

**A LECTURE NOTE
ON
ENTREPRENEURSHIP AND
MANAGEMENT & SMART
TECHNOLOGY (TH-1)**



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What is a job competency?

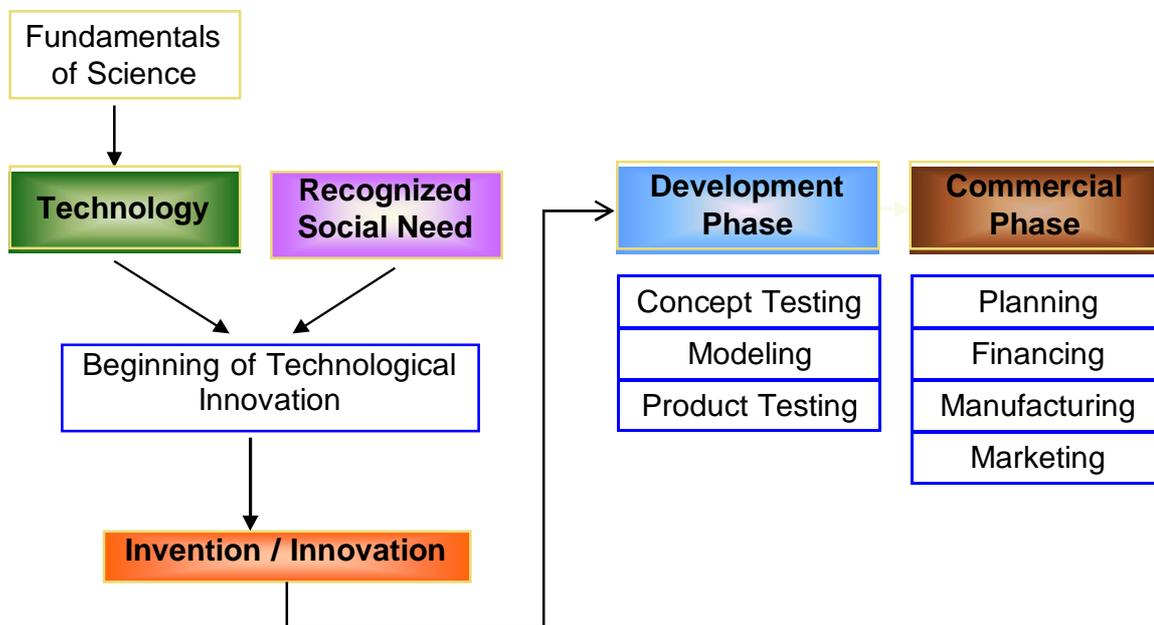
It is knowledge, skills and attitude related to a particular job. Performance emerges from the combination of knowledge, skills and attitude. A perfect balance of all the three is required. They can not compensate each other. Mathematically, competency is not **sum** total of knowledge, skill and attitude but their **product**. If one of the factors is zero, ourpuris zero irrespective of how high are the other two. So, very high knowledge and skill can not compensate absence of right attitude.

Some Definitions and Explanations

1. **Knowledge** – Collection and retention of information in a form that it can be effectively used.
2. **Skill** is the physical or mental ability to do something well (hard and soft skills)
3. **Motives** are reasons for doing something (need)
4. **Traits** – Characteristical way in which a person behaves or responds to a particular situation.
5. **Attitude** reflects the way of thinking and acting
(Self and others determine the attitude)
6. **Initiative** – Willingness to take action solely on demand of the occasion without being asked/prompted/forced by others. Taking actions to start the business and expand into new areas, products and services.
7. **Persistence** – Repeated attempts to overcome obstacles despite failures. But a successful entrepreneur analyses reasons for his failure, learns and modifies his methods every time. But wisdom of knowing when to abandon attempts is more important that capacity to persevere in the face of obstacles.
8. **Information Seeking** – Information is power. Right information at the right time makes the job easier. Knowing that flight has got cancelled before you leave home will save you time, money and spare frustration. A successful entrepreneur invests in establishing information channels.
9. **Concern for High Quality of Work** – Quality has no set standards. Eventually, it settles down to price – performance ratio. Whether a company follows Cost Leadership or Differentiation strategy, it is value that customer perceives in product which will sell the product in the market. Therefore, a entrepreneur has to be conscious of delivering value.

10. **Efficiency Orientation** – Constantly looking for ways to do things faster or with fewer resources or at a lesser cost.
11. **Systematic Planning**
 - (a) Breaking a large task into several sub tasks.
 - (b) Developing and using logical steps to analyse past events and forecast future developments.
 - (c) Developing plans after duly anticipating obstacles and opportunities.
 - (d) Evaluating alternatives on merits and demerits.
12. **Problem Solving**
 - (a) Identifying the root cause of the problem.
 - (b) Developing strategies in the light of objectives, resources, and constraints.
 - (c) Generating new ideas or innovative solutions.
 - (d) Identifying the best idea and applying to reach the goals.
13. **Persuasion** – Persuasive ability is another key to success in entrepreneurial success. Right from the time of arranging finances to the point where people are cajoled to abandon a trusted product/brand and try out a new product, there are 100s or 1000s of people whose cooperation has to be sought. Persuasive skills make the job much easier and faster.
14. **Use of Influence Strategies** – Using influence to get your job done is often at cross roads with ethics. But every use of influence may not be unethical. If some one is creating hurdles just because he is expecting bribe or simply being lazy, use of little influence to get your job is done is definitely not unethical. However, if influence is used to jump a queue and deny or delay a genuine claimant in the process is definitely unethical.
15. **Assertiveness**
 - (a) Confronting problems and issues with other directly
 - (b) Be polite but firm.
 - (c) Telling others clearly what they have to do.
 - (d) Reprimanding those who fail to perform as expected however close they may be.
16. **Concern for Other's Welfare** – It is an important quality for team building which is necessary if the initial success is to be translated into a larger success.

