the government's intentions to allow only partial FDI in the retail segment. Because of this particular clause, multinational retail outlets like Wal-Mart are not able to enter the Indian market, though the market potential and financial feasibility is in abundance.

Internal Environment

Following are the components of internal environment of a business:

Raw Material: It assesses the availability of raw material now and in the near future. If the availability of raw material is less now or would be less in future then the entrepreneur should give a serious thought to establishing a venture as the entire system can come to a standstill due to shortage of raw material.

Production/Operation: It assesses the availability of various machineries, equipments, tools and techniques that would be required for production/operation.

Finance: It assesses the total requirements of finance in terms start-up expenses, fixed expenses and running expenses. It also indicates the sources of finance that can be approached for funding.

Human Resource: It assesses the kind of human resources required and its demand and supply in the market. This further helps in estimating the cost and level of competition in hiring and retaining the human resources.

As stated above, the objective of environmental scanning should be to gather information from as many sources as possible and to maximize this information for enhanced probability of success in the business.

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7.3.4 Feasibility Analysis

Feasibility study is done to find whether the proposed project (considering the above environmental appraisal) would be feasible or not. It is important to demarcate environmental appraisal and feasibility study at this point. Environmental appraisal is carried out to assess the external and internal environment of the geographical area/areas where, entrepreneur intends to set up his business enterprise, whereas feasibility study is carried out to assess the feasibility of the project itself in a particular environment in greater detail. Hence, though feasibility study would be dependent on environmental appraisal yet it is far more descriptive. The various variables/dimensions are:

Market Analysis

Market analysis is to be conducted for the following reasons:

1. To estimate the demand of the proposed product/service in future.
2. To estimate the market share of the proposed product/service in future.

The demand analysis and market share is based on a number of factors like consumption pattern, availability of substitute goods/services, type of competition etc. A wide variety of information has to be collected to make these estimations.

A preliminary discussion with consumers, retailers, distributors, competitors, suppliers etc. is carried out to understand the consumer preferences, existing, latent and potential demands, strategy of competitors and practices of distributors, retailers etc. The objective of a formal study needs to be comprehensive enough that they are able to generate the desired answers to the following questions:

1. Who are the consumers (customers), both present and prospective?
2. What is the present and future demand?
3. How is the demand distributed seasonally (for example, air-conditioners are required from May to September in most part of our country)?
4. How is demand distributed geographically?
5. How much price is the consumer willing to pay?
6. What is the marketing mix of competitors?
7. What marketing mix would the consumers accept?

In nearly all cases research is required to obtain enough information to answer the above questions and to identify whether a project is feasible or not. This is done through a market research.

Technical/Operational Analysis

Technical/Operational Analysis is done to assess the operational ability of the proposed business enterprise. The cost and availability of technology may be of critical importance to the feasibility of a project or it may not be an issue at all. Key questions to be answered are:

1. What are the technological needs of the proposed business?
2. What other equipment does the proposed business need?
3. From where will this technology and equipment be obtained?

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4. From where can the raw material be obtained?
5. What would be the equipment and technology?

Technical/Operational Analysis collects data on the following parameters:

1. ***Material Availability:*** It is imperative to assess the availability of the raw material required for production of goods/services. The feasibility study of material should make an account of following variables:
   (a) The availability of quality and quantity of raw material
   (b) The factors on which the availability of raw material is dependent
   (c) Price sensitivity (elasticity) of raw material
   (d) Perishable time of raw material
2. ***Material Requirement Planning:*** It is undertaken to analyze the quantity of material that would be required to let the production run smoothly; it would be dependent on material availability variable mentioned above.
3. ***Analysis of Choice of Technology:*** It is done to identify whether the product developed at the idea generation stage is technologically feasible or not i.e. it answers questions like:
   (a) Whether a technology for the product exists or not?
   (b) If technology exists in more than one form, which technology would be more profitable to the company?
   (c) The choice of the technology would be affected by:
      (i) Capacity of the plant
      (ii) Amount of investment
      (iii) Availability of technology
      (iv) Production cost
      (v) Latest developments
      (vi) Quantity of planned production
      (vii) Impact of environment.
4. ***Plant Location:*** Plant location refers to a fairly broad area where the enterprise is to be established, like city, industrial zone or costal area. Plant location is the physical layout of the business and is affected by process of production, safety of personnel, minimum production cost, scope of expansion, proper space utilization etc.

   The choice of the location is influenced by the following factors:
   (a) Proximity to raw material and market
   (b) Availability of infrastructure like power, transportation, water, means of communication
   (c) Favorable government policies
   (d) Other factors like climatic conditions, availability of manpower etc. can affect the decision of plant location.
5. ***Machinery and Equipment:*** Machinery and equipment is dependent on production technology, plant capacity, investment cost of buying, maintenance and running cost.

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Financial Feasibility

Once the analysis of marketing and operations has been done successfully, a final financial feasibility is done to assess financial issues of the proposed business venture. Following cost estimates have to be carried out.

1. ***Cost of land and building:*** Depending on the requirement and the availability of funds the land and building can be hired, can be taken on lease or purchased.
2. ***Cost of plant and machinery:*** It includes estimates of cost of plant and machineries, their running and maintenance cost.
3. Preliminary cost estimation is made to assess how much cost would be required in conducting market survey, preparing feasibility report, expenses in registering and incorporating machine, establishment expenses, expenses in raising capital from public and other miscellaneous expenses.
4. Provision for contingencies needs to be made to cover certain unexpected expenses which can emerge due to change in the external environment, like increase in price of raw material, or transport costs going up if the petrol prices are revised.
5. Working capital estimates for running the business are also made.
6. Cost of production, which would include raw material cost, labour cost, overhead expenses, utilities like power, water, fuel etc.
7. Sales and production estimates: Based on the plant capacity the production and sales estimates are made, which help in estimating profitability.
8. Profitability projections are made on the following parameters:
   (a) Cost of production
   (b) Sales expenses
   (c) Administrative expenses
   (d) Expected sales

Summation of all above gives gross profit.

Based on the above information, the following projections are made:

(a) Break-even point

(b) Cash flow statement

(c) Balance sheet statement

(d) Multi-year projections

Drawing Functional Plans: After positive results from the feasibility study, functional plans are drawn. Some scholars and writers prefer to include feasibility study with the functional plans but they have been taken separately in this book, as feasibility study is a precursor to the plan and is done to check the viability of the project from various dimensions. Whereas, after the feasibility study gives positive indication about the viability of the proposed project, one can go into the details of drawing functional plans which would plan the strategies for all the operational areas: marketing, finance, HR and production.

Marketing plan: Marketing plan lays down the strategies of marketing which can lead to success of business. These strategies are in terms of Marketing Mix (product, price, place and promotion). From the market feasibility study and marketing research, potential/present demand of customers is determined, which helps in understanding the profile of customers and hence helps in laying

down the strategies for segmentation of the market, identification of the target market and laying down strategies for target market.

Task Prepare a Business plan and forward the Business plans to any financial institution and see the viability of the plan.

Production/Operation Plan: Production plan is drawn for business enterprises in the manufacturing sector whereas operational plans are drawn for business enterprises in the service sector. The production/operation plan should include strategies for the following parameters:

1. Location and reasons for selecting the location
2. Physical layout
3. Cost and availability of machinery, equipments, raw material
4. List of suppliers and if possible, distributors
5. Cost of manufacturing/running the operations
6. Quality Management
7. Production scheduling, capacity management and inventory management
8. Changes in above in case of expansions of business.

Organizational Plan: Organizational plan defines the type of ownership: it could be single proprietary, partnership firm, company, private limited or public limited. It also proposes an organizational structure and proposes human resource management practices that would govern the successful running of the proposed business enterprise.

Financial Plan: Financial plan indicates the financial requirements of the proposed business enterprise.

1. Cost incurred in smooth running of all the financial plans (marketing, operation and human resources).

   Did u know? Cost incurred in the marketing plan would include forecasting sales, for production plan it includes cost of goods, for organizational plan it includes cost of compensation to employees.

2. Projected cash flows
3. Projected income statement
4. Projected break-even point
5. Projected ratios
6. Projected balance sheet.

To cope with the rising competition, Hindustan Liver Limited (HLL) had come up with a new strategy: New Product Every Month!

7.3.5 Project Report Preparation

After environmental scanning and feasibility analysis, a project report is prepared. It is a written document that describes step-by step, the strategies involved in starting and running a business.

Notes

A project report helps to understand the opportunities, problems and weakness of the business. It guides the entrepreneur in actually starting up and running the business venture. It helps him to monitor whether the business is growing as was projected in the business plan or not. It helps in documenting the cost estimates of the business. It can be used as a handy tool to persuade investors and financial institution to fund the project. It can help in proper utilization of all the resources. It can keep the morale of employees, owners and investors up. It can finally lead to a sustainable development of the organization.

Essentials of a Project Report

Following are the essentials of a project report:

1. The project report should be sequentially arranged.
2. The project report should be exhaustive (covering all the details about the proposed project).
3. The project report should not be very lengthy and subjective.
4. The project report should logically and objectively explain the projections.
5. The projections should be appropriately be made from two to ten years.
6. The project report should be professionally made to demonstrate that the Promoters possess entrepreneurial acumen and sound experience.
7. The project report should justify the financial needs and financial projections.
8. The project report should also justify market prospects and demands.
9. The project report should be attractive to the financial agencies and investors.
10. The project report should also have a high aesthetic value.

Steps in Preparing a Project Report

Steps involved in preparing a project report are given below:

I ***Cover Sheet:*** Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.

II ***Table of Contents:*** Again, the table of contents is like the table of contents of a book; it guides the person reviewing the project report to the desired section quickly. A good methodology would be to divide the project report into sections and number or label the sections like 1, 2, 3 or I, II, III or A, B, C and then divide each section into subsections by using numerals after the decimal like 1.1, 1.2, 1.3 or I-1, II-2, III-3 or A-a, B-b, C-c. No matter which method is used for classification, once a method is picked up the entire report should uniformly adopt the same procedure.

III ***Executive Summary:*** Executive summary is the first impression about the business proposal. As the saying goes, the first impression is the last impression. A careful presentation of information should be done to attract the attention of the evaluators. It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability. It should briefly describe the company; mention some financial figures and some salient features of the project. Generating interest in the minds of the readers is the prime motive of the executive summary.

IV ***The Business:*** This will give details about the business concept. It will discuss the objective of the business, a brief history about the past performance of the company (if it is an old

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company), what would be the form of ownership (whether it would be a single proprietor, partnership, cooperative society or a company under company law). It would also label the address of the proposed headquarters.

V ***Funding Requirement:*** Since the investors and financial institutions are one of the key bodies examining the project report and it is one of the primary objectives of preparing the project report, a careful, well-planned funding requirement should be documented. It is also necessary to project how these requirements would be fulfilled. Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.

VI ***The Product or Services:*** A brief description of product/services is given in this subsection. It includes the key features of the product, the product range that would be provided to the customers and the advantages that the product holds over and above the similar products/ substitute products available in the market. It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements.

VII ***The Plan:*** Now the functional plans for marketing, finance, human resources and operations are to be drawn.

1. *Marketing Plan:* Marketing mix strategies are to be drawn, based on the market research. The market research will provide information about the following parameters: (i) Market demography like profiles of customers and end-users; preferences and needs of the customers (ii) Strengths and weaknesses of competitors (iii) SWOT analysis of the market.

   A thorough market research is the backbone of success and failure of any product in the market. Based on the information collected through market research, marketing mix strategies for product/services, price, promotion and distribution are presented meticulously and reasons are displayed in relation to why the targeted market is so attractive. How can the market provide gains to the organization? What marketing strategies would ultimately lead to the success of the organization? The budgets for the marketing plan are drawn at the end.

2. *Operational Plan:* The operational plan would give information about (i) Plant location: why was a particular location chosen? Is it in the vicinity of the market, suppliers, labour or does it have an advantage of government subsidies for that particular location or are there any other specific reasons for choosing the particular location?, (ii) Plant layout is also at times mentioned in the project report to provide a pattern of arrangement of the organization and would indicate the exhaustive planning for the business, (iii) Plan for material requirements, inventory management and quality control are also drawn for identifying further costs and intricacies of the business. Finally, the budget for operational plan is also drawn.

3. *Organizational Plan:* The organizational plan indicates the pattern of flow of responsibilities and duties amongst people in the organization, it provides details about the board of directors, it can also enlist the manpower plan that would be required to put life into the company and it would also enlist the details about the laws that would be governed in managing the employees of the organization. In the end the organizational plan is also budgeted.

4. *Financial Plan:* The financial plan is usually drawn for two to five years for an existing company. A summary of previous financial data is given, whereas for a new organization the following projections are drawn:

   (a) Projected Sales

Notes

(b) Projected Income and Expenditure Statement

(c) Projected Break Even Point

(d) Projected Profit and Loss Statement

(e) Projected Balance Sheet

(f) Projected Cash Flows

(g) Projected Funds Flow

(h) Projected Ratios

VIII ***Critical Risks:*** The investors are interested in knowing the tentative risks to evaluate the viability of the project and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.

IX ***Exit Strategy:*** The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding-up of the organization. It further helps in measuring the risks involved in investing.

X ***Appendix:*** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement, Certificate from Pollution Board, Memorandum of Understanding, Articles of Association and all the supporting agreements/documents that can help in marketing the project viability at large.

Task

Do a research for collection of data for both environmental study and feasibility analysis and develop a project report.

Self Assessment

Fill in the blanks:

11. The ..... acts as a guiding tool to the entrepreneur and is dynamic in nature.
12. ..... addition is the key word that an entrepreneur needs to keep in mind while generating new ideas even at the inception stage.
13. An entrepreneur is a highly ..... person who gets an innovative idea about a product or service that could be brought into the market.
14. The sources for gathering the information can be both ..... sources and ..... sources.
15. A healthy economy offers greater opportunities for growth and development of the .....

Notes

Case Study

Khushi Plastics

Its not been a miracle that Khushi Plastics Private Limited has been able to have a turnover of ₹ 20,000 crore in a span of 15 years. The success has come from the arduous efforts of the promoters.

Company's Background

Mr Pramod was a manager in a small plastic factory where he realized that working for someone else would not quench his thirst for money, flexibility and growth so he decided to go on his own. In 1990 he started with a small retail shop that sold plastic products like polythene and plastic sheets. Through market sources he came to know that there was a huge pile of plastic scrap lying on the offshore of a Gujarat port at throw away prices. He was quite excited by the news and he informed his past employer (the owner of the plastic factory) about it and how they could use this scrap with two or three new machines and make a fortune. But the owner was not interested in purchasing the scrap and in fact had decided to even sell off his current factory. This was the turning point in his life. Pramod was not getting the returns from his current shop and an excellent business opportunity was beckoning with wide-open arms. He therefore decided to visit Kandla Port. With the little money he had, Pramod bought the scrap, then he bought some old machines after selling his parental house. He took a factory premise on rent and started manufacturing polythene. The company was able to achieve break even in just 8 months (which is commendable!). After this there was no looking back. After reaping profit constantly for nine years there was a slack period in the year 1997, when polythene bags were banned by the government. At that time Pramod ventured into a new and related business-manufacturing of disposable plastic containers. The sales and hence profits shot up exponentially. Khushi Plastics not only became pioneers in the disposable plastic container business but also became market leaders.

The Product

The disposable plastic container manufacturing at Khushi Plastics is made of special grade of Polypropylene glasses that guarantee optimum strength and clarity. They are crack-resistant, leak-free and pollution-free in nature. The range of products that are available include:

1. DPP Plastic Glasses: In 3 sizes: 250 ml, 400 ml and 50 ml. The two brands that are available for each: Classical and Funda.
2. DPP Plastic Plates: In two sizes: quarter plates and full plates. The two brands that are available in each include: Classical and Kissan.
3. DPP Plastic Spoons of standard size, the brand name is Saathi.
4. DPP Plastic Bowls Standard of medium size, the brand name is Mili.

Distribution Strategy

Khushi Plastics has a two-tier distribution system. Distributors are to be given a discount of 10% on cash sales.

Production

The location of the plant is in the industrial area of the town. The machineries brought five years back were high tech and expensive but thanks to the fast changing technology, had

Contd...

Notes

now become obsolete. The machineries were growing old and their efficiency was declining and purchasing even one single new machinery would mean heavy financial burden, which the company was not in a position to hold.

But the biggest problem was frequent power cuts, which was leading to dependence on generators for power generation and hence escalating prices. Even the prices of PP plastics (the raw material) were fluctuating.

The Market

The market of disposable containers is seasonal and is highly dependent on the Hindu marriage season. The competition is also rising. Fifteen years back Khushi Plastics, was the only company in the whole of northern India that was into the industry of manufacturing disposable plastic containers, but today there are more than 25 similar industries within the diameter of 100 km. Moreover, a new product-disposable thermocol containers (which are much costlier yet more handy) were replacing the plastic containers in the urban market. The distributors who were giving prompt payments had also started demanding credit purchases.

The Organisation

Khushi Plastics is a registered firm of father and his two children. The strategic decisions are taken by Pramod himself, whereas marketing decisions are in the hands of his elder son Vaibhav and finance & accounts in the hands of his daughter Vaishali. The HR operations are managed by Pramod and Vaibhav. At times Pramod and Vaibhav have differences in opinion about marketing and operational strategies and they end up in a series of arguments to prove their points.

There are five loyal supervisors who have more than 20 years of association with Pramod. The problem employees are front line workers who frequently absent themselves from their work on occasions of festivals and marriages (which are also the peak season for the company).

Pramod now wants to shift his business operation from the present area because of the power crisis, rising competition and declining margins. But Vaibhav is against the locational shift and they are in an argument again. Through market research Pramod has identified two alternative locations and he is trying to explain to his son that, "the change has now become desirable for us." But Vaibhav is counter-arguing that the problems that are coming up in the present location would also emerge in any other location after a passage of time. So how far is it wise to keep shifting from one place to another? It is better to face and fight the situation than to run away from it Dad". Pramod retorted, "Son can you suggest me one good way to come out of it? We have already tried everything suggested by you and if we don't take the decision now we would be simply thrown out by the market forces that have already crushed our margins, our employees and our sheer existence!" With this they ended up the discussion but Pramod is still not sure that what would he be doing to actually fight the challenges thrown up by the external environment.

Location

Pramod has been able to short-list two locations: the pros and cons of both have been taken along with the pros and cons of the present location.

Present Location

Pros

1. Labour and market are in vicinity

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Notes

2. Promoters home town
3. Raw material is easily available
4. Readymade existing factory can be made available for manufacturing the new product.

Cons

1. Frequent power cuts
2. Rising competition
3. No tax subsidies
4. The present factory does not have scope for expansion.

Alternative Location 1

Pros

1. Power is available in abundance
2. Land is available in abundance at a much cheaper rate
3. Tax subsidies are available
4. Competition is less.

Cons

1. Labour is not easily available
2. Market is far-flung
3. Raw material is costlier than the present location.

Alternative Location 2

Pros

1. Power is adequately available
2. Labour is slightly costlier than the present location yet it is available
3. Market is available.

Cons

1. Relocation cost is high
2. Raw material is costlier than the present location.

Questions

1. Sketch a SWOT analysis of the case.
2. What suggestions do you give to Pramod to bring a turn around in the business?
3. If you were Vaibhav what would be your line of action?

Source: Lall Madhurima (2009), *Entrepreneurship and Business Plan,* Excel Books Pvt. Ltd.

7.4 Summary

- Virtually every business needs a business plan. Lack of proper planning is one of the most often cited reasons for business failures.

Notes

- Business plans help companies identify their goals and objectives and provide them with tactics and strategies to reach those goals.
- They are not historical documents; rather, they embody a set of management decisions about necessary steps for the business to reach its objectives and perform in accordance with its capabilities.
- Business plans have several major uses. These include internal planning and forecasting, obtaining funding for ongoing operations or expansion, planned divestiture and spin-offs, and restructuring or reorganizing. While business plans have elements common to all uses, most business plans are tailored according to their specific use and intended audience.
- Business plan is an outline of a business giving details of the finance, assets, staff, products or services and markets. It guides the entrepreneur, identifies possible problems and is also used in funding applications.
- The business plan sets out how the owner of a business intends to realize its objectives. Steps in a business plan include: Idea Generation, Environmental Scanning, Feasibility Analysis, Functional Plan (Marketing plan, financial plan, organizational plan and operational plan), Project Report Preparation, Evaluation, Control and Review.
- Planning is essential in all organizations and company plans should be documented in the form of a project report. This unit presents a comprehensive discussion and outline of a typical business plan. All the key elements in a business plan are discussed in this unit.
- Banks and other lenders use business plans to evaluate a company's ability to handle more debt and, in some cases, equity financing. The business plan documents the company's cash flow requirements and provides a detailed description of its assets, capitalization, and projected financial performance.
- An entrepreneur is a highly creative person who gets an innovative idea about a product or service that could be brought into the market.
- The objective of a successful environmental scanning should be to maximize the information and hence the entrepreneur should collect information from as many sources as possible and then analyze them to understand whether the given information would be supportive/obstructive to the business venture.
- Environmental appraisal is carried out to assess the external and internal environment of the geographical area/areas where, entrepreneur intends to set up his business enterprise, whereas feasibility study is carried out to assess the feasibility of the project itself in a particular environment in greater detail.

7.5 Keywords

Blueprint: A blueprint is a reproduction of a technical drawing, documenting the architecture or an engineering design, using a contact print process on light-sensitive sheets.

Business Plan: It is a roadmap for the organization, showing the destination it seeks, the path it will follow to get there, and the supplies and wherewithal required to complete the journey.

Demographic Appraisal: It assesses the overall population pattern of a given geographical region.

Feasibility Analysis: It is done to find whether the proposed project (considering the above environmental appraisal) would be feasible or not.

Notes

Investor: An individual who commits money to investment products with the expectation of financial return.

Lenders: Someone who lends money or gives credit in business matters.

Roadmap: It is a detailed plan or explanation to guide you in setting standards or determining a course of action.

Stakeholder: He is a person, group, organization, member or system who affects or can be affected by an organization's actions.

7.6 Review Questions

1. You want to start up a business, why do you need to prepare a Business plans? Explain.
2. In preparing Business plans, what are the different aspects, you must look into? Explain.
3. Discuss feasibility analysis. Discuss its types. How did it influence the Business Plan?
4. What is market research? Discuss with relevant examples.
5. Is a business plan important to the entrepreneur? Comment.
6. Determine the essentials of a good project report.
7. Explain the following:
   (a) Financial aspects of the Business plans
   (b) Marketing aspects of the Business plans
   (c) HR aspects of Business plans
   (d) Technical aspects of the Business plans
   (e) Social aspects of the Business plans.
8. Write a note on various methods of idea generation. If a firm asks you to generate an idea of a service that provides fresh and hot food to the office employees during lunch, what would be your idea and how will you market it.
9. Suppose you are given the responsibility of scanning the environment for your business. What problems you may face?
10. Take an example of a business house and trace its journey from its inception till today. Mention the role of its human resource in its success.

Answers: Self Assessment

1.	Roadmap	2.	Innovative
3.	Vision	4.	Existing
5.	Blueprint	6.	False
7.	True	8.	False
9.	True	10.	True
11.	Business Plan	12.	Value
13.	Creative	14.	Formal, Informal
15.	Industry		

Notes

7.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship, Excel Books,* New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development,* Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development,* Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development,* Tata McGraw Hill.

Online links

http://en.wikipedia.org/wiki/Feasibility_study

http://smallbusiness.chron.com/importance-purpose-business-plan-760.html

http://www.entrepreneur.com/how-to-write-a-business-plan

http://www.umanitoba.ca/afs/agric_economics/MRAC/feasibility.html

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Unit 8: Setting up a Small Business Enterprise

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Objectives

After studying this unit, you will be able to:

- Describe the steps for starting a small business
- Explain the concept of enterprise location
- Discuss the selection of type of organization

Introduction

In the previous unit, we dealt with the concept of business plan and feasibility study and also discussed about the value and importance of a business plan. This unit will help you to understand the procedure of starting up a small business. The various sections and sub-sections of this unit will also summarize how to select the type of organization for startup of small business. Planning is the first and the most crucial step for setting up a business or venture.

Indeed, the consumer's sovereignty has always been considered as vital today as in ancient time. It was largely through small business that civilization was spread to all four corners of the then known world. Small businesses brought to the have-nots the benefits of such things as Babylonian astronomy, Greek philosophy, the Jewish calendar, and Roman law. Since then many nations, both developed and developing, have recognized the crucial importance small business as a useful source of growth: the former as complementary to large industry; and the latter for the creation of new employment avenues on a large scale in the shortest possible time.

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Small business has played an important role in Indian history. It practically flourished in almost all corners: Calcutta, Surat, Madras, Bombay and penetrated into the roots of Indian soil. The standards of their products and services were in however, not often maintained. This directed efforts towards the need to protect the consumer. Gradually, small business became the source of spreading civilization to all four corners of the then known world. With highly specialized skills and opportunities, Indian products were the center of attraction at home as well as and ruled in some of its business activities till the 18th century. A country, which was known for its formidable industrial base till the late 18th century, suffered irretrievably, during the colonial rule.

8.1 Steps for Starting a Small Enterprise

Location of enterprise 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 of 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. What is meant by a Small enterprise? A small enterprise or a factory or plant is an individual building or premises that produces manufactured goods.

Caselet

An Uptick in Small Business Loans from Big Banks

A common complaint in the years since the financial crisis began has been that Wall Street banks that were bailed out by the federal government haven't been lending enough to Main Street businesses. Critics may now have a little less reason to beef, however, because last month big banks approved small business loans at the highest rate in more than two years, according to an index compiled by a business-lending middleman.

Biz2Credit, which Bloomberg Business week profiled in October, calculates its monthly Small Business Lending Index using 1,000 loan applications made over its online lending platform. The index defines large banks as those with $10 billion or more in assets; it also includes data for small banks, credit unions, and alternative lenders. Biz2Credit doesn't break out lenders by name in its data.

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The Findings

Big banks approved 15.9 percent of the small business loan applications in the index, up from 15.3 percent in January 2013 and 11.7 percent in February 2012. February's big bank approval rates were the highest since Biz2Credit began compiling the index in January 2011. Small bank approval rates have also ticked up, to 50.3 percent of loans in February, up from 49.9 percent in the previous month and from 47.6 percent in February 2012.

Biz2Credit Chief Executive Officer Rohit Arora pointed to a handful of reasons for higher approval rates: A stable economy over the past 18 months has given banks an historical basis for making loans, and attractive premiums on securities backed by Small Business Administration-guaranteed loans are giving banks greater incentive to work with small businesses.

The banks' need to maintain larger capital bases under Dodd-Frank regulations may also be driving higher approval rates as lenders seek to retain customers. "Big banks are starting to say, 'If I keep turning away deposit customers when they come to me for loans, we will lose a lot of the good deposit relationships going forward,'" says Arora.

If there's a loser in the banks' uptick, it may be credit unions. Their loan approval rates in the Biz2Credit index fell for the ninth straight month. One explanation, says Arora, is that with banks, small and large, granting more small business loans, credit unions are receiving applications from shakier credit profiles. Another likely reason for the decline: Credit union lending is capped at 12.25 percent of a credit union's assets, as Credit Union National Association Executive Vice President Paul Gentile told Bloomberg Radio's Pimm Fox.

Source: http://www.businessweek.com/articles/2013-03-12/an-uptick-in-small-business-loans-from-big-banks#r=hpt-ls

A company may own several factories, probably indifferent locations. The industry comprises many factories, or plants, and a number of independent enterprises. Industrial location is primarily concerned with the setting of a single enterprise, rather than the whole industry, although the location of the industry is in itself a location 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 enterprise. The site of an enterprise, or group of enterprises, is the actual physical location, or block of land. There are some basic location constraints for the site.

Example: A plentiful supply of flat land, access to transport, power and water, availability of labor, 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.

8.1.1 Assumptions

Following are the various assumptions in this context:

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.

Notes

3. There are fixed locations of labor where wage rates are fixed and labor is immobile and unlimited (capitalists love that).
4. The area has a uniform culture, climate and political system.
5. Entrepreneurs minimize 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.

