ENTREPRENEURIAL DEVELOPMENT

Subject Code: **14MBA26** IA Marks**:50**
No. of Lecture Hrs. /week: **04** Exam Hrs:**03**
Total No. of Lecture Hrs:**56** Exam Marks**:100**
Practical Component: **01 Hour/Week**

Module 1: (8 Hours)
Entrepreneur: Meaning of entrepreneur: Evolution of the concept: Functions of an Entrepreneur, Types of Entrepreneur, Intrapreneur- an emerging class, Concept of Entrepreneurship-Evolution of Entrepreneurship: Development of Entrepreneurship; The Entrepreneurial Culture; Stages in entrepreneurial process.
Module 2: (6 Hours)
Creativity and Innovation: Creativity, Exercises on Creativity, Source of New Idea, Ideas into Opportunities. Creative Problem Solving: Heuristics, Brainstorming, Synectics, Value Analysis Innovation and Entrepreneurship: Profits and Innovation, Globalization, Concept and Models of Innovation. Significance of Intellectual Property Rights.
Module 3: (8 Hours)
Business Planning Process: Meaning of business plan, Business plan process, Advantages of business planning, Marketing plan, Production/operations plan, Organization plan, financial plan, final project report with feasibility study, preparing a model project report for starting a new venture.
Module 4: (6 Hours)
Institutions Supporting entrepreneurs: Small industry financing developing countries, A brief overview of financial institutions in India, Central level and state level institutions, SIDBI,NABARD, IDBI,SIDCO, Indian Institute of Entrepreneurship, DIC, Single Window, Latest Industrial Policy of Government of India
Module 5: (6 Hours)
Family Business: Importance of family business, Types, History, Responsibilities and rights of shareholders of a family business, Succession in family business, Pitfalls of the family business, strategies for improving the capability of family business, improving family business performance.
Module 6: (8 Hours)
International Entrepreneurship Opportunities: The nature of international entrepreneurship, Importance of international business to the firm, International versus domestic entrepreneurship, Stages of economic development, Entrepreneurship entry into international business, exporting, Direct foreign investment, barriers to international trade.
Module 7: (10 Hours)
Informal risk capital and venture capital: Informal risk capital market, venture capital, nature and overview, venture capital process, locating venture capitalists, approaching venture capitalists.
Social Entrepreneurship: Social enterprise-need, types, characteristics and benefits of social enterprises-Social entrepreneurship, Rural entrepreneurship-need and problems of rural entrepreneurship, challenges and opportunities-Role of government.

MODULE I

ENTREPRENEUR

Meaning of Entrepreneur:

An **entrepreneur** is an individual who takes initiative to bundle resources in innovative ways and is willing to bear the risk or uncertainty to act. According to the dictionary the word "Entrepreneur" can be defined as "one who reorganizes and manages only enterprise especially involving high risk".

An economist defines an entrepreneur as one who beings resources, labour, material and other assets in to combinations that make their value greater than before and also one who introduces changes, innovations and anew order.

A Psychologist defines an entrepreneur as a person who is typically driven by some forces, which create a desire to obtain or attain something.

A sociologist defines entrepreneur as a person whose actions would determine his social status and who contributes to the development of the society.

Management experts define entrepreneur as a person who has a vision and generates an action plan to achieve it.

Evolution of the Concept

The word itself is derived from the 17th century French verb "Entrepreneur" referring to individuals who are „undertakers", i.e. those who „undertook" the risk of new enterprise. They were contractors who bore the risks of profit or loss; they were soldiers of fortune, adventurers, builders or merchants.

According to:

Robert Schwartz - "The entrepreneur is essentially a visualizer and an actualizer. He can visualize something and when he visualizes it he sees exactly how to make it happen."

Peter F Drucker - "He searches for change, responds to it and exploits opportunities. Innovation is the specific role of an entrepreneur.

- In a conference of Entrepreneurship it is defined as – "Entrepreneurship if the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition".
- According to A. H. Cole "Entrepreneurship is the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services".

Evolution:

- Derived from a French word in 17th Century – Entreprendre means "to undertake" i.e. the individual who undertook the risk of a new enterprise.

- In the earlier part of 16th century, the French men who organized and led military expeditions were referred to as entrepreneurs.
- French tradition regarded an entrepreneur as a person translating a profitable idea into a productive activity.
- It also recognized a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence and wealth.

2. Functions of an Entrepreneur

The major functions of an Entrepreneur are:

I. Idea generation and scanning of the best suitable idea.
II. Determination of the business objectives.
III. Product analysis and market research.
IV. Determination of form of ownership/organization.
V. Completion of promotional formalities.
VI. Raising necessary funds.
VII. Procuring machine and material.
VIII. Recruitment of men.
IX. Undertaking the business operations.

The characteristics of a successful entrepreneur are:

1. **Creativity:** It is the ability to bring something new into existence. This emphasizes on "ability" and not the "activity".

The **Creative process for an idea involves five** stages –

I. Germination: The seeding stage of new idea
II. Preparation: Conscious search for knowledge
III. Incubation: Subconscious assimilation of information.
IV. Illumination: Recognizing an idea as feasible
V. Verification: Application or test to prove idea has value.

2. **Innovation:** It is the act that endows resources with a new capacity to create wealth. It indeed creates a resource.
3. **Dynamism:** it is potential combination of prosperity. Given the potentialities of the enterprise, he sets attainable goals, which are to be accomplished within specific time frames. Tends to approach problems in pragmatic way.
4. **Leadership:** This spirit keeps him paces forward in any field. Leadership qualities will enable a person to stand apart in whatever profession he might be.
5. **Team building**: Team is a group of individuals with a common purpose that is focused and aligned to achieve a specific task or set of outcomes.

Team building skills consists of five stages

I. Wanting to feel better
II. Identifying the problem and needs of the enterprise
III. Creating a vision

IV. Setting goals for the group
V. Reviewing progress
6. **Achievement motivation**: Entrepreneurs have a high need for achievement and are guided by their inner self, motivating their behavior towards accomplishments. Based on this entrepreneurs can be classified as dreamers, doubters and doers.
7. **Problem solving**: A formal problem-solving model helps entrepreneurs to solve problems on a logical manner. The model consists of six steps:
I. Define the problem
II. Gather information
III. Identify various solutions
IV. Evaluate alternatives and select best option
V. Take action
VI. Evaluate the action taken
8. **Goal orientation:** Goal setting is the achievement of targets and objectives for successful performance of an entrepreneur. The goal setting process has three steps:
I. Definition of Goal
II. Specific goals
III. Feedback
Types of Goals:-
I. Target Oriented Goals
II. Achievement Oriented
III. Specific or Primary
IV. Overall Goal
V. Secondary goals.
VI. Long range / Short range
VII. Personal / Social
9. **Risk taking and decision making ability**: Entrepreneurs are persons who take decisions under conditions of uncertainty and therefore are willing to bear risk. Persons who can take risks and make quick decisions always prosper.
10. **Commitment:** One of the subtle qualities of an entrepreneur is his will power. Strong determination with sound thinking fortifies will power.
Types of Entrepreneur
Entrepreneurs are classified on the basis of Functional Characteristics, Developmental Angle, Types of Entrepreneurial Business, Personality Types and Schools of thought on Entrepreneurship.
1) Based on Functional Characteristics
a) Innovative Entrepreneur: They introduce new goods or new methods of production or discover new markets or reorganize their markets. Entrepreneurs in this group are characterized by an aggressive assemblage of information for trying out a novel combination of factors.

b) Imitative or adoptive entrepreneur: They do not innovate but imitate the techniques and technology of others. Entrepreneurs in this group are characterized by their readiness to adopt successful innovations by successful entrepreneurs.
c) Fabian entrepreneur: Such entrepreneurs display great caution and skepticism in experimenting with any change in their enterprise. They change only when there is an imminent threat to the very existence of their enterprise.
d) Drone entrepreneur: Such entrepreneurs are characterized by a die-hard conservatism and may even be prepared to suffer the loss of business.

2) Based on Developmental Angle

a) Prime mover: This entrepreneur sets in motion a powerful sequence of development, expansion and diversification of business.
b) Manager: Such an entrepreneur does not initiate expansion and is content just staying in business.
c) Minor innovator: This entrepreneur contributes to economic progress by finding better use for existing resources.
d) Satellite: This entrepreneur assumes a supplier's role and slowly moves towards a productive enterprise.
e) Local Trading: Such an entrepreneur limits his enterprise to the local market.

3) Based on types of Entrepreneurial Business

a) Manufacturing: An entrepreneur who runs such a business actually and produces the products that can be sold using resources and supplies. E.g.: Apparel and textile products, chemical related products etc.
b) Wholesaling: An entrepreneur with such a business sells products to the middle man.
c) Retailing: An entrepreneur with such a business sells products directly to the people who use or consume them.
d) Service: An entrepreneur in this business sells service rather than products.

4) Based on Nine Personality types of entrepreneurs

a) The Improver: If you operate your business predominately in the improver mode, you are focused on using your company as a means to improve the world. They run the business with high integrity and ethics.
b) The Advisor: The business personality type will provide an extremely high level of assistance & advice to customers. The advisors motto is customer is right and we must do everything to please them.
c) The Superstar: Here the business is centered on the charisma and high energy of the superstar CEO. This personality often will cause you to build your business around your own personal brand. They will be too competitive and workaholics.
d) The Artist: The business personality is the reserved but a highly creative type (E.g.: Web design, Ad agency). As an artist type you will tend to build your own business around the unique talents and creativities that you have. You may be overly sensitive to your customer's response even if the feedback is constructive. Let go the negative self-image.

e) The visionary: A business built by a visionary will often be based on the future vision and thoughts of the founder. You will have a high degree of curiosity to understand the world around you and will set-up plan to avoid the landmines. Visionaries can be too focused on the dream with little focus on reality. Action must precede vision.
f) The Analyst: here your company's focus is on fixing problems in a systematic way. These companies excel at problem solving.
g) The Fireball: A business owned and operated by a fireball is full of life, energy and optimism. Your company is life energizing and makes customer feel the company has a get it done attitude in a fun and playful manner.
h) The Hero: You have an incredible will and ability to lead the world and your business through any challenge. You are the essence of entrepreneurship and can assemble great companies.
i) The Healer: If you are a healer, you provide nurturing and harmony to your business. You have an uncanny ability to survive and persist with an inner calm.

5) Based on Schools of Thought on Entrepreneurship:

•**The Great Person School of Entrepreneurship**. This school believes that an entrepreneur is born with an intuitive ability, sixth sense, traits, and instincts.

• **The Psychological Characteristics School of Entrepreneurship.** This school of thought focuses on personality factors and believes that entrepreneurs have unique values and attitudes towards work and life.

• **The Classical School of Entrepreneurship.** Innovation, creativity, or discovery are key factors underlying the classical body of thought and research on entrepreneurship.

• **The Management School of Entrepreneurship.** An entrepreneur is " a person who organizes or manages a business undertaking, assuming the risk for the sake of profits."

Intrapreneur

Intrapreneurship is the practice of entrepreneurship by employees within an organization. It is an opportunity for corporate managers or employees to take initiative innovate and try new ideas within an organization.

Differences	Entrepreneur	Intrapreneur
Dependency	An entrepreneur is independent in his operations	An intraprenuer is dependent on the entrepreneur, i.e. the owner.
Raising of Funds	An entrepreneur himself raises funds required for the enterprise.	Funds are not raised by the Intrapreneur.

Risk	Entrepreneur bears the risk involved in the business.	An intraprenuer does not fully bear the risk involved in the enterprise.
Operation	An entrepreneur operates from out side	On the contrary, an intraprenuer operates from within the organization itself.
Orientation	An entrepreneur begins his business with a newly set up enterprise.	An intrapreneur sets up his enterprise after working someone else‟s organization.
Experience	As an entrepreneur establishes new business, so he does not possess any experience over the business.	An intrapreneur establishes his business after gathering experiences through working in the other organizations.

Concept of Entrepreneurship- Evolution of Entrepreneurship

•Derived from a French word in 17th Century – *Entreprendre* means "to undertake" i.e. the individual who undertook the risk of a new enterprise.

•In the earlier part of 16th century, the French men who organized and led military expeditions were referred to as entrepreneurs.

•French tradition regarded an entrepreneur as a person translating a profitable idea into a productive activity.

•It also recognized a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence and wealth.

• In the 17th Century, it was extended to cover civil engineering activities such as construction and fortification.

It was only in the beginning of the 18th century that the word was used to refer to economic aspects. Since then the term "entrepreneur" is used in various ways and views. These can be broadly classified into three groups namely:- ***Risk Bearer, Organizer*** and ***Innovator***.

• In 1934, for the first time Joseph Schumpeter, an economist assigned a crucial role of innovation to the concept of entrepreneurship. He considered economic development as a discrete dynamic change bought by entrepreneur by instituting new combination of production i.e. innovations.

Development of Entrepreneurship

An individual‟s decision to pursue an entrepreneurial career is dependent on various factors.

1. **Background Factors:**

(a) Education, Training and Experience:

The type of education, training and experience an individual has acquired influences his choice of setting up an enterprise. Technically, qualified persons normally set up their ventures in the

field of their specialization, mainly because working in one‟s area of specialization provides confidence and reduces the uncertainty with the new venture.
(b) Family, role models and association with similar type of individuals:
If an individual has a supportive family, has role models who have been successful or are in association with the same or similar type of business activity the individual is engaged in, they add vigour to his desire to set up a new venture.
(c) Financial Conditions:
Both adverse and supporting financial conditions can motivate an individual to set up a new venture. When an individual is unemployed or is not able to support his family demands, or if he has surplus funds, he may start looking for a new business venture where he can put in his time/money to achieve success and thus fulfill his demands.
2. Motivational Factors
(a) Need for achievement:
This has been identified as the most important reason for Entrepreneurial motivation by various researchers. Need for achievement means the drive to achievement means the drive to achieve a goal. Entrepreneurs have a compelling drive to succeed. They strive consider themselves responsible for their growth and development.
3. Business Environment:
Supportive business environment like low rate of competition, high profit margins, good economic condition of the region, high demand –all contribute towards motivating an individual to set up a new venture.
(a) Supportive Government policies:
From time to time, the government keeps formulating policies and programmes to promote entrepreneurs in different fields. Tax holidays, for instance, are such a policy measure. These policies and procedures go a long way towards catalyzing the entrepreneurial motivation.
(b) Availability of financial assistance from various funding bodies:
An Entrepreneur needs funds to set up a business and many may not be having the required funds to support the requirements of the business set up. In such situation he/ she can obtain assistance from financial institutions. Hence the financial institutions can facilitate the setting up of a new venture by easing out the disbursement of funds to them.
Ancillary support: Ancillary support from suppliers, distributors, retailers etc., even bigger units can act as a great encouragement to budding entrepreneurs.
(c) Availability of technical factors like premises, electricity, labour:
Feasibility with which factors of production are available to the entrepreneurs will facilitate/ obstruct an entrepreneur in making the final decision of setting up a business venture and even in the success of a business.
4. Reward
(a) Recognition: Since the success of a business is usually proportionate to the efforts put in by the entrepreneur, setting up of new ventures gives an entrepreneur an individuality, the outcome of which is highly dependent on him. Since the success of an enterprise is associated with the

efforts and success of an entrepreneur he/she gets enough recognition to enhanced his/her self-esteem.

(b) Social status: Entrepreneurship is the way to get large profit margins which a salaried employee cannot even think of. Hence, if the business runs successfully, it automatically raises the social status of an individual. Moreover, the idea of being responsible for one‟s fate, employing a number of individuals, taking important decisions, all go a long way in bestowing a higher social status upon an individual.

