

UNIT – 1

MEANING OF AN ENTREPRENEUR

An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

Entrepreneurs play a key role in any economy, using the skills and initiative necessary to anticipate needs and bring good new ideas to market. Entrepreneurs who prove to be successful in taking on the risks of a **startup** are rewarded with profits, fame, and continued growth opportunities. Those who fail, suffer losses and become less prevalent in the markets.

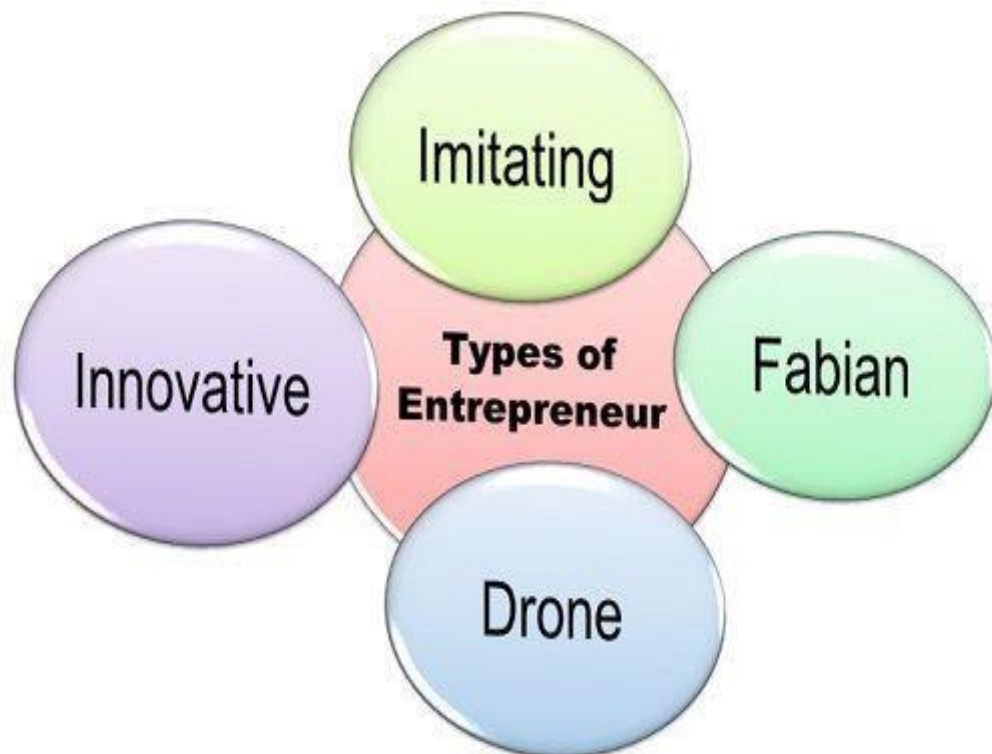
DIFFERENCE BETWEEN ENTREPRENEUR AND MANAGER

Entrepreneur vs Manager	
Entrepreneur	Manager
Entrepreneur is visionary and bears all financial risks.	Manager works for salary, and does not have to bear any risks.
Focuses on starting and expanding the business ideas	Focus on daily smooth functioning of business
Key motivation for Entrepreneur is achievements	Managers motivation comes from the power that comes with their position
Reward for all the efforts is profit he earns from the enterprise	Remuneration is the salary he draws from the company
Entrepreneur can be informal and casual	Manager's approach to every problem is very formal

- The key **difference between an entrepreneur and a manager** is their standing in the company. An entrepreneur is a visionary that converts an idea into a business. He is the owner of the business, so he bears all the financial and other risks. A manager, on the other hand, is an employee, he works for a salary. So he does not have to bear any risks.