8.1.2 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 can site your factory at either location, because the transport costs are the same each way.

Did u know? Transport costs are not identical for raw material and manufactured goods and thus, a relative weight must be calculated.

Weber did this with a material index, whereby the relative weight gain or loss is calculated.

- Total weight of the finished product
- Total weight of materials used to manufacture

Task Visit a small manufacturing organization and compare the weights of raw material and finished product.

8.1.3 Material Index

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 favoring 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.

Did u know? 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 favoring 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.

Notes

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.

8.1.4 Need for Enterprise Location

The need for Plant Location arises under the following circumstances:

1. Whenever 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. When the existing factory is not in a position to obtain renewal of the lease.
4. Whenever 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

Steps for starting a small enterprise:

1. Analyse yourself and your objectives
2. Date with yourself for newer ideas
3. Consult publications and agencies
4. Date with yourself for a decision
5. Choose a line
6. Decide on form of ownership (sole proprietary/partnership/cooperative/company (private/public))
7. Decide whether to purchase a going concern or to start a new one.

Self Assessment

State whether the following statements are true or false:

1. A small enterprise or a factory or plant is an individual building or premises that produces manufactured goods.
2. Industrial location is primarily not concerned with the setting of a single enterprise, rather than the whole industry.
3. The area has a uniform culture, climate and political system.

Notes

4. The significance of the material index is in calculating precisely the difference between the unit transport costs of raw materials and finished products.
5. A plant location is needed when a new branch or branches are to be opened for decreasing the volume of production or distribution or both.
6. If the product is a pure material its index will be 10.
7. The weight gain is most likely to come from the addition of ubiquitous materials.
8. Transport costs are not identical for raw material and manufactured goods.

8.2 Selection of the Type of Organisation

There are a number of organizations that a new entrepreneur may select to meet his requirements, ambitions, tastes and designs. He may go for (1) Sole proprietorship, (2) Joint partnership, (3) Limited Liability Company (4) Corporation

8.2.1 Selecting a Business Entity: Sole Proprietorship

A sole proprietorship is both the simplest and the most prevalent form of business organization. An important reason for this is that it is the least regulated of all types of business structures. Technically, the sole proprietorship is the traditional unincorporated one-person business. For legal and tax purposes, the business is the owner. It has no existence outside the owner. The liabilities of the business are personal to the owner and the business ends when the owner dies. On the other hand, all of the profits are also personal to the owner and the sole owner has full control of the business.

Advantages

Following are the advantages of sole proprietorship form of business:

1. ***Total Control of the Owner:*** The most appealing advantage of the sole proprietorship as a business structure is the total control the owner has over the business. Subject only to economic considerations and certain legal restrictions, there is total freedom to operate the business however one chooses. Many people feel that this factor alone is enough to overcome the inherent disadvantages in this form of business.
2. ***Simplicity of Organisation:*** Related to this is the simplicity of organization of the sole proprietorship. Other than maintenance of sufficient records for tax purposes, there are no legal requirements on how the business is operated.
3. ***Least Regulated of all Business:*** As was mentioned earlier, the sole proprietorship is the least regulated of all businesses.

> *Notes* The only license necessary for a sole proprietorship is a local business license, usually obtained by simply paying a fee to a local registration authority.

4. ***Registration with Local Bodies:*** Finally, it may be necessary to register with local, state, and federal tax bodies for I.D. numbers and for the purpose of collection of sales and other taxes. Other than these few simple registrations, from a legal standpoint little else is required to start up a business as a sole proprietorship.

Notes

5. ***Various Tax Benefits:*** A final and important advantage to the sole proprietorship is the various tax benefits available to an individual. The losses or profits of the sole proprietorship are considered personal to the owner. The losses are directly deductible against any other income the owner may have and the profits are taxed only once at the marginal rate of the owner. In many instances, this may have distinct advantages over the method by which partnerships are taxed or the double taxation of corporations, particularly in the early stages of the business.

Disadvantages

Following are the disadvantages of sole proprietorship form of business:

1. ***Risk to the Assets of Sole Owner:*** Perhaps the most important factor to consider before choosing this type of business structure is that all of the personal and business assets of the sole owner are at risk in the sole proprietorship.

Caution If the demands of the creditors of the business exceed those assets, which were formally placed in the name of the business, the creditors may reach the personal assets of the owner of the sole proprietorship.

2. ***Potential Difficulty in Obtaining Loans:*** A second major disadvantage to the sole proprietorship as a form of business structure is the potential difficulty in obtaining business loans.

Notes Often in starting a small business, there is insufficient guarantee to obtain a loan and the sole owner must mortgage his or her own house or other personal assets to obtain the loan.

3. ***Lack of Continuity:*** A further disadvantage to a sole proprietorship is the lack of continuity that is inherent in the business form. If the owner dies, the business ceases to exist. Of course, the assets and liabilities of the business will pass to the heirs of the owner, but the expertise and knowledge of how the business was successfully carried on will often die with the owner. Small sole proprietorships are seldom carried on profitably after the death of the owner.

8.2.2 Selecting a Business Entity: Joint Partnership

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business. A partnership is usually based on a partnership agreement of some type, although the agreement need not be a formal document. It may even simply be an oral understanding between the partners, although this is not recommended. A simple joint undertaking to share expenses is not considered a partnership, nor is a mere co-ownership of property that is maintained and leased or rented. To be considered a partnership for legal and tax purposes, the following factors are usually considered:

- The partners' conduct in carrying out provisions of the partnership agreement,
- The relationship of the parties,

Notes

- The abilities and contributions of each party to the partnership, and
- The control each partner has over the partnership income and the purposes for which the income is used.

Advantages

Following are the advantages of joint partnership form of business:

1. ***Greater Opportunity for Business:*** A partnership, by virtue of combining the credit potential of the various partners, has an inherently greater opportunity for business credit than is generally available to a sole proprietorship.
2. ***Tax Advantages:*** As with the sole proprietorship, there may be certain tax advantages to operation of a business as a partnership, as opposed to a corporation. The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders. Income from a partnership is taxed at personal income tax rates. Note, however, that depending on the individual tax situation of each partner, this aspect could prove to be a disadvantage.
3. ***A Simple Form of Business:*** For a business in which two or more people desire to share in the work and in the profits, a partnership is often the structure chosen. It is, potentially, a much simpler form of business organization than the corporate form. Less start-up costs are necessary and there is limited regulation of partnerships.

Disadvantages

Following are the disadvantages of joint partnership form of business:

1. ***Potential for Conflict between Partners:*** The disadvantages of the partnership form of business begin with the potential for conflict between partners. Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.
2. ***Unlimited Personal Liability:*** A further disadvantage to the partnership structure is that each partner is subject to unlimited personal liability for the debts of the partnership.

Caution The potential liability in a partnership is even greater than that encountered in a sole proprietorship.

3. ***Legal Liability:*** Related to the business risks of personal financial liability is the potential personal legal liability for the negligence of another partner. In addition, each partner may even be liable for the negligence of an employee of the partnership if such negligence takes place during the usual course of business of the partnership. Again, the attendant risks are broadened by the potential for liability based on the acts of other persons. Of course, general liability insurance can counteract this drawback to some extent to protect the personal and partnership assets of each partner.
4. ***Lack of Continuity:*** Again, as with the sole proprietorship, the partnership lacks the advantage of continuity. A partnership is usually automatically terminated upon the death of any partner. A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement.

Notes

8.2.3 Selecting a Business Entity: Limited Liability Company (LLC)

The limited liability company is a hybrid type of business structure. It contains elements of both a traditional partnership and a corporation. The limited liability company form of business structure is relatively new. Only in the last few years has it become available as a form of business in all 50 states and Washington D.C. Its uniqueness is that it offers the limited personal liability of a corporation and the tax benefits of a partnership. A limited liability company consists of one or more members/owners who actively manage the business of the limited liability company. There may also be non-member managers employed to handle the business.

Advantages

The members/owners in such a business enjoy a limited liability, similar to that of a shareholder in a corporation. In general, their risk is limited to the amount of their investment in the limited liability company. Since none of the members will have personal liability and may not necessarily be required to personally perform any tasks of management, it is easier to attract investors to the limited liability company form of business than to a traditional partnership. The members will share in the potential profits and in the tax deductions of the limited liability company, but in fewer of the financial risks involved. Since the limited liability company is generally taxed as a partnership, the profits and losses of the company pass directly to each member and are taxed only at the individual level.

A further advantage of this type of business structure is that it offers a relatively flexible management structure. A final advantage is that limited liability companies are allowed more flexibility than corporations in how profits and losses are actually allocated to the members/owners.

Disadvantages

In as much as the business form is still similar to a partnership in operation, there is still a potential for conflict among the members/owners of a limited liability company. Limited liability companies are formed according to individual state law, generally by filing formal Articles of Organization of a Limited Liability Company with the proper state authorities in the state of formation. Limited liability companies are, generally, a more complex form of business operation than either the sole proprietorship or the standard partnership. They are subject to more paperwork requirements than a simple partnership but somewhat less than a corporation. Limited liability companies are to far more state regulations regarding both their formation and their operation than either a sole proprietorship or a partnership.

Similar to traditional partnerships, the limited liability company has an inherent lack of continuity.

8.2.4 Selecting a Business Entity: Corporations

A corporation is a creation of law. It is governed by the laws of the state where it was incorporated and of the state or states in which it does business. In recent years it has become the business structure of choice for many small businesses. Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership. Corporations are also subject to far more state regulations regarding both their formation and operation. The following discussion is provided in order to allow the potential business owner an understanding of this type of business operation.

The corporation is an artificial entity. It is created by filing Articles of Incorporation with the proper state authorities. This gives the corporation its legal existence and the right to carry on business. The Articles of Incorporation act as a public record of certain formalities of corporate existence. Adoption of corporate bylaws, or internal rules of operation, is often the first business

Notes

of the corporation, after it has been given the authority to conduct business by the state. The bylaws of the corporation outline the actual mechanics of the operation and management of the corporation. There are two basic types of corporations: C-corporations and S-corporations. These prefixes refer to the particular chapter in the U.S. Tax Code that specifies the taxcon sequences of either type of corporate organization. In general, both of these two types of corporations are organized and operated in similar fashion.

There are specific rules that apply to the ability to be recognized by the U.S. Internal Revenue Service as an S-corporation. In addition, there are significant differences in the tax treatment of these two types of corporations. These differences will be clarified below. The basic structure and organizational rules below apply to both types of corporations, unless noted.

C-Corporation: In its simplest form, the corporate organizational structure consists of the following levels:

1. ***Shareholders:*** who own shares of the business but do not contribute to the direct management of the corporation, other than by electing the directors of the corporation and voting on major corporate issues.
2. ***Directors:*** who may be shareholders, but as directors do not own any of the business. They are responsible, jointly as members of the board of directors of the corporation, for making the major business decisions of the corporation, including appointing the officers of the corporation.
3. ***Officers:*** who may be shareholders and/or directors, but, as officers, do not own any of the business. Officers (generally the president, vice president, secretary, and treasurer) are responsible for day-to-day operation of the corporate business.

S-Corporation: The S-corporation is a certain type of corporation that is available for specific tax purposes. It is a creation of the Internal Revenue Service. S-corporation status is not relevant to state corporation laws. Its purpose is to allow small corporations to choose to be taxed, at the Federal level, like a partnership, but also to enjoy many of the benefits of a corporation. It is, in many respects, similar to a limited liability company. The main difference lies in the rules that a company needs to meet in order to qualify as an S-corporation under Federal law. In general, to qualify as an S-corporation under current IRS rules, a corporation must meet certain requirements:

- It must not have more than 75 shareholders
- All of the shareholders must, generally, be individuals and U.S. citizens
- It must only have one class of stock
- Shareholders must consent to S-corporation status
- An election of S-corporation status must be filed with the IRS

The S-corporation retains all of the advantages and disadvantages of the traditional corporation except in the area of taxation. For tax purposes, S-corporation shareholders are treated similarly to partners in a partnership. The income, losses, and deductions generated by an S-corporation are passed through the corporate entity to the individual shareholders. Thus, there is no double taxation of an S-corporation. In addition, unlike a standard corporation, shareholders of S-corporations can personally deduct any corporate losses.

Advantages

Following are the various advantages of corporation form of business:

1. One of the most important advantages to the corporate form of business structure is the potential limited liability of the founders of and investors in the corporation. The liability

for corporate debts is limited, in general, to the amount of money each owner has contributed to the corporation. Unless the corporation is essentially a shell for a one-person business or unless the corporation is grossly under-capitalized or under-insured, the personal assets of the owners are not at risk if the corporation fails. The shareholders stand to lose only what they invested. This factor is very important in attracting investors as the business grows.

2. A corporation can have a perpetual existence. Theoretically, a corporation can last forever. This may be a great advantage if there are potential future changes in ownership of the business in the offing. Changes that would cause a partnership to be dissolved or terminated will often not affect the corporation. This continuity can be an important factor in establishing a stable business image and a permanent relationship with others in the industry.

3. Unlike a partnership, in which no one may become a partner without the consent of the other partners, a shareholder of corporate stock may freely sell, trade, or give away his or her stock unless this right is formally restricted by reasonable corporate decisions. The new owner of such stock is then a new owner of the business in the proportionate share of stock obtained.

Disadvantages

Following are the various disadvantages of corporation form of business:

1. ***Loss of Individual Control:*** Due to the nature of the organizational structure in a corporation, a certain degree of individual control is necessarily lost by incorporation. The officers, as appointees of the board of directors, are answerable to the board of management decisions.

2. ***Technical Formalities:*** The technical formalities of corporation formation and operation must be strictly observed in order for a business to reap the benefits of corporate existence. Corporate meetings, both at the shareholder and director levels, are more formal and more frequent. In addition, the actual formation of the corporation is more expensive than the formation of either a sole proprietorship or partnership. The initial state fees that must be paid for registration of a corporation with a state can run as high as $900.00 for a minimally capitalized corporation. Corporations are also subject to a greater level of governmental regulation than any other type of business entity. These complications have the potential to overburden a small business struggling to survive.

3. Finally, the profits of a corporation, when distributed to the shareholders in the form of dividends, are subject to being taxed twice.

Self Assessment

Fill in the blanks:

9. A …….. is both the simplest and the most prevalent form of business organization.

10. The liabilities of the business are …….. to the owner and the business ends when the owner dies.

11. The most appealing advantage of the sole proprietorship as a business structure is the total ……. the owner has over the business.

12. The ……. or …….. of the sole proprietorship are considered personal to the owner.

Notes

13. A …….. is a relationship existing between two or more persons who join together to carry on a trade or business.
14. The profits generated by a partnership may be distributed directly to the partners without incurring any double ……. liability.
15. The limited liability company is a ……. type of business structure.

Case Study

Piyush General Store

The law of the sea, where big fishes eat up small fish, also applies to business (the bigger firms throw the smaller ones out of business). But then wait-the human mind possesses immense potential and is much more evolved than any other creature in the world. Therefore, smaller players too develop themselves to challenge the bigger players. The case incident over here discusses how Piyush Store, a 35 year old retail outlet in Mahanagar, Lucknow grew from door-to-door bread seller to a retail shop owner and then started losing its customers when the country was hit by the retail revolution. The case does not end here. It discusses how Piyush Store fights back in the reverse circumstances and then provokes you to suggest ways and means to regain its lost position of the most sought after store in the local area.

The Background

Raghav was on his own from the tender age of 15. He began with selling breads door-to-door. The concept of door-to-door selling might be very common now but it was unique in 1970 and therefore Raghav got good response from the customers for the convenience he offered. He had 35 customers in all, to whom he supplied bread and later, even newspapers and eggs every day. Within three years he made good money, opened a store, got married and had a son. He named the outlet after his son's name, 'Piyush General Store'.

Innovative Practices

Raghav still continued with introducing innovative practices like dial-and-order, home delivery and bulk discounts, which gave him good response from all the nearby residents and within a short span of two years it became the much sought after store in the local area and had been constantly growing. By the turn of 2000, he had a customer base of 650 households.

Vision

To be the best retail outlet of the town.

Mission

To provide high quality, wide range of products and services to the customers.

Objective

To seek customer satisfaction, customer loyalty and customer retention through innovative practices.

The Product Ranges

Piyush General Store is a complete departmental store and has products ranging from:

- Food and Beverages

Contd...

Notes

- Personal Care
- Domestic Care
- Fashion Accessories
- Toiletries
- Stationery and Gifts
- Lingerie's
- Baby Products
- Disposable Containers
- Party Products

The Market

Piyush General Store has a very strategic location. It is located in the heart of Mahanagar, a locality in Lucknow, which has a total population of 3.5 lakh and more than 75,000 households, so the market is huge.

The Services

Piyush General Store offers the following services:

- Dial-and-order
- Free Home Delivery
- Vacuum packed food grains and spices

The Growth

Piyush General Store has grown multifold in the past 35 years, both in terms of the number of household it served and profits made. Life was very peaceful, Raghav worked hard, paid personal attention to the customers, set high targets for every month and crossed those targets every month. Customers were satisfied and hence were loyal to the store. Margins were high, it was like dream come true for Piyush General Store.

Problem Encountered

Since 2000 India started witnessing the retailing boom and so did Lucknow. The first mall-cum-multiplex that came up was East End Mall in Gomti Nagar in 2003 followed by Big Bazaar at Sahraganj, Landmark Arcade, Vishal Mart, Fun Republic, Good Bakery to name a few, all introducing wide range of retail products under one roof. They started attracting customers from day one because of the style they offered, large number of products; heavy discounts and an experience of world class shopping malls. The biggest threat has been posed by Big Bazaar, which is direct, as it is a case of a very big competitor offering a wide range of products at heavy discounts.

The Response by Piyush General Store

Raghav had realized in early 2005 the seriousness of the competition arising from these big brands and the world-class shopping experience offered by them. Therefore, he himself introduced renovation of his retail shop and converted it into a fully air-conditioned one, well displayed products with wide ranges. He also introduced a new business strategy of high volume and low margins to attract the lost customers.

Contd...

Notes

Raghav also invested in advertising and distributed pamphlets to all the 70,000 households of Mahanagar featuring the range of products, the discounts and the services introduced at Piyush General Store. Yet, even now, eight months after the renovation, the sales have not shown much improvement. Diwali, a big Hindu festival is two months away. This is considered as the hottest season for any retail outlet in India. Piyush General Store has shown good clientele in the past when sales were so high that the quarter of the profits of the whole year used to come from this festival season. But this time Raghav is jeopardized about the fate of Piyush General Store because the bigger boys (read Big Bazar, Vishal Mart etc.) have announced mega discounts and shopping carnivals for the Diwali festival. Raghav is naturally anxious, thinking about how to keep his customers loyal to him and how to generate an increase in sales.

Questions

1. What is the problem in the case?
2. What suggestion do you give Raghav to fight the challenges thrown up by the big market players?

Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship,* Excel Books Pvt. Ltd.

8.3 Summary

- Location of enterprise is concerned with the least cost location, so that again transport costs are a crucial element in the location decision.
- A small enterprise or a factory or plant is an individual building or premises that produces manufactured goods.
- 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 enterprise. The site of a enterprise, or group of enterprises, is the actual physical location, or block of land.
- As transport costs are not identical for raw material and manufactured goods a relative weighting must be calculated.
- 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.
- A sole proprietorship is both the simplest and the most prevalent form of business organization. An important reason for this is that it is the least regulated of all types of business structures.
- A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business.
- The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders.
- Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.

Notes

- A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement.
- Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership.
- The bylaws of the corporation outline the actual mechanics of the operation and management of the corporation. There are two basic types of corporations: C-corporations and S-corporations.

8.4 Keywords

C-corporation: It refers to any corporation that, under United States federal income tax law, is taxed separately from its owners.

Creditors: A creditor is a party that has a claim on the services of a second party.

Limited Liability Company (LLC): A corporate structure whereby the members of the company cannot be held personally liable for the company's debts or liabilities.

Partnership: A partnership is a relationship existing between two or more persons who join together to carry on a trade or business.

Personal Assets: A personal asset is something of value which belongs to some individual personally.

S-corporation: The S-corporation is a certain type of corporation that is available for specific tax purposes.

Sole Proprietorship: It is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business.

Tax Benefit: A tax benefit is an allowable deduction on a tax return intended to reduce a taxpayer's burden while typically supporting certain types of commercial activity.

8.5 Review Questions

1. What do you mean by Small-scale industry?
2. Define Sole Proprietorship and discuss its advantages and disadvantages.
3. What are the pros and cons of starting a partnership firm?
4. Differentiate among the Limited Liability Company (LLC), Corporation and S-corporation.
5. What do you understand by material index? Briefly explain.
6. Why there is a need for enterprise location?
7. What is partnership form of business? Briefly explain its advantages and disadvantages.
8. Give an introduction of Limited Liability Company (LLC).
9. Define corporations. What are the two types of corporations?
10. Briefly describe S-corporation.

Notes

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	True
5.	False	6.	False
7.	True	8.	True
9.	Sole-Proprietorship	10.	Personal
11.	Control	12.	Losses, profits
13.	Partnership	14.	Tax
15.	Hybrid		

8.6 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship,* Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development,* Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development,* Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development,* Tata McGraw Hill.

Online links

http://businesscasestudies.co.uk/enterprise-rent-a-car/locating-a-business-to-enhance-the-customer-experience/factors-affecting-the-location-of-a-business.html#axzz2NabIDkDI

http://www.articlesbase.com/business-articles/selection-of-types-of-organization-3191380.html

http://www.companiesinc.com/corporation/types.asp

http://www.morebusiness.com/getting_started/incorporating/d934832501.brc

Unit 9: Financial Considerations

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Objectives

After studying this unit, you will be able to:

- Explain the financial statements
- Discuss how to manage cash flows
- Explain the procedure for preparation of projected financial statements
- Discuss the applications of business ratios
- Discuss the sources of finance

Notes

Introduction

In the previous unit, we dealt with the steps for starting a small business enterprise. This unit will help you to understand the financial statements and business ratios. The various sections and sub-sections of this unit will also summarize the sources of finance and managing cash flows. Whenever there comes an idea of launching a new venture, the first thing that comes in mind is how to avail the required money for the proposed venture or business. Finance is the life-blood of a business enterprise or an organization. Also the success and failure of the new venture to a great extent remains dependent on the financial planning. Therefore, it is very important for every entrepreneur to draw up a financial plan at the starting stage of his new business or venture. A well defined clear cut plan will help in determining the need of finance at different stages of business.

9.1 Financial Statements

Financial statements are necessary sources of information about companies for a wide variety of users. Those who use financial statement information include company management teams, investors, creditors, governmental oversight agencies and the Internal Revenue Service. Users of financial statement information do not necessarily need to know everything about accounting to use the information in basic statements. However, to effectively use financial statement information, it is helpful to know a few simple concepts and to be familiar with some of the fundamental characteristics of basic financial statements.

Following are the four main accounting statements:

9.1.1 Balance Sheet

The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date. Some analysts take the balance sheet as similar to a snapshot illustrating a company's financial health. Keeping in mind the assets and claims, it is helpful to remember the "left–right" accounting equation orientation – assets on the left side, claims on the right. In addition, there are a number of other characteristics of the balance sheet that are noteworthy, such as balancing, order of listing, valuing of items, and definitions of items.

The balance sheet must balance – that's why it's called a balance sheet. In other words, the assets must equal the claims on assets.

Did u know? The concept of balancing relies on the accounting equation:

Assets = Liabilities + Owner's Equity

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses.

Notes A company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

Notes

Figure 9.1: Pro forma of Balance Sheet

Pro-Forma Balance Sheet

XYZ Corporation
For 2003 to 2006
(all numbers in $000)

ASSETS	2003	2004	2005	2006
Current Assets				
Cash	$54	$57	$59	$64
Net accounts receivable	$367	$396	$426	$435
Inventory	$177	$191	$203	$205
Temporary investment	$12	$12	$12	$12
Prepaid expenses	$2	$2	$2	$2
Total Current Assets	$612	$658	$702	$718
Fixed Assets				
Long-term investments	$42	$43	$43	$46
Land	$656	$656	$684	$727
Buildings (net of depreciation)	$903	$928	$983	$1,021
Plant & equipment (net)	$608	$631	$642	$654
Furniture & fixtures (net)	$61	$65	$68	$72
Total Net Fixed Assets	$2,270	$2,323	$2,420	$2,520
TOTAL ASSETS	$2,882	$2,981	$3,122	$3,238
LIABILITIES				
Current Liabilities				
Accounts payable	$246	$252	$258	$277
Short-term notes	$24	$25	$26	$28
Current portion of long-term notes	$14	$14	$14	$15
Accruals & other payables	$14	$14	$14	$14
Total Current Liabilities	$298	$305	$312	$334
Long-term Liabilities				
Mortgage	$897	$931	$978	$1,021
Other long-term liabilities	$443	$485	$527	$576
Total Long-term Liabilities	$1,340	$1,416	$1,505	$1,597
SHAREHOLDERS' EQUITY				
Capital stock	$300	$300	$300	$300
Retained earnings	$944	$960	$1,005	$1,007
Total Shareholders' Equity	$1,244	$1,260	$1,305	$1,307
TOTAL LIABILITIES & EQUITY	$2,882	$2,981	$3,122	$3,238

Source: http://www.docstoc.com/docs/526705/Pro-Forma-Balance-Sheet

9.1.2 Income Statement

The Income Statement shows a firm's revenues and expenses, and taxes associated with those expenses for some financial period. Where the Balance Sheet may be thought of in terms of the "left–right" orientation previously discussed, the income statement would be thought of in "top–down" terms.

A basic overview of income statement items shows how a manufacturing company might present an income statement. Income statements for other companies may appear to be slightly different, but in general the construction would be the same.

Task

Suppose you were to start up a restaurant, what are the expenses that you need to incur? Make a list for the same.

Notes

Figure 9.2: Pro forma of Income Statement

[Company Name] **Income Statement**

For the Years Ending [Dec 31, 2008 and Dec 31, 2007]

Revenue	2008	2007
Gross sales	181,683	
(Less sales returns and allowances)	(10,000)	
Net Sales	**171,683**	-
Cost of Goods Sold		
Beginning inventory		
Goods purchased or manufactured	130,028	
Total Goods Available	130,028	-
(Less ending inventory)		
Cost of Goods Sold	130,028	-
Gross Profit (Loss)	**41,655**	-
Expenses		
Advertising		
Bad debt		
Commissions		
Depreciation	16,616	
Employee benefits		
Furniture and equipment		
Insurance		
Maintenance and repairs		
Office supplies		
Payroll taxes		
Rent		
Research and development		
Salaries and wages		
Software		
Travel		
Utilities		
Web hosting and domains		
Other	16,192	
Total Operating Expenses	32,808	-
Operating Income (Loss)	**8,847**	-
Non-operating revenues, expenses, gains, losses	12,762	
(Less interest expense)	(6,113)	
Income Before Taxes	15,496	-
(Less income tax expense)	(1,069)	
Income From Continuing Operations	**14,427**	-
Below-the-Line Items		
Income from discontinued operations		
Extraordinary items		
Cumulative effect of accounting changes		
Net Income	**14,427**	-

Source: http://images.vertex42.com/ExcelTemplates/income-statement_screenshot_2.gif

Notes

An important concept in understanding the income statement is Earnings Per Share (EPS). The EPS for a company is net income divided by the number of shares of common stock outstanding. It represents the bottom line for a company.

Companies continually make decisions on how their bottom line will be impacted since shareholders in the company are concerned with how management decisions affect individual shareholder position.

9.1.3 Cash Flow Statement

Cash Flow Analysis is useful for short-run planning. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future & make suitable arrangements. Cash Flow statement shows inflow – sources of cash (i.e. positive cash flow) and outflow - uses of cash (i.e. negative cash flows) during the period and the difference being 'Net Cash Flow'. This statement analyses changes in non-current accounts as well as current accounts (other than cash) to determine the flow of cash.

Task

Suppose you are the accountant of XYZ firm dealing in furniture manufacturing and sale. Draw a fictitious cash flow statement and income statement for your company. (Write the contents only, no need to write the figures).