The role of Entrepreneurship in Economic development

Following are the various important roles that entrepreneurship plays in the economic development of a country:

I. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.

II. It provides immediate large scale employment. Thus, it helps reduce the unemployment problem in the country.

III. It promotes balanced regional development.

IV. It helps reduce the concentration of economic power.

V. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.

VI. It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.

VII. It also induces backward and forward linkages which stimulate the process of economic development in the country.

VIII. It also promotes country‟s export trade i.e. an important ingredient to economic development.

The Entrepreneurial Culture.

An Entrepreneurial Culture consists of a group of individuals who have suppressed individual interests in an effort to achieve group success because group success will advance their individual interest.

Secrets for building Entrepreneurial Culture

- Build parallel interests
- Be an architect of the future
- Be decisive, multifaceted, and ethical to a fault
- Know the risk – measure the reward
- Communication - be a shower not a teller
- Power to the people
- Become a trust builder
- Sharing wealth increases wealth
- Be constant, consistent and concise
- Treat important people like important people

•Do simple things – simply do them.

8. Stages in Entrepreneurial Process.

Entrepreneurial development process can be explained in five stages:–

Stage I: Perceiving, identifying and evaluating Opportunity

•Creation & scope of opportunity
•Perceived and actual worth of the opportunity
•Risks and profiles involved in the opportunity
•Competitors analysis

Stage II: Drawing up a Business Plan

•Executive Summary
•Concept of the business
•Management Team
•Production / Marketing & Sales / Finance Plans
•Structure and operation

Stage III: Marshalling Resources

Stage IV: Creating the Enterprise

Stage V: Consolidation and Management

•Critical factors to success
•Management Style
•Identify present & potential Problems
•Implementing a control system
•Professionalize the management
•Get into new markets

List out the differences between "Entrepreneur v/s Manager".

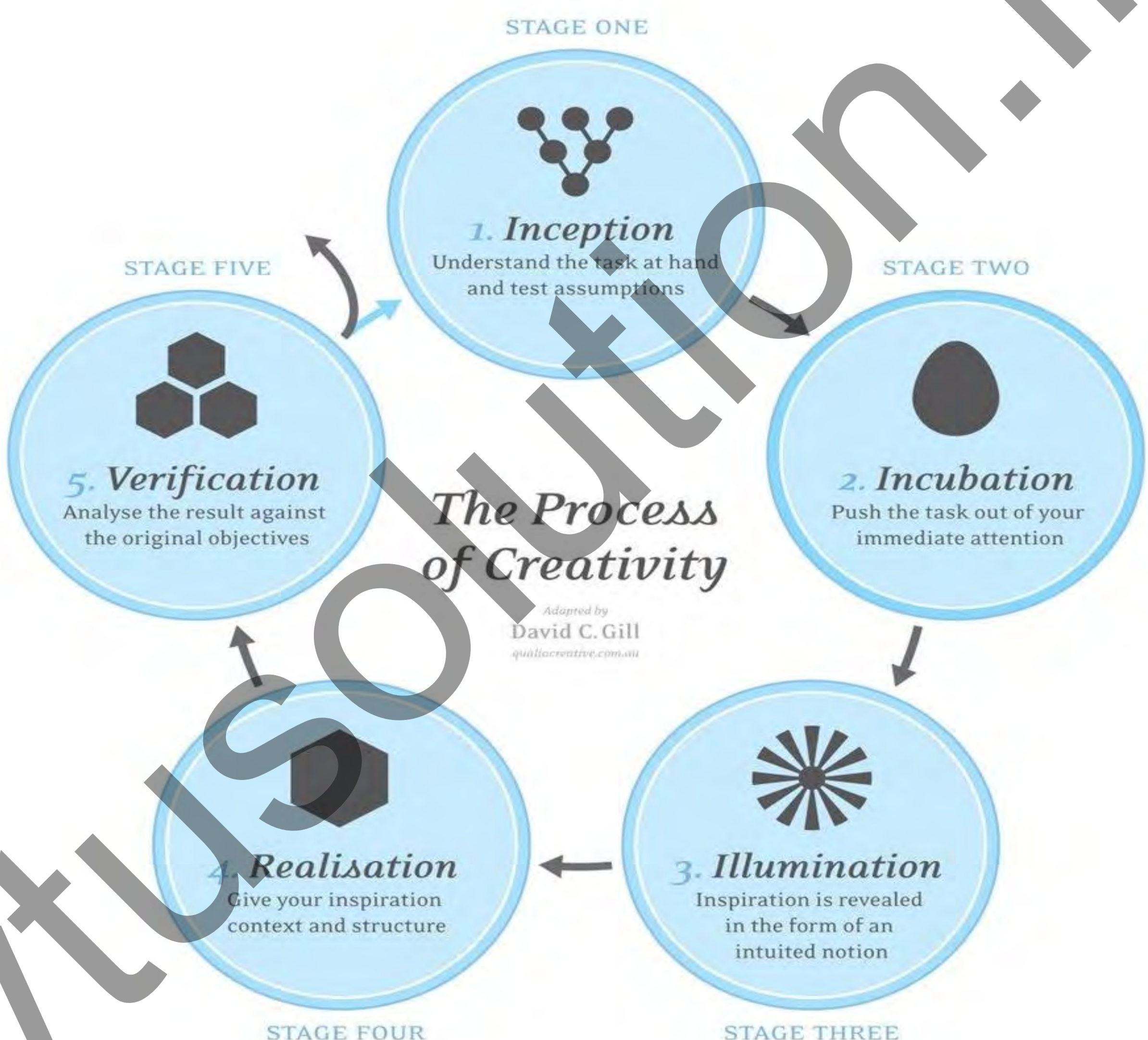
Characteristic	Entrepreneur	Manager
Behaviour Characterized by	Desire for Control	Delegation of Authority
Management Style	One-Man Show	Management Team
Driving Force	Creativity - Innovation	Establish and Preserve the Status Quo
Organizational Growth	Rapid Reaction	Strategic Planning
Organization Structure	Informal, Flexible	Organized
Decision-Making	Intuitive	Collect Information and Seek Advice
Definition of Aims	In terms of "Vision"	In Commercial Terms
Attitude to Money	A By-Product	Measure of Success
Attitude to Risk	Calculated Risks	Avoidance of Risks
Organizational Culture	"Entrepreneurial Culture"	"Management Culture"

MODULE – II
CREATIVITY AND INNOVATION

Creativity

Creativity is the "ability to bring something new into existence". This definition emphasizes the "ability", not the "activity", of bringing something new into existence. A person may therefore conceive of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. Innovation is the process of doing new things, but creativity is a prerequisite to innovation.

Creative Process Model



Exercises on Creativity

Creativity can be unlocked and Creative ideas can be generated by using any of the Creative

Problem Solving Technique:
I. Focus Groups
II. Brainstorming
III. Brain writing
IV. Reverse brainstorming
V. Problem Inventory Analysis
VI. Gordon Method
VII. Checklist method
VIII. Free association
IX. Forced relationships
X. Collective notebook method
XI. Attribute listing method
XII. Big-dream approach
XIII. Parameter analysis
XIV. Delphi/Nominal Group Technique
XV. Scenario Writing
XVI. Cause-effect Analysis
XVII. Value Analysis
XVIII. Morphological Analysis
XIX. Synectics

Source of New Idea

Some of the more frequently used sources of ideas for entrepreneurs include: Consumers, Existing Products and Services, Distribution Channels, the Government and Research and Development.

I. Consumers

Potential entrepreneurs should continually pay close attention customers. This attention can take the form of informally monitoring potential ideas and needs or formally arranging for consumers to have an opportunity to express their opinions. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.

II. Existing products and services

Potential entrepreneurs and intrapreneurs should also establish a formal method for monitoring and evaluating competitive products and services on the market. Frequently, this analysis that may result in a new product or service that has more market appeal.

III. Distribution Channels

Members of the distribution channels are also excellent sources for new ideas because of their familiarity with the needs of the market. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneur"s newly developed products. One entrepreneur found out from a salesclerk in a large department store that the reason his hosiery was not selling was its color. By heeding the suggestion and making the appropriate color changes, his company became one of the leading suppliers of nonbrand hosiery in that region of the United States.

IV. Government

The federal government can be a source of new product ideas in two ways. First , the files of the patent Office contain numerous new product possibilities. Although the patents themselves may not be feasible, they can frequently suggest other more marketable product ideas. Several government agencies and publications are helpful in monitoring patent applications. The Official Gazette, published weekly by the U.S.Patent office, summarizes each patent granted and lists all patents available for license or sale. Also, the Government patents Board publishes lists of abstracts of thousands of government-owned patents; a goods resource of such information is the Government-Owned Inventories Available for License. Other government agencies, such as the Office of Technical Services, assist entrepreneurs in obtaining specific product information.

V. Research and Development

The largest source of new ideas is the entrepreneur"s own "research and development." efforts, which may be a formal endeavor connected with one"s current employment or an information lab in a basement or garage. One research scientist in a Fortune 500 company developed a new plastic resin that became the basis of a new product, a plastic molded modular cup pallet, as well as a new venture- the Arnolite Pallet Company,Inc,-when the Fortune 500 company was not interested in developing the idea.

Ideas into Opportunities

The Product Planning and development process is divided into five major stages. These are:

1. Idea Stage
2. Concept Stage
3. Product Development Stage
4. Test marketing Stage
5. Commercialization

1. Idea Stage: Promising new product/service ideas should be identified and impractical ones eliminated in this stage.

2. Concept Stage: In this stage, the refined idea is tested to determine consumer acceptance. Initial reactions to the concept are obtained from potential customers or members of the distribution channel as appropriate.

3. Product Development Stage: In this stage, consumer reaction to the physical/service is determined. One tool frequently used in this stage is the consumer panel, in which a group of potential consumers is given product samples. Participants keep a record of their use of the product and comment on its virtues and deficiencies.

4. Test marketing Stage: This last stage in the evaluation process provides actual sales results, which indicate the acceptance level of consumers. Positive test results indicate the degree of probability of a successful product launch and company formation.

5. Commercialization Stage: In this stage products are launched on a mass scale in the market. Here the product life cycle: Introduction, Growth, Maturity and Decline stages are followed.

Creative Problem Solving:

Creativity is an important attribute of a successful entrepreneur. Unfortunately, creativity tends to decline with age. Education, lack of use, and bureaucracy, Creativity generally declines in stages, beginning when a person starts school. It continues to deteriorate through the teens and continues to progressively lessen through age 30, 40 and 50. Also, the latent creative potential of an individual can be stifled by perceptual, cultural, emotional, and organizational factors, Creativity can be unlocked and creative ideas and innovations generated by using any of the creative problem-solving techniques.

Heuristics

A heuristic is a mental shortcut that allows people to solve problems and make judgments quickly and efficiently. These rule-of-thumb strategies shorten decision-making time and allow people to function without constantly stopping to think about their next course of action. While heuristics are helpful in many situations, they can also lead to biases. Heuristics play important roles in both problem-solving and decision-making. When we are trying to solve a problem or make a decision, we often turn to these mental shortcuts when we need a quick solution.

Brainstorming

The brainstorming method allows people to be stimulated to greater creativity by meeting with others and participating in organized group experiences. Although most of the ideas generated from the group have no basis for further development, sometimes a good idea emerges. This has a greater frequency of occurrence when the brainstorming effort focuses on a specific product or market area. When using brainstorming, these four rules should be followed:

1. No criticism is allowed by anyone in the group-no negative comments.
2. Freewheeling is encouraged- the wilder the idea, the better.
3. Quantity of ideas is desired-the greater the number of ideas, the greater the likelihood emergence of useful ideas.
4. Combination and improvements of ideas are encouraged; ideas of others can be used to produce
still another new idea.
5. The brainstorming session should be fun, with no one dominating or inhibiting the discussion.

Synectics

The term synectics is derived from a Greek word that roughly means "bringing together disparate ideas that may appear unrelated." Synectics aims to understand and facilitate the cooperation of different people with differing ideas in order to develop creative solutions to problems.

The study and application of synectics is based on three assumptions:

1. The creative process is not relegated to innate talent or special ability. Instead, it is something that can be deliberately taught.

2. The creative process is the same, whether it's applied to works of art or scientific inquiry.

3. The creative process works the same way for both individual and group endeavors.

Value Analysis

This technique (also called as „Value-Engineering‟) was developed by General Electric Co. during the late 1940s and is used primarily for improving an existing product, program or service. It involves the identification of all the features of the product or service in question and examining the „value‟ being contributed by each of them.

If the value is negligible or negative, especially in relation to the cost of providing that feature, it is either eliminated or modified. In the process, one may also get ideas of new features that might add the desired value, and after successive iterations of this kind, one may even end up with an entirely new product.

Innovation and Entrepreneurship

*It is the act that endows resources with a new capacity to create wealth.

*By innovation, Entrepreneurs try to create new and different values and new and different satisfaction, to convert a „material" into „resource", or to combine existing resources in a new and more productive configuration.

*Innovation may occur in any one of this following five forms –

– Launching new product in the market
– Introduction of new technology in production
– Creating new markets
– Discovery of new and better sources of RM.
– Creation of monopoly and breaking of monopoly.

Innovation is a process of taking new ideas to satisfied customers. It is the conversion of new knowledge into new products and services.

Innovation is about creating value and increasing efficiency, and therefore growing your business.

"Without innovation, new products, new services, and new ways of doing business would never emerge, and most organizations would be forever stuck doing the same old things the same old way."

Systematic Innovation

It consists, in purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic and social innovation.

Systematic innovation means monitoring following seven sources for innovative opportunity

– The unexpected – unexpected success / failure or outside event.
– The incongruity – between reality as it actually is and reality as it is assumed to be or ought to be.
– Innovation based on process need.
– Changes in industry structure or market structure that catches everyone unawares.
– Demographics (population changes).
– Changes in perception, mood and meaning.
– New knowledge – scientific and non-scientific.

Innovation Strategies

•Financial backing to innovation.
•Give opportunities to employees.
•Skillful recruitment policy.
•Information from outside the organization.
•Target being set for innovation.

•Employees should be rewarded.

Principles of Innovation

•Ideas are fragile.

•Ideas are organic.

•All ideas have value and should be given a hearing.

•The originator of an idea needs assistance in idea enhancement and in promoting the idea internally.

•The originator is the initial advocate of an idea and should be actively involved in its development.

•Only ideas which have been enhanced to demonstrate potential value will be brought to management.

Profits and Innovation

Profit can be measured by dollars per item, per hour, per customer, per transaction, or per some other parameter (the "denominator"). Change the way you do business and get more control over this parameter and how you earn your profit.

–Be aware of the beliefs and principles in your industry that are barriers to innovation.

–Develop a recurring revenue stream.

–Change your sales mix among pre-sales service, products, maintenance and after-sales service.

–Offer lower-priced products that provide higher asset turnover.

–Offer higher-priced products that have higher profit margins.

–Change your cost structure by shifting fixed costs to variable costs or by shifting your costs to another supplier.

The pace of innovation around the world is increasing and is driven by five major trends:

•*Increasing global competition* – Free trade, capital mobility, labour mobility and global knowledge enable companies large and small to compete in markets anywhere and everywhere. Your competitors could be anyone.

•*Increasing advances in technologies* – are providing endless opportunities for new types of products and services. The development of some technologies is increasingly rapid or complex and requires the resources of more than one organization.

•*Changing and diverse market needs* – Demographics, politics, cultures and society are changing in different ways in each local region. More people around the world can afford to buy new and better things. Consumers want to have choice and control, to interact with others, and to express their individuality.