Product Evolution Process



The Evolution Process

- (a) Intersection of knowledge and a recognized social need
- (b) Initiation of technological innovation
- (c) Iterative Synthesis
- (d) Development Phase
- (e) Industrial Phase

The Product Planning and Development Process

- (a) **Idea Stage** – Idea – Evaluate
- (b) **Concept Stage** – Lab Development – Evaluate
- (c) **Product Development Stage** – Pilot Production – Evaluation
- (d) **Test Marketing Stage** – Semi Commercial Production Evaluation
- (e) **Commercial Stage** –
 - (i) Introduction
 - (ii) Growth
 - (iii) Maturity
 - (iv) Decline

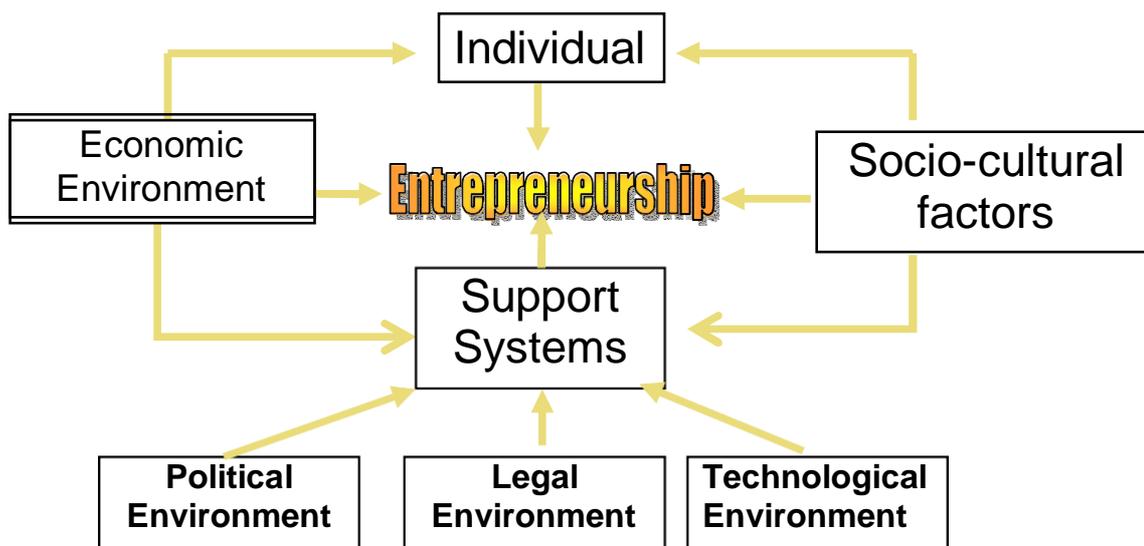
Business Environment & Entrepreneurship Environment

- (a) **Political** – System, Stability, Leadership
- (b) **Socio– cultural** – Culture, Community, Values, Ethics, Attitude
- (c) **Technological** – Education, Absorption, Competition, Innovation
- (d) **Legal** – Regulatory framework, Consumer protection, Concern for environment, Labour laws
- (e) **Economic** – GDP, GNP, Resources, Fiscal, Non– fiscal policies, Incentives and Subsidies

Dimensions of Environment

- (a) SPECTACLES – Social, Political, Economic, Cultural, Technological, Aesthetic, Customer, Legal, Environmental and Sectoral
- (b) PEETS – Political, Economic, Ecological, Technological and Socio–demographical
- (c) SLEPT – Social, Legal, Economical, Political and Technological

Factors Influencing Entrepreneurship



- (e) Controls
- (f) e- initiatives

7. Organizational Plan

- (a) Form of ownership
- (b) Identification of partners or principal shareholders
- (c) Authority of principals
- (d) Management- team background
- (e) Roles and responsibilities of members of organization

8. Assessment of Risk

- (a) Evaluation of weaknesses of business
- (b) New technologies
- (c) Contingencies plans

9. Financial Plan

- (a) Pro forma income plan
- (b) Cash flow projections
- (c) Pro forma balance sheet
- (d) Break- even analysis
- (e) Sources and applications of funds

10. Appendices (contains backup material)

- (a) Resumes of principals
- (b) Letters
- (c) Market research data and survey results
- (d) Leases or contracts
- (e) Price lists from suppliers
- (f) Facility layout
- (g) Draft marketing brochure with or without pricing
- (h) Structure of e- marketing thrusts, if any

Business plans rank no higher than 2/10 as a predictor of a new venture's success. With all the uncertainties involved, it is not easy to forecast or make future projections. An entrepreneurial venture faces even greater uncertainties. It is hard to predict even revenues

let alone the profits. Thus, every investor knows that any financial projections for a new company that stretch beyond a year are an act of imagination.

It does not mean to say that business plans should not include numbers. Business plans should include numbers but those numbers should appear in the form of a business model that shows that the entrepreneurial team has considered the key drivers of the venture's success or failure.

Estimation of time and capital is another hurdle faced during preparation of project plan.

Break even analysis is very important. Also the time when cash flow will turn positive needs to be estimated. But these information should come towards the end of the project report.

There are four independent factors critical to every new venture and should be highlighted in the business plan –

1. The People

The most important determinant of success. The men and women starting and running the venture, as well as, the outside parties providing key services or important resources for it, such as its lawyers, accountants and suppliers.

An ordinary plan can succeed if the execution is immaculate, but an outstanding plan will surely flop without effective execution. Thus, the people involved in the new venture are most important. Arthur Rock, a Venture Capitalist legend associated with companies like Apple, Intel and Teledyne states,

“I invest in people, not ideas”

Three important questions need to be answered in every business plan –

- (a) What do they know (about business)?
- (b) Whom do they know (the customers, the people in the govt, etc)? and,
- (c) How well are they known (their reputation that can be leveraged with various stakeholders of business like suppliers, employees and govt officials)?

Thus, a business plan should describe each member's knowledge of the new venture's type of products and markets – from competitors to customers.

2. The Opportunity

A profile of business itself – what it will sell and to whom, whether the business can grow and how fast, what its economics are and who and what stands in the way of success.

Factors Favouring Growth of Entrepreneurship

Following are the major factors which favour growth of entrepreneurship in a country