- The focus of an entrepreneur lies in starting the business and later expanding the business. A manager will focus on the daily smooth functioning of the business.
- For an entrepreneur the key motivation is achievements. But for the managers, the motivation comes from the power that comes with their position.
- The reward for all the efforts of an entrepreneur is the profit he earns from the enterprise. The manager is an employee, so his remuneration is the salary he draws from the company.
- The entrepreneur can be informal and casual in his role. However, a manager's approach to every problem is very formal.
- The entrepreneur by nature is a risk taker. He has to take calculated risks to drive the company further. A manager, on the other hand, is risk-averse. His job is to maintain the status quo of the company. So he cannot afford risks.

TYPES OF ENTREPRENEURS



1.Imitating Entrepreneurs:

The imitating entrepreneurs are those who immediately copy the new inventions made by the innovative entrepreneurs. These do not make any innovations by themselves; they just imitate the technology, processes, methods pioneered by others. These entrepreneurs are found in the places where there is a lack of resources or industrial base due to which no new innovations could be made. Thus, they are suitable for the underdeveloped regions where they can imitate the combinations of inventions already well established in the developed regions, in order to bring a boom in their industry.

2.Fabian Entrepreneurs:

These types of entrepreneurs are skeptical about the changes to be made in the organization. They do not initiate any inventions but follow only after they are satisfied with its success rate. They wait for some time before the innovation becomes well tested by others and do not result in a huge loss due to its failure.

3.Drone Entrepreneurs:

These entrepreneurs are reluctant to change since they are very conservative and do not want to make any changes in the organization. They are happy with their present mode of business and do not want to change even if they are suffering the losses.

4. Innovative Entrepreneur:

These are the ones who invent the new ideas, new products, new production methods or processes, discover potential markets and reorganize the company's structure. These are the industry leaders and contributes significantly towards the economic development of the country. The innovative entrepreneurs have an unusual foresight to recognize the demand for goods and services. Ratan Tata is said to be an innovative entrepreneur, who launched the Tata Nano car at a considerably low cost.

DIFFERENCE BETWEEN ENTERPRISE AND ENTREPRENEUR

An **enterprise** is an already formed business organization that offers some goods or services, etc. The enterprise is some business structure/object that usually carries out some commercial activity, creates new job positions, gains some profits.

An **entrepreneur** is a person who establishes and manages the enterprise. He/she is often the founder and owner of the business.

HERE ARE TEN TRAITS OF THE SUCCESSFUL ENTREPRENEUR.

1. DISCIPLINED

These individuals are focused on making their businesses work, and eliminate any hindrances or distractions to their goals. They have overarching strategies and outline the tactics to accomplish them. Successful entrepreneurs are disciplined enough to take steps every day toward the achievement of their objectives.

2. CONFIDENCE

The entrepreneur does not ask questions about whether they can succeed or whether they are worthy of success. They are confident with the knowledge that they will make their businesses succeed. They exude that confidence in everything they do.

3. OPEN MINDED

Entrepreneurs realize that every event and situation is a business opportunity. Ideas are constantly being generated about workflows and efficiency, people skills and potential new businesses. They have the ability to look at everything around them and focus it toward their goals.

4. SELF STARTER

Entrepreneurs know that if something needs to be done, they should start it themselves. They set the parameters and make sure that projects follow that path. They are proactive, not waiting for someone to give them permission.

5. COMPETITIVE

Many companies are formed because an entrepreneur knows that they can do a job better than another. They need to win at the sports they play and need to win at the businesses that they create. An entrepreneur will highlight their own company's track record of success.

6. CREATIVITY

One facet of creativity is being able to make connections between seemingly unrelated events or situations. Entrepreneurs often come up with solutions which are the synthesis of other items. They will repurpose products to market them to new industries.

7. DETERMINATION

Entrepreneurs are not thwarted by their defeats. They look at defeat as an opportunity for success. They are determined to make all of their endeavors succeed, so will try and try again until it does. Successful entrepreneurs do not believe that something cannot be done.