•*Increasing volatility of natural resources* – Changing supply and demand of energy and raw materials affects their prices. Companies must assess their exposure and minimize their risks.

•Increasing environmental concerns – The earth"s environment is increasingly threatened by man and industry. People want more environmentally friendly products and sustainable business practices.

Globalization

"Globalization refers to the shift toward a more integrated and interdependent world economy."

"Globalization reflects a business orientation based on the belief that the world is becoming more homogeneous and that distinctions between national markets are not only fading but, for some products, will eventually disappear.

Concept and Models of Innovation.

Joseph Schumpeter in his first major book on innovation titled „The Theory of Economic Development" in 1911 identifies five types of innovations that define the entrepreneurial act. These are:

I. **Product:** The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good.

II. **Process:** The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned.

III. **Business model**: The opening of a new market, that is a market into which the particular branch of manufacture of the country of question has not previously entered, whether or not this market existed before.

IV. **Source of supply**: The conquest of a new source of supply of raw materials of half manufactured goods, again irrespective of whether this source already exists or it has first to be created.

V. **Mergers & divestments:** The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position.

Significance of Intellectual Property Rights.

Intellectual property- which includes patents, trademarks, copyrights and trade secrets represents important assets to the entrepreneur and should be understood.

IPR can help the entrepreneurs to prepare better for competition from their global peers. It assists them to develop their business and competitive strategy. With the adoption of unique trademarks and brand names, every trader enjoys the right to develop a robust recall value and also create market for his market. It is believed that by purchasing intangible assets like patents in key technologies, businesses witness strong growth. IPR can generate greater revenue in businesses via assignments, licensing and sale. It has potential to attract private investment, specialized bank loans, venture capital etc.

I. Patent

A patent is a contract between the government and an inventor. It grants the holder protection from others making, using or selling a similar idea. Basically, the patent gives the owners a negative right because it prevents anyone else from making , using or selling the defined invention.

II. Trademark

A trademark may be a word, symbol, design or some combination of such, or it could be a slogan or even a particular sound that identifies the source or sponsorship of certain goods or services. Unlike the patent, a trademark can last indefinitely, as long as the mark continues to perform its indicated function.

Benefits of a Registered Trademark:

a) It provides notice to everyone that you have exclusive rights to the use of the mark throughout the territorial limits of the country of registration.

b) It entitles you to sue for trademark infringement, which can result in recovery of profits, damages and costs.

c) It establishes incontestable rights regarding the commercial use of the mark.

d) It entitles you to use the notice of registration ®

e) It provides a basis for filling trademark application in foreign countries.

III. Copyrights

A copyright protects original works of authorship. It is a right given to prevent others from printing, copying or publishing any original works of authorship.

IV. Trade Secrets

It is the protection against others revealing or disclosing information that could be damaging to business. In certain instances, the entrepreneur may prefer to maintain an idea or process as confidential and to sell or license it as a trade secret. The trade secret will have a life as long as the idea or process remains a secret.

V. Licensing

It may be defined as an arrangement between two parties, where one party has proprietary rights over some information, process or technology protected a patent, trademark or copyright, which the other party is permitted to use. This arrangement, specified in a contract, requires the licensee to pay a royalty or some other specified fee to the holder of the proprietary rights (licensor) in return for permission to copy the patent, trademark or copyright.

MODULE – III

BUSINESS PLANNING PROCESS

Meaning of Business Plan

The Business Plan may be read by employees, investors, bankers, venture capitalists, suppliers, customers, advisors and consultants. Since each of these groups reads the plan for different purposes, the entrepreneur must be prepared to address all their issues and concerns. In some ways, the business plan must try to satisfy the needs of everyone, whereas in the actual market place the entrepreneur"s product will be trying to meet the needs of selected group of customers. The depth and detail in the business plan depend on the size and scope of the proposed new venture. An entrepreneur planning to market a new high-tech machine will need a comprehensive business plan, largely because of the nature of the product and market.

The business plan is valuable to the entrepreneur, potential investors, or even new personnel, who are trying to familiarize themselves with the venture, its goals and objectives. The business plan is important to these people because:

I. It helps determine the viability of the venture in a designated market.

II. It provides guidance to the entrepreneur in organizing his or her planning activities.

III. It serves as an important tool in helping to obtain financing.

Business Plan Process

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. The various steps involved in preparing a business plan are:

I. **Preliminary Investigation**: Before preparing the plan entrepreneur should:

a) Review available business plans (if any)

b) Draw key business assumptions on which the plants will be based (e.g. inflation, exchange rates, market growth, competitive pressures etc.)

c) Scan the external environment and internal environment to assess the strengths, weakness, opportunities and threats.

d) Seek professional advice from a friend/ relative or a person who is already into similar business (if any)

II. **Business Planning Process:** 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 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:

I. Idea Generation: -Entrepreneurship is not just limited to innovation (generation of an entirely new concept, product or service, but it also encompasses in incremental value addition to the concept/product/services offered to the consumer, shareholder and employee). Hence value addition is the key work 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.

The various sources of new ideas are:

- Consumers/Customers
- Existing Companies
- Research and Development
- Employees
- Dealers, retailers

II. Environmental Scanning: Once a promising idea emerges through, idea generation phase the next step is environmental scanning, which is carried out to analyze the prospecting 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.

III. 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/area 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.
 To estimate the demand of the proposed product/service in future.
 To estimate the market share of the proposed product/service in future.
Technical/Operational Analysis: It 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:
 What are the technological needs of the proposed business?
 What other equipment does the proposed business need?
 From where will this technology and equipment be obtained?
 From where can the raw material be obtained?
 What would be the equipment and technology?
IV. Project Report Preparation: After environmental scanning and feasibility analysis, a project report is prepared. It is written document that describes step-by-step, the strategies involved in starting and running a business.
V. Evaluation, Control and Review: As stated earlier, it is imperative to continuously review and evaluate the business constantly. This is because the competition in today‟s globalizing world is intense and technological changes are taking place at much faster rates. In this dynamic and changing business environment it is important to evaluate, control and review the business periodically and introduce changes to keep up with a dynamic and changing market.
Advantages of Business Planning
A business plan is a document where you can plan your business to have an organized and effective response to a situation which may arise in future. It can be used to establish realistic goals or targetsto achieve and to determine the current position. A business plan is used to help make crucial start-up decisions, to reassure lenders, investors or backers, to measure operational progress, to test planning assumptions, to adjust forecasts and to set the standard for good operational management.
Marketing Plan
Marketing plans 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.
Production/Operations 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:

- Location and reasons for selecting the location.
- Physical layout.
- Cost and availability of machinery, equipment‟s, raw material.
- List of suppliers and if possible, distribution.
- Cost of manufacturing/running the operations.
- Quality Management.
- Production scheduling, capacity management and inventory management.
- Changes in above in case of expansions of business.

Organization Plan

Organizational plan defines the type of ownership: it could be single proprietary, partnership firm, company, and private limited or public limited. It also proposed an organizational structure and proposed 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

- Cost incurred in smooth running of the entire financial plan (marketing, operation and human resources).

For example, 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.

- Projected cash flows.
- Projected income statement.
- Projected break-even point
- Projected ratios.
- Projected balance sheet.

Final Project Report with Feasibility Study

For any new project or venture, proper planning is necessary. A detailed project report provides such a plan for the project. The report is useful to the entrepreneur for planning & implementing the project. It is essential for obtaining finance and other clearances for the project. The project report gives a detailed insight of the project and indicates the techno-economic viability of the project.

The project report must imbibe the following characteristics:

I. Standard Format
II. Completeness of data
III. Proper definitions of assumptions
IV. Imparting of data/information from reliable sources.
V. Emphasis on the main objectives of the project.
VI. Scientific analysis of data
VII. Preservation of Confidential data/information
VIII. Effective presentation and avoiding repetition

IX. Cost effectiveness

X. Timeliness

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/area 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.

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➢ What are the technological needs of the proposed business?

➢ What other equipment does the proposed business need?

➢ From where will this technology and equipment be obtained?

➢ From where can the raw material be obtained?

➢ What would be the equipment and technology?

Technical/Operational Analysis collects data on the following parameters:

- Material availability
- Material Requirements planning
- Plant location
- Plant capacity
- Machinery and equipment
- Plant layout.

❖ **Financial Feasibility:** Once the analysis of marketing and operations has been done successfully, a final financial feasibility is done to asses‟ financial issues of the proposed business venture. Following cost estimates have to be carried out.

*__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.

*__Cost of plant and machinery__: It includes estimates of cost of plant and machineries, their running and maintenance cost.

* **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.

(l) **Provision for contingencies** needs to be made to convert 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.
***Working capital estimates** for running the business are also made.
***Cost of production**, which would include raw material cost, labour cost, overhead expenses, utilities like power, water, fuel etc.
***Sales and production estimates**: Based on the plant capacity the production and sales estimates are made, which help in estimating profitability.
***Profitability projections** are made on the following parameters:

- Cost of production
- Sales expenses
- Administrative expenses
- Expected sales.

Summation of all above gives gross profit.

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

- Break-even point
- Cash flow statement.
- Balance sheet statement.
- Multiyear projections (see financial plans for details)

Sequential Stages of Project Formulation

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

I. General Information
II. Project Description
III. Market Potential
IV. Capital Costs and Sources of Finance.
V. Assessment of Working Capital requirements.
VI. Other Financial aspects
VII. Economic and Social Variables.
VIII. Project Implementation

I.General Information: It include the following:-
a) Bio-data of Promoter
b) Industry Profile
c) Constitution and Organization
d) Product details

II. **Project Description**: It includes the following:-
a) Site
b) Physical Infrastructure like Raw Material and Skilled labour
c) Utilities like: Power, Fuel and Water.
d) Pollution Control aspects like scope of dumps, sewage system and sewage treatment plant
e) Communication System

f) Transport facilities
g) Other common facilities like- machine shops, welding shops, electrical repair shops etc.
h) Production Process
i) Machinery & Equipment
j) Capacity of the Plant
k) Technology selected
l) Research & Development

III. **Market Potential:** While preparing a project report, the aspects of demand & supply position &
Expected Price relating to market potential of the product should be stated in the report. It should also contain information about Marketing Strategy, After-Sales Service and Transportation.

IV. **Capital Costs and Sources of Finance:** It is an estimate of the various components of capital items like: land and buildings, Plant & Machinery, Preliminary expenses, installation cost.

V. **Assessment of Working Capital requirements:** The requirement for working capital and its sources of supply should be carefully and clearly mentioned in the project report.

VI. **Other Financial aspects**: In order to judge the profitability of the project to be set up, a projected Profit & loss account indicating likely sales revenue, cost of production, allied cost and profit should be prepared.

VII. **Economic and Social Variables**: Some of the examples of socio-economic benefits are – employment generation, Import substitution, Ancillarisation, Exports, Local Resource Utilization, Development of the Area.

VIII. **Project Implementation**: Every entrepreneur should draw an implementation scheme or a time table for his project to ensure timely completion of all activities involved in setting up an enterprise.

Preparing a Model Project Report for Starting a new Venture.

FORMAT

I. Cover Sheet (Name of company, address, Promoters)

II. Table of Contents

III. Executive Summary (2-3 pages)
a) Introduction
b) Financial Performance
c) Balance Sheet Analysis
d) Proposed Project
e) Project profitability and analysis

IV. Company Details
a) History
b) Manufacturing facilities
c) Promoters
d) Shareholding Pattern
e) Board of Directors
f) Key Executives

g) Major Products
h) Major customers
i) Details of divisions
j) Group Units

V. Operational Details

a) Capacity and Utilization
b) Profit and Loss Account
c) Balance Sheet
d) Term loan and advances
e) Working Capital loan
f) Marketing and Distribution Network of the company.
g) Marketing Strategy
h) Export Sales
i) Trends in selling prices.
j) Details of sub-contractors, out-sourcing etc.

VI. Project Details

a) Proposed Project
b) Orders and Enquiries
c) Location
d) Manufacturing Process
e) Technical Feasibility/Superiority
f) Technical Know-how
g) Inputs for Production
h) Manpower
i) Power
j) Water
k) Marketing
l) Auxiliary Services

VII. Project Cost

a) Land
b) Building and Civil Works
c) Plant and Machinery
d) Preoperative Expenses
e) Margin Money for working capital

VIII. Means of Finance

a) Equity-Share capital
b) Internal Accruals
c) Deposits
d) Debt
e) Other Sources

IX. Project Status
a) Implementation Schedule
b) PERT and CPM Analysis
c) Current Status
d) Government Approvals
X. Profitably and Risk Analysis
a) Financials of the Project
b) Financials of the Company
c) Analysis of Break-even point, return on investment, payback period, internal rate of return and sensitivity.
d) Major risk factors
e) SWOT Analysis
XI. Company vis-à-vis Related Industry
a) General Analysis
b) Competing Industries
c) Advantages of the Company
XII. Employment Generation-Direct/Indirect
XIII. Conclusion
XIV. Annexure
(a) Curriculum Vitae of the owners
(b) Ownership Agreement
(c) Certificate from pollution board.
(d) Memorandum of Understanding
(e) Articles of Association
(f) Any other documents that help in marketing the project viability.
(g) Organizational Chart
(h) Details of group units
(i) Statutory sanctions/approvals

MODULE – IV
INSTITUTIONS SUPPORTING ENTREPRENEURS

Small Industry Financing In Developing Countries: An Overview

Small industry is a term usually used for companies operating on relatively smaller establishments. The definition of small scale industries differs from country to country, but usually it is based on the index of investment in plant and machinery. In India, if the investment in plant and machinery is up to 1 crore then it is called as small scale industry.

Importance of small scale industries has been realized by one and all. They not only help in providing employment opportunities to many, but also help in balanced regional development. They help in development of entrepreneurship, in developing local resources and in decentralization of the industry and hence lead to equitable distribution of income and health. Since small scale industries are usually run by an entrepreneur alone or a small group of Entrepreneurs and hence availability of finance is a matter of concern for them. These entrepreneurs face the problems of insufficient ownership capital to start up and run a business enterprise. They usually adapt the following measures to overcome the problem of insufficiency of funds:

(a) Rent a building

(b) Purchase of second hand machineries

(c) Keep inventory level low

(d) Seek cash sales

(e) Hire machinery

(f) Substitute equipment"s by labor

Though all the above mentioned methods reduce the requirement of capital but they further create problems in their own unique way respectively. Hence the lack of availability of finance affects the growth and development of small-scale industries.

In a developing country like India, SSI plays a vital role and hence holds a prominent place in the five year plans. In conformity with the plans, SSI"s have been given the privilege of priority sectors of the economy and have received active encouragement from government, banks and financial institution.

A Brief Overview of Financial Institutions in India

Financial Institutions in India

Commercial BanksOther Financial Institutions

Commercial Banks

The Scheduled Commercial Banks (SCBs) in the country comprise the State Bank of India and its associated banks, nationalized banks, private sector banks, regional rural banks and foreign banks.