1. ***Developed Infrastructure Facilities*** – Availability of infrastructure reduces the cost & efforts and improves viability of projects through higher profit margins.
2. ***Financial Assistance*** – Easy availability of cheap funds is vital for promoting entrepreneurship.
3. ***Protective and Promotional Govt Policies*** – Most of the entrepreneurship projects start very small and have no resilience. They are extremely vulnerable to competitors, market, money markets, etc, for considerable time. Favourable Govt policies shelter them from such vagaries.
4. ***Growth of Education***– Science, Technology & Management – Growth of education is ***believed*** to be promoting entrepreneurship. However, there are enough examples to suggest otherwise. A very large proportion of first generation entrepreneurs are low educated. Take the case of Microsoft Chairman Mr Bill Gates or Reliance Founder Mr Dhirubhai Ambani. (We also have Mr Narayan Murthy and Mr Ajim Premji to balance this scale). On a wider spectrum, Kerala, the most literate state and West Bengal, another state high on literacy front, are least entrepreneurial states whereas Punjab, with 5th rank from bottom on educational scale was top on entrepreneurial charts. But, this entrepreneurial backwardness of Kerala and West Bengal is probably attributable to political and labour climate.
5. ***Risk Taking Attitude*** – Risk taking attitude is one of the pillars of entrepreneurial spirits.
6. ***Hunger for Success (Capitalistic View)*** – Dreams of riches and fire in the belly is what drives most entrepreneurs on this risky path. Any person content with what he has would take the easier route of salaried job.
7. ***Environment/Culture Impact*** – Entrepreneurship is contagious. Communities like Punjabies and Marwaries are historically entrepreneurial. They are known for seeking and exploiting business opportunities in most remote areas. It is a culture that propels them. ([Go to Pull Factors](#)) 
8. ***Social Security*** – Social security acts as a safety net against failure of enterprise. Social security guarantees basic '***roti, kapada aur makan***' in case of failure. Entrepreneurial spirit of United States is born partly out of this security.
9. ***Technical/Industrial Training Facilities*** – Industrial Training facilities on one hand generate skilled manpower so vitally required for setting up enterprises while on the other hand they are also nursery for future entrepreneurs. Among the educated entrepreneurs, a majority is product of technical institutes from IIT to ITI (Tier I to Tier III institutes).

5. **Locus of status** – Intrapreneurs want to do the work on their own rather than delegate like managers
6. **Failure and Mistakes** – Intrapreneur hide risky projects and ideas to ensure learning without political cost and public failure. They develop multi disciplinary team in the organisation and may go beyond organisation boundaries for results.
7. **Goal set up** – Intrapreneur are determined to do things not even asked for. They set goals and quality standards.

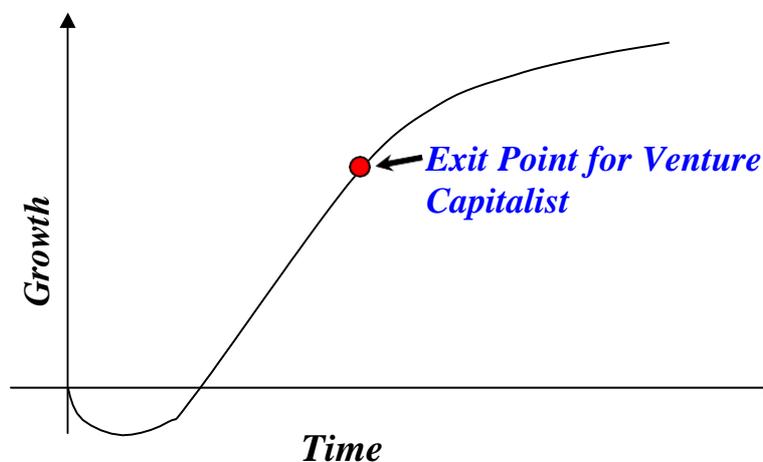
Steps for setting Intrapreneurship in organisation

Following are the steps required to be taken to establish Intrapreneurship in an organisation

1. **Secure Commitment to Intrapreneurship from Top, Upper and Middle Management**
 - (a) **Cultural Changes** – The cultural changes needed to development the spirit of intrapreneurship in an organisation is not possible without whole hearted commitment of its full line of higher management. It requires prolonged commitment and investment in arranging to expose the spirit of intrapreneurship among the employees. Talk shows are organised and bulletins published to expose people to this concept. Seminars and strategy sessions are held to transform the organisation into an intrapreneurial organisation.
 - (b) **Resource Requirement** – Intrapreneurship demands commitment of lot of resources; material as well as human. Without commitment of higher management, such resources will not be available for any intrapreneurial venture.
 - (c) **Confidence Building** – While intrapreneurship leads to rich rewards for the company, there is very little direct benefit to the employees. Most tend to work as intrapreneur to give expression to their creative zeal. On top of that, there is always a fair amount of risk of failure in such ventures. Therefore, unless the employees have full support of the higher management, they will not stick their neck out in such a venture.
2. **Create Framework for Intrapreneurship** – Once cultural changes have been launched, which is a long slow process lasting approximately 2–3 years, parallely, a framework needs to be developed as to how the ideas will be processed and executed, how they will be funded, how they will be monitored and how will the losses, whenever they occur will be accounted.
3. **Identification of Intrapreneurial Leaders** – Not every one has entrepreneurial spirit. Therefore, people with entrepreneurial characteristic need to be identified,

- selected and trained. Along with training, a mentor/sponsor system is also needed to be developed. These mentors from the top management will give the needed guidance and support to the intrapreneurial leaders
4. **Identify the general areas of Intrapreneurial Thrust** – Every company has a priority area where it would like to move forward. Such areas need to be identified and notified to employees. An IT company would rarely want to foray into hardcore manufacturing sector even if the prospects are quite promising.
 5. **Improve Responsiveness and Flexibility** – Intrapreneurial spirit can not sustain the usual snail paced and ultra cautious bureaucratic decision making process in case of capital investments that is typical of ordinary organisations. Use of technology to speed– up decision making process and induce flexibility in the process is required.
 6. **Modifying Organisational Structure** – A fat hierarchical organisational structure is inherently sluggish in decision making (Many cooks spoil the broth). A flat organisational structure is more suited to the Intrapreneurship. Therefore, certain modifications to the organisational structure may be needed. However, It is easier said than done.
 7. **Publicity of Ideas** – New ideas should be well publicised. While such publicity is a morale booster for the author of the idea and therefore encourages more people to come forward with ideas, published ideas get scrutinised and value added by other people.
 8. **Tapping Customers Base for New Ideas** – Customers are the richest source of new ideas. 3M Corporation, holding over 6 lakh patents, claims that almost 70% of new ideas have been contributed by the customers themselves.
 9. **Create Strong Support Structure for Intrapreneurship** – This is particularly important since most people have short term focus on quarterly, half yearly and yearly numbers. Intrapreneurial ventures are long term projects and therefore may get overlooked for funding and other support. Similarly, appraisal of the intrapreneurs may get adversely affected since there is nothing concrete to show quarter by quarter. Such a mishap is to be strongly guarded against because if such a thing does happen, it would kill the initiative among the employees.
 10. **Create a Strong Reward System Linked to Performance of the Intrapreneurial Venture** – Notwithstanding all the OB theories to the contrary, nothing works as fast and as effectively as tangible/material rewards system to motivate most people to put their best feet forward.
 11. **Create an Evaluation System** – Some Intrapreneurial venture are bound to fail for various reasons including change in external environment. Also, some ventures are likely to astonish with their success even the most optimistic supporters. Therefore, regular evaluation of the ventures in hand is necessary. Promising ventures might need further thrust or scaling up in size while unsuccessful need to be wound up.