Statement of changes in cash position is prepared recording only inflows and outflows of cash, reflecting the net change during the period. Cash received minus cash paid during a period is the cash balance at the end of the period. If the net change in cash position has to be found out from the profit and loss account, comparative balance sheets, adjustments for the non-cash items should be made.

Types of Cash Flow

The flow or movement of cash may be of two types, namely, actual flow of cash and notional flow of cash.

Actual Flow of Cash

There may be actual or direct flow of cash 'in' and 'out' of the business under the following circumstances:

a. ***Actual inflow of Cash:*** This transaction results in the actual inflow of cash into the business. Similarly, there is inflow of cash when debentures are issued for cash, loans raised in cash, sale of fixed assets for cash, dividends received in cash, etc.

Example: Issue of shares for cash:

Cash a/c Dr

To Share Capital a/c

b. ***Actual outflow of Cash:*** This transaction results in the actual outflow of cash from the business. Similarly, there is outflow of cash on repayment of loans, redemption of preference shares or debentures, payment of taxes, dividend, etc. in cash.

Notes

Example: Purchase of Machinery for cash.

Machinery a/c Dr.

To Cash

Notional Cash Flow

The indirect movement of cash 'in' and 'out' of the business is referred to as 'notional flow of cash' which may take place under the following circumstances:

a. ***Notional inflow of cash:*** Notional inflow of cash takes place whenever a transaction results in increasing current liabilities or decreasing current assets.

Example: Purchase of goods on credit.

Purchases A/c Dr.

To Creditors A/c

This transaction results in increasing creditors to the extent of credit purchases made. Though there is no actual inflow of cash, goods purchased on credit can be converted into cash. Hence, there is notional inflow of cash

b. ***Notional outflow of cash:*** Notional outflow of cash takes place whenever a transaction results in decreasing current liabilities or increasing current assets.

Example: Sale of goods on credits:

Debtors A/c Dr.

To Credit Sales A/c

This transaction results in increasing book-debts/Bills Receivable to the extent of credit sale made. Though there is no actual outflow of cash, goods sold on credit would have been sold for cash and would cost the business in terms of materials, labor and overheads. Hence, there is notional outflow of cash i.e. it may be considered as loan advanced to customers. Similarly, when there is decrease in current liabilities, it may be due to part settlement of these dues. Hence, such decrease in a current liability is treated as notional outflow of cash.

Notes

Figure 9.3: Pro forma of Cash Flow Statement

[Company Name]

Cash Flow Statement

For the Year Ending	12/31/2008
Cash at Beginning of Year	15,700
Operations	
Cash receipts from customers	693,200
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	**147,900**
Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	**(41,400)**
Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	**(87,000)**
Net Increase in Cash	**19,500**
Cash at End of Year	35,200

Source: http://images.vertex42.com/ExcelTemplates/cash-flow-statement_screenshot.gif

Notes

9.1.4 Profit and Loss Account

The profit and loss account shows the profit that the business makes. This is also known as the "Trading, Profit and Loss Account". It is made up of the following components:

- Sales
- Direct Costs
- Gross Profit
- Indirect Costs
- Net Profit
- Taxation
- Director's Drawings
- Investment in Business

The profit and loss account is opened by recording the gross profit (on credit side) or gross loss (debit side). For earning net profit a businessman has to incur many more expenses in addition to the direct expenses. Those expenses are deducted from profit (or added to gross loss), the resultant figure will be net profit or net loss. The expenses which are recorded in profit and loss account are ailed 'indirect expenses'.

Preparation of Projected Financial Statements

Projected financial statements provide assumptions about a given company's financial situation in the future, whether it is an annual or quarterly projection. Preparing projected financial statements is a lengthy task, as it requires analysis of the company's finances, reading previous budgets and income statements, and examining the company's current financial situation to make assumptions about the business' financial potential. The process is the same for smaller, sole-proprietor businesses and well-established corporations.

When preparing the projected financial statements, there are some common pitfalls that need to be avoided:

- Don't prepare an over ambitious or unrealistic projection. It is better to prepare a conservative projection and be able to exceed your plan than it is to prepare something unrealistic and have to explain to investors why you were unable to achieve projected results.
- Don't be creative in developing your presentation of the projections. Use prescribed industry standard formats that meet Generally Accepted Accounting Principles.
- Be sensitive to the amount of detail that is presented and avoid the use of technical terms. Give the reader the proper amount of detail to make a decision.
- Facts and extensive research should back all assumptions used in the projections. This makes your projections more believable.
- Fully disclose information on all issues relating to contracts, ownership, offering price, stock options, warrants, related party issues, risks and uncertainties. Don't mislead the reader.

Notes

Figure 9.4: Pro forma of Profit and Loss Account

[Company Name]

[Street Address], [City, ST ZIP Code]
[Phone: 555-555-55555] [Fax: 123-123-123456]
[abc@exapmle.com]

Profit & Loss Statement

For the Period Ended _____

Income	$	$
Sales	0000000	
Services	00000000	
Other Income	00000	
Total Income		**0000000**
Expenses		
Accounting	0000000	
Advertising	000000	
Assets Small	000000	
Bank Charges	000000	
Cost of Goods Sold	00000	
Depreciation	00000	
Electricity	000000	
Hire of Equipment	00000	
Insurance	00000	
Interest	00000	
Motor Vehicle	00000	
Office Supplies	00000	
Postage and Printing	00000	
Rent	00000	
Repairs and Maintenance	000000	
Stationary	0000	
Subscriptions	00000	
Telephone	00000	
Training/Seminars	00000	
Wages and On costs	00000	
Total Expenses		**00000000**
Profit/Loss		**00000000**

Source: http://www.finetemplates.org/wp-content/uploads/2012/06/Profit-and-Loss-Statement-Template.jpg

Self Assessment

Fill in the blanks:

1. Financial statements are necessary sources of …….. about companies.
2. Some analysts take the balance sheet as a …….. illustrating a company's financial health.

Notes

3. An important concept in understanding the income statement is ……..
4. Cash Flow Analysis is useful for …….. planning.

9.2 Managing Cash Flows

Maintaining a healthy cash flow is one of the most important aspects of running any small business. Key to success in this area is the management of inflows and outflows, which can be monitored using a financial software package.

9.2.1 Analyzing Cash Flow

Before you can begin to improve your cash flow management, you should obtain a detailed view of how your company manages cash. Look at areas including accounts receivable, accounts payable, credit terms and inventory.

If you find that there is an imbalance between money coming in and money going out – for example, if you have more unpaid purchases than sales coming due - this may result in a cash flow problem during the next month.

Once you have analyzed cash flow, you can begin to look for ways to improve cash flow management. In very basic terms, your goal is to speed up inflows and delay outflows as long as possible while still meeting all of your financial obligations.

9.2.2 Improving Accounts Receivable

Accounts receivable make up a large proportion of the cash coming into a small business, so keeping a close eye on them is vital to improve cash flow. Collecting money may not always be easy, but there are steps you can take to ensure you don't find yourself with a cash flow crisis due to slow payments.

Stay on top of payments: Awareness of when customers' payments are coming due is very important and you can use your financial software to stay ahead of the game. Generating an accounts receivable aging report to track the habits of your customers over time will help identify which ones are likely to need to be prompted to pay.

Make it easy for them to pay: Similarly, make sure you have been prompt in your issuing of invoices. If customers regularly receive their invoices in a timely manner, you are more likely to receive your money quickly. Ensure that customers know exactly when payment is due by indicating it clearly on the invoice. Give them easy and fast options for payments, such as fax and online methods. Many owners have successfully accelerated accounts receivable collections by offering discounts to those who pay early.

Institute a credit policy: When and how do you make credit decisions about your customers? The sooner you do so, the faster you can bill them – and the faster you will get paid. Try to anticipate customers' credit needs before they ask.

For new customers, you will probably want to require a credit check and several references, a process which can be initiated ahead of their first order to speed things up. You could also consider asking for a small deposit on new orders, to make sure you have some cash on hand.

Institute a collections policy: Your policy should indicate when you begin efforts to collect on a payment. Many business owners stick to a formal reminder system that takes on a more serious tone as the lateness increases and eventually involves an attorney and, ultimately, a collection agency.

Notes

However, you may also decide to tweak your approach based on the particular customer or size of the payment due. A chronic late-payer may require different handling than someone who has slipped up on a single occasion.

9.2.3 Improving Accounts Payable

It is to your advantage to keep cash in hand for as long as possible, which means carefully monitoring your outflows.

Caselet

Chester Carlson

The inventor of Xerography, he was born in to an ordinary family, his father was an itinerant barber, he had a difficult childhood, he lost his mother and his father was crippled with arthritis at the tender age of seventeen. But he worked and completed his studies in these adverse circumstances got a job for himself and also realized that he needed to do something bigger for the betterment of the society.

Carlson was also looking for opportunities to do something good for self as well. While in his job he noted that there were very limited and slow means and methods to make copies of the documents. He worked late in laboratories, invented xerography and got it patented. But he did not have enough money to make a product that could make a number of copies at the touch of a button. To his despair and hard luck, no one wanted to experiment with this new product. In fact, he approached IBM to get his project funded. IBM hired a consultant who took 18 months to conduct a market research and indicated that there was no market for a plain paper copier; on the basis of this report IBM declined Carlson's proposal.

He struggled hard from 1936 to 1944 but was not able to find anyone (at times he lost hope but still believed in the success of his product) who could fund the project. Then in 1944, a small company Haloid made an agreement in which Haloid got the right to develop the Xerographic machine. The invention finally got its shape in 1959 when the xerographic machine was introduced (21 years after its invention). The product was a major hit, the company made billions and in fact this new machine created an entirely new generation of copying, documenting, sharing printed text! Thanks to Carlson for inventing and thanks to Haloid, who believed in the success of the invention, the lack of which could have meant the burial of an idea of a genius, that has changed the world.

Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship*, Excel Books Pvt. Ltd.

Manage your due dates: Pay an invoice on the day it is due to keep consistent cash flow. Paying early can leave you short of cash at a crucial time. You can organize your outflows by arranging electronic funds transfers with your financial software.

Extend your payment times: Speak with your vendors and see if you can work out an agreement so that payments are spread out and payment times are extended as long as possible. Also consider ways of strengthening your relationships with vendors in case you need to delay payment in the future. Remember that those who offer the lowest prices may not necessarily be the most flexible – take this into consideration when choosing who to work with.

9.2.4 Improving Inventory Management

Inventory management basically involves monitoring your daily sales activity and making sure your on-hand inventory reflects these patterns. You can use your retail management software

Notes

to help forecast how demand will ebb and flow throughout the coming months. A common dictum is that 80 percent of your revenue comes from 20 percent of your inventory. By figuring out which of your products this applies to, you will be able to make informed decisions about how much of a certain item to order - and when. Inventory that is not being transformed into cash is useless. If you have out-of-date inventory, the best strategy is to sell it for the best price you can. Many small business experts believe that healthy cash flow is truly the secret to success. Once you have a handle on how to balance your inflows and outflows, you may find you agree.

Self Assessment

State whether the following statements are true or false:

5. Accounts receivable make up a large proportion of the cash coming into a small business.
6. Not Many owners have successfully accelerated accounts receivable collections by offering discounts to those who pay early.
7. Paying early can leave you short of cash at a crucial time.
8. Many small business experts believe that healthy cash flow is truly the secret to success.

9.3 Applications of Business Ratios

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios include the price-earnings ratio, debt-equity ratio, earnings per share, asset turnover and working capital.

9.3.1 Importance of Business Ratios

Business ratios are used to assess the performance of the firm in the following aspects:

1. Trend analysis
2. Inter-firm comparison
3. Operating efficiency analysis
4. Long-term financial viability
5. Reveals strength and weakness of business
6. Overall profitability of the business

9.3.2 Financial Ratios

Financial ratios are the indicators of the financial well being of a business plan. These are used as tools to determine the financial viability of a business plan. Financial ratios are corroborated with other facts before any judgmental action is taken. These are calculated by using the information available in historical and/or forecasted balance sheets and other financial statements. Ratios are commonly used for trend analysis — tracking of financial figures over a

period of time. Since the venture has no historical balance sheet or past performances, these are evaluated on the basis of the projected balance sheet and other forecasted documents. These allow comparison of the projected performance with similar industries or similar businesses. Financial ratios fall into four general categories. These can be classified as:

Liquidity Ratios

Liquidity ratios are indicators of the venture's capability to meet short-term financial obligations. Short term obligations imply cash demand to be met in next 12 months. Maximum use of this ratio is made by the providers of the short term credit to the ventures. Three of the most common liquidity ratios are (a) current ratio or working capital ratio, (b) quick ratio or acid test ratio, and, (c) cash ratio.

The current ratio is the ratio of current assets to current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Providers of short-term creditors prefer high current ratio as it reduces their risk of non-payment. It signifies venture liquidity. Contrarily, shareholders are known to prefer low current ratio as it implies liquidity deployment to create more wealth. Values for the current ratio vary from industry to industry and venture to venture in same industry. Ventures exposed to cyclical upswing and downturns maintain high incidence of current ratio to remain liquid during downturns. A current ratio of 1 or more than 1 is considered acceptable for most of the industries. Any opinion should not be formed exclusively on the basis of the current ratio of the venture. Many other factors need to be considered before any conclusion can be drawn. A high current ratio of more than 2, indicates excessive current assets in the form of inventory and under deployed financial resources. A low ratio of less than 1, indicates that venture may have difficulty in meeting short-term financial obligations.

The quick or the acid test ratio is the ratio of current assets — inventory to current liabilities:

The component of inventory in current ratio may consist of certain inputs or raw materials that may not be possible to be liquidated at short notice. The liquidation value may also be uncertain. The quick ratio is a refinement on the current ratio as it excludes inventory from the current assets of the venture. Such exclusion, removes the ambiguity created in the liquidity position of the venture by uncertain inventory components.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The current assets that are used to calculate quick ratio (acid test ratio) include cash, accounts receivable and notes receivable.

Cash ratio is one of the most conservative of all liquidity ratios. It is an extreme refinement on quick ratio. It excludes all current assets of the venture except the absolutely liquid assets available. These consist of cash in hand or bank and other cash equivalents.

Cash Ratio

The cash ratio is ratio of cash + cash equivalent securities to current liabilities of the venture.

It is the most robust indicator of venture ability to meet current liabilities. Higher cash ratio could be a cause of concern as it represents the situation in which the resources may not be optimally deployed for creation of wealth.

Notes

Profitability Ratios

Profitability ratios are indicators of measures of the success of the venture in generating profits for the entrepreneur. A wide range of ratios is used to measure profitability. We shall be concentrating on the three major indicators. These consist of, (a) gross profit margin, (b) return on assets, and, (c) return on equity or return on investment (ROI).

The gross profit margin indicates the gross profits earned by the venture on the sales. It accounts for the cost of the goods sold, without including other costs.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$$

Lower gross profit margin ratio indicates that earnings that are needed to pay other costs, including fixed costs are low. It is also an indicator of the venture inability to control its production cost. A higher gross profit margin indicates production efficiency and venture capability to compete during intense rivalry and in markets characterised by low entry barriers.

Return on assets is an indicator of determining venture efficiency in utilizing assets to create wealth/profit.

$$\text{Return of Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Lower return on assets is an indicator that the venture earnings are low for the amount of assets deployed. It can be used to determine the venture efficiency *viz-a-viz* industry firms.

Return on equity or return on investment (ROI) is one of the basic measures for determination of the profits by the equity holder on the investments. It is derived by determining the net income generated by the venture on the equity.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Stockholder's Equity}}$$

Operations Ratios

These include the ratios used to measure internal operational efficiency of the venture. Any isolative interpretation derived from these will largely be unproductive, sometimes even misleading. These should be viewed in conjunction with other ratios and industry environment. We shall be focusing only on three types of operations ratios that shall include, (a) accounts receivable turnover ratio, (b) inventory turnover ratio, and (c) average days payable ratio.

$$\text{Accounts Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

It measures how liquid accounts receivable are for the complete year. Average accounts receivable is the average of the opening and closing balances for all the accounts receivables. It informs number of rotation of the receivables during one financial year. It is generally evaluated as being either positive or negative in comparison with the industry firms of similar types. Higher turnover rate is indicator of prompt payment by the customers and resulting in less investment in accounts receivables.

Inventory turnover ratio is determined by cost of goods sold to average inventory.

Notes

Generally, it is calculated as:

$$\frac{\text{Sales}}{\text{Inventory}}$$

It is also possible to be calculated as:

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

The first method of calculation is more frequently used, compared to cost of goods sold and average inventory. The second method is used as sales are recorded at market value, while inventories are recorded at value of procurement or cost. Use of average inventory instead of ending inventory allows reduction of seasonal factors that may distort the correct ratio. It measures the number of times inventory has been turned over in a financial year. It also indicates the inventory quality in terms of its obsolescence and efficiency of inventory management practices adopted by the venture.

High inventory turnover ratio is generally considered a positive sign of the venture efficiency. If the venture has deployed significant resources in inventory, it is all the more important to keep a track of this ratio as it helps in formulating proper financial plans. If the venture is turning the inventory slowly, it would impact the cash flow of the venture. As with other ratios, it needs to be compared with industry ratios. Another interpretation is, while low turnover indicates poor sales and maintenance of extra inventory, affecting the blockage of funds and increasing inventory holding cost and unproductive investments, a high ratio could be indicative of either strong sales or improper purchases.

Average days payable ratio measures the average days, the venture takes to pay its suppliers.

$$\text{Average Days Payable} = \frac{\text{Days in the period} \times \text{Average accounts payable}}{\text{Purchases on credit}}$$

The "Days in the Period" denotes the number of days in the measurement period, which normally consists of 365 days (One Financial Year). "Average Accounts Payable" is arrived at by taking into consideration the opening and closing balances of accounts payable for the measurement period. If accounts payable period of the venture is longer than the collection period, it may be indicative of improper payment procedures or maintenance of poor cash position. It may affect the credit rating of the venture. Contrarily, if the accounts payable period of the venture is shorter, it indicates the venture is unable to maximize the benefits of purchases on credit, though it can meet suppliers' payment terms.

Leverage Ratios

These ratios measure financial leverage of the venture to meet financial obligations it has created. Additionally, these indicate the capital structure of the venture and resultant strength and weaknesses. The most significant ones focus on debt, equity, assets and interest features of the venture. These also inform venture's mix of operating costs (fixed and the variable), and how changes in output will be affecting operating income. Ventures with relatively higher fixed costs, having achieved the breakeven point (BEP) post higher amount of operating revenue when output is increased compared to the ventures that have higher variable cost. It is brought about by the fact that costs have already been incurred and after achieving the break even point any increase in sales transfers to the operating income. Contrarily, in the ventures with high variable costs, additional sales do not impart any such benefit because of higher incidence of

Notes

variable cost in the output. We shall be considering three types of leverage ratios and their implications. These include (a) debt-to-equity ratio, (b) degree of combined leverage1 and, (c) degree of operating leverage.

Debt to equity ratio is a measure of venture's financial leverage. It is arrived at by dividing total liabilities of the venture by the equity. It informs the proportion of equity and debt in the capital structure of the venture.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

A further precision is possible if only interest bearing, long-term debt is used instead of total liabilities. High debt/equity ratio generally implies venture financing by debt and higher interest burden that can affect the profitability in the event of downturn. High debt/equity ratio also indicates greater control by the entrepreneur. Debt-equity ratio also varies from industry to industry. Capital-intensive industries have higher incidence of debt-equity ratio relative to less capital-intensive industries.

Degree of combined leverage ratio summarizes the combined effect the Degree of Operating Leverage (DOL), and the degree of financial leverage has on Earnings Per Share (EPS), given a particular change in sales. This ratio can be used to help determine the most optimal level of financial and operational leverage to use in any firm. Additionally, it indicates the effect this combination or variation in this combination has on venture earnings.

$$\text{Degree of Combined Leverage Ratio} = \frac{\text{\% Change Earning Per Share (EPS)}}{\text{\% Changes in Sales}}$$

One interpretation of the high level of combined leverage is higher amount of risk associated with the venture as high leverage may imply higher fixed costs.

Degree of operating leverage indicates the effect a particular amount of operating leverage has on venture's Profit Before Interest and Taxes (PBIT).

Caution It uses higher share of fixed costs to variable costs in venture operations.

Higher level of operating leverage will impart higher amount of volatility to venture profits before interest and tax relative to the changes in the sales.

$$\text{Degree of Operating Leverage} = \frac{\text{\% Change in Profit Before Interest \& Taxes}}{\text{\% Changes in Sales}}$$

This ratio also assists in understanding the effect a specific level of operating leverage exerts on earning potential of the venture. This is possible to be used as a beacon for arriving at optimum level of operating leverage so that profit before interest and taxes may be maximized.

Self Assessment

Fill in the blanks:

9. ……are calculated from current year numbers and are then compared to previous years.
10. Ratios are commonly used for …….. analysis.

Notes

11. Liquidity ratios are …… of the venture's capability to meet short-term financial obligations.

12. Ventures exposed to cyclical upswing and downturns maintain high incidence of current ratio to remain liquid during …….

9.4 Sources of Finance: Debt and Equity

In order to prepare an estimation of capital requirement, various types of expenditure that should be taken into account are promotion and formation expenses, expenses for purchasing fixed assets, expenses for expansion of business, expenses for current assets and cost of raising capital, etc.

1. ***Creation of internal resources:*** This source, though mobilized in large sized concerns, is little used in small establishments. This source comprises provision for taxation, provision for depreciation and reserve fund. The newly started enterprises cannot possibly use this source.

2. ***Taking public deposits:*** The large undertakings, with the object of procuring middle-term capital, take up term-deposit from the public. The public are given deposit certificate. Though, it is one of the main sources of financing for established concerns, it is not at all possible to take up this opportunity for new establishments.

3. ***Financing by commercial banks:*** The commercial banks have nowadays met the short-term financial requirements with the supply of finance to the companies. The commercial banks have been supplying short-term capital through discounting of bill, cash credit and advance payment.

4. ***Financing by financial institutions:*** Examples includes IFC, IDBI, ICICI, SFC, SIDBI, etc.

5. ***Financing by other investment institutions:*** A number of investment institutions have been developed in both public and private sector to supply finance to the new enterprises like LIC, GIC, Tata Investment Trust, etc.

6. ***Personal finance:*** In case of starting a new venture, the entrepreneur provides himself for supplying capital by investing his own or family savings. These include cash and personal assets that can be converted into cash. In most cases, the small-scale businesses and family businesses are developed by entrepreneur's own capital. For this, an entrepreneur might have set himself some months or years ago and must have already prepared financially for it. But no large-scale enterprise can be developed by financing of entrepreneur's personal capital.

7. ***Government grants:*** In specific section, there is provision for grants from government to be financed to new enterprises. Government usually provides adequate finance as grant and subsidy to those cases which are recognised as priority sectors. Thus, by means of grant and subsidy from government, capital is supplied to the entrepreneurs.

8. ***Others:*** Apart from the various sources stated above, the indigenous money-lenders or bankers supply capital on conditional basis to the new entrepreneur. This may be procured from venture capital firm also. Capital may be provided by lease financing.

9.4.1 Equity Financing

If the new venture is of company form of organization, then it can issue shares to public subject to the approval of the Company Law Board and thereby procure necessary capital for the enterprise. The share represents ownership. The value of a share is not very much.

Notes

So, persons desirous of becoming owner of an enterprise can purchase in their names. The capital raised by sale of shares is called the share capital.

Whenever an entrepreneur intends to finance from market, equity financing is a common method. Equity means capital which is invested by the owner or owners in the business and on permanent basis, it is a risk-full investment. Equity or ownership capital is the capital supplied by owner in single ownership business or by owners in partnership business. And in case of private companies, the entrepreneurs and his relatives and friends supply capital and in case of public companies, capital is procured by selling shares to the public. This equity capital or ownership capital is supplied by equity shareholders. The various methods of equity financing are:

- Entrepreneur's personal savings and assets.
- Loans taken from relatives and friends.
- Personal loan taken from indigenous money lender.
- Financing through sale of shares.
- Ordinary or equity shares.

9.4.2 Debt Financing

In order to raise more capital, the enterprise procures capital by sale of debentures. A debenture is an acknowledgment of a debt under the seal of an organization. Those, who purchase debentures are called the debenture-holders. The debenture-holders cannot become the owners of the enterprise but be recognized as its creditors.

Debt financing refers to such scheme of financing by which capital is raised through the issue of bonds, debentures and mortgages. There are several important ways to obtain debt financing, such as money raised through the sale of bonds, debentures and commercial papers. Small enterprises have fewer choices than large firms for obtaining debt financing. These enterprises are limited by their size. They are local enterprises with small inventories or markets that provide few assets for collateralizing loans. Small entrepreneurial ventures created with the intent to grow are still in their development stages and are risky. They have not yet established their level of performance or asset strength to underwrite substantial debt.

Self Assessment

Fill in the blanks:

13. Whenever an entrepreneur intends to finance from market, ……. financing is a common method.
14. This equity capital or ……. capital is supplied by equity shareholders.
15. A ……... is an acknowledgment of a debt under the seal of an organization.
16. Small enterprises have fewer choices than large firms for obtaining …… financing.

Notes

Case Study

It's a Hard Core Job to Implement Core Banking Services at Mera Bank

Mera Bank introduced core-banking services to mesmerize the demanding customers. In doing so it introduced organization-wide changes in infrastructure, technology and competitive services to customers. But hold on- are employees ready to accept the change suggested by the top management?

As we all know, the Banking Industry has observed sea changes after the amendments. The Banking Regulation Act in 1993, which allowed the private sector banks to enter this industry. Privatization brought in competition, cost cutting, enhanced customer expectations. As a result, quickness, promptness, and urge to retain the loyalty of the customers, multiplicity of services to customers, sophistication and modern technology have become the password to success.

Changing Trends in the Banking Industry

Indian banking can be broadly categorized into nationalized (government-owned), private banks and specialized banking institutions. The Reserve Bank of India, acts as a centralized body monitoring any discrepancies and shortcomings in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and have since then seen tremendous progress. The need to become highly customer-focused has forced the slow-moving public sector banks to adopt a fast track approach. These customer-friendly programmes included revamping of the product and service portfolio by introducing new product and service schemes (like credit cards, hassle-free housing loan schemes, educational loans and flexi-deposit schemes) integration of the branch network by using advanced networking technology and customer personalization programs (through ATMs and anytime banking etc.). Many banks have started capitalizing on the recent stock market surge by adding (Initial Public Offering) IPO financing options and schemes in their product mix. IPO finance has received a positive response from the investors and is becoming popular amongst the business community. The objective of all these strategies is very clear - to bridge the service and product gap that was inherent in the banking system. To cater to the increasing customer demands and the surge in business volumes, many public sector banks have ploughed back funds to invest heavily in technology upgrades and systems like LANs, WANs, VSATs, etc.

Marketing and brand-building programmes were also given a new thrust in the new liberalized banking scenario. Promotional budgets were hiked to cater to the new and large discerning target audience. Banks were now keen on marketing their products and services through various mediums to reach their core customers. Direct marketing, Internet marketing, hoarding, press ads, television sponsorships, image makeovers, etc. became an integral part of a bank's marketing mix. To meet the personalized needs of the customer and in order to differentiate its services, banks repositioned themselves in specialized fields, like housing loans, car finance, educational loans etc. to optimally service the customer. Permission marketing became the new strategy that banks began to propound i.e. feeding the customer (with his or her consent) with product and service information and thereby enticing him towards the bank's product-service portfolio.

Waking up to these events in the private and public sector banks, Mera Bank also introduced Core Banking services to its customers.

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Core Banking at Mera Bank: A Modern Intervention to Survive in the Highly Competitive Market

The Bank has over the years, earned the reputation of being a techno-savvy bank and is one of the forerunners amongst public sector banks in the field of technology. It is one of the pioneer public sector banks, which launched Core Banking Solution in 2000. As of June 2006, more than 70 branches/extension counters of bank are networked under Core Banking Solution, powered with the centralized technology platform. The Bank has launched multiple Electronic Delivery Channels and has installed nearly 100 networked ATMs. Online Tele-banking facility is available to all its Core Banking customers. The multi-facility versatile Internet Banking Solution provides extensive information, in addition to the online transaction facility, to both individuals and corporates banking with the Core Banking branches of the Bank. In addition to regular banking facilities, customers today can also avail of a variety of value-added services like cash management service, insurance, mutual funds and Demat from the Bank.