Other Financial Institutions

- Industrial Development Bank of India (IDBI)
- Industrial Finance Corporation of India Ltd.(IFCI)
- Industrial Reconstruction Bank of India (IRBI)
- Life Insurance Corporation of India (LIC)
- Unit Trust of India
- State Financial Corporations(SFC)
- State Industrial Development Corporations (SIDC)
- Small Industries Development Bank of India (SIDBI)
- Export-Import Bank of India(EXIM)

Central level and State level Institutions

Central Level Institutions

a) Small-Scale Industries Board (SSI Board)
b) Khadi & Village Industries Commission (KVIC)
c) Small Industries Development Organization (SIDO)
d) National Small Industries Corporation Ltd. (NSIC)
e) National Science & Technology Entrepreneurship Development Board (NSTEDB)
f) National Productivity Council (NPC)
g) National Institute for Small Industry Extension and Training (NISIET)
h) National Institute for Entrepreneurship and Small Business Development (NIESBUD)
i) Indian Institute of Entrepreneurship (IIE)
j) Entrepreneurship Development Institute of India (EDII)

- **State Level Institutions**

a) Directorate of Industries (DIs)
b) District Industries Centres (DICs)
c) State Financial Corporations (SFCs)
d) State Industrial Development/Investment Corporation (SIDCs/SIICs)
e) State Small Industrial Development Corporations (SSIDCs)

- **Others**

a) National Bank for Agricultural and Rural Development (NABARD)
b) Housing and Urban Development Corporation Ltd. (HUDCO)
c) Technical Consultancy Organisations (TCOs)
d) Non-Governmental Organisations (NGOs)
e) Small Industries Development Bank of India (SIDBI)
f) Scheme of Micro Finance Programme
g) Export Promotion Councils
h) Industry Associations like: Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chamber of Commerce and Industry

of India (ASSOCHAM), PHD Chamber of Commerce and Industry (PHDCCI), Federation of Indian Exporters Organisation (FIEO), World Association for Small and Medium Enterprises (WASME), Federation of Association of Small Industries of India (FASII), Laghu Udyog Bharati (LUB), Indian Council of Small Industries (ICSI), Council of Scientific and Industrial Research (CSIR), Venture Capital etc.

SIDBI

The Small Industries Development Bank of India (SIDBI) was established in April 2, 1990 under an Act of Indian Parliament as the principal financial institution for:

I. Promotion

II. Financing

III. Development of Industries in the small scale sector

IV. Co-coordinating the functions of other institutions engaged in similar activities.

Business Domain of SIDBI

The business domain of SIDBI consists of small-scale industrial (SSI) units, which contribute significantly to the national economy in terms of production, employment and exports. (Small scale industries are the industrial units in which the investment in plant and machinery does not exceed Rs.1 crore).

Channels of Assistance

1. Indirect assistance to Primary Lending Institutions (PLI‟s):

SIDBI‟s schemes of indirect assistance envisage credit to SSI s through a large network of 913 PLI‟s spread across the country, with a branch network of over 65000. The assistance is provided by way of refinance, bills rediscounting, and resource support in the form of short term loans / Line of Credit (LoC) in lieu of refinance etc.

2. Direct assistance to small units:

Scheme for specialized marketing agencies- Cost of project between Rs.25 Lakh and Rs.300 lakhs, with a Debt-Equity Ratio of 2:1 Down payment of 70- 80% of value of goods purchased.

3. Schemes for Ancillary/ Sub-contracting units-

Cost of project is need based and proposals for assistance are to be recommended by the Mother unit.

4. Schemes for Development of Industrial Areas for SSI Sector.

• Eligible borrowers are SIDCs/SSIDCs and cost of project not exceeding Rs.300 lakhs.

 For development of village industrial areas /estate for VSI units- cost of project to need based.

5. Development and support services: Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallized in the following important areas-

 Enterprise promotion with emphasis on rural industrialization

 Human Resource Development to suit the SSI sector needs

 Technology up gradation

 Quality and environment management

 Marketing & promotion

 Information dissemination.

EDP's of SIDBI

I. Entrepreneurship Development Programs are conducted through specialized agencies:
– Entrepreneurship Development Institute of India,
– Institutes of Entrepreneurship Development (IEDs),
– Centre for Entrepreneurship Development (CEDs),
– Technical Consultancy Organizations (TCOs), and
– Non-Governmental Organizations (NGOs)

II. SIDBI is constantly endeavoring to address problems like management deficiency and low level of skill and technology, by bringing reputed management and technical institutions close to SSIs and arranging specially designed programs, viz., Small Industries Management Assistant Program (SIMAP) & Skill & Technology Up gradation Program (STUP)

SIDBI's Schemes are as follows:

I. Schemes for setting up SSI units- Cost of projects not to exceed Rs.300 lakhs.

II. Composite loan scheme (cottage, tiny and Villages industries) – The loan limit not exceed Rs.50,000 repayable within 7-8 ½ years.

III. Scheme for SC/ST and physically handicapped persons-Loan limit not to exceed Rs. 50,000 The scheme is meant for cottage tiny and village industries.

IV. Scheme for acquisition of:
(a) In-house quality control facilities –Loan not to exceed Rs.7.5 lakh.
(b) Diesel generating sets and pollution control equipment- The loan is need based.
(c) Computers- Loans limit not exceed Rs. 5 lakhs.
(d) For indigenization /import substitution –Loan limit no to exceed Rs. 5 lakhs per annum.
(e) For manufacturing and installation of renewable energy /energy savings systems- Loan limit is need based.

V. Equipment refinance scheme-operated through SFC"s /twin function SIDCs. Loan limit is need based.

VI. Scheme for Small Road Transport Operations –Loan limit is need based.

VII. Scheme for professionals- The cost of the project should not exceed Rs. 10 lakhs and cost of land and building not to exceed 50% of total outlay.

VIII. Schemes for Marketing Activities.
- Scheme for marketing organizations- Cost of project not to exceed Rs. 25 lakhs. Down payment of at least 50% of value of goods purchased.
- Scheme for purchase of mobile sales vans- Loans limit not to exceed Rs.3 lakhs per vehicle.

IX. Scheme for medical profession:
- Scheme for Hospital /Nursing Homes- cost of project not to exceed Rs.45 lakhs,
- Schemes for acquisition of Electro-medical and other equipment-Cost of equipment not to exceed Rs. 60 lakhs.

X. Schemes for Tourism related activities –Cost of project not to exceed Rs. 45 lakhs.

XI. Schemes for hotel and restaurant projects–Cost of project no to exceed Rs.45 lakhs.

XII. Schemes for Infrastructure Development:

- Scheme for setting up Industrial estates- Cost of project not to exceed Rs. 300 lakhs.
- Scheme for development, maintenance and construction of roads- The loan limit is need based.

XIII. Equity type Assistance schemes:

- Seed capital scheme- Scheme operated through SFCs / SIDCs. The soft loan limit is 10% of the project cist subject to a maximum of Rs. 15 lakhs. The loan carries a nominal service charge @ 1%p.a for the first 5 years and there after interest @10%.
- National Equity Fund Scheme- Cost of the project not to exceed Rs. 10 lakhs. The soft loan limit is up to 15% of the project cost subject to a maximum of Rs. 15 lakh per project with service charge @ 1%p.a.

XIV. Scheme for Women Entrepreneurs

o Mahila Udyam Nidhi Scheme- Scheme operated through SFCs / SIDCs. Cost of the project not to exceed Rs. 10 lakhs. The soft loan limit is up to 15% of the project cost subject to a maximum of Rs.1.5 lakh per project Cost subject to a maximum of Rs.1.5 lakh per project with a service charges @ 1% p.a.

o Scheme for Women Entrepreneur –For training and extension services support to the women entrepreneurs.

XV. Special scheme for assistance to Ex-servicemen- Scheme operated through SFCs/twin function SIDCs. The cost of the project not to exceed Rs.15 lakhs to meet gap in equity subject to a maximum of Rs.2.25 lakh per project @ 1% p.a. service charge.

XVI. Single window scheme- operated through SFCs/ twin function SIDCs/ scheduled Commercial Banks.-Cost of project not to exceed Rs.20 lakhs and total working capital requirement not to exceed Rs.10 lakhs.

B. Scheme of Direct Assistance:

1. Scheme for specialized marketing agencies- Cost of project between Rs.25 Lakh and Rs.300 lakhs,
with a Debt-Equity Ratio of 2:1 Down payment of 70- 80% of value of goods purchased.
2. Schemes for Ancillary/ Sub-contracting units- Cost of project is need based and proposals for assistance are to be recommended by the Mother unit.
3. Schemes for Development of Industrial Areas for SSI Sector.

(a) Eligible borrowers are SIDCs/SSIDCs and cost of project not exceed Rs.300 lakhs.

(b) For development of village industrial areas /estate for VSI units- cost of project to need based.

C. Bills Schemes:

1. Bill Rediscounting scheme (Normal) - Minimum down payment 10% and usage‟s of bills are normally 5 years. (Usage‟s of bills means: A Bill of Exchange calling for payment at a fixed or determine able future time.)
2. Bills rediscounting scheme (short-term) –Unexpired usage not more 90 days. Both schemes are operated by scheduled commercial Banks.

3. Bills Rediscounting scheme (Normal) –Minimum down payment is 10%. Usance of bills is normally 5 years and minimum transaction value is Rs.1 lakh.

NABARD

National Bank for Agriculture and Rural Development (NABARD) came into Existence on 12th July 1982 by an act of Parliament. Its objective is providing focused and undivided attention to the development of rural India. NABARD mission statement underscores "to promote sustainable & equitable agricultural & rural prosperity through effective support, related services, institution development and other innovative initiatives.

NABARD at present has 28 regional offices at the state capitals, a sub-office at Port Blair and 376 district development offices. NABARD is an apex institution accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas. It is an apex refinancing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas. It takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc. It coordinates the rural financing activities of all the institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India and other national level institutions concerned with policy formulation. It also prepares, on annual basis, rural credit plans for all districts in the country, these plans form the base for annual credit plans of all rural financial institutions. It further undertakes monitoring and evaluation of projects refinanced by it. It promotes research in the fields of rural banking, agriculture and rural development.

5.1 Functions of NABARD

Credit Support: At its business, NABARD provides credit support that suits every activity in rural India. It refinances commercial, co-operatives and regional banks for lending to our farm activities (minor irrigation, animal husbandry, farm mechanization, forestry, fisheries, land development, horticulture, plantation and medic al crop) & non-farm activities (rural industries, artisans, handicrafts, handlooms, rural housing, rural tourism and so on).

NABARD has introduced several innovations in the rural credit domain:

a. Self Help Group: More famously called as SHG are a group of homogenous members who voluntarily collaborate mainly to overcome financial difficulties. With the modest beginningof just 500 SHGs in 1992, the programme boasts of as many as 6, 20,109 groups in the year 2005-06 alone.

b. Rural Infrastructure Development Fund: It is very important to have proper infrastructure for agriculture, industrial and overall economic development. Moreover infrastructure also provides basic amenities that improve the quality of life of people also provide basic amenities that improve the quality of life of people at large. NABARD has sanctioned funds under RIDF for

improvement of rural connectivity through road network & bridges, power development of social sector.
c. Watershed Development: With the entire country facing the problems of water scarcity, NABARD was engaged in perfecting its experiments in creating a sustainable cost effective solution to the water harvesting techniques in rural India.
d. Tribal Development & WADI Approach: With over 8% of the population comprising tribals largely development on forests, livestock and agriculture, NABARD found a holistic approach by addressing production, processing and marketing of the produce with WADI as the core of the programme.
e. Attracting youth to rural non-farm sector: NABARD has formulated several schemes like Assistance to Rural Women in Non-Farm Development (ASWIND), Assistance for marketing of Non-Farm products of Rural Women (MAHIMA), development of Women through Area programme (DEWTA) for providing support to women in rural areas.
f. District Rural Industries project (DRIP): The objective of DRIP is to create sustainable employment opportunities in rural areas.
g. Rural Entrepreneurship Development Programme (REDP): REDP is a promotional programme to motivate train educated unemployed rural youth to set up their enterprises.
h. Marketing: A number of marketing interventions have been made for marketing of rural non-farm products since marketing is a key factor in the success of any programme. With the support of NABARD under in various promotional programmes like rural haats, rural marts, participation in fairs, exhibition etc. Artisans and entrepreneurs get larger marker to showcase their talents and products to urban markets.
i. Rural Innovation Fund: In association with Swiss Agency for Development and Cooperation (SDC) NABARD has constituted the NABARD-SIDC Rural Innovation Fund (RIF) to support innovative projects in farm, non-farm and micro-finance sectors.

IDBI

Objectives of IDBI

The main objective of IDBI is to serve as the apex institution for term finance for industry in India. Its objectives include:
I. Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.
II. Supplementing the resources of other financial institutions and there by widening the scope of their assistance.
III. Planning, promotion and development of key industries and diversification of industrial growth.
IV. Devising and enforcing a system of industrial growth that conforms to national priorities.

Functions of IDBI

The IDBI has been established to perform the following functions-
I. To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 year.

II. To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable in 15 years.
III. To grant loans and advances to IFCI, SFCs, other institutions, scheduled banks, state co-operative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.
IV. To discount or re-discount bills of industrial concerns.
V. To underwrite or to subscribe to shares or debentures of industrial concerns.
VI. To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.
VII. To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.
VIII. To grant loans to any industrial concern.
IX. To guarantee deferred payment due from any industrial concern.
X. To guarantee loans raised by industrial concerns in the market or from institutions.
XI. To provide consultancy and merchant banking services in or outside India.
XII. To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.
XIII. Planning, promoting and developing industries to fill up gaps in the industrial structure in India.
XIV. To act as trustee for the holders of debentures or other securities.

State Small Industries Development Corporations (SIDCO)

The State Small Industries Development Corporations (SIDCO) were set up in various States under the Companies Act,1956 as State Government Undertakings to cater to the primary developmental needs of the small, tiny and village industries in the State/Union Territories under their jurisdiction. Incorporation under the companies Act has provided SIDCOs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.
The important functions performed by the SIDCOs include:
- To procure and distribute scarce raw materials
- To supply machinery on hire purchase system
- To Provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned. Provide management assistance to production units.

Indian Institute of Entrepreneurship (IIE)

With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship was established in the year 1993 at Guwahati by the Ministry of Small Scale Industry, Govt. of India as an autonomous national Institute. The Institute stated its operations from April 1994 with North East Council (NEC), Govts. of Assam, Arunachal Pradesh and Nagaland and SIDBI as other stakeholders.

Its objectives are:

- To organize and conduct training for entrepreneurship development.
- To evolve strategies and methodologies for different target groups and locations and conduct field test.
- To identify training needs and offer training programmers to government and non-government organizations engaged in promoting and supporting entrepreneurship.
- To document and disseminate information needed for policy formulation and implementation related to self-employment.
- To identify, design and conduct training programmes for existing entrepreneurs.To prepare and publish literature related to entrepreneurship and industrial development.
- To organize seminars, workshops and conferences for providing a forum for interaction and exchange of views by various agencies and entrepreneurs.
- To conduct research for generating knowledge to accelerate the process of entrepreneurship development.
- To act as a catalyst for development of self-employment/entrepreneurship, Industry/Business.
- To evolve, design and help in utilization of various media for creating entrepreneurship.

DIC

In order to extend the promotion of small-scale and cottage industries beyond big cities and state capitals to the district headquarters, the District Industries Centers (DIC) programme was initiated in May 1978 as a centrally sponsored scheme with the objective of developing small, tiny and cottage sector industries in the country. DIC"s were also established with the aim of generating greater employment opportunities especially in the rural and backward areas in the country. These centers provide support facilities/concessions/centrally in widely dispersed rural areas and other small towns. There were 430 centrally approved DIC"s which covered almost all the districts of the country (except the metropolitan cities) at the time of the withdrawal of the central sponsorship in 1993-94. At present, DIC"s operate under respective State budgetary provisions.

It extend services of the following nature.

- Economic investigation of local resources
- Supply of machinery and equipment
- Provision of raw material
- Arrangement for credit facilities
- Marketing
- Quality inputs
- Consultancy and extension services

Single Window

A single window is a system is where all facilities are available in one place. For example, in banking there are various dealings like withdrawing cash from a savings account, current account, purchase of drafts or pay orders, making fixed deposits, etc. Earlier, for each type of transaction, a customer had to approach different staff at different counters. Today, all the facilities can be availed of at one counter or window. Hence, it's called a single windowfacility. It is a single point contact to reduce the time and efforts involved in various clearances and approvals of layouts/applications for the proposed investment, submitted by investors.