5. It is easier source of funding than conventional sources but expensive (equity is always costliest source of funding).
6. Venture capitalist is not averse to risk, only growth potential should be high.
7. Flow of funds is in phases of production or in initial stages as debts
8. Venture capitalists are not permanent equity holders – Such high growth businesses have a typical growth curve which slows down and then flattens after a meteoric rise in initial years. Venture capitalists exit at the end of initial high growth phase while ensuring that entrepreneur's interest is not jeopardised.



Stages of Process

1. **Delivery of business plan** from an entrepreneur to venture capitalist. While evaluating business plan venture capitalist broadly ascertains the prospects of the proposal and the ROI vis a vis risk of capital. He also ascertains the capability and credentials of entrepreneur. Many venture capitalists put more emphasis on credentials of entrepreneur than the business proposal itself.
2. **Due Diligence** - If some merit is found in the proposal during the initial stage, the detailed analysis of the business plan begins. This is called due diligence. It is a stage of thorough scrutiny of business plan from every angle and intense cross questioning of the entrepreneur. Resume of promoters and key managers, financial background of promoters and risk of business are analyzed at this stage.
3. **Negotiation** – After viability study of project, negotiation takes place in respect of quantum of funds to be provided, modality of funding, like, percentage of equity in lieu, or convertible debentures, interest rate on loan, tenure, fund release timing, etc. Further, other factors like, right to control the management of business (seats in the Board of Directors), buy back arrangement and exit policy are also negotiated. (Typically, a venture capitalist would like to invest in the form of equity share while entrepreneur would like to have it as fixed rate loan).

7. **Competition** – In case of some enterprises, like retail stores, where the revenue of a particular site depends on the degree of competition from the other competitors in the locality, it plays a crucial role in selecting the location of the stores.

Q. Comparison – Manager v /s Entrepreneur

Ans. An Entrepreneur and a Manager make an interest comparison. To succeed as an entrepreneur, one is required to possess great managerial skills and more. Therefore, there are a lot of commonalities between the two in terms of planning, organising, directing and controlling abilities which are essential qualities of a manager. However, there are great deal of differences as well. The differences primarily lie in approach to various issues.

<u>Business Dimension</u>	<u>Managers</u>	<u>Entrepreneur</u>
Primary Motives	Promotion & other traditional corporate rewards, such as office staff & powers	Independence, opportunity to create & money
Time Orientation	Short term - meeting quotas & budgets, weekly, monthly & quarterly	Survival and achieving 5 to 10 yr growth of business
Functional Style	Delegates & supervises more than direct involvement	Direct involvement
Risk Appetite	Low – Careful approach to decision making	Moderate risk taker. Follows dreams with decisions. Deals with mistakes and failures
Attitude	Conservative, hierarchical, status conscious attitude	No concern about status symbol
Decision Making Style	Takes the safest path. Tries to push decision making to others to be able to avoid blame in case of failure. Follows the wishes of higher management	Independent in decision making. Takes bold decisions with calculated risk in favour of higher profit potential.

Q. Comparison – Male Vs Female Entrepreneur

Ans. While essential qualities remain the same irrespective of the gender of entrepreneur, female entrepreneurs exhibit certain subtle distinctions due to their psychological make up as well as social and family obligations –

<u>Factor</u>	<u>Male Entrepreneur</u>	<u>Female Entrepreneur</u>
Motivation	Desire to control own destiny. Desire for better life style.	Need for achievement. Support family income.
Impetus	Disagreement with bosses or dissatisfaction with working conditions, lay off, unemployment.	Frustration at not being allowed to grow in previous situation
Sources of funds	Personal asset & savings, bank financing, investors, loan from friends & family	Personal assets & savings, personal loans
Occupational Background	Experience in the line of work as recognised specialist or one who has gained a high level of achievement in the field, competent in a variety of business function	Middle mgmt or administrative level experience in the field
Personality Characteristics	High level of self confidence, low in flexibility and tolerance. Better at dealing with economic environment but less adept at dealing with social environment	Medium level of self confidence, More flexible & tolerant. Low level of comfort in dealing with economic environment but adept at handling social environment.
Background	Age when starting venture– 25 to 35 Degree in business or technical field, usually Engineering	Age when starting venture– 35 to 45 Degree in liberal arts.
Support Groups	Professionals like lawyers, accountants being first, thereafter spouse and followed by friends and others Little reliance on trade associations	Spouse is first, close friends second and followed by others. Support of women professional groups and trade associations actively sought.
Nature of Venture	Manufacturing, construction, high technology	Service related – educational service, consulting or public relations
Size of Venture	Medium to large	Generally small to medium

6. To impart customer education
7. To impart knowledge of the marketing of goods

Methods of Training –

1. ***Individual Instructions*** – Under this method, a single individual is selected for training. This mode of training is undertaken where a complicated skill is to be imparted to an individual
2. ***Group Instructions*** – This mode of training is suitable for a group of individuals for tasks which are not very complicated and entire group needs same set of skills.
3. ***Lecture Method*** – Here the instructor teaches the theoretical aspects. Any practicals are followed by the learners subsequently. Under this method, whenever there are any doubts they may be clarified on the spot.
4. ***Demonstration Method*** – Where the performance of work to be shown practically by the instructor for better understanding, this method can be followed. This is more concerned with the practical than theoretical aspects.
5. ***Written Instruction Method*** – The medium of training is followed where a feature reference is to be made by the learners. This method is mostly followed where a standardisation production is followed.
6. ***Conference*** – Conferences are organised wherein experts in the field share their ideas & bring to the notice of learners new ideas & techniques to increase the production
7. ***Meeting*** – Meetings are a mode of training involving a group of people who discuss the various problems confronting them; they exchange ideas & views and learn from each other.

PRODUCT/PROJECT IDENTIFICATION

Identifying the right product is the first step to success for any entrepreneur. Right kind of product for which there is a unfulfilled demand will ensure minimum expenditure on sales promotion as well as higher sale price.

Entrepreneurial success is about identifying human and social needs; overt, covert, apparent or even dormant, and finding products to meet them. In order to identify the opportunities, it is necessary to scan the customers' environment for identifying the unfulfilled needs opportunities.

There are sometimes gaps between demand and supply (Apparent/Overt Demand) which can be exploited by an entrepreneur. But such occasions are few and far in between. Such opportunities do not last long. They are lapped up by the existing players before an entrepreneur can move in. Entrepreneur's opportunity lies in coming up with a better product or same/substitute product at cheaper price.