Mera bank had introduced Core Banking facilities to its customers, which involved series of changes at Mera Bank which included:

1. Adopting a web mindset
2. Latching on to the first mover's advantage
3. Recognizing the core competencies
4. Ability to deal multiplicity with simplicity
5. Senior management initiative to transform the organization from inward to outward looking
6. Aligning roles and value propositions with the customer segments
7. Redesigning optimal channel portfolio
8. Acquiring new capabilities through strategic alliances
9. Corporate brand-building exercises which even includes infrastructure revamping (like fully air-conditioned banks)
10. Computerization of all the banking transactions
11. Nationwide networking of the bank through WAN, LAN
12. Customer personalization programmes through ATMs and anytime banking
13. Improved services like hassle-free housing loan schemes, educational loans and flexi-deposit schemes)
14. 8 to 8 banking in order to attract more and more customers.

The Problem

Samina Rafat, faculty in one of the premier management institutes, a customer for almost seven years with Mera Bank was really happy to know about the positive developments at Mera Bank especially 8-8 banking. She was certainly a loyal customer for she not only had saving bank salary account but had also taken a home loan from Mera Bank. On her way to the bank she was thinking "Oh! Mera Bank has given me so much relief, now I will be able to do all my banking operations after my office hours. How can I forget those days when all my work at bank remained pending for months as it was very difficult to take out time from my busy work schedule". When she entered the bank after almost a year,

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Notes

she was happy to see the conventional public sector bank appearance had been taken over by a world class infrastructure with fully air-conditioned work area. She complimented Mr Chauhan (one of the employees) for the wonderful advancements as she waited patiently for passbook updation. It was only after she requested for cash withdrawal that she realized that "all that was glittering was not gold". As soon as she gave a cheque for encashment to one of the employees he immediately reverted back with scornful tone "Madam we have closed down the cash and you can only get cash tomorrow between 10-3."

"But then I was being informed that things have changed at Mera bank." she replied.

"You mean that you really think that we all can slog ourselves from 8 to 8? Come out of your whims and fancies madam, with no extra staff to support 8-8, this is just a temporary change and we will make sure that we revert back to the earlier 10-5 work schedule."

Samina turned ablaze at such cold treatment that she received 'from her own bank' as she puts it. She had a heated altercation with the employee and left a complaint to the branch manager.

The branch manager is now perplexed; he is thinking on what went wrong in introducing the change which was planned in advance and discussed. Theoretically, everything was streamlined: loyal employees, good financial condition, sound training system to cope up the challenges thrown by the changing banking system.

The branch manger is pondering on his line of action regarding the complaint: should he ignore the complaint, should he issue a charge sheet against the employee, should he call for a meeting of all the employees on this issue or should he look for outside help from a consultant? For this is not the first complaint that he has received and this is not the only employee against whom the complaint has been received. The fact is that employees are not able to accept the change (read: the increased work hours). Which clearly indicates that the problem lies in the system and needs immediate intervention.

Questions

1. What suggestion do you make to Mera Bank regarding the above problems?
2. Do you think employees should be made a part of planning for organizational restructuring? Give reasons for your answers.
3. What suggestion do you make to overcome the above problem?

Source: Lall Madhurima, (2009), *Entrepreneurship and Business Plan,* Excel Books Pvt. Ltd.

9.5 Summary

- Financial resources are essential for business, because it is called the life-blood of a business. Financing refers to procurement of finance for the enterprise and its proper utilization to fulfill the objectives. Finance is the backbone of an enterprise.
- Capital is needed to start and operate the business, and make it grow. Financing means those types of business activities which are directed for procurement and conservation of the capital fund needed for meeting the financial requirements as well as fulfillment of overall objective of the firm. Financing for new enterprises occupies an important role.
- In order to prepare an estimation of capital requirement, various types of expenditure that should be taken into account are promotion and formation expenses, expenses for purchasing fixed assets, expenses for expansion of business, expenses for current assets and cost of raising capital etc.

Notes

- A financial plan involves several forecasting techniques: the forecasting begins with estimates for production and sale, followed by cash budget, working capital, projections in relation to P&L account, cash flow and balance sheet.
- From these projections the break-even of the company can be calculated and ratios can be analyzed to study the financial feasibility of the proposed business venture.
- It is important to mention that because of external and internal factors affecting business the break-even and hence profit generation for the business begins only after the completion of first year for most of the organization.
- The projections are made for three consecutive years to give a better picture of the proposed business in terms of financial viability.
- Users of financial statement information do not necessarily need to know everything about accounting to use the information in basic statements.
- The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date.
- An important concept in understanding the income statement is Earnings Per Share (EPS). The EPS for a company is net income divided by the number of shares of common stock outstanding. It represents the bottom line for a company.

9.6 Keywords

Assets and Claims on Assets: Debits increase assets or decrease claims on assets (liabilities and owners' equity). Credits increase claims on assets or decrease assets.

Balance Sheet: The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date.

Cash Flow: Cash flow is the movement of money into or out of a business, project, or financial product.

Earnings Per Share (EPS): EPS for a company is net income divided by the number of shares of common stock outstanding.

Expenses: The economic costs that a business incurs through its operations to earn revenue.

Financial Plan: A comprehensive evaluation of an investor's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans.

Income Statement: The Income Statement shows a firm's revenues and expenses, and taxes associated with those expenses for some financial period. Where the Balance Sheet may be thought of in terms of the "left–right" orientation previously discussed, the income statement would be thought of in "top–down" terms.

Profit and Loss Account: A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year.

9.7 Review Questions

1. Explain the necessity of understanding financial statement.
2. "Finance is the lifeblood of any enterprise." Critically examine the statement.
3. What is the distinction between operating ratios and leverage ratios? Explain with suitable examples.

Notes

4. Briefly explain cash flow statement.
5. Write a brief note on income statement and its components.
6. Write a small note on P&L account and name few assets and liabilities.
7. What are the different sources of finance for entrepreneurs?
8. What is equity financing? How it can be mobilized?
9. Explain the debt financing.
10. What are the various internal and external sources for finance?

Answers: Self Assessment

1.	Information	2.	Snapshot
3.	Earnings Per Share (EPS)	4.	Short-run
5.	True	6.	False
7.	True	8.	True
9.	Ratios	10.	Trend
11.	Indicators	12.	Downturns
13.	Equity	14.	Ownership
15.	Debenture	16.	Debt

9.8 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.

Online links

http://smallbusiness.intuit.com/news/achieving-sales-&-profitability/18981153/managing-cash-flow-for-small-businesses.jsp

http://www.businessplanbootcamp.com/abc.html

http://www.ehow.com/how_8666606_prepare-projected-financial-statements.html

Notes

Unit 10: Marketing Considerations

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Objectives

After studying this unit, you will be able to:

- Discuss the selection of target market
- Explain the market strategy
- Discuss the pricing strategies and marketing of services
- Define the export marketing

Introduction

Marketing plays a major role in our daily lives. Each day is filled with consuming products made available by marketers. We pay for marketing each time we buy a product. In fact, half of every rupee spent at the retail level goes to cover the marketing costs. Marketing is responsible for satisfying customers, which, in turn, increases our standard of living and quality of life.

The strategy for marketing goods produced by entrepreneur must, therefore, be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service. This unit will help to understand the various aspects of marketing management.

10.1 Selecting the Target Market

Target market represents a group of individuals who have similar needs, perceptions and interests. They show inclination towards similar brands and respond equally to market fluctuations. Individuals who think on the same lines and have similar preferences form the target audience.

Notes

Target market includes individuals who have almost similar expectations from the organizations or marketers.

Obese individuals all across the globe look forward to cutting down their calorie intake. Marketers understood their need and came up with Kellogg's K Special which promises to reduce weight in just two weeks. The target market for Kellogg's K Special diet would include obese individuals.

Individuals who sweat more would be more interested in buying perfumes and deodorants with a strong and lasting fragrance.

The selection of a target market is a very important decision for a firm as it requires significant effort and commitment to implement an appropriate and targeted marketing mix.

Caution Target market selection is a key part of marketing strategy and typically involves significant analysis, discussion and review throughout the firm.

Target marketing can be a particularly valuable tool for small businesses, which often lack the resources to appeal to large aggregate markets or to maintain a wide range of differentiated products for varied markets. Target marketing allows a small business to develop a product and a marketing mix that fit a relatively homogenous part of the total market. By focusing its resources on a specific customer base in this way, a small business may be able to carve out a market niche that it can serve better than its larger competitors.

Task Take any company of your choice and discuss its marketing mix.

Identifying specific target markets – and then delivering products and promotions that ultimately maximize the profit potential of those targeted markets – is the primary function of marketing management for many smaller companies.

Example: A manufacturer of fishing equipment would not randomly market its product to the entire U.S. population. Instead, it would conduct market research, using such tools as demographic reports, market surveys, and trade shows, to determine which customers would be most likely to purchase what it offers. It could then spend its limited resources in an effort to persuade members of its target group(s) to buy. Advertisements and promotions could be tailored for each segment of the target market.

There are infinite ways to address the wants and needs of a target market. For example, product packaging can be designed in different sizes and colors, or the product itself can be altered to appeal to different personality types or age groups. Producers can also change the warranty or durability of the good or provide different levels of follow-up service. Other influences, such as distribution and sales methods, licensing strategies, and advertising media, also play an important role. It is the responsibility of the marketing manager to take all of these factors into account and to devise a cohesive marketing program that will appeal to the target customer.

Small business enterprises are also encouraged to continually examine their marketing efforts to make sure that they keep pace with changing business realities.

Example: Business start-ups typically accept any kind of legitimate business in order to pay the bills and establish themselves as a viable entity. But long after the start-up has blossomed into a solid member of the local business community, it may continue to rely on these early accounts rather than casting its net for more promising clients.

Notes

Self Assessment

Fill in the blanks:

1. The selection of target market is a very important …….. for a firm.
2. Target marketing allows a small business to develop a product and a marketing mix that fit a relatively …….. part of the total market.
3. Producers can also change the …….. or durability of the goods or provide different levels of follow-up service.
4. There are infinite ways to address the wants and needs of a …….. market.

10.2 Market Strategy

Small Businesses can gain a competitive advantage over larger competitors by tailoring their products or services to meet the demands of the individual customer. This tailoring can be done through the means of the product/service offered, price, promotion, and distribution. The above are known as the marketing mix. Another advantage is that small businesses offer a more personalized interaction with the customer.

First of all, a marketing strategy that you should take advantage of both offline and online is networking. This is probably the single most important strategy you can look into. As a small business, you will find that one of your first and most important hurdles is simply getting people to know that you exist. If people don't know you've started a small business and that you have amazing widgets or services to sell, they're not going to ask to buy those widgets or hire you for those services, regardless of how wonderful and amazing they might be. So your first job as a small business entrepreneur will be to get the word out.

Caselet

mGinger

Ginger is the first of its kind opt-in permission-based mobile marketing platform in India. mGinger is a service providing targeted advertisements on mobile phones. The advertisements are targeted on a consumer base who have opted-in to this service. The consumer base is built through a registration process in which the consumers specify their commercial interests, maximum number of ads they would like to receive in a day, convenient time-slots and their demographic information. Apart from getting information related to their particular interests, the consumers also receive monetary incentives for every ad they themselves receive and for each ad received in their network upto two levels of referrals. Advertisers leverage the service to search for and select consumers based on their commercial interests, location, demographics and other criteria and send specific advertisements to their target audience. And all this without the fear of incurring even a single consumer's wrath. The mGinger platform solves critical problems like content composition, cost of campaign and return on investment measurability for advertisers.

Source: Janakiram.B, (2010). "Role and Challenges of Entrepreneurship Development". Excel Books Pvt. Ltd.

Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. In the real world, this can be done through print and flyer ads, stationary, vehicle tags, and window displays, while on the internet, you can pursue things like pay per click marketing.

Notes

A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets or customers:

- ***Current product/current market:*** Market penetration is a strategy of increasing your share of existing markets. You might achieve this by raising customers' awareness of your products and services or finding new customers. For further information on planning effective marketing communications see the Related Items section below for a link to the Factsheet: Planning marketing communications.
- ***Current product/new market:*** Market development is a strategy of finding and entering new markets with your current product or service range. The new market could be a new region, a new country or a new segment of the market. For further information on selecting and entering new markets see the Related Items section below for a link to the Factsheet: Entering new markets.
- ***New product/current market:*** Product development is a strategy for enhancing benefits you deliver to customers by improving your existing products and services or developing new ones.
- ***New product/new market:*** Diversification is a strategy that usually carries high costs and high risks. It often requires firms to adopt new ways of doing business and so has consequences far beyond simply offering new products/services in a new market. It is therefore usually a strategy to be adopted when other options are not feasible.

Self Assessment

Fill in the blanks:

5. Small Businesses can gain a competitive advantage over larger competitors by …….. their products or services.
6. Market …….. is a strategy of increasing your share of existing markets.
7. Market development is a strategy of finding and …… new markets with your current product or service range.
8. …… is a strategy that usually carries high costs and high risks.

10.3 Pricing Strategies and Marketing of Services

Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product. Barter is the exchange of products for other products. When developing a marketing program, an organization can compete on the basis of price and non-price factors.

10.3.1 Pricing Method

1. ***Mark up Pricing:*** The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup of their costs.

Example: Toaster Manufacturer-

Variable cost per unit ₹ 10

Notes

Fixed Cost	₹ 300,000
Expected Unit sales	₹ 50,000

The manufacturer's unit cost is given by

Unit Cost = VC + (FC/Unit Sales)

= ₹ 10 + (300,000/50,000) = ₹ 16

Now assume the manufacturer wants to earn a 20% markup on sales. The manufacturer's markup price is given by:

$$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired return on sales})} = 16/(1-.02) = ₹\ 20$$

The manufacturer would charge dealers ₹ 20 per toaster and make a profit of ₹ 4 per unit.

Markup varies considerably among different goods. Markups are generally higher on seasonal items (to cover the risk of not selling), specialty items, slow moving items, items with high storage and handling cost.

2. ***Target-Return Pricing:*** The firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20% ROI.

$$\text{Target-Return Price} = \text{Unit Cost} + \frac{\text{Desired return} \times \text{invested capital}}{\text{Unit sales}}$$

3. ***Perceived –Value Pricing:*** An increasing number of companies are basing their price on the product's perceived value. They see the buyer's perception of value, not the seller's cost, as the key to pricing. They use the non-price variables in the marketing mix to build up perceived value in the buyers' minds. Price is set to capture the perceived value.

4. ***Value Pricing:*** In recent years, several companies have adopted value pricing in which they charge a fairly low price for a high-quality offering. Value pricing says that the price should represent a high-value offer to consumers.

5. ***Going rate pricing:*** In going-rate pricing, the firm pays less attention to its own costs or demand and bases its price largely on competitor's price.

6. ***Sealed-bid pricing:*** Competition-oriented pricing is common where firms submit sealed bids for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price than competitors. At the same time, the firm cannot set its price below cost without worsening its position.

10.3.2 Various Strategies for Pricing

Following are few of the strategies for pricing a product:

Premium Pricing

Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price. Such high prices are charged for luxuries such as Cunard Cruises, Savoy Hotel rooms, and first class air travel.

Notes

Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV. These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep up. Taking Sky TV for example, or any cable or satellite company, when there is a premium movie or sporting event prices are at their highest – so they move from a penetration approach to more of a skimming/premium pricing approach.

Economy Pricing

This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority are economy seats, with the highest price being paid for the last few seats on a flight (which would be a premium pricing strategy). During times of recession economy pricing sees more sales. However it is not the same as a value pricing approach which we come to shortly.

Price Skimming

Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. New products were developed and the market for watches gained a reputation for innovation.

Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar. It's strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach when buying products in an unfamiliar setting, an example being when buying ice cream. What would you like, an ice cream at $0.75, $1.25 or $2.00? The choice is yours. Maybe you're entering an entirely new market. Let's say that you're buying a lawnmower for the first time and know nothing about garden equipment. Would you automatically by the cheapest? Would you buy the most expensive? Or, would you go for a lawnmower somewhere in the middle? Price therefore may be an indication of quality or benefits in unfamiliar markets.

Product Line Pricing

Where there is a range of products or services the pricing reflects the benefits of parts of the range. For example car washes; a basic wash could be $2, a wash and wax $4 and the whole package for $6. Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.

Notes

If you buy chocolate bars or potato chips (crisps) you expect to pay X for a single packet, although if you buy a family pack which is 5 times bigger, you expect to pay less than 5X the price. The cost of making and distributing large family packs of chocolate/chips could be far more expensive. It might benefit the manufacturer to sell them singly in terms of profit margin, although they price over the whole line. Profit is made on the range rather than single items.

Optional Product Pricing

Companies will attempt to increase the amount customers spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

Captive Product Pricing

Where products have complements, companies will charge a premium price since the consumer has no choice. For example a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor. Another example is where printer manufacturers will sell you an inkjet printer at a low price. In this instance the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again the cartridges are not interchangeable and you have no choice.

Product Bundle Pricing

Here sellers combine several products in the same package. This also serves to move old stock. Blue-ray and videogames are often sold using the bundle approach once they reach the end of their product life cycle. You might also see product bundle pricing with the sale of items at auction, where an attractive item may be included in a lot with a box of less interesting things so that you must bid for the entire lot. It's a good way of moving slow selling products, and in a way is another form of promotional pricing.

Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts. Promotional pricing is often the subject of controversy. Many countries have laws which govern the amount of time that a product should be sold at its original higher price before it can be discounted. Sales are extravaganzas of promotional pricing!

Geographical Pricing

Geographical pricing sees variations in price in different parts of the world. For example rarity value, or where shipping costs increase price. In some countries there is more tax on certain types of product which makes them more or less expensive, or legislation which limits how many products might be imported again raising price.

Did u know? Some countries tax inelastic goods such as alcohol or petrol in order to increase revenue, and it is noticeable when you do travel overseas that sometimes goods are much cheaper, or expensive of course.

Notes

Value Pricing

This approach is used where external factors such as recession or increased competition force companies to provide value products and services to retain sales e.g. value meals at McDonalds and other fast-food restaurants. Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product. In many ways it is similar to economy pricing. One must not make the mistake to think that there is added value in terms of the product or service. Reducing price does not generally increase value.

10.3.3 Services Marketing

Service industries are quite varied. The government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, post office, regulatory agencies, and schools, is in the service business. The private non-profit sector, with its museums, charities, churches, colleges, foundations, and hospitals, is in the service business. A good part of the business sector, with its airlines, banks, computer-service bureaus, hotels, insurance companies, law firms, management-consulting firms, medical practices, motion-picture companies, plumbing-repair companies, and real-estate firms, is in the service business. Many workers in the manufacturing sector, such as the computer operators, accountants, and legal staff, are really service providers. In fact, they make up a "service factory" providing services to the "goods factory". Not only are there traditional service businesses, but also new types keep popping up to serve the needs of a changing population.

Kotler (1996) defines service as an activity that one party offers another that is essential, intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. The four main characteristics of service are intangibility, inseparability, variability and perishability.

Perishability

Perhaps of all the suggested special characteristics of service products, this is one of the most difficult to appreciate. *Why?* Services are highly perishable compared to physical products. But how could, for example, the services of say, an airline be considered to be more perishable than, say, fresh food and vegetable products?

The reason is that unlike most physical products, many services cannot be stored. For instance, if an airline does not sell all the seats on a particular flight, then those seats or rather the sales revenue of filling of them would have carried, has immediately and irreversibly gone.

Intangibility

Physical products in the store are widely displayed for customers to see, feel, touch, weigh or sniff at before deciding whether or not to buy.

Comparing this with the choice of the service of say, an insurance policy. You cannot touch, see or smell the products before choosing, although clearly you can make some assessment based on past experience, word of mouth, or even the location and decor of the insurance office.

Notes The intangible nature of most services gives rise to special problems both for suppliers and consumers.

Notes

Variability

In the production and marketing of physical products, companies have increasingly paid special attention to ensuring consistency in quality, feature, packaging, and so on. More often than not all customers can be sure that every bottle of Coke he/she buys, even in a life-time of purchases, will not vary. The provision of services, however, invariably includes a large measure of the "human element".

Indeed, with many services, we are purchasing nothing else but the skills of the suppliers. Because of this, it is often very difficult for both supplier and consumer to ensure a consistent "product" or quality of service.

Inseparability

A key distinguishing feature of service marketing is that the service provision and provider are inseparable from the service consumption and consumer. For example, we cannot take a hotel room home for consumption; we must "consume" this service at the point of provision. Similarly, the hairdresser needs to be physically present for this service to be consumed.

This has implications both for channels of distribution and scale of operations.

Self Assessment

Fill in the blanks:

9. Pricing is an important ……. of marketing.
10. …… is the exchange of products for other products.
11. …….. -oriented pricing is common where firms submit sealed bids for jobs.
12. Blue-ray and videogames are often sold using the ……. approach once they reach the end of their product life cycle.

10.4 Export Marketing

Export marketing means exporting goods to other countries of the world. It involves lengthy procedure and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

According to B. S. Rathor, "Export marketing includes the management of marketing activities for products which cross the national boundaries of a country".

Export marketing has wider economic significance as it offers various advantages to the national economy. It promotes economic/business/industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits.

Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger.

Self Assessment

Notes

Fill in the blanks:

13. …….. marketing means exporting goods to other countries of the world.
14. Export marketing has wider …….. significance as it offers various advantages to the national economy.
15. Every country takes various …… initiatives for promoting exports.

Case Study

Google Adwords

A success story of Aryan Florist

A Bouquet of Success

Aryan Florist started using AdWords with a modest budget of ₹ 200 per day. Business scaled phenomenally and the company has increased its budget manifold. Today, Ad-Words accounts for 90% of its business.

Planting the Seed

Aryan Florist was established by Rishi Sachdev in 2004 with the vision of catering to the floral needs of customers not only in India, but also those living abroad who want to send flowers in India. Based in Chandigarh, the company provides excellent service in all villages of Punjab. It has a track record of delivering flowers within 3-4 hours of ordering, even to the remotest village in Punjab.

Aryan Florist has now grown to cater to the floral needs of consumers in more than 100 cities of India.

Success Blooms

Aryan Florist was introduced to Google AdWords in 2004. Rishi says that he started with a modest budget of ₹ 200 per day, and today it has increased to around ₹ 2000-3000 per day, due to the value derived from this online medium.

Business has scaled phenomenally using AdWords, especially with specific seasonal campaigns he has received more flower orders than ever before. Rishi says that for the Valentine's Day campaign he had tweaked the current campaigns to have ad texts and keywords specific to Valentine's Day, and also increased his budget to as high as ₹ 10,000 per day.

Even when this campaign was run for a small period only (Feb 7- Feb 14) , website traffic increased from 100 visits per day to 600-700 visits per day, giving 70-75 orders in that week. Also, out of these 70-75 customers who purchased his products, 30-35 still visit the website and continue to place orders.

"The flexibility to change your AdWords campaign budget at any time and adjust campaign geo-targeting at the country, region and city levels are the two most important features of Google AdWords," feels Rishi.

Rishi is also appreciative of the support received from the Google AdWords specialists, and feels that the best part is that all his queries get answered within a turn around time of 24 hours!

Contd...

Notes

Today, AdWords accounts for 70% of its web traffic and for 90% of its business, proving to be a key ingredient in the success formula for Aryan Florist.

Question

What is the business idea of Google Adwords?

Source: Janakiram.B, (2010), *Role and Challenges of Entrepreneurship Development*, Excel Books Pvt. Ltd.

10.5 Summary

- Target market represents a group of individuals who have similar needs, perceptions and interests.
- Target market includes individuals who have almost similar expectations from the organizations or marketers.
- Target marketing allows a small business to develop a product and a marketing mix that fit a relatively homogenous part of the total market.
- Small business enterprises are also encouraged to continually examine their marketing efforts to make sure that they keep pace with changing business realities.
- Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads.
- A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets.
- Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product.
- Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts.
- Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product.
- A good part of the business sector, with its airlines, banks, computer-service bureaus, hotels, insurance companies, law firms, management-consulting firms, medical practices, motion-picture companies, plumbing-repair companies, and real-estate firms, is in the service business.
- In the production and marketing of physical products, companies have increasingly paid special attention to ensuring consistency in quality, feature, packaging, and so on.
- Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex.

10.6 Keywords

Competitive Advantage: An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.

Cost Decisions: The decision in relation to the total budget that the company wants to keep for promotion is called Budget or Cost decision.

Notes

Going Rate Pricing: When the company charges largely by benchmarking prices with its competitor then it is called going rate pricing.

Marketing Strategy: Marketing strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.

Pricing: This refers to the process of setting a price for a product, including discounts. The price need not be monetary – it can simply be what is exchanged for the product or services, e.g. time, energy, psychology or attention.

Promotion: This includes advertising, sales promotion, publicity, and personal selling, and refers to the various methods of promoting the product, brand, or company.

Skimming Pricing: In this pricing strategy, relatively higher prices are charged for a short period of time and then the price is reduced so that the product becomes available to a larger market.

Target Market: The consumers a company wants to sell its products and services to, and to whom it directs its marketing efforts.

Value Pricing: When the company prices its products at lower prices with high quality, for customers who seek value for money, like in Big Bazar.

10.7 Review Questions

1. Define the target market.
2. Explain the ways to address the wants and needs of a target market.
3. Explain the growth strategies found common in small businesses.
4. "Pricing is an important function of marketing." Explain.
5. What factors will you keep in mind while pricing your product?
6. What are the ways in which you can decide your price? Explain with examples.
7. Explain briefly price skimming.
8. What do you mean by economic pricing?
9. Write a short note on psychological pricing.
10. Define service marketing. Explain the various characteristics of service marketing.

Answers: Self Assessment

1. Decision
2. Homogenous
3. Warranty
4. Target
5. Tailoring
6. Penetration
7. Entering
8. Diversification
9. Function
10. Barter
11. Competition
12. Bundle
13. Export
14. Economic
15. Policy

Notes

10.8 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship,* Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development,* Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development,* Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development,* Tata McGraw Hill.

Online links

http://www.entrepreneurshipsecret.com/5-major-characteristics-of-services/

http://www.inc.com/encyclopedia/target-markets.html

http://www.is4profit.com/business-advice/sales-marketing/marketing-strategy.html

http://www.marketingteacher.com/lesson-store/lesson-pricing.html

Unit 11: Production Management

Notes

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11.6 Review Questions

11.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the production and material management
- Explain the quality management system
- Discuss the break even analysis

Introduction

After drawing the marketing plan the next step is to formulate the production/operation plan. Production/Operation plan is the blue-print to run the production unit/operational activity of the business enterprise for optimum utilization of the resources. Like the marketing plan, even the operation/production should evolve from a strategic plan i.e. overall business plan. For example, if the strategic plan is expansion and growth the production/operation plan should also formulate plans for expansion of production/operation unit.

11.1 Production and Material Management

Production Management is the process of converting the input into output through a conversion process. The inputs are in the form of land, labor, raw material, machinery, capital and information (information is a new addition to the inputs after the growing importance of the service industry). Transformation takes place through machinery in manufacturing enterprises and through employee's skills in a service enterprise.

Notes

The various key decisions that are to be taken in an operational/production plan include:

1. Which location would have optimum strategic advantage in terms of vicinity to the raw material and market, availability of labour and power, subsidies and tax holidays (Plant Location)?
2. What would be the size operation?
3. What would be the layout?
4. What would be the machines and equipment required for running the production/operation unit?
5. What should be the optimum plant capacity?
6. What should be the production/operation schedules?
7. How would the supply chain be managed?
8. What would be the optimum inventory level?
9. What would be the storage, distribution and sales needs?
10. What would be the requirements for administration like housekeeping, rent insurance, etc.?
11. How would the health and safety measures be met?
12. How would the quality standards be maintained?
13. Whether and how the company would utilize TQM and Kaizen?
14. How would ISO standards be met and certificates obtained?
15. What kind of raw-materials, work-in-progress and finished goods stocks would be maintained?
16. How would the operational plan be executed?