Latest Industrial Policy of Government of India

New Small Enterprise Policy (1991)

The Govt. of India for the first time tabled a new small enterprise policy titled „Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises" in the Parliament on 6th August, 1991.

The Salient features of this new policy are as under:

I. Increase in the investment limit in plant and machinery of tiny enterprises from Rs. 2 lakhs to Rs. 5 lakhs, irrespective of the location of the enterprise.

II. Inclusion of Industry related services and business enterprise, irrespective of their location, as small scale Industries.

III. To introduce a limited Partnership Act. This would limit the financial liability of the new entrepreneurs to the capital invested.

IV. Introduction of a scheme of Integrated Infrastructural development for small-scale Industries.

V. Introduction of Factoring Services to help the problems of delayed payments to small sector.

VI. Market promotion of small scale industries products through co-operative /public sector institutions, other spe3cialized professional/marketing agencies and the consortium approach.,

VII. To set up a technology Development Cell in the Small Industries Development Organization.

VIII. To accord priority to small and tiny sector in the allocation of indigenous raw materials.

IX. Setting up of an Export Development Centre in the Small Industries Development Organization (SIDO)

X. To widen the scope of the National Equity Fund (NEF), to enlarge the single window scheme and also to associate commercial banks with provision of composite loans.

New Policy Initiatives in 1999-2000 for the small scale sector

- Announcement of a new Credit Insurance Scheme in the budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI Units, particularly export oriented and tiny units.
- The working capital limit for SSI Units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crores.

- To increase the reach of banks to the tiny sector, lending by banks to non-banking financial companies (NBFCs) or other financial intermediaries for purposes of on-lending to the tiny sector, has been included within the definition of priority sector for bank lending.
- Exemption from excise duty, as given to SSI Units, will be extended to goods bearing a brand name of another manufacturer in rural areas.
- A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.
- To coordinate the latest development with regard to WTO, a cell has been set up in the office of DC (SSI) to disseminate information to SSI Association and SME Units.
- Cotton yarn has been included in the general excise exemption scheme for SSIs.
- Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.
- The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crore to Rs. 1 crore.

MODULE – V

FAMILY BUSINESS

Importance of Family Business

Family business from every trade imaginable has been around for centuries from shoemakers to confectioners to farmers. However, did you know that the world‟s oldest documented family business is a construction company? According to research conducted by William T. O‟Hara, President Emeritus of Bryant College in Rhode Island and author of centuries of success; Lessons from the World‟s Most Enduring Family Businesses, as reported in Family Business magazine. ‟Hara‟s study revealed that construction company Kongo Gumi, based in Osaka, Japan, was founded in the year 578.

I. Over 75% of all registered companies in the industrialized world are family business (OECD)
II. One-third of Fortune 500 has families at their helm.
III. Seventy% of firms in the United Kingdom are family owned.
IV. Of Italy‟s 100 top companies 43 are family owned.
V. Family companies employ about 50-60 per cent of the workforce in the industrialized world.
VI. Companies with founding family participation performed better than non-family business (study of Standard & Poor‟s 500)

Family-owned businesses play a crucial role in the economy of most countries. Much of the retail trade, the small-scale industry, and the service sector are run by family business. World wise, family-managed businesses employ half the world‟s workforce and generate well over half the world‟s GDP. In the United States, 24 million family businesses employ 62 per cent of the workforce and account for 64 per cent of the GDP. In India, it is estimated that 95 per cent of the registered firms are family businesses.

In India, family-owned businesses have played and will continue to play a central role in the growth and development of the country. Indian family businesses have been and will continue to be key drivers of the economy, and what changes these businesses need to undertake to continue succeed.

Some of the Largest Family Firms Worldwide:

- Wal-Mart (USA, revenues $ 245 billion, Sam Walton family)
- Samsung Group (South Korea, revenues $98.7 billion, Lee family)
- Flat Group (Italy, revenues $ 54.7 billion, Agnelli family)
- The Gap (USA, revenues $ 3.8 billion, Fisher family)
- L‟Oreal (France, revenues $ 2.2 billion, Bettencourt family)
- IKEA (Sweden, revenues $ 7.9 billion, Tata family)
- Tata group (India, revenues $ 7.9 billion, Tata family)
- Grupo Modelo (Mexico, revenues $ 3.5 billion, Diez Fernandez family)

• McCain Foods (Canada, revenues $ 3.5 billion, McCain family)

Family Business Defined

There are various definitions of a family business. In fact, there are as many definitions as there are authors writing on family businesses. However, in general, a family-owned business is one.

* In which two or more extended family members influence the business through the Exercise of kinship ties, management roles, and ownership rights, and/or.

* Which the owner intends to pass to a family heir.

Structural definitions: These definitions focus on the firm‟s ownership or Management arrangements, for example, 51 per cent or more ownership by family members.

"Ownership control by the members of a single family". Barry (1975)

"Ownership control by a single family or individual". Barnes and Hershon (1976)

"A small or closely held business." Becker and Tillman (1978)

"Majority ownership by a single family and direct involvement by at least two families." Sterm (1986)

"Legal control over the business by family members, Lansberg, Perrow, and Rogalsky (1988)

"Single family effectively controls firm through the ownership of greater than 50 per cent of the voting shares; a significant portion of the firm‟s senior management is drawn from the family." Leach al. (1990)

Process definitions: These definitions stress on how the family is involved in the business- its influence on company policy, its desire to perpetuate family control of the business and so on.

"Closely identified with at least two generations of a family; link has had a mutual influence on company policy and the interests and objectives of the family"- Donnelley"Members of one family own enough voting equity to control strategic policy and tactical implementation." Miller & Rice

"Two or more family members influence the direction of the business through the exercise of management roles, kinship ties or ownership rights." Taguiri & Davis (1982)

"Interaction between family and business organizations that determines the nature and uniqueness of the business."-P. Davis (1983)

Hindu Undivided Family-Defined

The meaning of Hindu Undivided family is defined under the Hindu law. According to this law it is a family that consists of persons lineally descended from a common ancestor. HUF consists of father, sons and daughters and wives. Under the Income tax, a Hindu Undivided family is treated as separate tax entity for the purpose of assessment under income tax act. The meaning of HUF (Hindu Undivided Family) has not been defined under the Income act.

Types of Family Business

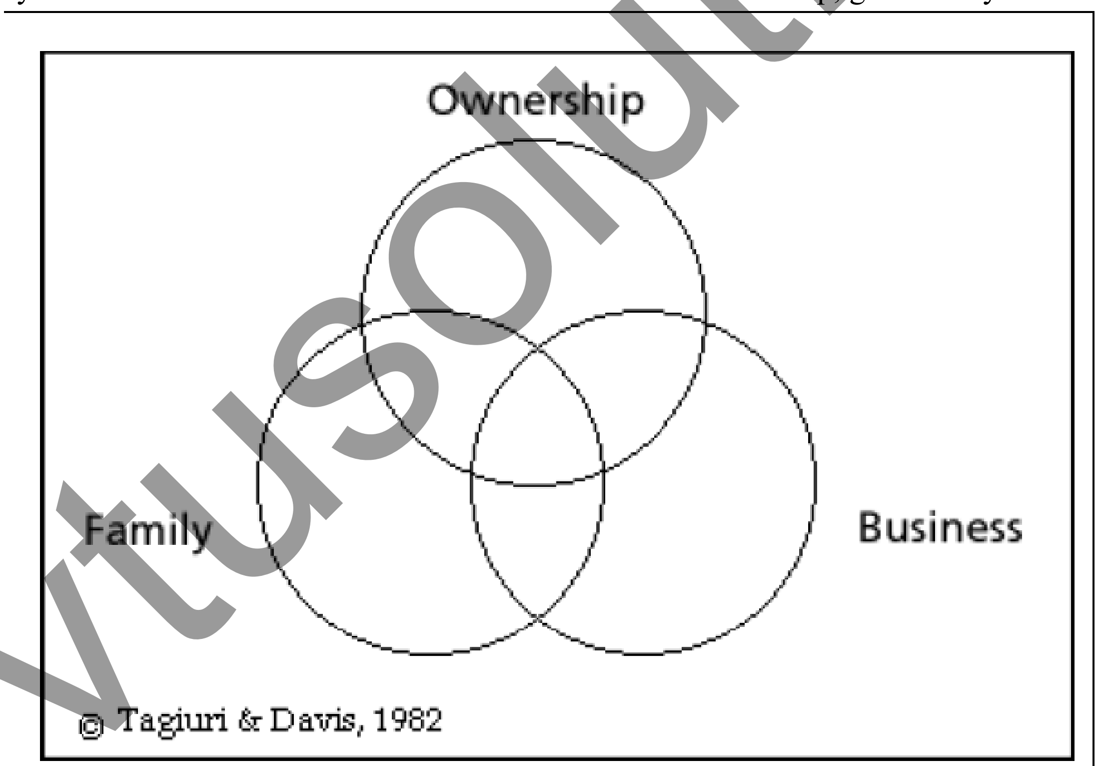
I. **A Family owned business** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically by not necessarily a majority of the shares, are owned by members of a single extended family, are owned by one family member but significantly influence by other members influenced by other members of the family.

II. **A family owned and managed business** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership) typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control.

III. **A family owned and led company** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership),typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authorityconferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And, this business has the active participation by at least one family member in the board of directors of the company so that one or more family members have at least a high level of influence over the company‟s direction, culture, and strategies.

2.1 The "3 Circle" model of family business

The "3-Circle" model was developed by Taguiri and Davis at Harvard. It incorporates family, business and ownership system into the definition of family business system. Each of these systems interacts with the others and influence their membership, goal and dynamics.



The **3-Circle Model** of family business has three systems:

1) **The Business System**: Start up, expansion/formalization and maturity is the developmental

framework.
2) **The Family System:** Young business family, entering the family business, working together and passing the baton is the developmental framework.
3) **The Ownership system**: Controlling owner, sibling partnership, cousin consortium is the developmental framework.
There are three components to family governance:
i. Periodic Assemblies
ii. Family Council Meeting
iii. A Family Constitution

History of Family Business

How your company came into being, the vision of the founder(s), how the company overcame inevitable changes and challenges through the years, the contributions the company has made to the community… all add up to a great story. And not just a story for your children. People in your company, others in your industry, and the community at large all benefit from a deeper knowledge and understanding of your company‟s heritage.
There are many reasons to create a formal history. A few of the more important are as follows.

- **Founder's vision and mission**: Why was the company founded in the first place? Over time, as the company‟s leadership changes hands, families often lose the founder‟s original vision and send of mission.
- **Historical accuracy:** Without a formal history, people will rely on hearsay or someone‟s biased or misinformed perception. The company‟s early history and its role in the community can be lost or misunderstood, if it is not documented and preserved.
- **Honoring longtime employees:** Often, longtime or retired employees feel as if their contributions to the company have been forgotten. Family business owners may want to honor their efforts and their faithfulness in some meaningful way beyond the traditional "gold watch".
- **Thanking customers and vendors":** In any business, maintaining good relationships with customers and vendors is critical, especially when the relationships have stood the test of time. Owners need a way to document and publicity thanks them for their partnership over the years.
- **Background for the uninformed:** New hires, potential clients, bankers, and investors may not know the company‟s background and may not be aware of the company‟s inherent strengths and its future potential.

Responsibilities and Rights of shareholders of a family business

Family shareholders generally maintain the loyalty to family business if they feel adequate pride in the enterprise and in their family, if they feel respected in the shareholder group and family, and if they feel adequately rewarded through distributions of cash and growth of equity. These feelings are enhanced in an environment of trust in the business, family, and ownership group. Building an environment of trust depends, in part, on the family shareholders understanding and accepting their responsibilities and rights.

Family business leaders or family leaders rarely clarify the responsibilities of a family shareholder of family business. Shareholder rights are better understood. The **responsibilities** of family shareholders include the following.

i. Be knowledgeable about company operations (products, services, locations, top managers, industry, competition, measures of performance.

ii. Be knowledgeable about basic company finances and be able to read and ask questions about the income statement and balance sheet of their company.

iii. Attend shareholder meetings.

iv. Understand board member qualifications and participate, when useful, in the screening to board members.

v. Constructively question management and offer suggestions to management in appropriate settings, while not interfering with the management.

vi. Be a positive emissary for the company.

vii. Publicity support management decisions.

viii. Keep appropriate company information in strict confidence and recognize that shareholders are not entitled to all company information on demand.

ix. Where possible and useful, generate business leads.

x. Where possible and useful, provide additional investment capital.

Family Shareholders should expect the following from the managers of the Company (**Rights**):-

a. Timely information on company strategy, important organizational changes and the company‟s basic financial status (especially before this information is released to the public)

b. Openness by the company‟s board and the management to shareholder‟s views (constructively expressed in appropriate settings) on the above information.

c. The ability to participate in the election of board members (who oversee management)

d. Fair Policies that protect shareholder‟s interests but also require their cooperation and risk taking.

e. Acceptable economic performance by the company, including reasonable dividends and capital gains.

Succession in Family Business

How best to pass on the business to the next generation is the greatest challenge. There is a need to make the right decisions for the family and business.

The succession plan should include the following.

- Key goals for the succession process.
- A schedule of the transition stage.
- Contingency plan.

First Family Succession plan, Then Business Plan

The family succession plan must recognize and accommodate the needs, goals, and objectives of each member of the family. The family‟s goals and objectives then become the basic building blocks for the development of the business succession plan.

It is extremely important to first develop the family succession plan and then the business plan. Otherwise the business owner will spend a lot of time and money developing a succession plan that will almost always fail. Sometimes the failure is recognized only after the death of the parents when the "plan" is sprung upon the family during the reading of the will; and the legacy the parents were trying to create for their children and grandchildren is destroyed because of greed, misunderstandings, and lack of involvement in the family succession planning process.

The family succession plan should include the following:

- Strategies to put business interests ahead of the family interests.
- Emphasize merit over family position
- Describe the role of the owner in the transition stage- will he or she continue to work full time, part time, or retire?
- Family dynamics- are some family members unable to work together?
- Income for working members of the family and shareholders.
- The business environment during transition.
- Treatment of loyal employees.
- Tax consequences.

Family-first Business or Business-first Family

Another important issue that needs to be determined prior to beginning the family succession plan is whether yours is a family-first business or a business-first family. The answer will significantly affect the succession planning process.

Succession Management

Family businesses which use the advisory board as part of their succession management process tend to be businesses that are still alive, still growing in size, and profitability. And, not surprisingly, they also tend to have healthy family relationships. They successfully transition from one generation of family ownership to the next. As part of the succession management process, the advisory board acts as a safety net for both the family and the business.

Succession- Three Ways to Ease Transition

I. **Hire the most competent advisors (attorneys, accountants, financial planners, and business consultants) you can fine and afford**. Succession planning is a complicated process and required different kinds of expertise. Not every professional service advisor ahs the special training and experience necessary.

For instance, few lawyers, accountants, family therapists, and psychologists are specially trained or experienced in this field. You may wish to consider using family business consultants to act as a quarterback for the succession planning process. All too frequently, different advisors to the family business owner develop costly and ineffective sequential solutions to the complexities of succession. If someone is selling elevators, escalators are usually never recommended as a means of transporting people, within a building.