But the better option for entrepreneurs is to scan the customers environment for identifying the dormant/hidden demand. Take the case of Nirma washing powder. There was always a demand for washing powder among the lower income segment of the society for the convenience it offered compared to soaps. However, the demand was hidden behind the high cost of washing powders available then. Nirma launched the washing powder at low cost (*even though the quality was far inferior to Surf and other washing powders*) and succeeded. Similarly, there was always a demand for Hair Shampoo. But it was again hidden behind high cost of shampoo bottles which were beyond the reach of middle and lower income group households. The strategy to launch Re 1 sachets brought the shampoo within purchasing power of relatively poor households. Today, there is a hidden demand for liquid soap among the middle class homes which is hidden behind the high cost (Rs 50 -75 for a 250 ml bottle) of liquid soap and dispensers. If some one can tap this demand, there is a windfall waiting for him.

But this exercise of product identification is easier said than done and requires enormous amount of creativity and energy.–

Product Identification Process

- Idea Generation
- Search & Screen
- Evaluation

1. Idea Generation

Product Idea can be generated in a number of ways. They are as follows –

- (a) Observations
- (b) Foreign publications (import of ideas from products launched overseas)
- (c) Brainstorming sessions
- (d) Talking to various bodies like SISI, SIDC, The national small Industries Corp. Ltd. & The National Institute for Entrepreneurship & Small Business Development
- (e) Talking to large scale pvt/public co. can also generate ideas

2. **Product Search & screening**

After we come up with product ideas, we look at products presently available & products related to those products ideas. Then pose the exploratory questions –

- (a) Are customers satisfied with what they are getting?
- (b) Can we identify a better method of production?
- (c) Can the basic design be changed?
- (d) What is the present demand, future demand likely to be & so on?
- (e) What are the skills?
- (f) Can I handle the technical aspects?
- (g) If not, is the expertise available for hire easily?
- (h) Does the product idea generated match my competencies or do I have to develop new competencies?
- (i) How much knowledge do I have about the market for this product?
- (j) Can I dig more info easily?

3. **Evaluation**

As a prospective entrepreneur one should know the bent of mind one has by asking the following questions: -

- (a) Am I comfortable in a room full of strangers?
- (b) Can I deal efficiently with people in position of power?
- (c) Can I communicate efficiently & freely with people?

If yes, marketing is the strong area. Or, may be one has a head for figures and details. Then finance may be the area of strength. One could be interested in mechanical & technical matter with flair for conceptualising & design. Then production or product design can be the areas of strength.

3. **Single Window Scheme** to provide both term loan for fixed assets and loan for working capital through the same agency.
4. **Composite Loan Scheme** for equipment and/or working capital and also for worksheds to artisans, village and cottage industries in Tiny Sector.
5. **Mahila Udyam Nidhi (MUN) Scheme** provides equity support to women entrepreneurs for setting up projects in Tiny Sector.
6. **Scheme for Financing Activities** relating to marketing of SSI products which provides assistance for undertaking various marketing related activities such as marketing research, R&D, product upgradation, participation in trade fairs and exhibitions, advertising branding, establishing distribution networks including show room, retail outlet, wears-housing facility, etc.
7. **Equipment Finance Scheme** for acquisition of machinery/equipment including Diesel Generator Sets which are not related to any specific project.
8. **Venture Capital Scheme** to encourage SSI ventures/sub-contracting units to acquire capital equipment, as also requisite technology for building up of export capabilities/import substitution including cost of total quality management and acquisition of ISO-9000 certification and for expansion of capacity.
9. **ISO 9000 Scheme** to meet the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.
10. **Micro Credit Scheme** to meet the requirement of well managed Voluntary Agencies that are in existence for at least 5 years; have a good track record and have established network and experience in small savings-cum-credit programmes with Self Help Groups (SHGs) individuals.

Importance of SSIs.

Ans. Small Scale Industries (SSIs) provide numerous benefits to the entrepreneurs, the society and to the nation as a whole. These can generally be clubbed into two heads – economic benefits and social benefits, and are as elucidated hereunder.

Economic Benefits

- (a) SSIs generally are less intensive on technology and are therefore within reach of individuals who may not be highly educated.
- (b) They need small capital and can be started by people with little resources.
- (c) Due to small size, their gestation period is often short.
- (d) Most SSIs use local raw materials which ensures good prices for producers of raw materials.

Social Benefits

- (a) SSIs generate employment at the local level, which is much needed for a developing country like ours with a heavy population load. In India there are 35 lac SSI units, generating employment for over 2 crore people.
- (b) With SSIs generating employment and wealth creating avenues, equitable distribution of income is possible to some extent with their help.
- (c) Also, SSIs check monopoly of strong players to a large extent by producing substitutes, which are cheaper and affordable.
- (d) Infrastructure development in rural and semi-urban areas has also been possible because of SSIs. Baramati, Ichalkarangi, Mokhama, Sivakasi, Tumkur, Tirupur are some such places where infrastructure has vastly developed.
- (e) SSIs have helped in rural development. Agriculture provides employment for only few months in a year. SSIs provide employment round the year.
- (f) SSIs have improved employment opportunities and many SSIs are in under/semi developed areas, even in villages. This keeps a check on the exodus of workers to metros and urban zones.
- (g) SSIs help to establish the linkage between agriculture and industry to harness the potential of both the sectors.

Policy Initiatives towards Small Scale Industries and Entrepreneurship

Mahatma Gandhi had recognised then need for cottage industry in India even before independence. Therefore, it was only natural that SSIs became the focus of attention for Industrial Policy Planners in Independent India. Starting with first Industrial Policy Resolution (IPR) in 1948, SSIs and in turn Entrepreneurship has found adequate attention in every policy formulation. Unfortunately, intent could not turn reality due to poor implementation.

1. ***The IPR of 1948*** emphasized the role of entrepreneurship and SSIs in the industrialization of the country. An emphasis was laid on the promotion of cottage and small-scale industry as they could play a critical role in creating self-employment. The earlier recommendation to establish a Cottage Industries Board to foster the growth of SSU was accepted.
2. ***Industrial Development Bank of India (IDBI)*** was established in 1964. IDBI was meant to provide financial assistance to cottage, tiny, small and medium enterprises through refinance of industrial loans granted by State Financial Corporations, State Industrial Development Corporations, Commercial Banks, Co-operative Banks and Regional Rural Banks. It also covered provisions for rediscounting of bills, seed capital assistance to new entrepreneurs, finance for purchasing machinery on lease or hire purchase and others.
3. ***Nationalisation of Banks*** – Banks which were under the control of Industrial Houses were reluctant to finance SSIs. In 1969, and in the following decade most of the large banks were nationalised which paved the way for easy flow of loans to SSIs and Tiny sectors on affordable terms and conditions.
4. ***The Industrial Licensing Policy of 1970*** restricted the role of large industrial houses and foreign concerns to the core, heavy and export-oriented Units. In other words, non-core sector, which was within reach of entrepreneurs, was left to them for creating small enterprises.