11.1.1 Capacity Planning

Capacity planning is the productive capability of a facility. The operations manager has to plan the capacity in such a manner that the production/operation has some degree of flexibility of expansion or reduction, depending on the market demand.

Capacity planning should be done keeping following things in mind:

- Flexibility of production/operation
- Cost of maintaining capacity
- Organization's vision and objectives
- Assessment of existing capacity
- Forecasting capacity needs based on organizational objectives

A hospital's capacity is determined by the number of services it can offer and number of patients it can serve, number of wards it can have, number of emergency cases it can handle at a time etc.

An educational institution's capacity is determined by the number of students who can study in classrooms, the number of specialization's that can be offered, the type and size of laboratory required, size of library, number of computers, number of teachers it can have, etc.

Notes

Capacity planning is required to meet both the present needs and future objectives of the organization. Suppose an entrepreneur starts a school upto Class V and develops a good brand image over a period of time then he should have enough capacity in terms of space to open higher classes. This is also dependent on the objective of the organization whether it wants to expand to the extent of school, graduate college or post graduate college.

Capacity planning can be divided into three types based on the time period of which the planning is done:

- Short-term capacity planning
- Medium-term capacity planning
- Long-term capacity planning

Short-term capacity planning: Capacity planning from day-to-day, month-to-month up to a year is called short term capacity planning. In short term capacity planning fundamental capacity remains fixed but various short term adjustments are possible like stopping production of one shift (in case of reduction in demand), clearing inventories (in case of piling of inventories), hiring temporary employees (in case of seasonal rise in demand), layoff (in case of reduction in demand).

Medium-term capacity planning: Medium term capacity planning is from one year to five years. Demand forecasting and the scheduling tasks/operation is important to meet forecasted demand. The strategies for medium term capacity planning involve material requirement, staff rotation machine scheduling.

Task Prepare a production plan for an entrepreneur who wants to set up:

(a) A manufacturing unit

(b) A computer institute

Long-term capacity planning: Long-term capacity planning is planning operation above 5 years. Major changes in capacity planning can be introduced. Expansion/contraction of the production/operation and resources is possible. Demand forecasting and cost benefit analysis can help in making long-term decisions. A new face to the organization can be given in long-term capacity plans. Strategies for capacity contraction may involve sale of facilities, equipments, inventories, reduction in workforce. Strategies for expansion will include hiring, purchasing new facilities etc.

Caution An important point to be mentioned here is that the period for which capacity planning can be differentiated into short, medium and long-term varies from industry to industry.

Capacity planning involves the following steps:

(a) Estimation of future needs

(b) Assessment of existing facilities

(c) Evaluating strategic alternatives for capacity

(d) Selecting the best alternative.

Notes

Following things need to be considered for capacity planning:

Demand forecasting: Forecasting the demand for future will give an idea about the requirements of the production/operation.

Aggregate Planning: Capacity planning is also dependent on overall aggregate planning of production/operation which involves decisions on material requirement planning, production scheduling and inventory management.

Overall business strategy: Capacity planning is dependent on overall business strategy of expansion, contraction or constant production/operation. Though it is also dependent on market demands, finally the overall vision of the entrepreneur guides capacity planning.

Availability of Manpower: Capacity planning is also dependent on the availability of manpower in that area (for expansion) and labor laws in relation to retrenchment, layoff, overtime etc.

11.1.2 Inventory Management

Continuous a production process may be, however effective production planning may be, there is always some room for unpredictable rise/fall in demand and/or in availability of raw material and/or lead-time between machines due to breakdowns on one machine. Therefore, inventory is to be managed. Inventory is managed at three levels:

- ***Raw material inventory:*** The stock of raw material is kept to meet the unforeseen changes in the market forces.
- ***Goods in process inventory:*** Inventory is managed at each level of work-in-progress.
- ***Finished goods inventory:*** Inventory is also managed of the final goods.

Notes Inventory is managed for the smooth flow of work and for making up the uncertainties in the availability of raw material and in the demand of the final goods. But keeping inventory involves costs; moreover, it holds working capital and also occupies space and therefore inventory needs to be planned.

There are two types of inventories:

(a) ***Normal inventory:*** The inventory ensuring availability of materials at different stages in normal conditions is called normal inventory.

(b) ***Buffer inventory:*** The inventory ensuring availability of materials at the time of uncertainty is called buffer inventory.

But holding inventory involves cost and therefore inventory of only adequate amount should be maintained at each level. The following things should be kept in mind:

When to Order Inventory? (Reorder Point)

(a) ***Order Lead Time:*** Average time between placing order and receiving goods.

(b) ***Usage Rate:*** The average rate at which inventory is drawn over a period.

(c) ***Reorder Point:*** Level at which new order must be placed so that inventory is replenished before the stock runs out.

Notes

Did u know? The formula for reorder point is

Reorder Point = Usage Rate * Lead Time

Economic Order Quantity (EOQ): How Much to Order?

The formula for EOQ is

$$Q = \sqrt{\frac{2CS}{I}}$$

Where C = Annual Usage of item in units

S = Cost to place an order

I = Annual Carrying Cost Per Unit

It is based on following assumptions:

(a) Ordering cost is constant

(b) Cost of carrying additional unit is constant

(c) There are no quantity discounts available

(d) Usage of consumption is constant

Cost of keeping large quantity = Carrying Cost

Cost of placing an order = Order Processing Cost

Thus, if the order is placed in large quantity, the order processing cost would be less but carrying cost would be high.

Caselet

4 Keys to Inventory Management

Look at the capital sitting on your lot and showroom floor and you'll quickly see that your pre-owned and new-vehicle inventory are your dealership's most valuable assets. So, is your dealership's process for converting these assets into profit extracting the maximum value from every vehicle? If not, there's a four-part inventory strategy that can help jump start growth and ensure your store's inventory is working for the dealership in the form of more deals, more profit, and less waste.

If your dealership is buying and selling on gut instinct, or you don't have a handle on which models turn in 20 days versus which sit for 90, or perhaps your trade-in strategy is to get the customer in a new vehicle instead of considering where you can move his or her old vehicle, you're throwing money away every day.

To be successful in today's market, dealers need to have concrete inventory strategies and processes in place. This means doing much more than just stocking the correct quantity of vehicles. Managing your inventory for profitability consists of four interlocking pieces that make up a comprehensive inventory strategy: inventory analysis, proactive strategy, inventory sourcing, and inventory management systems. Let's take a closer look at each piece of your inventory strategy.

Contd...

Notes

1. Inventory Analysis

Inventory analysis consists of assessing every vehicle on your lot, including those vehicles you are accepting in trade and those you have planned for disposal. With thorough analysis, you can identify and maintain the right mix of core and non-core inventory. A dealership can also determine the optimal turn cycle to prevent inventory remaining too long on your lot and costing you money, as well as determine the optimal time to buy and sell inventory. It can also help establish pricing parameters that work for your dealership's market.

2. Proactive Strategy

Once you have a handle on your inventory, you need to create a proactive strategy for actively managing, marketing, buying and selling your vehicles. Your proactive strategy should include plans for buying and selling vehicles that take into account gross profit, Return on Investment (ROI), days to turn, average cost of sale and seasonality. Your strategy should also include best practices for evaluating and appraising trades realistically, establishing a concrete aging plan, and setting a pricing structure that fits your market and region.

3. Inventory Sourcing

How you source your vehicles is an integral part of inventory management. Your sourcing strategy includes how the dealership determines how often wholesale vehicles are purchased and how trade-in decisions are made. When assessing a trade, many dealerships look at the condition of the vehicle and forget to evaluate the need for the vehicle. A sound remarketing strategy takes into account a particular model's past sales performance and aging history, as well as the current market demand and residual value.

4. Inventory Management Systems

Inventory management systems were created to help dealerships implement, maintain, and fine-tune their inventory plans. Dealers who use inventory management systems realize quicker vehicle turns and a higher ROI than dealers that don't. Choosing the right system can make a significant contribution to your inventory management efforts.

Source: http://www.fi-magazine.com/Channel/Certification-Training/Article/Story/2009/05/4-Keys-to-Inventory-Management.aspx

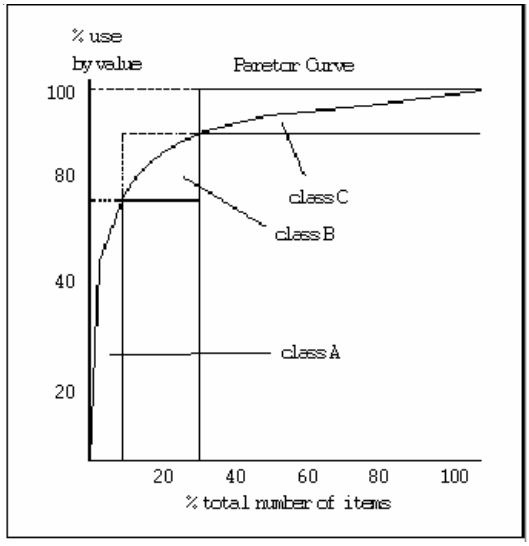
11.1.3 ABC Analysis

Pareto (ABC) Analysis can be used to classify stock groups. Stock items are ranked in descending order of usage value, and plotted on a cumulative frequency curve. It is common to find that 20% of items account for 80 % of usage value, the next 30% has 15% of value. The final 50% have 5% of value.

ABC or Pareto analysis points the way to where control efforts are best directed. Judgment is needed on critical inventory items or security matters that Pareto analysis in itself does not reveal.

Notes

Figure 11.1: Pareto Curve



Source: Lall Madhurima and Sahai Shikha (2008), "Entrepreneurship", Excel Books Pvt. Ltd.

Self Assessment

Fill in the blanks:

1. ……..Management is the process of converting the input into output through a conversion process.
2. ……..takes place through machinery in manufacturing enterprises and through employee's skills in a service enterprise.
3. …….planning is the productive capability of a facility.
4. Capacity planning from day-to-day, month-to-month up to a year is called ……. capacity planning.
5. ……. capacity planning is planning operation above five years. Major changes in capacity planning can be introduced.

11.2 Quality Management System

"Quality comes first," is the motto of highly competitive and growth oriented companies. Quality is an important function of production/operation management. The importance of quality has improved today. With the rising-competition and wide variety of products/services the consumers have become quality conscious and in the present times quality can decide the fortune of the enterprise.

Quality is to be maintained at all the stages of production. Quality is conformance to requirements (Crosby). Quality is product's or service's nature or feature that reflects capacity to satisfy, express or imply statement of need (Deming) or quality is product and service characteristics as offered by design, marketing, manufacturing, maintenance and service that meet customers' expectations (Fiegenbaum).

All the above definitions reflect that the quality is the perceived standard of the product or service. It is the performance of the product as per the commitment made by the producer to the consumer.

Notes

ISO 9000

ISO is the acronym of International Organization for Standardization, headquartered at Geneva. ISO 9000 lays down uniform quality standards for design, installation and operation of quality management systems agreed internationally.

Notes ISO 9000 standards consist of six parts, viz ISO 8402, ISO 9000, ISO 9001, ISO 9002, ISO 9003 and ISO 9004.

ISO 8402 deals with standardization of quality definitions.

ISO 9000 Quality Management and Quality Assurance Standards – these give guidelines for selection.

ISO 9001: Quality systems-model for quality assurance – sets standards for an organization whose business processes range from design and development, production, installation and servicing.

ISO 9002: Quality systems – a quality model/standards for quality inspection and test.

ISO 9003: Measurement and quality systems guidelines.

ISO 9000s series have 20 key elements of a firms' quality programme. They are:

1. Management Responsibility
2. Quality system
3. Contract review
4. Design and control
5. Document and data control
6. Purchasing
7. Control of supplied products
8. Product Identification and traceability
9. Process control
10. Inspection and testing
11. Control of inspection, measuring and test equipment
12. Inspection and test status
13. Control of non-conforming products
14. Corrective and preventive actions
15. Handling, storage, packaging, preserving and delivery
16. Control of quality records
17. Internal quality audits
18. Training
19. Servicing
20. Statistical Techniques.

Notes

Objectives of ISO 9000:

- Achieve, maintain and seek to continuously improve quality.
- Improve the quality of operations.
- Provide confidence to management that quality requirements are fulfilled.
- Provide confidence to customers that quality requirements are fulfilled.

Benefits

ISO 9000 is not statutory in nature, yet getting ISO 9000 certification provides a window for national/international acceptance on quality parameters. Moreover, complying with ISO 9000 makes an organization internally sound but it involves long bureaucratic procedure and is very costly affair.

Did u know? Though both are for quality, ISO is a sub-system of TQM. ISO 9000 defines minimum quality standards whereas TQM is a comprehensive approach.

Total Quality Management (TQM)

According to Wake and Moti, 1999, "Total quality management is a management philosophy that focuses on perpetual enhancement through the prevention of problems and errors. It requires continuous monitoring and control process, performance and quality, the placing of customer at the summit of attention as well as a sense of awareness, commitment and involvement on the part of management, all the workers, the customers and suppliers."

Thus TQM involves concern for continuous improvement in quality, customer orientation and empowerment of employees.

Schmidt and Finnigan (1992) suggest that TQM roots include:

1. ***Scientific Management:*** Finding the best way to do a job.
2. ***Group Dynamics:*** Testing and organizing the power of group experience.
3. ***Training and development:*** Investment in human capital.
4. ***Achievement Motivation:*** People get satisfaction from accomplishment.
5. ***Employee Involvement:*** Employee should have some influence in the organization.
6. ***Socio-technical System:*** Organization operates as an open system.
7. ***Organization Development:*** Helping the organization to learn and change.
8. ***Corporate Culture:*** Beliefs, myths and values that guide the behaviour of people throughout the organization.
9. ***New Leadership Theory:*** Inspiring and empowering others to act.
10. ***The Linking Pin Concept of Organizations:*** Creating cross cultural teams.
11. ***Strategic Planning:*** Determining where to take the organization and how and when to get there.

Hence, TQM is not just limited to products and services but it encompasses quality at People, Process and Management Level. TQM is a philosophy that involves everyone into the cycle of continuous improvement in the system in order to strive for customer satisfaction.

Notes

Self Assessment

State whether the following statements are true or false:

6. Quality is not an important function of production/operation management.
7. Quality is to be maintained at all the stages of production.
8. Quality is conformance to requirements.
9. ISO 9000 deals with standardization of quality definitions.
10. ISO 9003 deals with Measurement and quality systems guidelines.

11.3 Break Even Analysis

Break-even analysis shows the relationship between costs and profits with the sales volume. It determines the activity where total cost is equal to total sales i.e. point of zero profit and zero loss. It can be used to determine probable profits at any level of activity.

Mathematical Calculation of Break-even Analysis:

$$\text{Break-Even Point (₹)} = \frac{\text{Fixed Cost}}{\text{P/V Ratio}}$$

$$\text{Break-Even Point (Units)} = \frac{\text{Fixed Cost}}{\text{Contribution per Unit}}$$

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Net Sales}} \times 100$$

Contribution = Sales – Marginal Cost

Margin of Safety = Actual Sales Revenues – Break-even Sales Revenue

$$\text{Margin of Safety Ratio} = \frac{\text{Margin of Safety}}{\text{Actual Sales (₹)}}$$

Profit = Margin of Safety × P/V Ratio

Break-even Graphics

Break-even graphic representation depicts the relationship between costs, volume and profits. It not only shows BEP but also the effects of costs and revenue at varying levels of sales.

Assumptions regarding BEP graph:

1. Cost can be divided into variable and fixed component.
2. Fixed cost remains constant during relevant volume range of graph.
3. Variable cost per unit will remain constant during relevant volume range of graph.
4. Selling price per unit will remain constant irrespective of quantity sold with the relevant range of graph.
5. In case of multi-product company even sales mix remains constant.
6. Production and sales volumes are equal.

Notes

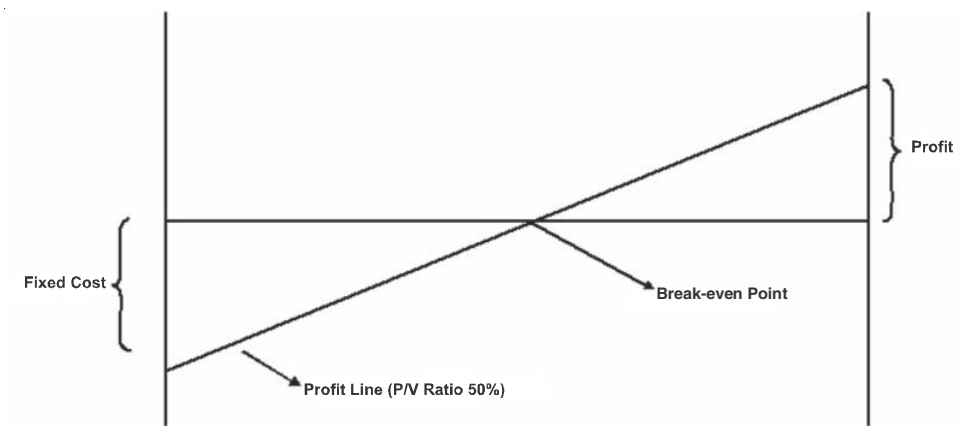
Notes Break-even point helps in determining how many units should be sold in order to break even at a given selling price.

BEP is an effective management tool as it provides insights into the effects of interrelationship of factors which influences profits of the project. The relationship between cost, volume and profit makes up the profit structure of the project. It is very useful for budgeting and profit planning.

Profit Volume Graph: It shows the relationship between profit and volume. It is also called as P/V graph. It is constructed as follows:

1. Select an appropriate scale for sales volume on horizontal axis. It will be called sales line. This line is drawn in the middle region so that both profits and losses can be depicted.
2. Select an appropriate scale for profit and loss (fixed cost) on vertical axis. Fixed cost is below the sales line on left hand side of vertical axis and profits are shown on the right hand side above the sales line.
3. Points are plotted on P/V graph for required FC and profit at 2-3 assumed sales levels. Profits are selected in such a way that one profit is above sales and the below the sales line.
4. Origin of the curve is a point of total fixed cost at zero level of sales.
5. Now if we join the points of origin with two points developed as per step 3 by a diagonal line which crosses the sales line, the intersecting point is Break Even Point (BEP).

Figure 11.2: Break Even Analysis



Source: Lall Madhurima and Sahai Shikha (2008), "Entrepreneurship", Excel Books Pvt. Ltd.

Self Assessment

Fill in the blanks:

11. ……shows the relationship between costs and profits with the sales volume.
12. Break-even graphic representation depicts not only shows ……but also the effects of costs and revenue at varying levels of sales.
13. Points are plotted on …… graph for required FC and profit at 2-3 assumed sales levels.

Notes

14. Origin of the curve is a point of total fixed cost at ……level of sales.

15. …… cost is below the sales line on left hand side of vertical axis.

Case Study

Apple Inc: Setting New Inventory Management Standards

Apple Inc, one of the most innovative companies in the world not only sells some of the most popular Gadgets of the century but also manages its inventory well. The company worked on new inventory management strategies which became a benchmark in the electronic industry.

The benchmarks not only minimized inventory costs but also at the same time helped it smoothly sail through the big ticket product launches without giving scope to its competitors, to catch up. The case not only covers the inventory management techniques at Apple but also provide the basis for calculating the internal fund requirement of the company based on the projection on sales.

In 1983, Apple introduced the first commercial computer Lisa. Lisa was incorporated with graphical user interface (GUI), and Windows operating system that allowed several programs to run simultaneously. Lisa was priced at $9,995 and was a commercial failure due to its high price and limited software capabilities. In 1983, John Sculley (Sculley) became CEO of Apple. Sculley had previously been the CEO of Pepsi.

In 1984, Apple launched Macintosh (Mac), which also incorporated GUI and ran of Mac OS (Mac Operating system). It was priced $2,495. At that point of time, Apple estimated that it would sell 80,000 units. However, the company could not achieve its target and sold only 20,000 units.

Due to over production of computers and actual sales being less than the estimated sales, the company piled up large inventory which led to loss of 17% of the net income to the company. In the meeting of April 10 and 11, 1985, Sculley asked Jobs to step down from the position of vice president and general manager of the Macintosh department. In September 1985, Jobs resigned from Apple with some of the employees and started Next.

In 1993, Apple introduced the Newton, a Personal Digital Assistant (PDA), into the market. Newton was a commercial failure. After the Newton's failure, Apple lost market share and its technological edge in its businesses. In mid-1993, Mike Spindler (Spindler) who was the Chief Operating Officer (COO) of the company was appointed as CEO and Sculley who was then CEO was promoted to the Chairman. But after 5 months, Sculley resigned from the post.

The period 1993 to 1996 was tough for Apple. Spindler also could not do much. In January 1996, Apple reported a loss of $69 million due to the price war in Japan and mismanagement of inventory. Apple cut prices in an attempt to clear out the bloated inventories of low-end Macs. In February 1996, Gil Amelio (Amelio) became CEO of Apple. Amelio planned to streamline Apple's product line and increase the cash reserves. He wanted Apple to cater to the higher margin segments like servers and Internet access devices. In 1996, Amelio requested Jobs to function as an informal advisor. In 1997, Apple purchased Next for $400 million.

Contd...

Notes

Inventory Management from 1995 to 1997

During 1995 to 1997, the company's revenue growth was declining and in the same line the net profit also declined from $424 million to ($1,045) million from the financial year 1995 to 1997. However, every product or raw material was stocked in a warehouse. The company accumulated inventories of $1,775 million in the financial year 1995.

Inventory Management from 1998 to 2011

In 1998, Timothy D. Cook (Cook) joined Apple. He was in charge of Apple's worldwide operations. Jobs and Cook focused on reducing the inventories of the company. They applied the strategy "slash inventory, shut warehouses, run manufacturing close to the bone. This helped Apple get back on to the path of profit and set a new bar for the electronic industry like competitors like Dell." They closed down factories and warehouses all over the world. They established relationships with contract manufacturers. They were successful and the company generated a net profit of $309 million during the financial year 1998.

Road Ahead

Cook developed a good ecosystem for the company's business. He had gained good experience in operational and inventory management. Under his leadership, Apple developed an entire ecosystem of suppliers, who supported its business operations. The company set itself the goal of obtaining stellar products and services within limited timeframes, at a cost that represented "the best possible value" to both customers and shareholders.

Questions

1. What are the strategies implemented by the Apple Inc to manage its inventory effectively.
2. Critically analyze Apple's strategy of working capital management.

Source: http://www.icmrindia.org/casestudies/catalogue/Finance/FINC079.htm

11.4 Summary

- Production Management is the process of converting the input into output through a conversion process.
- Transformation takes place through machinery in manufacturing enterprises and through employee's skills in a service enterprise.
- Capacity planning is the productive capability of a facility.
- Capacity planning from day-to-day, month-to-month up to a year is called short-term capacity planning.
- Medium term capacity planning is from one year to five years.
- Long-term capacity planning is planning operation above five years. Major changes in capacity planning can be introduced.
- Forecasting the demand for future will give an idea about the requirements of the production/operation.
- Continuous a production process may be, however effective production planning may be, there is always some room for unpredictable rise/fall in demand and/or in availability of raw material and/or lead-time between machines due to breakdowns on one machine.

Notes

- Pareto (ABC) Analysis can be used to classify stock groups.
- Quality is product's or service's nature or feature that reflects capacity to satisfy, express or imply statement of need (Deming) or quality is product and service characteristics as offered by design, marketing, manufacturing, maintenance and service that meet customers' expectations.
- Total quality management is a management philosophy that focuses on perpetual enhancement through the prevention of problems and errors.
- Break-even analysis shows the relationship between costs and profits with the sales volume.

11.5 Keywords

Break Even Analysis: An analysis to determine the point at which revenue received equals the costs associated with receiving the revenue.

Capacity Planning: Capacity planning is the productive capability of a facility.

Demand Forecasting: Forecasting the demand for future will give an idea about the requirements of the production/operation.

Economic Order Quantity: Economic order quantity is the level of inventory that minimizes the total inventory holding costs and ordering costs.

Inventory: Inventory is the total amount of goods or materials in a store or factory.

ISO Standards: ISO International Standards ensure that products and services are safe, reliable and of good quality.

Materials Management: Materials management is part of business logistics and refers to overseeing the location and movement of physical items or products.

Production: The action of making or manufacturing from components or raw materials, or the process of being so manufactured.

Quality: A measure of excellence or a state of being free from defects, deficiencies and significant variations.

Quality Management System: A Quality Management System (QMS) can be expressed as the organizational structure, procedures, processes and resources needed to implement quality management.

11.6 Review Questions

1. What are production/operational plans?
2. Discuss the importance of production/operation plan.
3. What is capacity planning and why is it done?
4. Discuss the importance of inventory management in the production plan.
5. Discuss the concept of quality management system in detail.
6. What are the various key decisions that are to be taken in an operational/production plan?
7. Distinguish between long-term and short-term capacity planning.
8. Discuss Economic Order Quantity (EOQ).

Notes

9. What do you understand by ABC analysis?
10. Write brief note on break-even analysis.

Answers: Self Assessment

1.	Production	2.	Transformation
3.	Capacity	4.	Short-term
5.	Long-term	6.	False
7.	True	8.	True
9.	False	10.	True
11.	Break-even analysis	12.	BEP
13.	P/V	14.	Zero
15.	Fixed		

11.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.

Online links

http://entrepreneurs.about.com/od/businessplan/a/breakeven.htm

http://homes.ieu.edu.tr/~ykazancoglu/BA437/ABC%20analysis%20YK.pdf

http://kalyan-city.blogspot.com/2011/12/what-is-production-management-meaning.html

http://www.nice.org.uk/aboutnice/qualitystandards/qualitystandards.jsp

http://www.wisegeek.org/what-is-materials-management.htm

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Unit 12: HRM in Small Business

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Objectives

After studying this unit, you will be able to:

- Describe the importance of HRM
- Explain the human resource development
- Discuss the industrial relations
- Define the labour laws
- Discuss the pollution control laws

Introduction

Many small businesses operate with no employees. One person handles the whole business with perhaps occasional help from family or friends. Making the leap to hiring someone to help is a big one because all of a sudden you need to worry about payroll, benefits, unemployment insurance, and what seems like a myriad of other details. And, this does not even take into consideration the host of problems that can arise from personality conflicts and loss-of-control of all the processes in running your business.

People are the real assets of an organization. If treated well, they can take organizations to commanding heights. Two plus two could be four or even ten. Organizations are, generally, driven by a set of predetermined goals. They employ physical, financial and human resources in order to achieve the goals. These goals have no meaning unless people understand the underlying philosophy, translate them into concrete action plans and put their heart while realizing the targets. Organizations, thus, depend on people for their survival and growth. In a similar way, people need organizations.

The vast majority of people work to support themselves and their families. But people work for many reasons other than economic security. For example, they may also work to keep busy and

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feel useful, to create and achieve something. They want to gain recognition and achieve status or to test and stretch their capabilities. To meet these multifarious needs, people and organizations join hands. Unfortunately, this union seldom approaches perfection. Organizations face several problems in meeting their goals, and likewise, employees report some problems in their attempts to be productive and efficient in their jobs and to feel satisfied in their work lives. The challenge of human resource management is to minimise these obstacles and problems and improve the contributions made by people to organizations.

12.1 Importance of HRM

People have always been central to organizations, but their strategic importance is growing in today's knowledge-based industries. An organization's success increasingly depends on the Knowledge, Skills and Abilities (KSAs) of employees, particularly as they help establish a set of core competencies that distinguish an organization from its competitors. With appropriate HR policies and practices an organization can hire, develop and utilize best brains in the marketplace, realise its professed goals and deliver results better than others.

Human Resource Management helps an organization and its people to realize their respective goals thus:

At the Enterprise Level

(a) Good human resource practices can help in attracting and retaining the best people in the organization. Planning alerts the company to the types of people it will need in the short, medium and long run.