II. **Business valuation is a critical element of succession planning**. There are many reasons to value a business. Unlike socks where one size fits all, one valuation does not fit all situations. A valuation for sale to the next generation of family has different formulas than a valuation for sale to someone outside the family. Yet a different formula would be used for estate tax planning purposes. Depending on the purpose of the valuation, costs can vary significantly. Less complicated valuations done for planning purposes can be very affordable. Some family business owners value the business every year as part of their strategic planning process. Others use the valuation as a means for determing performance-based compensation for key executives (phantom stock) rather than choosing to dilute the ownership of the stock to a non-family key executive.

III. **Funding is often a hidden or non-recognized cost of succession planning**. It is important to understand that the business may need to grow significantly in order to pay the transition costs which include taxes, insurance, professional advisors, setting up trusts, and purchasing business stock. Or, funds that would be available for expansion or to pay out to the familywill have to be retained in the business for the transition. Either way, planning for this cash flow requirement will ease the transition.

A good rule of thumb is that the business needs to grow by at least 20 percent more than the normal growth pattern to offset the costs of succession without disrupting the profitability and cash flow of the business.

Business Valuation

Business valuation is important to the family succession plan. Many family business owners consider business valuation an expensive exercise. Many also have the perception that it can be used for multiple purposes. Both perceptions are incorrect.

Business Valuation is a process that does not always result in a formal written report. To be a valuable planning tool, it should be considered a part of the annual strategic planning process, not merely the result of an event requiring it.

The reasons for valuing a business are as follows:

- Buying or selling shares to employees
- Retiring and Selling to other family members
- Planning gift to heirs
- Anticipating estate tax problems
- Providing adequate key man insurance coverage
- Tracking the progress of business plans towards achievement of results
- Performance based compensation plans
- Providing a basis for compensating key non-family management (phantom stock plans)

Pitfalls of the Family Business

Family feuds-whether they start in the family and spill into the business or start in the business and affect the family-are a major factor in family businesses having such a poor survival rate. One of the misconceptions many people have is that a successful family business equates to having a common „view‟ amongst family members of how things are done and when.

In fact, it is just the opposite that is true. In successful family businesses, there is a surprising amount of disagreement or lack of consensus when new ideas or issues are first being debated and discussed.

What makes the difference is that in healthy family businesses, the dialogue is aimed at creating "positive tension "whereas in dysfunctional family businesses, the "tension" created by the dialogue is destructive and results in family feuds. The reasons may be (i) a difference in age and experience, as is typical between father and son; (ii) differences in educational levels, (iii) sibling rivalries or rivalries between cousins which usually end in a separation; (iv) differences of attitude towards employees; (v) differences in the way each would like to define the business or restructure it; (vi) differences in value system, which may affect ethical practices or corporate governance; (vii) difficulty in keeping a professional distance among family members. Emotions often tend to cloud rationality and judgment. Often, the same argument by an outsider is more acceptable than when made by a family member; and (viii) different promoters are not equally gifted in all aspects of business.

Indian family businesses have clear and numerous weaknesses. The four most important one are:

I. an inability to separate the family‟s interest from the interest of the business;

II. a lack of focus and business strategy;

III. a short-term approach to business, leading to an absence of investment in employees and in product development; and

IV. Insensitivity to the customer, largely because of uncompetitive markets, but vast majority of big family businesses in India lack focus.

The biggest failing of Indian companies is that they want to do everything. The vast majority of big family businesses in India lack focus. A second major failing of Indian business is its short-term focus. It does not invest in its people, or in R & D. Its lack of attention to human capital is evident right at the start in how it recruits new employees.

Indian business is overwhelmingly owned and managed by families. This is, however, not necessarily a disadvantage as long as the family firms are able to overcome their historic weakness. They have to learn to separate the family‟s interest from the company‟s interest, create the environment to recruit and retain outside talent, bring focus to their operations, use a joint venture to upgrade their skills and knowledge, and follow a consistent strategy.

Nepotism (favoritism shown to members of the family) in family firms is a normal occurrence. This can leave a negative impact.

- It limits drastically the available pool of potential leaders to draw from.
- Non-family members who are highly motivated by position and rank will be dissatisfied to work in family firms for very long as they perceive their chances of "moving up" are limited at best.
- It has significant impact upon the recruitment, training, reward system. And career development programmes for non-family members of the family firm.

Strategies for improving the Capability of Family Business

I. Family firms must be able to professionalise: The success of the Italian, French, and Chinese small enterprises suggests that being a family firm per se is not necessarily a disadvantage. A successful family firm must be capable of recruiting and retaining outside professional talent. In a competitive world, it must be able to get the best person to run the company. If a member of the family is not the best person, they it must be willing to hand over the management to an outsider.

To professionalise means that the family must make the mental leap and separate ownership and management, and distinguish between the family‟s interest and the company‟s interest. Most Indian companies are in transaction today. They are painfully coping with the problem of incompetent family members at the top of many businesses. Rahul Bajaj says, "It is easy to get rid of an outside manager, but how do you get rid of a family member? You must either do what is right for the business or the family. Either way, you will end up with an unhappy family or a weak company.

II. The demise of the joint-family: A more unique characteristic of Indian business, at least until recently, was that it was managed as a joint family and derived a competitive advantage from this fact. A famous example as stated earlier, is of the Palampuri Jains of Western India, who have established commercial colonies in such diamond centers as Tel Aviv, Antwerp, Mumbai, London, and New York and who today accountant for roughly 50 per cent of all purchase of rough diamonds in the world. Owing to the inherent trust in a joint family, the Jain diamond merchants rely on interethnic ties to keep this highly scattered, specialized, and intrinsically high-risk business together.

III. Replenishing Entrepreneurship: The number of family businesses is increasing day by day. Almost all companies, all over the world, start off as a family concern. In India in 2003, the number of companies registered in the private sector was 54, 0026 and collectively they had an authorized capital of almost Rs.9, 00,000 crore.

IV. Good Management: In USA, over 65 per cent of business- and the more profitable sector of USA Inc. is family business. This little fact is not much in the news because most of these family-run businesses are privately held.

V. Ability to Change: The issue is how can Indian Management improve? and how can it speed up the pace of improvement. It may be that when push comes to shove, family firms are more nimble than their more bureaucratic "professional" brethren.

VI. Have a Strategic Plan: If a family business does not have a sense of its future, it cannot know the knowledge, skills and expertise that will be required of the next generation leaders. And the next generation of leaders must work hard to acquire their leadership skills.

VII. Have an active Board of Directors: The board will help assess four key foundations for the business‟s healthy state of affairs: the CEO‟s readiness for succession, critical family relations, ownership structures and management structures. The board plays a number of other roles as well:

a) A board must stimulate, provoke, challenge and support leaders.

b) Experts contend that an advisory board should include outsiders.

c) Advisors must focus on the company‟s macro, long term issues.

d) Some scholars says that friends, former employees or paid advisors such as accountants and attorneys should not be put on the board.

e) Hold frequent family meetings. It‟s important to create a mechanism that reinforces the family community and solves family conflicts.

f) Formal family meetings should occur at off-site locations on a quarterly of semi-annual basis.

8. Improving Family Business Performance

Some family-owned businesses have a long-term history of consistent profitability. Others, however, have a similarly long-term history of weak performance. The obvious question is why.

There are a small number of salient factors, which are critical. Ultimately, these factors coalesce into a series of "core business values" which can substantially determine the FOB‟s performance throughout the entire course of its existence.

a) Concept of "Core Business Values"

The management of every family business requires that decisions be made about myriad issues. The totality of these decisions becomes, in effect, the family‟s core business values. Of particular importance are the family‟s core values regarding the training of the members of the family entering the business; the future; finances, and the accountability of these members? Depending on the circumstances, the family may adopt these values consciously or unconsciously, or for thatmatter, willingly or unwillingly. Regardless, the functionality of the family‟s core business values is crucial to its performance, both short and long term.

b) Critical Core Business Values Impacting Family Business Performance

Given that every family business has its own dynamics, it would be impossible to definitively „identify a list of core business values in order to their importance to all family-owned businesses. Nonetheless, it has been held that four dysfunctional core values tend to be particularly common to under-performing companies. Specifically these involve; the training of the successor generation, the family‟s outlook on the future, accountability, and finances.

c) Training

For some reason, the need for sound training is often overlooked on a regular basis in family-owned businesses. In part, this because of a surprisingly common belief that a college education and a little bit of exposure to the busyness should be enough to prepare an incoming member of the family business it typically underrated.

The second are that is typically overlooked is the training that should take place once a member of the family joins the business. In particular, the benefit; of substantial exposure to every critical aspect of the business is not recognized. Additionally, there is generally no formal effort to continue with outside training, be it through additional course work, workshops, industry-based programmes, and so on. In today‟s fast moving and competitive environment, the need for consistent training experiences is particularly vital.

8.1 Ways to save Family Business

If a family managed business is to survive, let alone prosper, it must stringently observe the following rules:

I. Formulate Policy Framework and Rules
II. Families must serve the business
III. There should be a future outlook.
IV. Family members should be accountable
V. Issues should be addressed
VI. Creating Shared Vision.

MODULE – VI

INTERNATIONAL ENTREPRENEURSHIP OPPORTUNITIES

The Nature of International Entrepreneurship

Simply stated, International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It may consist of exporting, licensing, opening a sales office in another country, or something as simple as placing a classified advertisement in a newspaper. The activities necessary for ascertaining and satisfying the needs and wants of target consumers often take place in more than one country. When an entrepreneur executes his or her business model in more than one country, international entrepreneurship is occurring.
With a commercial history of only 300 years, the United States is a relative newcomer to the international business arena. As soon as settlements were established in the New World, American businesses began an active international trade with Europe. Foreign investors helped build much of the early industrial trade with Europe as well as much of early industrial base of the United States. The future commercial strength of the United States will similarly depend on the ability of U.S. entrepreneurs and established U.S. companies to successfully do business in markets outside the country. This is true of other countries as well.

Importance of International Business to the firm

International business has become increasingly important to firms of all sizes particularly today when every firm is competing in a hypercompetitive global economy. There can be little doubt that today"s entrepreneur must be able to move in the world of international business. The successful entrepreneur will be someone who fully understands how international business differs from purely domestic business and is able to respond accordingly, thereby successfully going "global"
An entrepreneur entering the international market should address the following questions:
1. Is managing international business different from managing domestic business?
2. What are the strategic issues to be resolved in international business management?
3. What are the options available for engaging in international business?
4. How should one assess the decision to enter into an international market?

International versus Domestic Entrepreneurship

Although international and domestic entrepreneurs alike are concerned with sales, costs, and profits what differentiates domestic from international entrepreneurship is the variation in the relative importance of the factors affecting each decision. International entrepreneurial decisions are more complex due to such uncontrollable factors as economics, politics, culture and technology.
Some of these factors are:

I. Economics

In a domestic business strategy, a single country at a specified level of economic development is the focus of their entrepreneurial efforts. The entire country is almost always organized under a single economic system and has the same currency. Creating a business strategy for a multi country area means dealing with differences in: levels of economic development; currency valuations; government regulations; and banking, venture capital, marketing, and distribution systems. These differences manifest themselves in each aspect of the entrepreneur"s international business plan and methods of doing business.

II. Stage of Economic Development

In industrially developed nations there are few regional variances in terms of economic development. While adjusting the business plan according to regional differences, an entrepreneur doing business only in a developed country does not have to worry about significant lacking of such fundamental infrastructures as road, electricity, communication systems, banking facilities and systems, adequate educational systems, a well-developed legal system, and established business ethics and norms. These factors vary greatly in other countries, from those industrialized to those in the process of developing, and they significantly impact the ability to successfully engage in international business.

III. Current Account

With the present system of flexible exchange rates, a country"s balance of payments (the difference between the value of a country"s imports and exports overtime) affects the valuation of its currency. The valuation of one country"s currency affects business transactions between countries. At one time, Italy"s chronic balance of payments deficit led to a radical depreciation in the value of the Lira, the currency of Italy. Fiat responded by offering significant rebates on cars sold in the United States. These rebates cost Fiat very little because fewer dollars purchased many more liras due to the decreased value of the Lira.

IV. Type of Economic System

Pepsi-Cola began considering the possibility of marketing in the former U.S.S.R. as early as 1959, following the visit of U.S. President Richard Nixon. When Premier Nikita Khrushchev expressed his approval of Pepsi"s taste, the slow wheels of East-West trade began moving with Pepsi entering the former U.S.S.R 13 years later. Instead of using its traditional type of franchise bottler in this entry, Pepsi used a barter-type arrangement that satisfied both the socialized system of the former U.S.S.R and the U.S. capitalist system. In return for receiving technology and syrup from Pepsi, the former U.S.S.R. provided the company with Soviet vodka and the right to distribute it in the United States. Many such barter or third-party arrangements have been used to increase the amount of business activity with the former U.S.S.R. that Eastern and Central European countries, as well as other countries in various stages of development and transition. There are many difficulties in doing business in developing in developing and transition economics. These problems reflect the gaps in the basic knowledge of the Western system regarding business plans, product promotion, marketing, and profits; widely variable rates of return; non-convertibility of the currency necessitates finding a countertrade item; differences in the accounting system; and nightmarish communications.

V. Political-Legal Environment

The multiplicity of political and legal environments in the international market creates vastly different business problems, opening some market opportunities for entrepreneurs and eliminating others. For example, U.S. environmental standards have eliminated the possibility of entrepreneurs establishing ventures to import several models of European cars. Another significant event in the political-legal environment involves the price fluctuations in oil and other energy products.

VI. Language

Sometimes one of the biggest problems is finding a translator. A significant problem can occur when careless translation occurs. To avoid errors like these, care should be taken to hire a translator whose native tongue is the target language and whose expertise matches that of the original authors.

Stages of Economic Development

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Entrepreneurship Entry into International Business

There are various ways in entrepreneur can market products internationally. The method of entry into a market and the mode of operating overseas are dependent on the goals of the entrepreneur and the company‟s strengths and weaknesses. The modes of entering or engaging in international business can be divided into three categories; exporting, nonequity arrangements, and direct foreign investment.

Various modes of Entry into International Markets are:

I. Exporting
– Indirect Exporting
– Direct Exporting
II. Nonequity Arrangements
– Licensing
– Turn-Key Projects
– Management Contracts
III. Direct Foreign Investment
– Minority Interests
– Joint Ventures

– Majority Interest
– Mergers & Acquisitions

Exporting

Usually, an entrepreneur starts doing international business through exporting. Exporting normally involves the sale and shipping of products; manufactured in one country to a customer located in another country. There are two general classifications of exporting direct and indirect.

I. **Indirect Exporting**: Indirect exporting involves having a foreign purchaser in the local market or using an export management firm. For certain commodities and manufactured goods, foreign buyers actively seek out sources of supply and have purchasing offices in markets throughout the world. An entrepreneur waiting to sell into one of these overseas markets can deal with one of these buyers. In this case, the entire transaction is handled as though it were a domestic transaction, even though the goods will be shipped out of thecountry. This method of exporting involves the least amount of knowledge and risk for the entrepreneur.

II. **Direct Exporting**: If the entrepreneur wants more involvement without any financial commitment, direct exporting through independent distributors or the company"s own overseas sales office is a way to get involved in international business. Independent foreign distribution usually handles products for firms seeking relatively rapid entry into a large number of foreign markets. This independent distributor directly contacts foreign customers and potential customers and takes care of all the technicalities of arranging for export documentation, financing, and delivery for an established rate of commission.

Nonequity Arrangements

When market and financial conditions warrant the change, an entrepreneur can enter into international business by one of three types of nonequity arrangements; licensing, turn-key projects, and management contracts. Each of these allows the entrepreneur to enter a market and obtain sales and profits without direct equity investment in the foreign market.