Also, with a view to promote development of SSIs in rural pockets, District Industries Centres (DIC) were proposed to be set up to provide all the services and support required by the small and village entrepreneurs under a single roof.

5. ***The Industrial Policy Statement of 1977*** under the socialistic Janata Party Govt and Mr George Fernandes as Industry Minister, emphasized that “whatever can be produced by the Small and Cottage Industries must only be so produced”. Salient policy changes were:
 - (a) Expansion of the list of reserved items for exclusive production by the SSI sector from 180 to 807 items.
 - (b) Enhanced limits for investment in plant and machinery for tiny, SSI and ancillary units to Rs. 1, 10 and 15 lakhs respectively.

largely scripted by Jitendra Singh, an officer in charge of implementing the MP Government's Rajiv Gandhi Watershed Mission (RGWM) and Dr Moni Thomas of the government-run Krishi Vigyan Kendra, Shahdol. Jitendra Singh took charge in 1999 and soon realised that the project would not have the desired impact if it focused only on water harvesting. "The villages are predominantly inhabited by poor tribals. The focus had to be on income generation and SHGS.

The official began researching on traditional means of livelihoods of the area and found lac cultivation to be one such method. Maharaja Gulab Singh, the erstwhile ruler of the area, had set up an efficient system of lac production and distribution in his state. But once the Indian government took over the princely state, the system fell into complete disarray. The authorities' indifference and the inability of the cultivators to sell their produce put paid to lac cultivation in Shahdol. It was this source of livelihood that Jitendra Singh decided to revive.

The area has abundance of Palash trees (about 20 per cent trees in Shahdol are Palash). The trees were, however, merely a fuel wood source. Jitendra Singh and Moni Thomas - of the government-run Krishi Vigyan Kendra, Shahdol - arranged to train Nowgai's residents in reviving their traditional means of livelihood.

A group of 10, with Madhav as their head, was the first to benefit from the training. They formed an SHG under Jitendra Singh's and Thomas' guidance; the village watershed committee pitched in with a loan of Rs 6000 to buy palash seeds from Pendra in mp's Bilaspur district. In 2001, Nowgai's cultivators started selling palash seeds to villagers in nearby areas.

They earned about Rs 15,000 in the first harvest in June. In the next harvest in October, the villagers sold seeds worth Rs 70,000 to Shahdol's forest department. Since then they have been assured of a constant source of income, as lac cultivation has gained in popularity. There are 12 SHGS in Nowgai alone. There are 152 lac cultivators' SHGS in 142 villages of the district.

Lac cultivation is not affected by the vagaries of weather or natural disasters. Poor tribals can make huge profits from it with very little investment. Yearly investment is barely Rs 1,000-1,200 and every year, in June and October, they can make almost a lakh of rupees." In addition, lac is cultivated when farmers are not busy in their fields. So, it can bring them a tidy sum of money during the off-season.

Organic Food which has great demand in western countries and fetches very high prices is abundant in deep rural pocket of India. All that is needed is some social entrepreneur who can arrange to market them.

What is very evident from above two case studies is that the real opportunity for any rural entrepreneur lies in identifying the local produce and looking beyond his village as the market. Many social entrepreneurs, some missionaries and some committed Govt Officials have succeeded in setting up the villagers in successful entrepreneurial ventures by

CONCESSIONS AND INCENTIVES FOR SSI IN INDIA

The main responsibility for the development of small-scale industries rests with State Governments. Nationalization of Banks, protective and promotional policies by the Governments resulted in significant growth from 1969 onwards. In pre-liberalization era, SSI enjoyed following key advantages:

- ◆ Reservation of items for exclusive manufacture by SSI sector
- ◆ Concessional Finance from Banks
- ◆ Subsidies from Central and State Governments
- ◆ Excise Concessions
- ◆ Protected Market

With opening-up of the economy, the situation has taken a different turn. However, there are still a wide range of facilities, concessions and incentives. An outline is narrated below-

1. **Investment Limit in Plant and Machinery** – The Government of India have lowered the ceiling on investment in plant and machinery for small scale and ancillary industrial undertaking from Rs. 3 crore to Rs. 1 crore with effect from December 24, 1999. The investment ceiling for tiny unit has been retained at Rs.25 lakhs.
2. **Reservation of Items for Exclusive Manufacture in the Small Scale Sector** – The policy was initiated in 1967 with 47 items which grew to the peak level 836 items in 1977. Policy changes in 1997 permitted large scale units to manufacture reserved products but with a 50% export obligation. There is a progressive dereservation approach. In the 2004 - 05 Budget about 85 items were dereserved.
3. **Reservation of Items for Exclusive Purchase from SSI** – Purchases by DGS&D are made exclusively from SSI units for specified items known as reserved list. Prior to 1997 there were 409 items in this list, which has now been substantially reduced. Secondly, for these items and even for those items which are not reserved, SSIs enjoy a purchase price preference of 15% compare to large companies.
4. **Foreign Direct Investment** – To provide access to the Capital market and to encourage modernization and technological upgradation in SSI sector, equity participation upto 24% of the total shareholding is allowed in the SSI units by other industrial undertakings including foreign collaborators.
5. **Export Promotion Councils** – The Export Promotion Councils are registered as non - profit organizations and SSI units can access export – related services from the Councils. EPCs for different industries provide a consortium approach to their member units for exports of the products.

Some of them obtain bulk purchase orders from buyers and distribute these among SSI units for supply to the council for deemed export. This process ensures orders to every member unit and the timely delivery of goods.

6. ***Incentive Scheme for Acquiring ISO 9000 Certification*** – In Order to prepare the Small Scale Industries to face the threat coming in the way of export in future due to ISO 9000 barrier, Office of the DC (SSI) has promoted the schemes to give incentive to small scale industries acquiring ISO 9000 certification to the extent of the cost subject to the maximum of Rs.75,000 in each case. The scheme is implemented by SIDBI.