(b) It helps in training people for challenging roles, developing right attitudes towards the job and the company, promoting team spirit among employees and developing loyalty and commitment through appropriate reward schemes.

At the Individual Level

Effective management of human resources help employees, thus:

(a) It promotes team work and team spirit among employees.

(b) It offers excellent growth opportunities to people who have the potential to rise.

(c) It allows people to work with diligence and commitment.

At the Society Level

Society, as a whole, is the major beneficiary of good human resource practices.

(a) Employment opportunities multiply.

(b) Scarce talents are put to best use. Companies that pay and treat people well always race ahead of others and deliver excellent results.

At the National Level

Effective use of human resources helps in exploitation of natural, physical and financial resources in a better way. People with right skills, proper attitudes and appropriate values help the nation to get ahead and compete with the best in the world leading to better standard of living and better employment.

Notes

A small business's human resource management needs are not of the same size or complexity of those of a large firm. Nonetheless, even a business that carries only two or three employees faces important personnel management issues. Indeed, the stakes are very high in the world of small business when it comes to employee recruitment and management. No business wants an employee who is lazy or incompetent or dishonest. But a small business with a work force of half a dozen people will be hurt far more badly by such an employee than will a company with a work force that numbers in the hundreds (or thousands). Nonetheless, "most small business employers have no formal training in how to make hiring decisions," noted Jill A.

Caution Before hiring a new employee, the small business owner should weigh several considerations. The first step the small business owner should take when pondering an expansion of employee payroll is to honestly assess the status of the organization itself. Are current employees being utilized appropriately? Are current production methods effective? Can the needs of the business be met through an arrangement with an outside contractor or some other means? Are you, as the owner, spending your time appropriately? As Rossiter noted, "any personnel change should be considered an opportunity for rethinking your organizational structure."

Small businesses also need to match the talents of prospective employees with the company's needs. Efforts to manage this can be accomplished in a much more effective fashion if the small business owner devotes energy to defining the job and actively taking part in the recruitment process. But the human resource management task does not end with the creation of a detailed job description and the selection of a suitable employee. Indeed, the hiring process marks the beginning of HRM for the small business owner.

Small business consultants strongly urge even the most modest of business enterprises to implement and document policies regarding human resource issues. "Few small enterprises can afford even a fledgling personnel department during the first few years of business operation," acknowledged Burstiner. "Nevertheless, a large mass of personnel forms and data generally accumulates rather rapidly from the very beginning. To hold problems to a minimum, specific personnel policies should be established as early as possible. These become useful guides in all areas: recruitment and selection, compensation plan and employee benefits, training, promotions and terminations, and the like." Depending on the nature of the business enterprise (and the owner's own comfort zone), the owner can even involve his employees in this endeavour. In any case, a carefully considered employee handbook or personnel manual can be an invaluable tool in ensuring that the small business owner and his or her employees are on the same page. Moreover, a written record can lend a small business some protection in the event that its management or operating procedures are questioned in the legal arena.

Some small business owners also need to consider training and other development needs in managing their enterprise's employees. The need for such educational supplements can range dramatically.

Example: A bakery owner may not need to devote much of his resources to employee training, but a firm that provides electrical wiring services to commercial clients may need to implement a system of continuing education for its workers in order to remain viable.

Finally, the small business owner needs to establish and maintain a productive working atmosphere for his or her work force. Employees are far more likely to be productive assets to your company if they feel that they are treated fairly. The small business owner who clearly communicates personal expectations and company goals, provides adequate compensation, offers meaningful opportunities for career advancement, anticipates work force training and

developmental needs, and provides meaningful feedback to his or her employees is far more likely to be successful than the owner who is neglectful in any of these areas.

Caselet

Employees are the New Corporate Heroes?

People are central to an organization. To achieve corporate goals, they have to put their heart into everything and work with zeal, enthusiasm, dedication and commitment. Without positive and creative contributions from people, organizational goals may remain pious dreams, existing only on paper. The knowledge, skills, experience possessed by employees and their wholehearted support to organizational work, in most cases, would spell the difference between success and failure.

The organization's talent pool is its most valuable corporate resource and is the primary source of competitive advantage. The quality of human capital (i.e., collective knowledge, skills, abilities and attitudes of total workforce within an organization) and its effective management (by placing the right man on the right job) would go a long way in enhancing productivity and reducing costs. In knowledge based industries, human resources could make or break a company. Most importantly, the knowledge, skills and attitudes of workforce cannot be duplicated or imitated by competitors. They remain with people and, therefore, become a source of rare competitive strength when the organization offers the right kind of environment and atmosphere. In organizations where fairness, equity, justice and autonomy are fiercely guarded and people are treated with respect, love and affection – work becomes fun and people come out with outstanding results, surpassing all mathematical calculations. One plus one could be two, twenty or even two hundred! One man's dream – it could be Ratan Tata, Anand Mahindra or K.M.Birla – becomes a life and death struggle for many. The result could be an Indica, a Nano or a Scorpio – the result of outstanding contributions from ordinary people trying to convert a passion/dream into a concrete reality.

To gain the edge, however, the organization needs to invest in its human resources – through training and development programmes and creating growth opportunities within the company from time to time. The competency gaps of employees need to be identified and bridged through appropriate training and development programmes. HR policies and programmes must be in sync with the business plans of the organization and with each other.

Source: Rao.V.S.P.(2010), "*Human Resource Management*", Excel Books Pvt. Ltd.

Self Assessment

Fill in the blanks:

1. An organization's success increasingly depends on the ……..of employees.
2. ……..alerts the company to the types of people it will need in the short, medium and long run.
3. A …….. can lend a small business some protection in the event that its management or operating procedures are questioned in the legal arena.

12.2 Human Resource Development

Human Resource Development (HRD) is a positive concept in human resource management. It is based on the belief that an investment in human beings is necessary and will invariably bring

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in substantial benefits to the organization in the long run. It aims at overall development of human resources in order to contribute to the well being of the employees, organization and the society at large.

Notes HRD is rooted in the belief that human beings have the potential to do better. It, therefore, places a premium on the dignity and tremendous latent energy of people. Where balance sheets show people on the debit side, HRD seeks to show them as assets on the credit side.

According to Prof. T.V. Rao, HRD is a process by which the employees of an organization are helped in a continuous and planned way to: (1) acquire or sharpen capabilities required to perform various functions associated with their present or expected future roles; (2) develop their general capabilities as individuals and discover and exploit their own inner potential for their own and/or organizational development purposes; (3) develop an organizational culture in which superior-subordinate relationships, team work and collaboration among sub units are strong and contribute to the professional well being, motivation and pride of employees. (Udai Pareek and T.V.Rao).

In short, HRD aims at helping people to acquire competencies required to perform all their functions effectively and make their organization do well.

It is about updating the human skills to meet the changing needs. HR Manager has to act as a change-agent and OD consultant for organizational development and R&D.

Did u know? HRD is that component of HRM which deals with the development of human resources.

Competent employees may not remain competent forever. Some are minimally qualified upon entering the organization and require additional training or education. Others enter the organization, capable of performing at the optimum level, but their skills become obsolete after some time. Organizations change over time and management must ensure that there is an appropriate match between individual ability and organizational needs for the future. Employee training gives individual the specific skills that they require for effective execution of their responsibilities. Management development, career planning, career counseling and guidance are also the key responsibilities of HRD.

Caution Even though we have latest technology but if there is none to operate, then there is no use. So, proper training is required to upgrade the skills of the employees.

Self Assessment

State whether the following statements are true or false:

4. Human Resource Development (HRD) is a negative concept in human resource management.
5. HRD aims at helping people to acquire competencies required to perform all their functions effectively.
6. Competent employees may remain competent forever.

Notes

12.3 Industrial Relations Pricing

Human resource management is about managing people so that businesses are competitive and successful. To do this in a fast-changing global economy, HRM & IR professionals keep up with issues and trends that affect employment relationships – the labour market and economics, the product or service market, the political environment, environmental concerns, technological change, employment regulations, organisational psychology and social trends.

Industrial relations are also a multidisciplinary field that studies the collective aspects of the employment relationship. It is increasingly being called Employment Relations (ER) because of the importance of non-industrial employment relationships. IR has a core concern with social justice through fair employment practices and decent work. People often think industrial relations is about labor relations and unionized employment situations, but it is more than that. Industrial relations covers issues of concern to managers and employees at the workplace, including workplace bargaining, management strategy, employee representation and participation, union-management cooperation, workplace reform, job design, new technology and skill development.

Notes An IR expert will more usually work for a trade union in order to represent employees' interests. However, they may work for an employer in an HRM department, or for an employers' association or consultancy, serving the employers' interests.

Major tasks of HRM and IR are: hiring staff, negotiation of employment contracts and conditions, performance management and reward systems, dispute resolution, disciplinary processes, ensuring health and safety of staff, employee motivation, design of work, team and organization restructuring, and training and development.

"Industrial relations" pose one of the most delicate and complex problems to modern industrial society. With growing prosperity and rising wages, workers have achieved a higher standard of living; they have acquired education, sophistication and greater mobility. Career patterns have changed for larger section of the people have been constrained to leave their farms to become wage-earners and salary-earners in urban areas under trying conditions of work. Ignorant and drenched in poverty, vast masses of men, women and children have migrated to urban areas. The organizations in which they are employees have ceased to be individually owned and have become corporate enterprises.

At the same time, however, a progressive, status-dominated, secondary group-oriented, universalistic, aspirant and sophisticated class of workers has come into being, who have their own trade unions and who have, thus, gained a bargaining power which enables them to give a tough fight to their employers to establish their rights in the growing industrial society. As a result, the Government has stepped in and played an important role in establishing harmonious industrial relations, partly because it has itself become an employer of millions of industrial workers, but mainly because it has enacted a vast body of legislation to ensure that the rights of industrial workers in private enterprises are suitably safeguarded. Besides, rapid changes have taken place in the techniques and methods of production. Long established jobs have disappeared and new employment opportunities have been created, which call for different patterns of experience and technical education. Labour employer relationships have, therefore, become more complex than they were in the past and have been given a sharp edge because of the widespread labour unrest. In the circumstances, a clear understanding of the factors which make for this unrest and which are likely to eliminate it would be a rewarding experience for anyone who is interested in industrial harmony.

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Self Assessment

Fill in the blanks:

7. ……. is about managing people so that businesses are competitive and successful.

8. ……. are also a multidisciplinary field that studies the collective aspects of the employment relationship.

9. ……. relationships have, therefore, become more complex than they were in the past and have been given a sharp edge because of the widespread labour unrest.

12.4 Labour Laws

Labor law seeks to regulate the relations between an employer or a class of employers and their employees. The access of this law is the widest, in that it touches the lives of far more people, indeed millions of men and women as compared to any other branch of law and this is the aspect which makes it the most fascinating of all branches of law and the study of this subject is of enormous dimension and of ever changing facets.

There has been a remarkable change in the approach to Labor law and industrial relations since the World War IL Philadelphia Charter adopted in 1944 provided that "Labor is not a commodity" and that "poverty anywhere is a danger to prosperity everywhere". W. Friedmann and others who have tried to analyse the essential characteristics of the legal development in this branch of law consider 'social-duty'-on-the part of employer as the main bed rock on which this law is built. This is exemplified by the very approach of law makers to the construction of a wage packet of the working man in the post-second World War period, wage fixation and legislation relating to condition of work. The Indian Constitution lays down broad guidelines to be followed by State.

Otto Kahn-Freund in his book on *Labor and the Law* makes the following points.

(i) The system of collective bargaining rests on a balance of the collective forces of management and organized labor. The contribution which the courts have made to the orderly development of collective labor relations has been infinitesimal. Collective bargaining is a process by which the terms of employment and conditions of service are determined by agreement between management and the union. In effect, "It is a business deal (which) determines the price of labor services and terms and conditions of labor's employment."

(ii) The Law governing labor relation is one of the central branches of the law on which the very large majority of people earn their living. Nonetheless, law is a secondary force in human relations and especially in labor relations.

(iii) Law is a technique for the regulation of social power. This is true of labor law as it is of other aspects of any legal system. Labor Law also seeks to lay down minimum standard of employment. It lays down norms by which basic conditions of labor are fulfilled such as maximum working hours, minimum safety conditions, minimum provisions for holidays and leave protection for women and children from arduous labor, prohibition of children below certain age from employment and provision for minimum standards of separation benefits and certain provision for old age.

Small-business owners already have a lot to worry about, and lawsuits brought by employees are just one more thing to add to that list of worries. For many small businesses, a single unfavorable jury verdict could deplete company assets enough to result in bankruptcy. As such, it is vital for owners and managers to learn the basic labor laws that apply to their company.

Notes

Some of the labor laws in India are:

Workmen's Compensation Act of 1923

The Workmen's Compensation Act compensates a workman for any injury suffered during the course of his employment or to his dependents in the case of his death. The Act provides for the rate at which compensation shall be paid to an employee. This is one of many social security laws in India.

Trade Unions Act of 1926

This Act enacted the rules and protections granted to Trade Unions in India. This law was amended in 2001.

Payment of Wages Act of 1936

The Payment of Wages Act regulates by when wages shall be distributed to employees by the employers. The law also provides the tax withholdings the employer must deduct and pay to the central or state government before distributing the wages.

Industrial Employment (Standing Orders) Act of 1946

This Act requires employers in industrial establishments to define and post the conditions of employment by issuing so-called standing orders. These standing orders must be approved by the government and duly certified. These orders aim to remove flexibility from the employer in terms of job, hours, timing, leave grant, productivity measures and other matters. The standing orders mandate that the employer classify its employees, state the shifts, payment of wages, rules for vacation, rules for sick leave, holidays, rules for termination amongst others.

Industrial Disputes Act of 1947

The Industrial Disputes act 1947 regulates how employers may address industrial disputes such as lockouts, layoffs, retrenchment etc. It controls the lawful processes for reconciliation, adjudication of labor disputes.

The Act also regulates what rules and conditions employers must comply before the termination or layoff of a workman who has been in continuous service for more than one year with the employer. The employer is required to give notice of termination to the employee with a copy of the notice to appropriate government office seeking government's permission, explain valid reasons for termination, and wait for one month before the employment can be lawfully terminated. The employer may pay full compensation for one month in lieu of the notice. Furthermore, employer must pay an equivalent to 15 days average pay for each completed year of employees continuous service. Thus, an employee who has worked for 4 years in addition to various notices and due process, must be paid a minimum of the employee's wage equivalent to 60 days before retrenchment, if the government grants the employer a permission to layoff.

Minimum Wages Act of 1948

The Minimum Wages Act prescribes minimum wages in all enterprises, and in some cases those working at home per the schedule of the Act. Central and State Governments can and do revise minimum wages at their discretion. The minimum wage is further classified by nature of work, location and numerous other factors at the discretion of the government. The minimum wage

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ranges between ₹ 143 to 1120 per day for work in the so-called central sphere. State governments have their own minimum wage schedules.

Industries (Regulation and Development) Act of 1951

This law declared numerous key manufacturing industries under its so-called First Schedule. It placed many industries under common central government regulations in addition to whatever laws state government enact. It also reserved over 600 products that can only be manufactured in small scale enterprises, thereby regulating who can enter in these businesses, and above all placing a limit on the number of employees per company for the listed products. The list included all key technology and industrial products in early 1950s, including products ranging from certain iron and steel products, fuel derivatives, motors, certain machinery, machine tools, to ceramics and scientific equipment.

Employees Provident Fund and Miscellaneous Provisions Act of 1952

This Act seeks to ensure the financial security of the employees in an establishment by providing for a system of compulsory savings. The Act provides for establishments of a contributory Provident Fund in which employees' contribution shall be at least equal to the contribution payable by the employer. Minimum contribution by the employees shall be 10-12% of the wages. This amount is payable to the employee after retirement and could also be withdrawn partly for certain specified purposes.

Maternity Benefit Act of 1961

The Maternity Benefit Act regulates the employment of the women and maternity benefits mandated by law. Any woman employee who worked in any establishment for a period of at least 80 days during the 12 months immediately preceding the date of her expected delivery, is entitled to receive maternity benefits under the Act. The employer is required to pay maternity benefits, medical allowance, maternity leave and nursing breaks.

Payment of Bonus Act of 1965

This Act, applies to an enterprise employing 20 or more persons. The Act requires employer to pay a bonus to persons on the basis of profits or on the basis of production or productivity. The Act was modified to require companies to pay a minimum bonus, even if the employer suffers losses during the accounting year. This minimum is currently 8.33 percent of the salary.

Payment of Gratuity Act of 1972

This law applies to all establishments employing 10 or more workers. Gratuity is payable to the employee if he or she resigns or retires. The Indian government mandates that this payment be at the rate of 15 days salary of the employee for each completed year of service subject to a maximum of 1000000.

Task

As an HR Manager, how will you eliminate the tensions between IR and HRM occur from the unitarist viewpoint of HRM.

Notes

Self Assessment

State whether the following statements are true or false:

10. Labor law seeks to regulate the relations between an employer or a class of employers and their employees.
11. Arbitration is a process by which the terms of employment and conditions of service are determined by agreement between management and the union.
12. The Industrial Disputes Act regulates by when wages shall be distributed to employees by the employers.

12.5 Pollution Control Laws

In 1976, when the Indian parliament passed the 42nd amendment to its constitution safeguarding the environment, it became the first country in the world to do so. The amendment was to "endeavor to protect and improve the environment and to safeguard the forests and wild life of the country." It imposes a duty on every Indian citizen "to protect and improve the natural environment including forests, lakes, rivers, and wild life, and to have compassion for living creatures." According to the Environment Protection Act of 1986, Environment is that which includes the "interrelationship which exists among and between water, air, and land and human beings, other living creatures, plants, microorganism and property." Essentially, The Water (Prevention & Control) Act, 1974 can be considered to be truly the first regulations. It has been amended many times since then. Basically, there are six Pollution regulations:

1. The Water (Prevention & Control of Pollution) Act, 1974, and its amendments;
2. The Water (Prevention & Control of Pollution) Cess Act, 1974 and its amendments;
3. The Air (Prevention & Control of Pollution) Act, 1981 and its amendments;
4. The Environment (Prevention) Act, 1986 and its amendments,
   (a) National Environmental Tribunal Act of 1995 and
   (b) National Environmental Appellate Authority Act of 1997;
5. Hazardous Waste (Management and Handling) Rules, July 1989 and
6. The Public Liability Insurance Act, 1991.

Self Assessment

Fill in the blanks:

13. In……., when the Indian parliament passed the 42nd amendment to its constitution safeguarding the environment.
14. The……. Act, 1974 can be considered to be truly the first regulations
15. ……..is that which includes the "interrelationship which exists among and between water, air, and land and human beings, other living creatures, plants, microorganism and property".

Notes

Case Study

HRD Culture at CISCO Systems

Cisco was founded in 1984 by a husband and wife team who devised a means to connect incompatible computer networks at Stanford University. A series of mergers and acquisitions with several start up companies turned Cisco into a full service provider of networking equipment and garnered the technological know how to keep it on the cutting edge. Strategic partnerships with high-tech companies such as Hewlett-Packard, Microsoft and Intel have put Cisco on an explosive growth path for over two decades now. Operating in nearly 100 countries around the world, it provides products that enable computers to communicate with each other, offering customers end-to-end scalable network solutions. The company is one of the fastest growing companies in Silicon Valley and one of the hottest stocks of the decade. Apart from strategic partnerships which proved very crucial for its success, there are other reasons for its stupendous growth – registering a fifty per cent sales growth year after year.

Excellent HR Practices

At Silicon Valley, employee turnover – generally speaking, stands above 30 per cent. This is not the case with Cisco. It is just under 8 per cent. Most people in the street attribute Cisco's success to its human resource strategy. Cisco has acquired other start up companies, as most people would readily agree now, mainly to gain their bright engineers. An acquisition almost every week at one point of time enabled the company to almost double its employee count to over 40,000 in the shortest possible time in the initial years.

As part of its HR strategy Cisco espouses five core values: a dedication to customer success, learning, innovation, openness, teamwork and doing more with less. John Chambers, the CEO, tries his best to integrate these with corporate mission statements, HR policies and practices and the culture of the company. To break status barriers and to encourage openness, John Chambers holds a monthly birthday breakfast meeting open to any employee with a recent birthday and answers all questions – howsoever difficult and embarrassing these might be – patiently. Teamwork and team spirit are being encouraged at every level. In fact, anyone trying to disregard team values would be shown the door almost instantaneously. To reinforce the crucial link between business initiatives and the work that people carry out, every employee is made to recite top initiatives regularly. Lot of peer pressure is exercised to see that employees know and remember these initiatives.

HR Policies in Sync with Business Strategy

Cisco's HR policies and practices are aligned with the business strategy and constantly reinforced. The recruitment and selection system identifies exactly the kind of people they need. For Cisco, in fact, effective recruiting has become a powerful strategic weapon. The company's giant leap from one stage to another required it to double its head count quickly. To get the best people from the market place, the company used the World Wide Web quite effectively. Rather than placing newspaper help-wanted advertisements, the company runs ads featuring an internet address and an invitation to apply for work at Cisco. As a result, the company's website has become a turbo charged recruiting tool. It allows the company to post hundreds of job openings with specific information about each one. The company also advertises its site in cyberspace which helps to reach a self selected set of candidates (people who can really navigate the internet) from around the globe. People looking for a job can search by key word to match their skills with job

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openings at the company. Then they are able to file a resume or fill out a resume form online using the company's resume builder programme. More importantly, the site pairs the applicant with a volunteer friend inside the company. The friend will teach you about Cisco, introduce you to important people, and lead you through the hiring process. The real magic about Cisco's Web site is that it targets passive job seekers – people who are happy and successful at their current jobs. Cisco advertises its site at places – such as art fairs, microbrewery festivals and other places frequented by potential employees – where its kind of people hang out. One may even be greeted with a message: "Welcome to Cisco, Would you like a job?" The company uses a minimum of five job interviews before picking up the right person. The reward system is also carefully aligned with the strategy and values of the company. Stock options are distributed generously, with a full forty per cent of all Cisco stock options in the hands of individual employees without managerial work!

When the growth of high-tech firms slowed down in late 1990s Cisco had to lay off nearly 10,000 employees to reduce costs and to improve profitability. Deteriorating financial performance and related mounting layoffs have made it difficult for the company to retain its best employees. The company's network application called, Pathfinder, allows Cisco employees to search for jobs in Cisco's other units. Over 20 per cent of employees have been able to find better jobs within Cisco using this tool. Consistently in the top ten 'best places to work' bracket, Cisco is able to keep its head high even in difficult market conditions, because of its employee-friendly HR policies and practices. Of course as market conditions change, Cisco's human resource strategy will also need to change if it wants to recruit and retain the best and brightest minds in the technology sector. (Various issues of Fortune, Fast Company; www.cisco.com; Workforce etc. and 'Cisco Systems: Acquiring and Retaining Talent in Hypercompetitive Markets' By Pfeffer, Jeffrey, Human Resource Planning, September 1, 2000)

Questions

1. Explain how Cisco is able to attract the best and brightest employees, competing with so many rivals in the technology sector.
2. What needs to be done at Cisco in order to retain talent especially on the training and development front?

Source: Rao.V.S.P. (2010), *Human Resource Management,* Excel Books Pvt. Ltd.

12.6 Summary

- People are the real assets of an organization. If treated well, they can take organizations to commanding heights.
- Effective use of human resources helps in exploitation of natural, physical and financial resources in a better way.
- Small businesses also need to match the talents of prospective employees with the company's needs.
- Small business consultants strongly urge even the most modest of business enterprises to implement and document policies regarding human resource issues.
- Employees are far more likely to be productive assets to your company if they feel that they are treated fairly.
- Human Resource Development (HRD) is a positive concept in human resource management.

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- HRD aims at helping people to acquire competencies required to perform all their functions effectively and make their organization do well.
- Competent employees may not remain competent forever.
- Industrial relations are also a multidisciplinary field that studies the collective aspects of the employment relationship.
- Labor law seeks to regulate the relations between an employer or a class of employers and their employees.
- According to the Environment Protection Act of 1986, Environment is that which includes the "interrelationship which exists among and between water, air, and land and human beings, other living creatures, plants, microorganism and property."

12.7 Keywords

Compensation: The remuneration received by an employee in return for the services offered to an organization.

HRD: A planned way of developing individual employees, groups and the total organization to achieve organizational goals, in an atmosphere of mutual trust and cooperation.

HRM: A process of bringing people and organizations together so that the goals of each one are met, effectively and efficiently.

Industrial Relations: Industrial relations are also a multidisciplinary field that studies the collective aspects of the employment relationship.

Labor Law: Labour law defines your rights and obligations as workers, union members and employers in the workplace.

Labour Unrest: Labor unrest is a term used by employers or those generally in the business community to describe organizing and strike actions undertaken by labor unions, especially where labor disputes become violent or where industrial actions in which members of a workforce obstruct the normal process of business and generate industrial unrest are essayed.

Law: Law is a technique for the regulation of social power.

Lockouts: A lockout is a temporary work stoppage or denial of employment during a labor dispute initiated by the management of a company.

Organisations: A social unit of people that is structured and managed to meet a need or to pursue collective goals.

Pollution: The presence in or introduction into the environment of a substance or thing that has harmful or poisonous effects.

Trade Unions: Trade unions are organisations which represent the interests of workers or employees who work in the same or similar industries or jobs.

Wages: A wage is remuneration paid by an employer to an employee.

12.8 Review Questions

1. "Human Resource Management helps an organization and its people to realize their respective goals." Discuss.
2. Why small businesses need to match the talents of prospective employees with the company's needs?

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3. What do you understand by Human Resource Development?
4. Highlight the major tasks of HRM and IR.
5. Define Industrial relations.
6. Describe some of the labour laws in India.
7. Distinguish between HRM and HRD.
8. What are Industrial Relations?
9. Write brief note on Pollution Control Laws.
10. Do you agree with the statement that Law is a technique for the regulation of social power? If yes, give reason.

Answers: Self Assessment

1.	Knowledge, Skills and Abilities (KSAs)	2.	Planning
3.	Written Record	4.	False
5.	True	6.	False
7.	Human resource management	8.	Industrial relations
9.	Labour employer	10.	True
11.	False	12.	False
13.	1976	14.	Water (Prevention & Control)
15.	Environment		

12.9 Further Readings

Books

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Unit 13: Institutions Supporting Small Business Enterprises

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Objectives

After studying this unit, you will be able to:

- Describe the central level institutions
- Explain the state level institutions
- Know about the other agencies

Notes

Introduction

Government has recognized the important role of entrepreneurs in the industrial development of the country, especially through the Small Scale Industries (SSIs). SSIs are essential for Indian economy in terms of employment generation, foreign exchange earnings, and its share in industrial output, and contribution to national income. The government of India and state governments provides a number of special facilities and incentives.

The incentives not only motivate entrepreneurs to set up industries in the small scale sector, but also strengthen the entrepreneurial base in the economy. The new entrepreneurs face a number of problems on account of inadequate infrastructure facilities and other support services.

The government offers a package of services through its specialized institutions and motivates entrepreneurs to take advantage of the various facilities and establish enterprises and flourish. This package includes assistance in obtaining finance, help in marketing, technical guidance, training, and technology up gradation etc. It is hoped that institutional incentives would play a key role in the promotion of small enterprises and ensure their self-sustained growth.

13.1 Central Level Institutions

Following are the various central level institutions that support small business enterprises:

13.1.1 Small Scale Industries Board

SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector. It provides a forum to its members for interaction to facilitate cooperation and inter-institutional linkages and to render advice to the Government on various policy matters, for the development of the sector.

Notes The Board was first constituted in 1954. Its term is for two years. The Board was last constituted on 18th January 2003, with 101 members and held its 48th meeting on 17 January, 2004.

13.1.2 Small Industry Development Organization

The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO). It is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring policies and programmes for the promotion and development of small scale industries. It has over 60 offices and 21 autonomous bodies under its management, including Tool Rooms, Training Institutions and Project-cum-Process Development Centres etc. Functions of such main bodies are as follows:

(a) ***Small Industries Service Institutes (SISIs)*** are operational one in each state. They provide technical support and consultancy services, conduct entrepreneurship development programmes, and export promotion and liaison activities Emphasizes is also placed on implementation of programmes on modernization, energy conservation, quality control/ up gradation and pollution control for the benefit of entrepreneurs.