I. **Licensing:** It involves an entrepreneur who a manufacturer (licensee) is giving a foreign manufacturer (licensor) the right to use a patent, trademark, technology, production process, or product in return for the payment of a royalty. The licensing arrangement is most appropriate when the entrepreneur has no intention of entering a particular market through exporting or direct investment. Since the progress is low risk, yet provides a way to generate incremental income; a licensing arrangement can be a good method for the entrepreneur to engage in international business. Unfortunately, some entrepreneurs have entered into these arrangements without careful analysis and have later found that they have licensed their largest competitor into business or that they are investing large sums of time and money in helping the licensor to adopt the technology or know-how being licensed.

II. **Turn-key projects:** Another method by which the entrepreneur can do international business without much risk is through turn-key projects. The underdeveloped or lesser-developed countries of the world have recognized their need for manufacturing technology and infrastructure and yet do not want to turn over substantial portions of their economy to foreign ownership. One solution to this dilemma has been to have a foreignentrepreneur build a factory or other facility, train the workers, train the management, and then turn it over to local owners once the operation is going, hence the name turn-key the management, and then turn it over to local owners once the operation is going, hence the name turn-key operation.

Entrepreneurs have found turn-key project to be an attractive alternative. Initial profits can be made from this method, and follow-up export sales can also result. Financing is provided by the local company or the government with periodic payments being made over the life of the project.

III. **Management Contracts**: A final nonequity method the entrepreneur can use in international business is the management contract. Several entrepreneurs have successfully entered international business by contracting their management techniques and skills. The management contract allows the purchasing country to gain foreign expertise without giving ownership of its resources to a foreigner. For the entrepreneur, the management contract is another way of entering a foreign market without a large equity investment.

Foreign Direct Investment

The wholly owned foreign subsidiary has been a preferred mode of ownership for entrepreneurs using direct foreign investment for doing business in international markets. Joint ventures and minority and majority equity positions are also methods for making direct foreign investments. The percentage of ownership obtained in the foreign venture by the entrepreneur is related to the amount of money invested, the nature of the industry, and the rules of host government.

I. **Minority Interests**: Japanese companies have been frequent users of the minority equity position in direct foreign investment. A minority interest can provide a firm with a source of raw materials or a relatively captive market for its products. Entrepreneurs have used minority positions to gain a foothold or acquire experience in a market before making a major commitment. When the minority shareholder has something of strong value, the ability to influence the decision-making process is often far in excess of the amount of ownership.

II. **Joint Ventures:** Another direct foreign investment method used by entrepreneurs to enter foreign markets is the joint venture. Although a joint venture can take on many forms, in its most traditional form, two firms (for example, one U.S firm and one German firm) gettogether and form a third company in which they share equity. Joint ventures have been used by entrepreneurs most often in two situations (1) when the entrepreneur wants to purchase local knowledge as well as an already established marketing or manufacturing facility, and (2) when rapid entry into a market is needed. Sometimes joint ventures are dissolved and the entrepreneur takes 100 percent ownership.

III. **Majority Interest:** Another equity method for the entrepreneur to enter international markets is to purchase a majority interest in a foreign business. In a technical sense, anything over 50 percent of the equity in a firm is majority interest. The majority interest allows the entrepreneur to obtain managerial control while maintaining the acquired firm‟s local identity. When entering a volatile international market, some entrepreneurs take a smaller share, which they increase up to 100 percent as sales and profits occur.

IV. **Mergers:** An entrepreneur can obtain 100 percent ownership to ensure complete control. Many U.S entrepreneurs desire complete ownership and control in cases of foreign investments.

If the entrepreneur has the capital, technology and marketing skills required for successful entry into a market, there may be no reason to share ownership.

Mergers and acquisitions have been used significantly in engaging in international business as well as within the United States. During period of intense merger activity, entrepreneurs may spend significant time searching for a firm to acquire and then finalizing the transaction. While any merger should reflect basic principles of any capital investment decision and make a net contribution to shareholders‟ wealth, the merits of a particular merger are often difficult to assess. Not only do the benefits and cost a merger need to determined, but special accounting, legal, and tax issues must be addressed. The entrepreneur therefore must have a general understanding of the benefits and problems of mergers as a strategic option as well as an understanding of the complexity of integrating an entire company into the existing operations. There are five basic types of mergers: Horizon, Vertical, Product Extension, Market extension and Diversified activity.

Barriers to International Trade

There are varying attitudes throughout the world concerning trade. Starting around 1947 with the development of general trade agreements and the reduction of tariffs and other trade barriers, there has been an overall positive atmosphere concerning trade between countries.

1. General Agreement on Tariffs and Trade (GATT)

One of the longest-lasting agreements on trade is the General Agreement on Tariffs and Trade (GATT), which was established in 1947 under U.S. leadership, GATT is a multilateral agreement with the objective of liberalizing trade by eliminating or reducing tariffs, subsidies, and import quotas. GATT membership includes over 100 nations and has had eight rounds of tariffs reductions, the most recent being the Uruguay Round that lasted from 1986 to 1993. In each round, mutual tariff reductions are negotiated between member nations and monitored by a mutually-agreed-upon system. If a number country feels that a violation has occurred, it can ask for an investigation by the Geneva-based administrators of GATT. If the investigation uncovers a violation, member countries ca be asked to pressure the violating country to change its policy and conform to the agreed-upon tariffs and agreements. Sometimes this pressure has not been sufficient to get an offering country to change. While GATT has assisted in developing more unrestricted trade, its voluntary membership gives it little authority to ensure that this type of trade will occur.

2. Increasing Protectionist Attitudes

The support of GATT goes up and down. Although down in the 1970s, the support increased in the 1980s due to the rise in protectionist pressures in many industrialized countries. The renewed support reflected three events. First, the world trading system was strained by the persistent trade deficit of the United States, the world‟s largest economy, a situation that caused adjustments in such industries as automobiles, semi-conductors, steel and textiles. Second, the economic success of a country perceived as not playing by the rules (e.g., Japan and then China) has also strained the world‟s largest trading system. The success of Japan and China as the world‟s largest traders and the perception that their internal markets are, in effect, closed to imports and foreign investment have caused problems. Finally, in response to these pressures, many countries have established bilateral voluntary export restraints to circumvent GATT. The economic prosperity of the 1990s has lessened the interest in GATT. In fact, it is now replaced by the World Trade Organization (WTO), which came into effect on 1st January, 2015.

3. Trade Blocs and Free Trade Areas

Around the world, groups of nations are banding together to increase trade and investment between nations in the group and exclude those nations outside the group. One little-known agreement between the United States and Israel, signed in 1985, establishes Free Trade Area (FTA) between the two nations. All tariffs and quotas except on the certain agricultural products were phased out over a 10-year period. In 1989, an FTA went into effect between Canada and the United, States that phased out tariffs and quotas between the two countries, which are each other‟s largest trading partners.

Many trading alliance have evolved in the Americans. In 1991, the United States signed a framework trade agreement with Argentina, Brazil, Paraguay, and Uruguay to support the development of more liberal trade relations. The United States has also signed bilateral trade agreements with Bolivia, Chile, Colombia, Costa Rica, Ecuador, EI Salvador, Honduras, Peru, and Venezuela. The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico is a much publicized agreement; to reduce trade barriers and quotas and encourage investment among the three countries. Simi9larly, the Americas, Argentina, Brazil, Paraguay and Uruguay operate under the Treaty of Asuncion, which created the Mercosur trade Zone, a free-trade zone among; the countries. Another important trading bloc has been developed by the European Community. As more nations are added to the European Union, the EC trading bloc becomes an increasingly important factor for entrepreneurs doing international business.

4. Entrepreneur's Strategy and Trade Barriers

Clearly, trade barriers pose problems for the entrepreneur who wants to become involved in international business. First, trade barriers increase an entrepreneur‟s costs of exporting products to a country. If the increased costs puts the entrepreneur at a competitive disadvantage with respect to indigenous competitive products, it may be more economical to establish production facilities in the country.

Second, voluntary export restraints may limit an entrepreneur‟s ability to sell products in a country from production facilities outside the country, which may also warrant establishing production facilities in the country in order to compete. Finally, an entrepreneur may have to locate assembly or production facilities in a country to conform to the local content regulations of the country.

MODULE – VII

INFORMAL RISK CAPITAL AND VENTURE CAPITAL
&
SOCIAL ENTREPRENEURSHIP

Informal Risk Capital Market

The informal risk-capital market is the most misunderstood type of risk capital. It consists of a virtually invisible group of wealthy investors, often called business angels, who are looking for equity-type investment opportunities in a wide variety of entrepreneurial ventures. Typically investing anywhere from $10,000 to$500,000, these angels provide the funds needed in all stages of financing, but particularly in start-up (first-stage) financing, Firms funded from the informal risk-capital market frequently raise second-and third-round financing from professional venture-capital firms or the public-equity market

Demographic Patterns and Relationships

- Well-educated, with many having graduate degrees.
- Will finance firms anywhere, particularly in the United States.
- Most firms financed within one days travel
- Majority expect to play an active role in ventures financed.
- Many belong to angel clubs.

Investment Record

- Range of investments: $10,000 to $500,000,
- Average Investment: $50,000
- One to two deals each year

Venture preference

- Most financing in startups or ventures less than 5 years old
- Most interest in financing
- Manufacturing-industrial/ commercial products.
- Energy/natural resources.
- Services.
- Software.

Risk/Reward Expectations

- Median 5-year capital gains of 10 times for start-ups
- Median 5-years capital gains of 6 times fro firms under 1 year old
- Median 5 year capital gains of 5 times for firms 1-5 years old
- Median 5- year capital gains of 3 times for established firms over 5 years old

Reason for rejecting proposals

- Risk/return ratio not adequate
- Inadequate management team
- Not interested in proposed business area

- Unable to agree on price
- Principals not sufficiently committed
- Unfamiliar with area of business

Venture Capital

The important and little understood area of venture capital will be discussed in terms of its nature, the venture capital industry in the United States, and the venture-capital process.

Nature of Venture Capital

Venture capital is one of the least understand areas in entrepreneurship. Some think that venture capitalists do the early-stage financing of relatively small, rapidly growing technology companies. It is more accurate to view venture capital broadly as a professionally managed pool of equity capital. Frequently, the equity pool is formed from the resources of wealthy limited partners. Other principal investors in venture-capital limited partnerships are pension funds, endowment funds, and other institutions, including foreign investors. The pool is managed by a general partner- that is, the venture-capital firm-in exchange for a percentage of the gain realized on the investment and a fee. In fact venture capital can best be characterized as a long term investment discipline, usually occurring over a five-year period, that is found in the creation of early-stage companies, the expansion and revitalization of existing businesses, and the financing of leveraged buyouts of existing divisions of major corporations or privately owned businesses. In each investment, the venture capitalist takes equity participation through stock, warrants, and/or convertible securities and has an active involvement in the monitoring of each portfolio company bringing investment, financing planning, and business skills to the firm.

Overview of Venture-Capital Industry

Although venture capitalists were a major source of financing throughout the industrialization of the United States, the system did not become industrialized until after World War II. Before World War II, venture investment activity was a monopoly led by wealthy individuals, investment banking syndicates, and a few family organizations with a professional manager. The first step toward institutionalizing the venture-capital industry took place in 1946 with the formation of the American Research and Development Corporation in Boston. The ARD was a small pool of capital form individuals and institutions put together by General Georges Doriot to make active investments to make active investments in selected emerging business.

The next year major development, the Small Business Investment Company Act of 1958, married private capital with government funds to be used by professionally managed small business investment companies (SBIC) to infuse capital into start-up and growing small businesses. With their tax advantages, government funds for leverage, and status as a private capital company, SBIC"s were the start of the now-formal venture-capital industry. The 1960s saw a significant expansion of SBIC"s with the approval of approximately 585 SBIC licenses that involved more than $ 205 million in private capital. Many of these early SBIC"s failed due to inexperienced portfolio managers, unreasonable expectations, a focus on short-term profitability, and an excess of government regulations. These early failures caused the SBIC program to be restricted, which in turn eliminated some of the unnecessary government regulations and increased the amount of capitalization needed. There are approximately 360 SBIC‟s operating today, of which 130 are minority enterprise small business investment companies (MESBICs) funding minority enterprises.

During the late 1960s, small private venture-capital firms emerged. These were usually formed as limited partnerships, with the venture-capital company acting as the general partner that received a management fee and a percentage of the profits earned on a deal. The limited partners, who supplied the funding, were frequently institutional investors such as insurance companies, endowed funds, bank trust ;departments, pension funds, and wealthy individuals and families. There are about 980 venture-capital establishments in the United States today.

Another type of venture-capital firm also developed during this time; the venture-capital division of major Corporation. These firms, of which there are approximately 100, are usually associated with banks and insurance companies, although companies such as 3M, Monsanto, Intel and Xerox house such firms as well. Corporate venture-capital firms are more prone to invest in windows on technology or new market acquisitions than private venture-capital firms of SBIC‟s. Some of these corporate venture-capital firms have not had strong results.

The various types of Venture Capital firms:

I. Private Venture Capital firms- A type of venture-capital firm having general and limited partners.

II. SBIC Firms- Small companies with some government money that invest in other companies.

III. Industry Sponsored Venture Capital Divisions- The Venture Capital divisions of major corporations usually associated with banks and insurance companies.

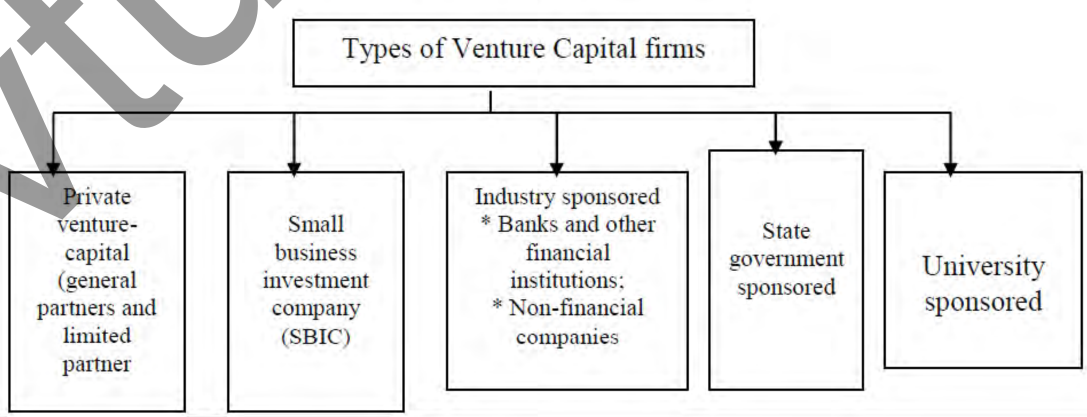
IV. State sponsored venture capital fund- A fund containing state government money that invests primarily in companies in the state.

V. University sponsored venture-capital fund-There are now university sponsored venture capital funds. These funds, usually managed as separate entities, invest in the technology of the particular industry.

Venture Capital Process

To be in a position to secure the funds needed, an entrepreneur must understand the philosophy and objectives of a venture-capital firm, as well as the venture-capital process.