7. ***Integrated Technology Upgradation and Management Programme (UPTECH)***
A new scheme on Upgradation of Technology (UPTECH) has been conceptualized and approved during the year 1997-98. It covers all the facets of technological improvements such as quality upgradation, energy conservation, pollution control, process modifications, modernization etc. Some illustrative clusters, where the Scheme operates are –
 - (a) The Lock Industry at Aligarh, UP.
 - (b) The Pottery Cluster at Khurja, UP.
 - (c) The Forging Industry at Ludhiana & Jalandhar in Punjab, Hyderabad and Vijayawada in Andhara Pradesh.
 - (d) The Food Processing Industry Clusters at Pune and Chittoor in Andhara Pradesh.
 - (e) The Neem and Perfumery Industry at Kannauj, UP.
 - (f) The Brassware Cluster at Moradabad, UP.
 - (g) The Sports Goods Cluster at Jalandhar, Punjab
 - (h) The Bulk Drug and Formulation Industry at Kushaiguda
 - (i) Auto Components Industry, Pune, Indore and Chennai.
 - (j) Tile Industry along the West Coast
 - (k) Rice Milling Cluster at Bhandara in Maharashtra
 - (l) Toy Industry in Delhi and Noida.

8. ***Technology Bureau for Small Enterprises*** – The TBSE is a joint venture of SIDBI and the Asian Pacific Center for Transfer of Technology (APCTT). The main objective of the Bureau is speedy access and transfer of technologies. The bureau has a large computerized database on technology options available in the Asia Pacific region. It identifies business partners willing to collaborate, brings them face-to-face and extends support to tie-up financial assistance. It offers, under one roof, assistance to existing and prospective small enterprises in the sphere of technology accession, transfer and funds syndication.

12. **Industry Related Research Institutes** – The council of Scientific and industrial Research (CSIR), New Delhi, has continually been striving to promote the development of indigenous technologies and utilization of indigenous resources. CSIR has signed four MOUs for alliances with All India financial institutions and industry associations viz. ICICI, SIDBI, CII, and FICCI. The alliances seek to synergise the core competencies of each partner to mutual advantage.
13. **Exemption and Preferential Treatment from Excise Duties** – For SSI having clearances in the financial year not exceeding Rs 3 crores, there are two schemes –
- First Clearances upto Rs. 100 lakhs – Nil rate of duty; CENVAT credit is not permissible.
 - First Clearances upto Rs. 100 lakhs – 60% of Normal Duty; CENVAT credit is permissible.
14. **Policy of Priority Credit** – SSI units are entitled for priority sector lending from the nationalized commercial banks on the pattern of agriculture. Out of 40% of bank advances earmarked as priority sector lending about 15 to 17 % have been flowing to SSI sector. Out of priority sector credit going to small scale sector, 40% is earmarked for tiny units having investment in plant and machinery below Rs. 5 lakhs and another 20% for tiny units whose investment in plant and machinery ranges between Rs 5 lakhs to 25 lakhs.
15. **Initiative for Credit** – Commercial banks provide working capital to SSI units worked out at the rate of 20% of their annual turnover subject to a limit of Rs. 5 Crores.
16. **OTC Exchange of India (OTCEI)** – The OTC Exchange of India has been setup by leading Financial Institutions like UTI, IDBI, ICICI, LIC and GIC, expressively to provide an ideal avenue for corporate of all the sizes, its special focus on small scale companies, to raise resources from the capital market.
- The Exchange provides sophisticated trading mechanism like Bought Out deals, market making and sponsorship, which makes it very convenient for the small, and medium sized companies to access the capital market
17. **The Interest on Delayed Payment Act** – “The Interest on Delayed Payment to Small – Scale and Ancillary Industrial Undertaking Act” was enacted in 1993 in order to tackle the problem of settlement of dues from companies. The Act has been amended so that SSI units are not handicapped by delays in the settlement of their dues from larger companies. The amended Act has come into force from 10th August, 1998. the amended Act provides for –
- Change in the penal rate of interest from the present 5 percentage points above the floor rate which was applied hitherto, to 150% of the Prime Lending Rate (PLR) of SBI;

- (b) The agreed date of settlement of dues (i.e., any contract between the SSI supplier and the large – scale buyer) not to exceed 120 days from the date of acceptance of goods by the large companies;
- (c) An additional/alternative mechanism of arbitration and conciliation to resolve disputes between the SSI supplier and the large scale buyer to deal with issues/disputes which arise due to non-payment/delayed payment of the dues of SSI units/suppliers by large company customers/buyers.

Recent Changes (2.10.2006) - Provisions to Check Delayed Payments

- (i) Provisions related to delayed payments to Micro & Small Enterprises (MSEs) strengthened.
- (ii) Period of payment to MSEs by the buyers reduced to 45 days.
- (iii) Rate of interest on outstanding amount increased to three times the prevailing Bank Rate of Reserve Bank of India, compounded on monthly basis.
- (iv) Constitution of MSE Facilitation Council(s) mandatory for State Government.
- (v) Reference made to the Council to be decided within 90 days
- (vi) Declaration of payment outstanding to MSE supplier mandatory for buyers in their Balance Sheets.
- (vii) Interest (paid or payable to supplier) disallowed for deduction for income tax purposes.
- (viii) No appeal against order of Facilitation Council to be entertained by any Court without deposit of 75% of the decreed amount payable by buyer.
- (ix) Appellate Court may order payment of a part of the deposit to the supplier MSE.
- (x) Disclosure of delayed payments and interest mandatory in the Balance Sheet wherever audit provision is applicable.

18. SIDBI Strategic Initiatives (Others)

- (a) Modernization and Technology Upgradation
- (b) Marketing Finance
- (c) Development of Industrial Infrastructure
- (d) Bills Discounting and Factoring service

SICKNESS IN SSIs

Definition

As per RBI, if principal or interest or both have remained overdue for two consecutive quarters in a financial year and there is an erosion in the net worth due to the accumulated cash losses to the extent of 50% or more

Causes of Sickness

There is wide variety of causes that can lead to industrial sickness. Some are internal to the company, some external, some controllable and other uncontrollable. We can categorise them into following groups -

1. Personal (Owner)

- (a) Lack of Integrated Knowledge/Training
- (b) Incompatible Personalities
- (c) Health
- (d) Shift in attitude
- (e) Succession

2. Management

- (a) Dispute between Owners
- (b) Wrong Choice of Product/Location
- (c) Team Building
- (d) Planning
- (e) Management Information Systems
- (f) Inability to Manage Growth

3. HR issues

- (a) Faulty Recruitment
- (b) Wage Structure
- (c) Industrial Relations - Strikes
- (d) Low Productivity

4. Operational issues

- (a) Technology obsolescence

- (b) Quality up gradation
- (c) Production Management
 - (i) Plant layout
 - (ii) Quality
 - (iii) Capacity utilization
 - (iv) Inventory
 - (v) Maintenance
 - (vi) Environment
 - (vii) Waste etc