(b) ***Regional Testing Center (RTC)*** provides Testing facilities for product quality up gradation.

(c) ***Tool Rooms/Tool Design Institutes (TRs/TDI)*** assist SSIs in technical up gradation, and provide good quality tooling by designing and producing tools, moulds, jigs & fixtures, components, etc.

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(d) ***Product-cum-Process Development Centres (PPDCs)*** look into their specific problems and render technical service.

(e) ***Central Footwear Training Institutes (CFTIs)*** develop footwear designing to promote exports.

Did u know? Sub-Contract Exchanges for Ancillary Development (SCXs) register and create database of the spare manufacturing/service capacity of SSI; create database of requirements of large/medium units and match the requirements with the spare capacity available with small units; and arrange Buyer-Seller Meets, organize vendor exhibitions, seminar, workshops for large-small units coordination, quality up gradation, export promotion, etc. and facilitate flow of data on vendor development.

Thus, the main services rendered by DC SSI office are:

(a) Advising the Government in policy formulation for the promotion and development of small scale industries.

(b) Providing techno-economic and managerial consultancy, common facilities to small scale units.

(c) Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.

(d) Developing Human Resources through training and skill upgradation.

(e) Providing economic information services.

(f) Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small Scale Industries.

(g) Evolving and coordinating policies and programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.

(h) Monitoring of Prime Minister Rozgar Yojna (PMRY) Scheme.

13.1.3 National Small Industries Corporation (NSIC)

The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions. NSIC continues to implement its various programmes and projects throughout the country to assist the SSI units. The Corporation has been assisting the sector through the following schemes and activities:

(a) ***Composite Term Loan Scheme:*** To promote small-scale sector, NSIC has launched a Composite Term Loan Scheme for the benefit of existing and prospective entrepreneurs to acquire land and building, machinery and equipment and working capital under one roof to the tiny units.

(b) ***Hire Purchase Scheme:*** Supply of indigenous and imported machinery and equipment on easy financial terms with special focus on women entrepreneurs, weaker sections, handicapped and ex-servicemen and SC/ST entrepreneurs.

(c) ***Equipment Leasing:*** It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.

(d) ***Working Capital Finance:*** This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements to enable them to

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pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.

(e) ***Raw Material Assistance:*** It facilitates availability of scarce raw material either through the domestic market or by importing.

(f) ***Marketing Support Programme:*** NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies, with the intention of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality, economic prices and adherence to agreed delivery schedules.

(g) ***Tender Marketing:*** It participates in bulk local/global tender on behalf of Small Scale Industries/Enterprises. It is aimed at assisting SSIs with the ability to manufacture quality products but which lack brand equity & credibility or have limited financial capabilities.

(h) ***Integrated Marketing Support:*** NSIC has been operating an Integrated Marketing Support Programme in which bills pertaining to supplies made by small scale units to eligible purchasers are discounted by NSIC up to a certain specified limit.

(i) ***Government Stores Purchase Programme:*** The units registered with the Corporation for participation in government purchase programme are considered at or with individual purchase organisations and derive all the benefits like free supply of tender forms, exemption from payment of earnest money, security deposits, etc.

(j) ***Technology Up gradation:*** Excellent technical support is provided to SSIs/SMEs through five NSIC-Technical Service Centres. These centres have been recognised by Council of Scientific and Industrial Research for in-house R&D. NSIC has set up a Technology Transfer Centre. The latest information is provided to on-line connections and networks of computers on matching technology seekers and technology providers are arranged through the Technology Transfer Centre.

(k) ***Software Technology Parks:*** NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI). Software Technology Parks facilitates small scale units to establish their units for the 100% export of software and also act as the major point to activate software exports directly through NSIC.

Caution NSIC-STP Complex at Okhla, New Delhi is one of such Parks set up by the National Small Industries Corporation under the Software Technology Parks of India to promote small entrepreneurs in software development.

NSIC-STP provides high speed better communication facilities through VSNL/SATCOM networks, built-up office space, and uninterrupted power supply, back-up power through DG sets, a modern business centre and other administrative support.

(l) ***Exports:*** NSIC is providing a complete package of export assistance, testing facilities, pre-shipment credit facility, export incentives etc. apart from exposure to the products of SSEs in trade fairs, buyer and seller meets etc.

Notes The Corporation has been endeavouring to increase share of Indian industries in purchases to United Nations Organization, it being the largest single buyer in the world.

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13.1.4 Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957. The KVIC is supposed to do the planning, promotion, organisation and implementation of programmes for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

13.1.5 National Institute of Small Industry Extension Training (NISIET)

National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.

Caution The NISIET, since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and modernization of the SME sector.

An autonomous arm of the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI), the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

A Centre of Excellence: It was in 1984 that the UNIDO had recognised SIET as an institute of meritorious performance under its Centres of Excellence Scheme to extend aid. Subsequently, it was also accorded national status and SIET Institute became NISIET in the same year.

The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of Small and Medium Enterprises (SMEs) to progress towards success and prosperity. With this vast expertise in the areas of entrepreneurship, policy, technology, management, and information services, the institute is consistently assisting the SMEs to face with confidence, the challenge brought about by globalization and the impact of IT on their businesses. As a global organization, NISIET's stellar role in positioning the SMEs on the growth trajectory has benefited not only the Indian SME sector, but also developing countries around the world, in promoting self-employment and enterprise development. The institute is constantly evolving with time, modifying is focus with the emerging need of SMEs, providing them solutions in the form of consultancy, training research, and education to retain their competitive edge in ever-hanging makers.

13.1.6 National Institute for Entrepreneurship and Small Business Development (NIESBUD)

National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, it conducts national and international level training programmes in different fields and disciplines.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD), an autonomous institution under the ministry of micro, small and medium enterprises, Government of India, has joined hands with the International Finance Corporation, a member of the World Bank Group, for jointly undertaking different projects relating to entrepreneurship development in India.

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Figure 13.1: National Institute for Entrepreneurship and Small Business Development

Source: Lall Madhurima (2012), *Small Business Management*, Excel Books Pvt. Ltd.

National Institute for Entrepreneurship and Small Business Development (NIESBUD) is a premier Institute under the Ministry of MSME for coordinating, training and overseeing the activities of various institutions and agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. NIESBUD has launched a major project for Entrepreneurship and Skill Development of 35,000 youth by December 2011 in the states of West Bengal, Uttarakhand, Uttar Pradesh, Madhya Pradesh, Haryana, Delhi, Rajasthan, Orissa, Bihar, Jharkhand, Chhattisgarh, Punjab, J&K, Gujarat and Union Territory of Chandigarh. NIESBUD is one among several Institutions functioning under the Ministry of MSME. In its endeavour to spread entrepreneurial culture throughout the country, the Ministry is being assisted by two more entrepreneurship development Institutions namely National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and Indian Institute of Entrepreneurship, Guwahati.

Caselet

NIESBUD to Promote e-learning Initiative

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) has entered into a Memorandum of Understanding (MoU) with Sun Online Learning India Pvt Ltd for promoting an e-learning initiative developed by the company, according to a press release of the ministry of micro, small and medium enterprises (MSME).

NIESBUD is an organisation of the ministry which is engaged in training, research and other interventions aimed at promoting entrepreneurship and development of micro and small enterprises. Sun Online Learning's e-learning initiative is aimed at career planning and career enhancement.

The MoU was signed between Arun Kumar Jha, director general, NIESBUD and Kris Srikkanth, the former captain of the Indian cricket team and director of the company.

The digital learning package consists of two modules — employability skills and entrepreneurship skills. The modules have been designed with the objective of equipping

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students and professionals with the skills required to make them employable and successful entrepreneurs.

Analogies from cricket are used in imparting training, to make the learning easy and interesting. The MoU is expected to foster an entrepreneurial culture among different strata of society.

Source: http://www.business-standard.com/article/sme/niesbud-to-promote-e-learning-initiative-112102300070_1.html

Identifying Skills for Maximum Employment

The Skills have been identified on the basis of market needs to ensure maximum employment. The Institute hopes that at least 25% of the participants will be employed within this financial year. The main skills identified are Housekeeping & Hospitality, Retail Management, IT & ITES, Light Engineering, Fashion Designing, Artificial Gems & Jewellery and Cosmetology and Beautician. Most of these training programmes are being sponsored by the Ministry under the Scheme of 'Assistance to Training Institutes'. The participants are encouraged to gain self employment and are provided hand holding support under the scheme of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) being implemented by the Ministry of MSME. The programmes are closely monitored to ensure the highest quality.

Example: The District Administration, Industry and Business Associations, Bankers and Placement Agencies are closely involved with the programmes.

Figure 13.2: National and International Forum

Source: Lall Madhurima, (2012), *Small Business Management,* Excel Books Pvt. Ltd.

National and International Forum for Exchange of Ideas

NIESBUD has been conducting training programmes for national and International participants since 1983 besides conducting research studies and providing guidance and consultancy to new and existing entrepreneurs in MSME sector.

Example: NIESBUD has been working with different Ministries like Ministry of Labour and Employment, Rural Development, Social Justice & Empowerment, etc. and assisting them in fulfilling their objectives.

Notes

Promoting Entrepreneurship

NIESBUD has helped Central and State Governments and their agencies in promoting entrepreneurship in their respective areas by way of guidance, consultancy, etc. It has also provided support and guidance to various countries in Asia and Africa.

NIESBUD has recently organized more than 100 Workshops in different Engineering Colleges, Management Institutions and others in order to create awareness among the students and faculty in realizing the power of entrepreneurship. Thousands of students and hundreds of Faculties realized that the ultimate need of the country is not only to create another employee rather to establish entrepreneurs who will in turn provide employment to many persons.

Notes Till the end of 2010–11, the Institute has trained more than 75,000 persons including 2100 from 125 countries and plans to conduct 8 international training programmes for training 200 participants from 25 Countries in 2011–12 the Institutes will also train at least 40,000 persons in employable skills and will strive for the wage and self employment of at least 10,000 participants.

Self Assessment

Fill in the blanks:

1. The Office of the Development Commissioner (Small Scale Industries) is also known as the……..
2. ……..continues to implement its various programmes and projects throughout the country to assist the SSI units.
3. The …….. is a statutory body created by an Act of Parliament in April 1957.
4. …….. is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.
5. The …….. have been identified on the basis of market needs to ensure maximum employment.

13.2 State Level Institutions

State Level Institutions execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States. These are executed through State Directorate of Industries, who has District Industries Centres (DICs) under them to implement Central/State Level schemes. The State Industrial Development Corporations also look after the needs of the small-scale sector.

13.2.1 State Industrial Development Corporations (SIDCs)

Incorporated under the companies Act, 1956 SIDC's were set up in different states as wholly owned companies for promoting industrial development in their respective states. The main functions of SIDC's are as follows:

(a) Providing term finance to all small, medium and large industrial enterprises set up in state.

(b) Underwriting and directly subscribing to shares, and debentures of debentures of industrial enterprises being set up in the state.

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(c) Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state.

(d) Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.

(e) Implementing scheme of 'Industrial Development Bank of India' of seed capital in the state.

13.2.2 State Directorate of Industries (SDIs)

Under the constitution of India promotion and development of small scale industries is a State subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each State. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub-division and block level respectively.

The main functions of Directorate of Industries are as follows:

(a) Registration of small scale units

(b) Providing financial assistance

(c) Distributing scare and indigenous raw materials to industrial units

(d) Granting essentiality certificates for import of raw material

(e) Establishing industrial estates and industrial cooperatives

(f) Developing industrial infrastructure

(g) Undertaking industrial surveys and collecting information

(h) Arranging concessions and incentives for industries

(i) Overall administration of village and small scale industries

(j) Maintaining liaison with other agencies for industrial development

13.2.3 District Industries Centres (DICs)

The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. These centers are the focal points providing all the services and support required by small scale and village entrepreneurs under one roof. These serves as an integrated administrative framework at the district level for industrial development.

The main functions of DICs are as follows:

1. It conducts surveys to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand, etc.

2. It prepares an action plan for industrial development.

3. It appraises the various investment proposals received from entrepreneurs.

4. It guides and assists entrepreneurs in buying appropriate machinery and equipment and raw material.

5. It suggests appropriate marketing strategies to entrepreneurs.

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6. It maintains links with research and development institutions for upgradation of technology, quality improvement, industrial training etc.
7. It conducts artisans training programmes.
8. It has been assigned operation responsibility for special schemes to provide self-employment to educated unemployed youths.

13.2.4 Small Industries Development Bank of India (SIDBI)

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise and operational requirements but also for diversification, modernization/ up gradation of facilities, capacity expansion etc. In respect of SSIs, the problem of credit becomes all the more critical when ever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment etc. In general, SSIs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit.

Government of India recognized the need for a focused credit policy for SSIs in the early days of promotion of SSIs and RBI has been instrumental in devising a multi-stage approach/financial system for credit dispensation to different sectors of the economy, for example, agriculture, industry, exports, SSIs etc. The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programmes and schemes through five Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small scale sector is channelized through the two routes – direct and indirect.

Indirect Assistance

(a) SIDBI's financial assistance to small sector is primarily channelized through the existing credit delivery system, which consists of state level institutions, rural and commercial banks.

(b) SIDBI provides refinance to and discounts bills of Primarily Lending Institutions (PLI).

(c) The assistance is available for

- Marketing of SSI product
- Setting up of new ventures
- Availability of working capital
- Expansion
- Modernization
- Human resource development
- Diversification of existing units for all activities

Direct Assistance

(a) The loans are available for new ventures, diversification technology upgradation, modernization and expansion of well run small scale enterprises. Assistance is also available for private sector.

(b) Small scale sector is eligible for maximum debt-equity ratio of 3:1.

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(c) Foreign currency loan for import of equipment are also available to export oriented small scale enterprises.

(d) SIDBI also provide venture capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage and a potential for above average profitability leading to attractive return on investment.

New Initiatives of SIDBI

- Two Subsidiaries viz. SIDBI Venture Capital Limited and SIDBI Trustee Company Limited formed to oversee Venture Capital.
- Technology Bureau for Small Enterprise formed to oversee Technology Transfer, Match making Services, Finance Syndication and facilitating Joint Ventures.
- SIDBI Foundation for Micro Credit has been launched to provide financial assistance to the poor and to meet emerging needs of the micro finance sector especially in rural areas.

Self Assessment

State whether the following statements are true or false:

6. Central Level Institutions execute different promotional and developmental projects/ schemes.
7. SIDC's were set up in different states as wholly owned companies for promoting industrial development in their respective states.
8. Under the constitution of India promotion and development of small scale industries is a State subject.
9. The District Industries Centers programme was launched in 1980 for effective promotion of cottage and small scale industries.
10. The SIDBI is operating different programmes and schemes through 6 Regional Offices and 34 Branch Offices.

13.3 Other Agencies

Following are the other independent agencies that support Small business enterprises:

13.3.1 National Bank for Agriculture and Rural Development

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas.
2. Bringing about or promoting institutional development.
3. Evaluating, monitoring and inspecting the client banks.

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Besides this pivotal role, NABARD also:

1. Acts as a coordinator in the operations of rural credit institutions.
2. Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
3. Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
4. Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
5. Acts as regulator for cooperative banks and RRB's.

Set up in 1982, provide refinance assistance to State Cooperative Banks, Regional Rural Banks, and other approved institutions for all kinds of production and investment credit to SSIs, artisans, cottage and village industries, handicrafts and other allied activities. Helps SSI entrepreneurs to get loan for setting up SSIs in any part of the country.

13.3.2 Housing and Urban Development Corporation Ltd. (HUDCO)

Wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986. Primary objective is to provide assistance for urban, social sector infrastructure, and the creation of housing facility, of late, to create SSI infrastructure. Also extends assistance for the promotion of building material industries, besides imparting consultancy, training and technical in related matters.

13.3.3 Technical Consultancy Organizations (TCOs)

Set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs. Services include preparing project profiles and feasibility studies, undertaking industrial potential surveys, identifying potential entrepreneurs and provision of technical and management assistance to them, undertake market research and surveys for specific products, carrying out energy audit and energy conservatism assignment, project supervision, taking up assignments on a turnkey basis, undertaking export consultancy for EOU.

Task Critically analyse the role of institutions in promoting small scale business.

Self Assessment

Fill in the blanks:

11. ……. is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture.
12. NABARD acts as a ……. in the operations of rural credit institutions.
13. NABARD was set up in …….
14. ……. is wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986.
15. …….. was set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs.

Notes

Case Study

As Farmers Suffer, NABARD Offers Soft Loans to Business Enterprises

The National Bank for Agriculture and Rural Development (NABARD), which is dedicated to promoting rural development by providing soft loans to State governments for social sector projects, has given hundreds of crores as loans to corporates on concessional terms.

In the Union Budget of 2011-12, ₹ 18,000 crore was allocated by the Centre to NABARD's Rural Infrastructure Development Fund (RIDF), of which ₹ 2,000 crore was exclusively earmarked for the creation of warehousing facilities. While the allocation of ₹ 16,000 crore to the States was made by NABARD's State Projects Department, the allocation of ₹ 2,000 crore towards warehousing was entrusted to a new team set up on the recommendation of global consulting firm Boston Consulting Group (BCG), after being awarded the mandate for a repositioning exercise.

In a circular of September 27, 2011, NABARD, making a significant deviation from its earlier policies, included private entities as eligible institutions without consulting the RBI. In another circular of December 23, 2011, NABARD further revised the scheme, again without consulting the RBI, to provide private firms an interest rate rebate of 1.5%. In violation of the regulated 8% rate levied by RIDF, an avenue was created for flow of funds to corporates and release of the interest rate rebate to the borrowers directly by NABARD.

According to documents available with The Hindu, a total of ₹ 759 crore was disbursed, including as refinance at 8% to various banks to fund 516 warehouses and cold storage projects of private entities in March 16-31, 2012. Shubham Logistics Ltd, a subsidiary of the over ₹ 6,000 crore Kalpataru Group, was handpicked for a rebate of 1.5%, allowing it to access ₹ 115 crore under a government scheme at a concessional 6.5% rate of interest. Shubham Logistics would have paid a 10.5% rate of interest had the funds been sourced from the market. The company, which was disbursed a total of ₹ 180.87 crore, to set up 18 warehouses, became the beneficiary of a further 15% subsidy under another government scheme, entitling the company to a refund of over ₹ 20 crore.

The two schemes that were used to favour Shubham Logistics are Grameen Bhandaran Yojana which offers subsidy of 15% to 33.33% for construction of rural godowns. For corporates the subsidy is 15% of total financial outlay up to a maximum of ₹ 28.12 lakh. Under the other scheme, 'Warehousing scheme under RIDF', banks are offered refinance at 8% which can be further reduced to 6.5% as an incentive for prompt repayment.

Documents reveal that the RBI has questioned NABARD's interest rate manipulations in financing warehousing projects without its permission and demanded a recall of the ₹ 759 crore allocated to private firms. Compliance with this directive means that NABARD will have to return the money to the RBI and raise debt from the market to honour its commitments. This is likely to hit NABARD's balance sheet by roughly ₹ 150 crore. The Ministry of Agriculture has further questioned irregularities in Shubham Logistics storage projects in Deesa, Banaskantha, pointing out that the project is ineligible for sanction of the subsidy.

Meanwhile, Aditya Bafna, Executive Director of Shubham Logistics Ltd (SSLL), a subsidiary of Kalpataru Power Transmission Ltd was appointed Director on the board of NABARD Consultancy Services Private Ltd (NABCONS) — a wholly owned subsidiary of NABARD —

Contd...

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on January 15, 2010. He refused to comment on either the allegations of special favours or the conflict of interest arising from his appointment on the NABCONS Board.

NABARD's response to a RTI query reveals that it released ₹ 13.3 crore BCG for a 'repositioning' report that it admits has never been submitted. Sources in NABARD allege that an additional payment of ₹ 9 crore has also been released to "rollout the recommendations". NABARD Chairman Prakash Bakshi, under whose leadership these transactions were sanctioned, did not respond to detailed questions that were emailed to him on December 3, including on the fresh release of ₹ 9 crore to BCG or what hit NABARD's balance sheet was likely to take after the repayment to RBI of the unauthorised fund transfers to corporates.

BCG's Chairman, Asia Pacific, Janmejaya Sinha did not respond to detailed questions regarding whether the firm had any exposure to working with any developmental financial institution prior to its consulting assignment with NABARD, especially in the Asia Pacific region, the terms of reference and payment for the assignment or whether it was true that BCG was scouting for fresh business opportunities with the RBI.

Question

Do you think the deviation made by NABARD in its policies was a right decision?

Source: http://www.thehindu.com/news/national/as-farmers-suffer-nabard-offers-soft-loans-to-corporates/article4181802.ece

13.4 Summary

- SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector.
- The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO).
- The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions.
- NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies, with the intention of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality, economic prices and adherence to agreed delivery schedules.
- NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI).
- The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957.
- National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.
- The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of Small and Medium Enterprises (SMEs) to progress towards success and prosperity.
- NIESBUD is one among several Institutions functioning under the Ministry of MSME. In its endeavour to spread entrepreneurial culture throughout the country, the Ministry is being assisted by two more entrepreneurship development Institutions namely National

Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and Indian Institute of Entrepreneurship, Guwahati.

- NIESBUD has been conducting training programmes for national and International participants since 1983 besides conducting research studies and providing guidance and consultancy to new and existing entrepreneurs in MSME sector.
- NIESBUD has helped Central and State Governments and their agencies in promoting entrepreneurship in their respective areas by way of guidance, consultancy, etc.
- State Level Institutions execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States.
- The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns.

13.5 Keywords

Commission: The authority to perform a task or certain duties.

Equipment Leasing: It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.

Exports: Exports are products which are produced in one country and sent to another.

Khadi and Village Industries Commission (KVIC): It is a statutory body created by an Act of Parliament in April 1957.

National Institute for Entrepreneurship and Small Business Development (NIESBUD): It is an autonomous institution under the ministry of micro, small and medium enterprises, Government of India, has joined hands with the International Finance Corporation, a member of the World Bank Group, for jointly undertaking different projects relating to entrepreneurship development in India.

National Institute of Small Industry Extension Training (NISIET): The NISIET, since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and modernization of the SME sector.

Raw Material Assistance: It facilitates availability of scarce raw material either through the domestic market or by importing.

Skills: An ability and capacity acquired through deliberate, systematic, and sustained effort to smoothly and adaptively carryout complex activities.

Technology: The word technology refers to the making, modification, usage, and knowledge of tools, machines, techniques, crafts, systems, and methods of organization, in order to solve a problem, improve a preexisting solution to a problem, achieve a goal, handle an applied input/output relation or perform a specific function.

Term Loan: A term loan is a monetary loan that is repaid in regular payments over a set period of time.

Training: The action of teaching a person or animal a particular skill or type of behavior.

Working Capital Finance: This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements to enable them to pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.

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13.6 Review Questions

1. What is Small Industry Development Organization? Discuss its functions.
2. Highlight the main services rendered by DC SSI office.
3. Throw some light on National Small Industries Corporation.
4. Write brief note on National Institute of Small Industry Extension Training (NISIET).
5. What are the skills required for Maximum Employment?
6. Explain the main functions of SIDC.
7. Discuss the main functions of Directorate of Industries.
8. Describe District Industries Centres (DICs).
9. Distinguish between Direct and Indirect Assistance.
10. Discuss the new Initiatives of SIDBI.
11. Elucidate the role of NABARD.

Answers: Self Assessment

1.	Small Industry Development Organization (SIDO)	2.	NSIC
3.	Khadi and Village Industries Commission (KVIC)	4.	Equipment Leasing
5.	Skills	6.	False
7.	True	8.	True
9.	False	10.	False
11.	NABARD	12.	Coordinator
13.	1982	14.	HUDCO
15.	Technical Consultancy Organizations (TCOs)		

13.7 Further Readings

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Unit 14: Sickness in Small Business Enterprises

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Objectives

After studying this unit, you will be able to:

- Describe the status of sickness of SSI's in India
- Explain the causes of sickness
- Discuss the symptoms and cure of sickness

Introduction

The term 'sickness' has been variedly defined by various authorities but, as a matter of fact, so far, the term itself has not received any universal recognition which could justify the concept of sickness in small-scale industries. This major handicap has acted as a fuel in the failure to recognize the actual state of sickness in these industries. A vagueness in the conceptual framework has contributed to confusion and has acted in a further deterioration of SSIs while recovering from their ill-health. It would be appropriate to examine critically some of the authoritative definitions and finally come up with a plausible outcome suggestive of the structure of the concept.

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14.1 Status of Sickness of SSI's in India

Sickness in man is gradual process and does not develop suddenly. Similar is the case with industrial units. Therefore, in common parlance, a sick industry is one which is not healthy and a healthy unit is one which earns a reasonable return on capital employed and builds up reserves after providing reasonable depreciation.

A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.

According Reserve Bank of India (RBI): "A small-scale unit should be considered as sick if it has at the end of any accounting year, accumulated losses equal to or exceeding 50% of its peak net worth in the immediately preceding 5 accounting years".

The Sick Industrial Companies Act, 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

Sickness, in industry therefore, indicates more or less a perfect positive correlation with profitability, liquidity and solvency. The reasons of industrial sickness can be either internal or external.

Notes Industrial sickness in the small scale industries is an area of great concern nowadays. With an ever increasing population of the state and less scope for getting jobs in public sector, these small scale industries are the only hope of providing a source of livelihood to the local populace. In these present days of down-sizing and right-sizing in government jobs, a proper study of industrial sickness and finding its measures to stop it will be the only means of empowering the people for economic development.

Small-scale industries (SSIs) continue to play a significant role in industrial activity. The share of SSIs in the gross industrial value added in the economy is around 40 per cent. About 44 per cent of total manufactured exports are directly accounted for by the SSI sector.

Did u know? It has been estimated that a million rupees of investment on fixed assets in the small-scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000.

Caution When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

SSI sector in India creates the largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons.

SSI sector plays a major role in India's present export performance. 45-50% of Indian exports are contributed by the SSI sector. Direct exports from the SSI Sector account for nearly 35% of total exports.

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Did u know? Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use of finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. This has been mostly fuelled by the performance of garments, leather, gems and jewelry units from this sector. The product groups where the SSI sector dominates in exports are sports goods, ready-made garments, woolen garments and knitwear, plastic products, processed food and leather products. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO.

The opportunities in the small-scale sector are enormous due to the following factors:

- Less capital intensive
- Extensive promotion and support by government
- Reservation for exclusive manufacture by small-scale sector
- Project profiles
- Funding - finance and subsidies
- Machinery procurement
- Raw material procurement
- Manpower training
- Technical and managerial skills
- Tooling and testing support
- Reservation for exclusive purchase by government
- Export promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing export potential for Indian products
- Growth in requirements for ancillary units due to the increase in number of greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

The promotional and protective policies of the government have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalization coupled with government support will, therefore, attract the infusion of just these things in the sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

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Caselet

Sarathbabu: An Entrepreneur

Meet Sarathbabu, the 27 year old IIM, Ahmedabad Graduate who rejected lucrative campus offers to start a business. But then this is not special, around 30-40% IIM graduate reject offers to start their business. What is special about Sarath babu is even the hard atrocities of life faced by him could not deter him from achieving the present status and position. He belongs to a very economically weak family, he was amongst the five children that were nurtured by their single mother, who worked for mid-day meal, taught in an every programme and sold idlis in the morning so that her kids could be nurtured and educated.

Even Sarathbabu also helped his mother in selling idlis. His mother's hard work did not go in vain, Sarathbabu did well in education, he did his B. Tech from BIT Pilani and was also selected by IIM, Ahemadabad (one of the most premiere institute in India.) He got good job offers, the job offers after MBA were especially lucrative for person like Sarathbabu because his mother dint even have a Pucca house, but he was determined to be an entrepreneur and started his Food Catering Services Private Limited with an initial capital of ₹ 11.75 lakh that he funded from a loan from a bank. He has orders from big institutions – IIM Ahmedabad, Darpan Academy Gujrat Energy Research Institute & Systems Plus. Though the business has taken a bigger shape now, the seeds of entrepreneurship were laid when he drew inspiration from his mother who sold idlis to earn livelihood & education for them.