Types of Venture capital firms:



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Venture Capital Process

To be in a position to secure the funds needed, an entrepreneur must understand the philosophy and objectives of a venture-capital firm, as well as the venture-capital process.
The objective of a venture-capital firm is to generate long-term capital appreciation through debt and equity investments. To achieve this objective, the venture capitalist is willing to make any changes or modifications necessary in the business investment. Since the objective of the entrepreneur is the survival of the business, the objectives of the two are frequently at odds, particularly when problems occur.
The venture-capital process can be broken down into **four primary stages**:
I. Preliminary screening
II. Agreement on principal terms
III. Due diligence
IV. Final approval.
The ***preliminary screening***begins with the receipt of the business plan. A good business plan is essential in the venture-capital process. Most venture capitalists will not even talk to an entrepreneur who doesn"t have one. As the starting point, the business plan must have a clear-cut mission and clearly stated objectives that are supported by an in-depth industry and market analysis and pro forma income statements. The executive summary is an important part of this business plan, as it is used for initial screening in this preliminary evaluation. Many business plans are never evaluated beyond the executive summary. When evaluating the business, the venture capitalist first determines if the deal or similar deals have been seen previously. The investor then determines if the proposal fits his or her long-term policy and short term needs in developing a portfolio balance. In this preliminary screening, the venture capitalist investigates the nature of the industry and evaluates whether he or she has the appropriate knowledge and ability to invest in that industry. The investor reviews the numbers presented to determine whether the business can reasonably deliver the ROI required. In addition, the credentials and capability of the management team are evaluat4ed to determine if they can carry out the plan presented.

The second stage is the ***agreement on principal terms***between the entrepreneur and the venture capitalist. The venture capitalist wants a basic understanding of the principal terms of the deal at this stage of the process before making the major commitment of time and effort involved in the formal due diligence process.

The third stage, ***detailed review and due diligence***, is the longest stage, involving anywhere from one to three months. There is a detailed review of the company‟s history, the business plan, and the resumes of the individuals, their financial history, and target market customers. The upsidepotential and downside risk are assessed, and there is a thorough evaluation of the markets, industry, financers, suppliers, customers, and management.

In the last stage, ***final approval,***a comprehensive, internal investment memorandum is prepared. This document reviews the venture capitalist‟s findings and details the investment terms and c conditions of the investment transaction. This information is used to prepare the formal legal documents that both the entrepreneur and venture capitalist will sign to finalize the deal.

Locating Venture Capitalists.

One of the most important decisions of the entrepreneur lies in selecting which venture-capital firm to approach. Since venture capitalists tend to specialize either geographically by industry (manufacturing industrial products or consumer products, high technology or service) or by size and type of investment, the entrepreneur should approach only those that may have an interest in the investment opportunity. Where do you find this venture capitalist?

Although venture capitalists are located throughout the United States, the traditional areas of concentration are found in Los Angeles, New York, Chicago, Boston, and San Francisco. An entrepreneur should carefully research the names and addresses of prospective venture-capital firms that might have an interest in the particular investment opportunity. There are also regional and national venture-capital associations. For a nominal fee or none at all, these associations will frequently send the entrepreneur a directory that lists their members, the types of businesses their members invest in, and any investment restrictions. The response of the VC is likely to be more positive if the entrepreneur is introduced to the venture capitalist. Bankers, accountants, lawyers, and professors are good sources for introductions.

Approaching Venture Capitalists.

The entrepreneur should approach a venture capitalist in a professional manner. Since venture capitalists receive hundreds of inquiries and are frequently out of the office working with portfolio companies or investigating potential investment opportunities, it is important to begin the relationship positively. The entrepreneur should call any potential venture capitalist to ensure that the business is in an area of their investment interest. Then the business plan should be sent, accompanies by a short professional letter.

Guidelines for Dealing with Venture Capitalists

• Carefully determine the venture capitalist to approach for funding the particular type of deal. Screen and target the approach. Venture capitalists do not like deals that have been excessively "shopped".

- Once a discussion is started with a venture capitalist, do not discuss the deal with other venture capitalists. Working several deals in parallel can create problems unless the venture capitalists are working together. Time and resource limitations may require a cautions simultaneous approach to several funding sources.
- It is better to approach a venture capitalist through an intermediary who is respected and has a preexisting relationship with the venture capitalist. Limit and carefully define the role and compensation of the intermediary.
- The entrepreneur or manager, not an intermediary, should lead the discussions with the venture capitalist. Do not bring a lawyer, accountant or other advisors to the first meeting. Since there are not negotiations during this for meeting, it is a chance for the venture capitalist to get to know the entrepreneur without interference from others.
- Be very careful about what is projected or promised. The entrepreneur will probably be held accountable for these projections in the pricing, deal structure, or compensation.
- Disclose any significant problems or negative situations in this initial meeting. Trust is a fundamental part of the long-term relationship with the venture capitalist, subsequent discovery by the venture capitalist; subsequent discover b y the venture capitalist of an undisclosed problems will cause a loss of confidence and probably prevent a deal.
- Reach a flexible, reasonable understanding with the venture capitalist regarding the timing of a response to the proposal and the accomplishment of the various steps in the financing transaction. Patience is needed, as the process is complex and time consuming. Too much pressure for a rapid decision can cause problems with the venture capital.
- Do not sell the project on the basis that other venture capitalists have committed themselves. Most venture capitalist are independent and take pride in their own decision making.
- Be careful about glib statements such as, "There is no competition for this product" or "there is nothing like this technology available today". These statements can reveal a failure to do one‟s homework or can indicate that a perfect product has been designed for a nonexistent market.
- Do not show an inordinate concern for salary, benefits or other forms of current compensation. Money is precious in a new venture. The venture capitalist wants the entrepreneur committed to an equity appreciation similar to that of the venture capitalist.
- Eliminate to the extent possible any use of new dollars to take care of past problems, such as payment of past debts or deferred salaries of management. New investments from the venture capitalist are for growth, to move the business forward.

Social Enterprise

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners (Department of Trade and Industry, 2002). Social enterprises are private organizations dedicated to solving social problems, serving the disadvantaged and providing socially important goods that were not, in their judgement, adequately provided by public agencies or private markets. These organizations have pursued goals that could not measured simply by profit generation, market penetration or voter support (Dees, 1994).

Social enterprises are businesses that are set up to tackle social problems, improve communities, people‟s life chances, or the environment. They make and do things that earn money and make profits like any business. It is how they work and what they do with their profit that is different: working to make a bigger difference, reinvesting the profits they make to do more good." (Social Enterprise UK, 2011)

In India, a social enterprise may be a non-profit Non-governmental organization (NGO), often registered as a Society under Indian Societies Registration Act, 1860, a Trust registered under various Indian State Trust Acts or a Section 25 Company registered under Indian Companies Act, 1956.

Need of Social Enterprises

I. To meet **a need in the community** or the local market not met through traditional business models

II. Advance or achieve a specific **social mission**

III. Contribute to the **financial sustainability** of a non-profit organization

Types of Social Enterprises

There are different types of social enterprise business models and structures which vary according to their core purpose, ownership, management structure and accountability.

I. **Community Enterprises:** enterprises which serve a particular geographical community or community of interest and have representatives from the community on their board of directors.

II. **Social Firms:** which aim to integrate people who might otherwise find it difficult in the mainstream job market, such as people with learning disabilities or mental health problems.

III. **Co-operatives:** organisation owned, controlled, and run for the benefit of their members.

IV. **Credit Unions:** community based financial institutions providing savings and loan facilities for their members.

V. **Community Development Finance Institutions:** providers of loans and other types of investment primarily for social enterprises and other small businesses.

VI. **Development Trusts:** community enterprises which aim to develop a community, usually through the ownership and management of property.

VII. **Public sector spin-outs:** independent social enterprises set up to deliver services that were previously provided by public sector organisations. Also known as 'externalised' services.

VIII. **Trading arms of charities:** set up to undertake trading activity in order to raise money for their charity parent company e.g. charity shops, catalogues, training and consultancy.

IX. **Fair Trade organisations:** committed to ensuring that producers are paid a fair price for what they produce.

X. **Other types of social enterprise:** businesses with social objectives as central as their economic objectives.

Characteristics of Social Enterprises

The common defining characteristics of social enterprises are:

I. A social enterprise is a business. That means it is engaged in some form of trading, but it trades primarily to support a social purpose.

II. Each social enterprise has clear social or environmental aims – the difference they are trying to make, the people they are trying to help and why. Fundamentally - the reason they exist in the first place.

III. Like any business, it aims to make a profit, but it seeks to reinvest those profits principally in the business or in the community to enable it to deliver on its social objectives. It is, therefore, not simply a business driven by the need to maximise profit to shareholders or owners.

IV. Social enterprises are structured, owned and governed by a range of stakeholders (e.g. employees, service users, customers, members, local community groups and social investors), or directors who control the enterprise on behalf of a wider group of stakeholders. Social enterprises are started for many different reasons and can develop from a number of different routes. They can be completely new ventures or existing organisations that want to become social enterprises e.g. voluntary organisations and charities.

Benefits of Social Enterprises

I. Provides an opportunity for local people to gain employment

II. Brings about a positive change to people and communities

III. Social benefits – provides facilities to disadvantaged people

IV. Profits/surpluses are ploughed back into the organisation. This could be used to develop new products/services/activities

V. People have more ownership

VI. Provides a formal recognised structure for your enterprise.

VII. Gives the flexibility and freedom of being able to trade commercially whilst still fulfilling social aims.

Social Entrepreneurship

Social entrepreneurs drive social innovation and transformation in various fields including education, health, environment and enterprise development. They pursue poverty alleviation goals with entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices. A social entrepreneur, similar to a business entrepreneur, builds strong and sustainable organizations, which are either set up as not-for-profits or companies.

A social entrepreneur is a leader or pragmatic visionary who:

- Achieves large scale, systemic and sustainable social change through a new invention, a different approach, a more rigorous application of known technologies or strategies, or a combination of these.
- Focuses first and foremost on the social and/or ecological value creation and tries to optimize the financial value creation.
- Innovates by finding a new product, a new service, or a new approach to a social problem.
- Continuously refines and adapts approach in response to feedback.

• Combines the characteristics represented by Vijay Mallya and Mother Teresa.

Social entrepreneurs share some come common traits including:

• An unwavering belief in the innate capacity of all people to contribute meaningfully to economic and social development

• A driving passion to make that happen.

• A practical but innovative stance to a social problem, often using market principles and forces, coupled with dogged determination that allows them to break away from constraints imposed by ideology or field of discipline, and pushes them to take risks that others wouldn't dare.

• A zeal to measure and monitor their impact. Entrepreneurs have high standards, particularly in relation to their own organization‟s efforts and in response to the communities with which they engage. Data, both quantitative and qualitative, are their key tools, guiding continuous feedback and improvement.

• A healthy impatience. Social Entrepreneurs cannot sit back and wait for change to happen – they are the change drivers.

Social entrepreneurship is

• About applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor.

• A term that captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines grounded in certain values and processes that are common to each social entrepreneur, independent of whether his/ her area of focus has been education, health, welfare reform, human rights, workers' rights, environment, economic development, agriculture, etc., or whether the organizations they set up are non-profit or for-profit entities.

• It is this approach that sets the social entrepreneur apart from the rest of the crowd of well-meaning people and organizations who dedicate their lives to social improvement.

Types of Social Entrepreneurship Organizational Models

I. *Leveraged non-profit ventures*

The entrepreneur sets up a non-profit organization to drive the adoption of an innovation that addresses a market or government failure. In doing so, the entrepreneur engages a cross section of society, including private and public organizations, to drive forward the innovation through a multiplier effect. Leveraged non-profit ventures continuously depend on outside philanthropic funding, but their longer term sustainability is often enhanced given that the partners have a vested interest in the continuation of the venture.

II. *Hybrid non-profit ventures*

The entrepreneur sets up a non-profit organization but the model includes some degree of cost-recovery through the sale of goods and services to a cross section of institutions, public and private, as well as to target population groups. Often, the entrepreneur sets up several legal entities to accommodate the earning of an income and the charitable expenditures in an optimal structure. To be able to sustain the transformation activities in full and address the needs of clients, who are often poor or marginalized from society, the entrepreneur must mobilize other sources of funding from the public and/or philanthropic sectors. Such funds can be in the form of grants or loans, and even quasi-equity.

III. *Social business ventures*

The entrepreneur sets up a for-profit entity or business to provide a social or ecological product or service. While profits are ideally generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need. Wealth accumulation is not a priority and profits are reinvested in the enterprise to fund expansion. The entrepreneur of a social business venture seeks investors who are interested in combining financial and social returns on their investments.

14. Rural Entrepreneurship

It can be simply defined as the entrepreneurship emerging in rural areas. In other word establishing industrial units in the rural areas refers to rural entrepreneurship. Rural industries are generally associated with agriculture. The definition of village industry has been recently modified by the government so as to enlarge its scope. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant & machinery is classified as a village industry.

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

I. Mineral based Industry
II. Forest based Industry
III. Agro based Industry
IV. Polymer and Chemical based Industry
V. Engineering and non-conventional industry
VI. Textile Industry including Khadi
VII. Service Industry

Need for Rural Entrepreneurship

I. Rural Industries being labour intensive have high potential in employment generation. Thus, they serve as an anecdote to the widespread problems of disguised unemployment or under-employment stalking the rural territory.

II. By providing employment, these industries have also high potential for income generation in the rural areas. Thus, it helps in reducing disparities in income between rural and urban areas.

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

IV. Development of Industries in the rural areas also helps build up village republics.

V. Rural Industries also help protect and promote the art and creativity i.e. the age old rich heritage of the country.

VI. Rural Industrialization fosters economic development in rural areas. This curbs rural-urban migration, on the other hand and also lessens the disproportionate growth in the cities, reduces growths of slums, social tensions and atmospheric pollution.

VII. Last but no means the least, rural industries being environment friendly lead to development without destruction.

Problems of Rural Entrepreneurship

The general bottlenecks in the development of village industries are financial constraints, lack of technical know-how, lack of training and extension services, management problems, lack of quality control, high cost of production due to high input cost, lack of communication and market information, poor quality of raw materials, lack of storage and warehouse facilities, obsolete and primitive technology and lack of promotional strategy.

According to the Ninth Plan, the major problems faced in developing entrepreneurship in rural areas are:

I. Inadequate flow of credit

II. Use of obsolete technology, machinery and equipment.

III. Poor Quality standards

IV. Inadequate infrastructural facilities.

Challenges and Opportunities - Role of Government.

(a) Training

Basic training differs from product to product but will necessary involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions. There are a number of Government organizations as well as NGOs who conduct EDPs and MDPs. These EDPs and MDPs and are conducted by MSME's, NIESBUD, NSIC, IIE, NISIET, Entrepreneurship Development Institutes and other state government developmental agencies.

(b) Marketing Assistance

There are Governmental and non-governmental specialized agencies which provide marketing assistance. Besides promotion of MSME products through exhibitions, NSIC directly market the MSME produce in the domestic and overseas market. NSIC also manages a single point registration scheme for manufacturers for Govt. purchase. Units registered under this scheme get the benefits of free tender documents and exemption from earnest money deposit and performance guarantee.

(c) Promotional Schemes

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality up gradation, common facilities, entrepreneurship development and consultancy services at nominal charges. Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. This facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

(d) Concession on Excise Duty

MSME units with a turnover of Rs. 1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crore are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas.

(e) Credit Facility to MSME

Credit to micro, small and medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc. Loans upto Rs. 5 lakhs are made available by the banks without insisting on collaterals. Further Credit Guarantee Fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSME up to Rs. 25 lakhs extended by Commercial Banks and some Regional Rural Bank.

(f) Policies and Schemes for Promotion of MSME Implemented by State Governments

All the State Governments provide technical and other support services to small units through their Directorates of Industries, and District Industries Centers. Although the details of the scheme vary from state to state, the following are the common areas of support.

(i) Development and management of industrial estates
(ii) Suspension/deferment of Sales Tax
(iii) Power subsidies
(iv) Capital investment subsidies for new units set up in a particular district
(v) Seed Capital/Margin Money Assistance Scheme
(vi) Priority in allotment of power connection, water connection.
(vii) Consultancy and technical support