5. Financial

- (a) Capital structure
- (b) Capacity to bring capital
- (c) Poor resources management
- (d) Costing/pricing policy
- (e) Over-dependence on concessions & subsidies
- (f) Diversion of capital
- (g) Over-trading
- (h) Unfavorable gearing
- (i) Lack of tax planning

6. Marketing

- (a) Over-dependence on a single customer
- (b) Marketing myopia
- (c) Sales & distribution set-up
- (d) Market feedback/ research
- (e) Marketing strategies

7. Government

- (a) Changing policies
- (b) Scale of economy
- (c) Controls
- (d) Fiscal policies
- (e) Role as facilitator

- (c) Management Training
- (d) HRD, MIS

STEPS FOR STARTING A SSI

1. ***SWOT Analysis***
 - (a) YOU – Strengths & Weaknesses
 - (b) Your Business – Opportunities & Threats
2. Environmental Scanning
3. Product Selection
4. Market Survey
5. Preparation of Project Report
6. Form of Ownership
7. ***Route to Start –***
 - (a) Franchising
 - (b) Ancillarizing
 - (c) Acquisitioning
 - (d) Building from Scratch
8. Finance
9. Man Power
10. Site Location
11. Provisional Registration
12. Licenses & Approvals
13. Power Connection
14. Machinery – Procurement& Installation
15. Recruitment
16. Raw Materials Procurement
17. Trial Production
18. Marketing
19. Quality Assurance
20. Monitoring
21. Permanent Registration

9. Common facilities services
10. Small Enterprises Information and Resource Center Network (SENET)
11. Library Facility

NATIONAL SMALL INDUSTRIES CORP LTD(NSIC)

Promotes SMEs through Sectoral Approach and Cluster Development by –

1. Support Services

- (a) Technology upgradation
- (b) Infomediary
- (c) Mentoring
- (d) Incubation
- (e) Quality Assurance
- (f) Enterprise to Enterprise Cooperation
- (g) Technical Training

2. Marketing Support

- (a) Consortia Marketing & Brand Development
- (b) Exports (Products & Projects)
- (c) Exhibition & Buyer Seller Meet
- (d) Global Tenders
- (e) UN Supply
- (f) Govt. Stores Purchase Programme

3. Credit Support

- (a) Composite Term Loan
- (b) Line of Credit
- (c) Raw Material Assistance
- (d) Export Financing

National Small Industries Corporation (NSIC)

1. Focused Sectoral Approach
2. ***Upgrade Identified Sectors in Terms of –***
 - (a) Product Design
 - (b) Application of new technologies
 - (c) Quality control
 - (d) Packaging
 - (e) Marketing
 - (f) Linking to the global markets
3. ***Integrated Support***
 - (a) Credit Support
 - (b) Marketing Support
 - (c) Technology Upgradation
 - (d) International Partnerships
 - (e) Infomediary Services
4. ***Common Programmes in Identified Sectors with Stake Holders –***
 - (a) Mentoring and Advisory Support
 - (b) Identification of New Markets
 - (c) Consortia Marketing & Brand Building
 - (d) Quality Assurance & Rating
 - (e) Cluster exclusive Websites
 - (f) Cluster specific Catalogues
 - (g) Buyer-Seller Meets

and more...

4. **Project Cost** – Project cost (including margin money for working capital) should not exceed Rs. 50 lakh in the case of new projects. In the case of existing units and service enterprises, the total outlay including the proposed outlay should not exceed Rs. 50 lakh.
5. **Debt Equity Ratio** – 65:35 (excluding state subsidy which may be utilized for meeting working capital requirement).
6. **Promoter's Contribution** – 10% of project cost or to meet gap in the equity after taking into account soft loan of SIDBI
7. **Nature of Assistance** – Equity type of assistance in the form of soft loan.
8. **Amount of Assistance** – 25% of the project cost or Rs. 10 lakh per project whichever is lower.
9. **Terms of Assistance** –
 - (a) **Interest** – No interest is charged on the soft loan component except service charge of 5% per annum (1% to be retained by the PLI and balance to be passed on to SIDBI)
 - (b) **Repayment Period** – 7 yrs (including moratorium upto 3yrs).
 - (c) **Security** – No security (including collateral) is to be insisted upon for the soft loan.

Credit Guarantee Fund Trust for Small Industries

A Credit Guarantee Trust for Small Industries (CGTSI) was set up by GoI and SIDBI with a corpus of Rs. 125 crore with Rs. 100 crore contributed by GoI and balance by SIDBI. The corpus is envisaged to increase to Rs 2500 crore over the next five years. The trust became operational on Aug 01, 2000. Under the scheme the guarantee cover will be extended to any collateral free credit facility both term loan and working capital (credit cap Rs. 25 lakh) extended by eligible financial institutions on or after June 1, 2000 to new as well as existing manufacturing SSI units, including those in IT/software industry.

Technology Development & Modernization Fund (TDMF)

1. **Objective** – To encourage existing industrial units in the small scale sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities
2. **Eligibility** – SSI units including ancillary units which go in for modernization/technology upgradation, the outlay on land and building should not exceed 25% of the outlay on modernization/technology upgradation programme.

2. **Eligible Borrowers**

- (a) Existing SSI units in the small scale sector with a good track record and sound financial position are eligible for assistance under the scheme. New units could also be considered on selective basis.
- (b) Specialized organizations incorporated as corporate entities and providing marketing assistance, infrastructure and support services to industrial concerns in the small scale sector

3. **Purpose** – Assistance under the scheme may be availed of for understanding various marketing related activities such as –

- (a) Marketing Research
- (b) R & D product upgradation and standardization
- (c) Preparation of strategic marketing plan
- (d) Advertising, trading, catalogue preparation, production of audio-visual aids, etc.
- (e) Participation in trade fairs and exhibitions, undertaking sales promotion tours, etc.
- (f) Establishing distribution network including show rooms/retail outlets and warehousing facilities
- (g) Training of personnel in activities relevant to marketing, etc.
- (h) For setting up new show rooms and/or renovation of existing show rooms for marketing predominantly small scale, cottage and village industry products. Such show rooms could be set up within the country or abroad.
- (i) Development of Infrastructure like setting up of permanent exhibition centers, industrial parks, marketing emporia, design and fashion forecasting studios, auction houses (say for floriculture products) container depots and container freight stations and trade centers (within India and abroad). Such small scale, cottage and village industries.
- (j) Setting up of facilities for providing marketing support to SSI units, for example, data bank, libraries, internet services, etc. and assistance to facilitate setting up and expansion of such services by service providers as may be relevant.
- (k) Any other activity directed towards promoting the marketing of SSI sector in domestic or international markets