Entrepreneurial bug finally hit him when he realized for the first time that people like Dhirubhai Ambani & Narayanmurthy with Companies like Reliance & Infosys employee thousands of people & hence take care of the livelihood of the employees and their families and hence indirectly help lakhs of people. This noble act of taking care of large section of the society finally unveiled the entrepreneur in him.

Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship,* Excel Books Pvt. Ltd.

Self Assessment

Fill in the blanks:

1. Small-scale industries continue to play a significant role in……. activity.
2. The number of small-scale units has increased from an estimated ……. million units in the year 1980-81 to over 3 million in the year 2000.
3. SSI sector plays a major role in India's present ……. performance.
4. It would surprise many to know that non-traditional products account for more than ……. of the SSI exports.
5. The promotional and protective policies of the government have ensured the presence of this sector in an astonishing range of products, particularly in ……. goods.

14.2 Causes of Sickness

As far as the causes of sickness in small-scale industry are concerned, it cannot be attributed to a single factor. In fact, it is an outcome of the cumulative effect of many factors/causes working

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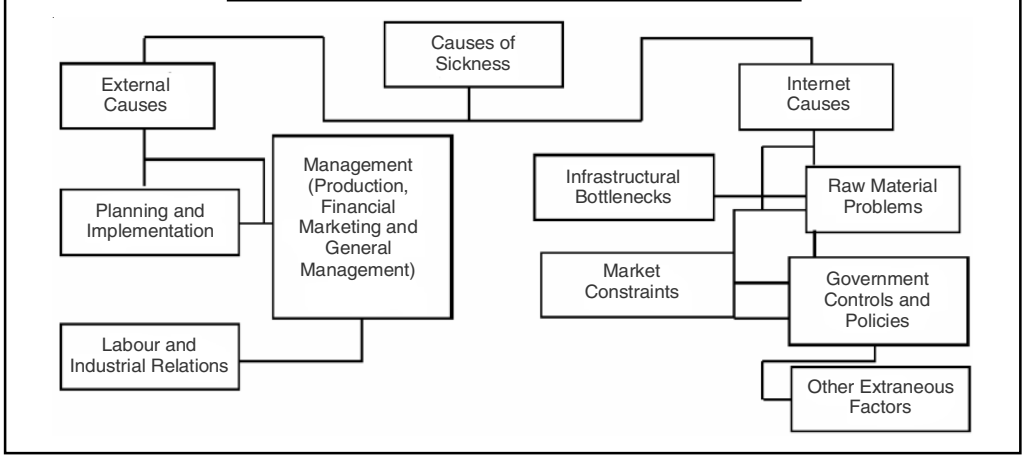
simultaneously which may not be closely interrelated on even interdependent. The important causes of industrial sickness can be classified as:

1. External causes, and
2. Internal causes

Figure 14.1: Various Causes of Industrial Sickness



Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship,* Excel Books Pvt. Ltd.

External Causes: The external causes are beyond the control of the industry, and usually effect the industry group as a whole, e.g.,

- Non-availability of raw material (or irregular supply, or availability at high prices).
- A general recessionary trend in the economy which affects the overall performance of the industrial units.
- High cost of production facing a low realization of sales revenue.
- Irregular supply of vital inputs such as power, water, transportation, etc.
- Fiscal irregularities such as those possible in excise duties, import duties, etc.
- Unfavourable change in government/institutional policies.
- Industrial strikes, unrest, etc.
- Natural calamities such as drought, earthquakes, flood, etc.

Internal Causes: Internal causes are within the control of the industry. It may be an outcome of some internal deficiencies or shortcomings in its various functional areas such as marketing, management production, finance, etc. Most of the causes of industrial sickness are, however, due to internal factors such as:

- Lack of control on key areas like management, finance, marketing, inventory, etc.
- Shortage of working capital.
- An improper demand forecast for the products to be sold.
- Inappropriate choice of technology, non-flexibility of fixed assets, wrong location or layout of industry.
- A defective capital structure especially on account of delayed constructions and operations, resulting in cost overruns and non-budgeted borrowings interest burden there from.

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14.2.1 Mismanagement

A mismanaged unit is, in fact, a sick unit. Management must be intelligent, brilliantly capable, decisive, innovative, very efficient and assuring. In most of the sick units, management fails to take proper decisions on routine matters. Important decisions regarding site selection, production process, promotion avenues, marketing management, etc., are often ignored.

Compared to large-scale industry, management in small business is inherently more difficult and complex due to its nature of single management band. Mostly, small industry is managed by an entrepreneur having experience in only one or two functions, usually production and selling. He is, therefore, most likely to err in other core operational areas like auditing, human resource management, planning, finance, etc. As all these activities require highly specialized skills, it becomes almost impossible for a single man to specialize in all of these fields. As a result, all areas of small business are not effectively managed. Hence, inefficient management makes the small-scale units highly prone to sickness.

Moreover, dynamism in management is generally found missing in these units. The ancestral and traditional businesses are mostly reluctant to introduce change.

Example: M/s Ashgar Ali Mohammad Ali prefers to sell their much-in-demand rose water in the same crude, old fashioned bottles with old sampling method. Generally, the senior-most (old) man takes decisions regarding the product and he would generally stick to the same old set pattern. The unit would not respond to the changing environment of the market. Under such static conditions, the unit is bound to become sick. As a word of caution, the introduction of change does not mean that the management should become over-dynamic or over-enthusiastic and start diversifying the product or the whole business indiscriminately.

14.2.2 Marketing

Most of the sick units suffer from inefficient marketing management. Small business generally adopts a traditional way of marketing where 'more' is regarded as 'better'. If marketing places a continuous reliance on the promotion of material consumption, it would lead to a prosperous stage of industrial growth. This notion had served well initially, but with rising constraints such as limited resources, economic factors, environmental factors, etc., moving on the same, traditional paths of marketing appears questionable. The traditional marketing system is one of the major cause of sickness in SSIs.

Most small-scale industries become sick mainly because of their inability to market their products for various reasons such as poor quality of products, lack of market informations, poor advertising, obsolete technical back-ups, less competitive potentials, lack of professionalism, etc. Though the government has been quite protective in reserving around 860 items exclusively for SSIs, the sector still faces some serious marketing handicaps. Most of the SSIs that act as ancillaries to large industry, are forced to restrict their sales to the local market only, which leads to accumulation of stock coupled with lack of demand and deficiency of working capital to procure raw material and other physical resources to keep the unit moving. The restrictive marketing scenario thrust on SSIs compels them to restrict their scale of operations, and forgo economies of scale that could lead them to optimum position.

Example: The ancilliary industries often face various problems of marketing like;

(1) absence of a structured pricing system,

(2) inadequacy of technological support,

(3) delayed payments by their parent units,

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(4) interference in decision-making by parent industry,

(5) non-adherence to quality and delivery schedules.Mismanagement.

14.2.3 Implementation Lacunae

In cases of newly established small business, it often faces a delay in the implementation of its plans.

Example: A delay in the construction of the building within the scheduled time, would lead to delay in the installation of plant and machinery and consequently the working capital could not be used in time, etc.

If initial functions are delayed further, production and sales automatically get affected. Inability to implement the contingency plan in time, would in turn, delay the release of further installments of loans from the financial institutions. Side by side, costs also shoot up and the demand projections become obsolete. It is obvious that in such cases of sequential delays in implementation of plans, sickness is anticipated from the very initial stages of a project.

14.2.4 Poor Information System

Extremely poor information and reporting system is a normal feature in SSIs, where accounts, cash flow planning, costing, budgetary control, breakdowns, sales revenues, financial statements, statement of chargeable current assets, etc., are not properly reported on a day-to-day basis. At the same time, there is an intensely low level of communication and information system. The information department needs to be set up to strengthen small units.

14.2.5 Energy Problem

Shortage of power have done irreparable harm to SSIs in most of the states. Only a few years ago, some 2000 SSIs having nearly 20,000 workers were denied power by the Haryana State Electricity Board. HSEB was blamed for its general apathy towards the demand of SSIs and it resulted in the closure of these units. Similarly, most of the engineering and plastic industries have suffered greatly due to acute power shortage in UP, Orissa and MP. A better managed power sector and energy policy is required to save the SSIs from falling sick due to this avoidable lacuna.

14.2.6 Improper Technology

Obsolete technology and crude technology has been one of the major causes of sickness in small units. Frequent breakdowns, inefficiency in machinery performances due to inadequate maintenance, and delays in renovating or replacing the machinery is a normal feature in these industries. The situation is made worse when, instead of using the funds for depreciation or development rebates, these liquid funds are diverted towards new and unrelated activities. This may help in the short run but will always make things difficult in the long run. "The last few years have seen a growing infusion of modern technology and as the market has become more competitive, the weak, the infirm and the static among the units find it difficult to survive.

Since a crucial element in the scenario has been technology, arrangements have to be made immediately to ensure its widest possible spread. During the last decade, increase in capital has been of order of 6.24 per cent, but the contribution of technology to modernization has been just about one per cent. At times, technology means risk capital. More importantly, the state government lacks the managerial personnel with the necessary know-how and dynamism to

man key positions in the units which are taken over. Even if the government can find such technically qualified and business-oriented persons, it should give them adequate freedom of action. Yet, more of these measures will never work until the workforce comes to realize that it, too, has a stake in keeping a unit going." The *Economic Times*, New Delhi, August 25,1994.

14.2.7 Overtrading

The firms grow at a faster rate than they are able to finance from internally generated cash flow and bank borrowings. The firm focuses only on sales, regardless of whether or not, the same is profitable. Profit margins are reduced and unprofitable buyers are wooed just to increase the (unprofitable) sales growth. There is also shortage of cash because the unit's sale, stock levels and general sales grows faster than their capital allows. A unit managed in such a fashion is bound to become sick.

14.2.8 Psychological Melodrama

Interestingly, the entrepreneurs – promoters of sick units never accept the blame for the sickness of their units. The blame is shifted on external factors like government, institutions, irregular facilities or so on. Self-analysis is altogether missing. Lack of exercise, heavy smoking and intoxication, lack of sleep, etc., causes decay in their personal efficiency which affects the health of the unit adversely. At the same time, owner-managers of such sick units would not accept that the unit is heading towards sickness at the incipient stage. As Goutanga P Chattopadhyay the great psychologist, remarks in *Industrial Sickness – A Psychodynamic Interpretation*, "sometimes the entrepreneur finds it profitable to have his unit suffer losses chronically. The entrepreneur being psychologically sick is ruining the life of several employees and cheating many creditors and financial institutions, just to satisfy his self-indulgence need. On the other hand, the society will never blame itself for not being prepared to keep a check on irresponsibility, corruption of many of its so-called stalwarts."

Reluctance in reporting to factory bribery, unawareness of their managerial incompetencies, non-realization of work-man ratio, overloaded labour surplus, non-cognizance of the need to replace the old machinery and equipment, etc., are just some of the few unhealthy practices contributing to psychological sickness of units.

Self Assessment

State whether the following statements are true or false:

6. The internal causes are beyond the control of the industry, and usually effect the industry group as a whole.
7. A mismanaged unit is in fact a sick unit.
8. Efficient management makes the small-scale units highly prone to sickness.
9. The ancilliary industries often face various problem of marketing.
10. Obsolete technology and crude technology has been one of the major causes of sickness in small units.

14.3 Symptoms and Cure of Sickness

During the conduct of the survey that was undertaken by the authors for detection of sickness in small industries in over 50 industries, it was generally felt that, more important than searching for the causes or rehabilitation packages of the industrial units after they are crisis struck, is to

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be capable of identifying the symptoms of sickness in its very incipient stage. In most of the cases of industries visited, it was realized that the unit showed some definite symptoms before falling sick. But due to innumerous reasons, like unavailability of detector of symptoms, unwillingness to give cognizance, utter negligence of facts and lack of exact knowledge of symptoms, the units were caught in disaster. More interestingly, the reasons were not very complicated and with little effort could be neutralized and the units could have been saved. Furthermore, it was noted that none of the units under study had fallen sick all of a sudden. Sickness had overtaken the units slowly and in stages spread over a considerable period of time. It is, therefore, thought desirable to work out the symptoms in concrete terms so that the management and concerned authorities can be armed with techniques and safeguards which may indicate sickness well in advance. In any case, these techniques should be such that they can forewarn about the type and the extent of sicknesses and that too, the very moment when the affliction makes its first appearance.

14.3.1 Symptoms of Sickness

Sickness in the human body can be treated easily in the early stages – at the time the symptoms first strike – but when they are in an advanced stage, they may prove to be fatal or may defy all treatment. Symptoms can be external like natural calamities, war, government rules and regulations, new policy, etc., in which case the unit may not be in a position to play an effective role. But where the symptoms are internal, in most cases, no extraordinary or special steps would be needed to remedy the situation. The first signs of sickness generally fall within the purview of daily routine of the unit. These can be treated most effectively. If even after the detection of the following symptoms, the unit does not take an effective step, the agony is bound to be prolonged and may, at times, prove fatal. It should, therefore, be made mandatory on the part of the financial institutions, banks and the entrepreneur that they should have a system under which signals of sickness are received in time, so that corrective action may be taken on a scientific basis. It would, therefore, be appropriate to first of all enlist the important signals to identify sickness at the incipient stage:

1. Absence or little movement in stock.
2. Production and/or sales witnessing falling trend.
3. Frequent proposals for enhancement in credit limits.
4. Persistent irregularity in cash credit amount.
5. Negotiable instruments like bills, cheques, etc., being more often than not returned unpaid.
6. High drawing in cash by the borrowing unit.
7. Casual reconstitution of the firm at short intervals.
8. Laxity in turn-over of account.
9. Frequent rejection of or strictures about the goods supplied, by buyer.
10. Those expenses which could be written-off may go on increasing as they are not so far written-off.
11. Labor problems.
12. Overdependence on external funds.
13. Continuous increase in losses.
14. Denial on the part of the suppliers to supply raw materials.
15. Unreliability in ensuring stock and other assets adequately or in time.

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16. Persistent disagreement or disharmony among the directors or partners.
17. Window dressing of accounts by the units.
18. Low morality on the part of the employees.
19. Laxity in payments to suppliers, employees, banks etc.
20. Undue delay in annual accounts.
21. Attempts to route transactions through other banks by the borrowing unit.
22. Industry being gripped by recessionary trends.
23. Low profile market reports.
24. Inflationary trends in the mode of stock valuation not warranted by any economic considerations.

These are some of the signals that were very profoundly obvious in the sick units of UP before they were declared sick. Had the management been sensitive towards the signals, a majority of the units could be saved. Thus, this discussion would remain ineffective if the sources of these signals are not laid down for future reference of upcoming small enterprises.

14.3.2 Cure of Sickness

Rehabilitation of a sick unit comes under process only after the viability study of the concerned small unit recommends for its revival along with the suggested reliefs or packages or any other way out. Sickness needs to be tackled with a great sense of urgency of commitment. Whatever the causes, the problem of rehabilitation calls for immediate attention of all concerned. Emphasis in this regard should be on measures of a long-term nature rather than on palliatives. There is indeed a pressing need to improve the skill base of small firms so as to upgrade the level of technical and general education of workers. Apart from improvement of theoretical instruction, efforts are required to upgrade practical experience in collaboration with large industry, including public sector undertakings.

Industrial sickness is a part of the process of industrialization. It leads to unemployment, blockage of capital, loss of state revenue and non-utilization of assets. Hence it is necessary to take proper steps in order to rehabilitate the sick industries. As such govt. is concerned about this and would take the following steps to stem sickness and revive sick industries.

Small Sector

(i) ***State Level Committee:*** For the rehabilitation of small industry a State Level Committee under the chairmanship of Director of Industries will be constituted. Its members comprise representatives from the banks, financial institutions, Reserve Bank of India, Industries Association, experts and Government.

(ii) The above committee would be empowered with necessary statutory powers in order to rehabilitate the sick industry so that approved rehabilitation package may be implemented effectively.

(iii) The guidelines of the Reserve Bank of India / IDBI / SIDBI would be relied upon to identify sickness in sick and small units. Appropriate rehabilitation package would be approved for their rehabilitation.

(iv) The sick industries being revived will not require sickness certificate on an annual basis, instead the revival package shall specify the period of revival of sick units.

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(v) The industry declared sick by the State Level Committee would be eligible to receive reliefs and concessions from banks and financial institution as per instructions of RBI. These concessions and reliefs will be considered to be given within a definite time frame.

(vi) After the identification of sickness within a prescribed time frame the rehabilitation package would be prepared and the state level institutions would monitor the sick industries and their rehabilitation.

(vii) Those sick and closed units which have availed the benefits of any Industrial Policy in the past can avail even second time the facilities under this policy. If any sick or closed unit wants to avail the benefits under the Industrial Policy for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy. But this facility for rehabilitation to the unit will be made available only on the recommendation of the concerned committee constituted by the State Government. Such facility to the unit can be made available maximum of two times only.

(viii) ***Facility provided to the sick and closed units:*** Exemptions from Annual Minimum Guarantee (AMG), Monthly Minimum Guarantee (MMG) and Delayed Payment Surcharge (DPS) would be available to the unit from the date of declaration of the unit as a sick unit. This facility would be admissible for a period of five years.

Sickness in Medium and Large Industries

(i) A committee would be constituted under the chairmanship of Secretary Industry to explore the possibility and determine remedies for the revival of medium and large scale industries and Public Sector Undertakings (PSUS) which are sick and not referred to the BIFR and have a potential for revival. The recommendations of the above committee detailing the reliefs and concessions shall be placed for approval before the high powered committee existing under the chairmanship of the Chief Secretary.

(ii) The rehabilitation package envisaged by BIFR /IRB I/BICICO /BSFC/Bank and state level inter institutional committee shall be placed before the committee under the chairmanship of the Secretary, Industry for consideration and recommendation of Government.

(iii) Sick Industry means such industry, which has been registered by the Board for Industrial and Financial Reconstruction (BIFR).

(iv) Decision regarding closed industrial units shall be taken by a State Level Committee constituted under the chairmanship of Secretary Industries Department.

(v) Those sick and closed units which have availed the benefits of any Industrial Policy in the past can avail even second time the facilities under this policy. If any sick or closed unit wants to avail the benefits under the Industrial Policy for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy. But this facility for rehabilitation to the unit will be made available only on the recommendation of the concerned committee constituted by the State Government. Such facility to the unit can be made available maximum of two times only.

(vi) Facilities to sick and closed units: Exemption of Annual Minimum Guarantee (AMG), Monthly Minimum Guarantee (MMG) and delayed payment surcharge to the unit will be granted from the date of declaration of unit as a sick unit. This facility will be available for five years.

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Task Visit website www.lagu-udyog.com to know more about the latest amendments and news about small scale industry in India.

Self Assessment

Fill in the blanks:

11. …….. had overtaken the units slowly and in stages spread over a considerable period of time.
12. …….. of a sick unit comes under process only after the viability study of the concerned small unit recommends for its revival along with the suggested reliefs or packages or any other way out.
13. Industrial sickness is a part of the process of…….
14. If any sick or closed unit wants to avail the benefits under the …….. -for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy.
15. Sick Industry means such industry, which has been registered by the……..

Case Study

The Button Industry

Taking the case of the button industry might surprise readers, but it is worthy of consideration because it represents rather an unusual case but also one that illustrates very well the diffusion of small-scale technology. The discovery in developing countries of similarly specialized technological areas could have important consequences for economic and technological development.

Buttons began to be imported around the time Western-style uniforms gained currency with the military, railways, the police departments, and similar groups. Besides buttons made of metal and bone, those made from shells, which were used for underwear, were also imported, although India had abundant raw materials of good quality.

Button manufacturing on a modest scale started in India from around 1878. They were expensive but of high quality, made by metal workers (such as goldsmiths and silversmiths) using files, whetstones, and punches. The market was extremely small, however, because of the continued dominance of traditional Indian wear, and, in order to establish a stable industry, button makers were compelled to turn to exporting their product.

Having noticed the existence of rich raw materials in India, a factory was opened, complete with an array of machines for making buttons around 1910. It was supplying the Indian market with "German-made buttons". The bleaching process used in button manufacturing had been kept confidential by the engineers, but a Indian processor's solution to the problem of bleaching gave Indian buttons, which had been treated as semi-finished goods, an advantage, thus forcing the factory out of business.

The answer to the question of how this was possible is to be found in the thorough division of the production process. Production at the factory was broken down into more than two dozen microprocesses, each of which became a separate job performed by a

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worker "manufacturing" at home. Moreover, as far as possible, no machines or equipment were used except those traditional tools and methods that demanded little in terms of skill. The next step was to reduce the processing costs to an extremely low level. This was identical to the business control exercised by the merchant over his scattered manufacturers. The button manufacturers unified and managed their individual microprocessors in the same way.

The simplification of work and the low processing costs did not lead to the independence of the microprocesses, but rather promoted side jobs at home. What originally had been a modern urban industry was transformed into an industry that depended on the labour of lower-class urban citizens working at home. It then penetrated into suburban agricultural areas in search of cheaper labour; the target was enlarged from the urban informal job class to the rural informal job class. Although, in order to master the whole technology for a basic production process (or several major processes), as opposed to a single, small process, it was necessary that the worker become an apprentice of a "manufacturer," those who mastered the technology presented little threat of breaking away and becoming independent manufacturers! as their products were component parts rather than finished commodities.

The enlarged production of shell buttons brought profit to the merchant manufacturers. The shortage of raw materials caused by greater production and the conversion to and dependence on imported materials changed this situation, however. The sharp fluctuations in the price of raw materials brought on speculation and hampered distribution. When to this was added an increase in demand resulting from an economic boom, wholesalers and manufacturers were no longer able to undertake strict inspection of goods, and, as a result, the mass production of inferior-quality goods started. Holding down processing fees to too low a level can lead to this sort of situation.

In general, since various regulations had done away with certain business restrictions, the problem of the mass production of inferior-quality goods was seen in almost all the traditional industries and technologies. The situation was the same for new technologies that had been transformed into traditional-type technologies. When the change of raw materials occurred, that is, the addition and development of new technologies, the old structure of the business world had to be reformed. To protect the common interests in each sector of business, the master-apprentice system of control had to be transformed - democratized - into a system of control by an association.

The areas where rural industrialization developed were those in which commercialization of agricultural production was advanced. For example, the cases taken up in this study were in the western part of India, where cotton-growing and food-oil production had been active. The development of a modern cotton-spinning industry brought about the substitution of locally produced cotton with cotton imported from India, and the development of a modern food-oil industry centred in urban areas, ruined the traditional oil-making industry in this area.

Karnataka was another area where the button industry developed as a cottage industry after the traditional salt making (by the salt-field method) and sericulture lost their viability. The transition from the traditional salt-making and sericulture industries to modern button manufacturing was possible because of the long experience with producing for a broad market.

The successful and lucrative export of Christmas lights by farmers in during the chaotic period immediately after World War II is another example of the sort of adaptability that made possible the successful transition to new industries as the old ones lost their viability.

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Similarly interesting accounts exist concerning other sectors, such as the clock industry, which developed in parallel with sericulture and which contributed to establishing the habit of punctuality among farmers, an important element in the foundation of modernization. Also important were the early glass industry, the eyeglass industry and the development of bicycle industry technology.

Regrettably and surprisingly, the third world participants in our discussions showed no interest in the fact that an industry like the bicycle industry, though there are fewer component parts than in the watch industry, for example, could be used as a technological indicator if all parts are manufactured domestically as was true in India. The complete domestic production of bicycles when combined with engine technology, constituted the precondition for motor-cycle technology. The bicycle was useful as an index of technological convergence in India, and, as such, could be considered the first gateway for a newly industrializing country. High-quality ball-bearing manufacturing, in particular, is a good index.

After ensuring that the product will meet the needs of its intended market, and after carrying out world-wide market research to locate reliable suppliers of the most cost-efficient parts, bicycle production may be undertaken at much less cost than what is required to import finished bicycles, and there will be a larger market for these less-expensive bicycles than for imported finished bicycles. As with watches, technology in bicycles in India started with repairs and the production of replacement parts. Those engaged in bicycle repair (and production) were former blacksmiths, lathe operators, pump makers, and makers of Indian watches.

The Transformation of Technology in the Process of Industrialization

Industrialization, especially the process from technology transfer to self-reliance, should be a process accompanied by transformation. This may be called the adolescent period of technology transplantation.

The degree of technology transformation ranges from a single machine in operation to the change of an entire system. One of the most rudimentary examples can be found in the first British spinning machine India imported. The machine had been designed to fit the height of British workers; consequently, because Indian workers were shorter, they could use it only by looking upward and stretching their arms, which tired them quickly and diminished their efficiency. The mere installation of a footstool solved the problem, reducing worker fatigue and increasing productivity. Such a minor modification can sometimes greatly enhance efficiency and induce extremely important results.

Questions

1. Discuss the problems faced by button manufacturers in India.
2. How did the transformation of technology took place?

Source: Adapted from http://archive.unu.edu/unupress/unupbooks/uu36je/uu36je0e.htm

14.4 Summary

- A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.
- The Sick Industrial Companies Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

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- Small-scale industries (SSIs) continue to play a significant role in industrial activity.
- SSI sector in India creates the largest employment opportunities for the Indian populace, next only to agriculture.
- The promotional and protective policies of the government have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods.
- The external causes are beyond the control of the industry, and usually effect the industry group as a whole.
- Internal causes are within the control of the industry.
- A mismanaged unit is, in fact, a sick unit. Management must be intelligent, brilliantly capable, decisive, innovative, very efficient and assuring.
- Most of the sick units suffer from inefficient marketing management.
- Sickness in the human body can be treated easily in the early stages – at the time the symptoms first strike – but when they are in an advanced stage, they may prove to be fatal or may defy all treatment.
- Rehabilitation of a sick unit comes under process only after the viability study of the concerned small unit recommends for its revival along with the suggested reliefs or packages or any other way out.

14.5 Keywords

Capital Intensive: A business process or an industry that requires large amounts of money and other financial resources to produce a good or service.

Industrial Sickness: Industrial sickness is defined in India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year".

Information System: It is any combination of information technology and people's activities that support operations, management and decision making.

Lacunae: An unfilled space or interval; a gap.

Marketing: The action or business of promoting and selling products or services.

Overtrading: Engage in more business than can be supported by the market or by the funds or resources available.

Procurement: Procurement is the acquisition of goods, services or works from an external source.

Sick Industrial Companies Act, 1985: The Sick Industrial Companies Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

Sick Industrial Unit: A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.

Small-scale Sector: It is significant to the realisation of the socio-economic objectives of growth in employment and exports, fostering entrepreneurship and ensuring industrial dispersal.

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14.6 Review Questions

1. Define sick industrial unit.
2. "Industrial sickness in the small scale industries is an area of great concern nowadays." Elucidate.
3. Highlight the factors related to the opportunities in the small-scale sector.
4. Distinguish between Internal and External causes.
5. Do you agree with the statement that most of the sick units suffer from inefficient marketing management? If yes, give reason.
6. What do you understand by Mismanaged Unit?
7. Write brief note on Psychological Melodrama.
8. Discuss the Symptoms of Sickness.
9. How can sickness be cured?
10. Throw some light on the sickness in Medium and Large Industries.

Answers: Self Assessment

1.	Industrial	2.	0.87
3.	Export	4.	95%
5.	Consumer	6.	False
7.	True	8.	False
9.	True	10.	True
11.	Sickness	12.	Rehabilitation
13.	Industrialization	14.	Industrial Policy

15. Board for Industrial and Financial Reconstruction (BIFR)

14.7 Further Readings

Books

Dynamics of Entrepreneurial Development and Management, Himalaya Publishing.

Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.

N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.

P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.

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Online links

http://ijmtpublication.com/files/AOMR_1_2_2011/AOMR_1_2_2011_3.pdf

http://www.articlesbase.com/small-business-articles/industrial-sickness-in-small-scale-industries-causes-remedies-1181227.html

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