8. STRONG PEOPLE SKILLS

The entrepreneur has strong communication skills to sell the product and motivate employees. Most successful entrepreneurs know how to motivate their employees so the business grows overall. They are very good at highlighting the benefits of any situation and coaching others to their success.

9. STRONG WORK ETHIC

The successful entrepreneur will often be the first person to arrive at the office and the last one to leave. They will come in on their days off to make sure that an outcome meets their expectations. Their mind is constantly on their work, whether they are in or out of the workplace.

10. PASSION

Passion is the most important trait of the successful entrepreneur. They genuinely love their work. They are willing to put in those extra hours to make the business succeed because there is a joy their business gives which goes beyond the money. The successful entrepreneur will always be reading and researching ways to make the business better.

CHARACTERISTICS OF ENTREPRENEUR

Motivation

Entrepreneurs are by nature motivated. After all, they put in long hours to get their ventures off of the ground and invest large sums sometimes everything they have to pursue their dreams. They do all of this knowing that it could take months or even years for them to *possibly* reap the fruit of their labor. And despite their hard work, they know that there is a chance that their efforts won't be rewarded with material success. Yet they refuse to give in to a fear of failure. So strong motivation, not to mention a steely focus, is needed to stick with ventures over the long haul.

Vision

The best entrepreneurs have a vision as to what they want to achieve, how they can accomplish their objectives, and whom they need on their side to reach their goals. Their vision acts like a compass that points them in the direction of opportunities that perhaps no one else has found. They also have the ability to translate their vision in a way that staff and investors can understand.

Through [networking opportunities](#), entrepreneurs can find people they want to align with.

Passion

Passion is another characteristic of entrepreneurs. While a good payday at the end of the tunnel is good for motivation, entrepreneurs tend to be more driven by a passion for their offering as well as by a desire to make a difference. This passion or drive also helps to sustain entrepreneurs during periods where discouragement might otherwise manifest itself.

Confidence

Without confidence or self-belief, entrepreneurs cannot possibly succeed. They have to be confident both in themselves and in the products or services they sell. If they believe in themselves, they will have the ability to stay the course regardless of difficulties or discouragement. They also have the stomach to take risks — after all, they believe that they will succeed.

Decision Making

Being able to make decisions quickly is an important characteristic for entrepreneurs because it can be the difference between success and failure. Entrepreneurs not only need to have good decision making skills, but also must have the capacity to make those decisions quickly in order to avoid missing opportunities. This necessitates quickly considering the facts and then deciding.

As you can see, there are definitely some key characteristics of entrepreneurship. As a leader at your company, you can use these traits to more capably and confidently perform your duties. Whether entrepreneurs are born or made is, as it turns out, not the key consideration. What really matters is that leaders acquire or develop the winning characteristics of an entrepreneur.

FUNCTIONS OF ENTREPRENEUR

1. Risk Bearing Functions:

It is the most important and specific function of an entrepreneur. Every business involves some amount of risk. The production of goods and services is always related to future demands. The future demand is uncertain and unpredictable, because it is influenced by the changes in fashion or taste and liking of the consumers.

The price structure, value of money, climatic conditions and government policies are some other important factors that affect the demand of a commodity. All these factors are variable and as such an exact estimation of future demand is a difficult exercise to work out.

2. Administrative and Decision-Making Functions:

i. Conceiving the Idea of Business:

The entrepreneur conceives the idea of a particular business which suits his nature, skill and resources. He makes a thorough (intensive and extensive) study of the condition of market and business prospects. After making a thorough study of economic viability, he decides the business that he has to start.

ii. Estimation of Details of Business and Implementation of the Same:

After arriving at a conclusion about the nature of business, the entrepreneur works out the details of business, i.e., what, how and when to produce and from where the resources are to be arranged. With all these estimations, he makes an all-out effort to give a practical shape to his plans, organizes various factors of production and sets them to function in proper harmony.

iii. Supervision and Control of Business Activities:

The entrepreneur has to supervise and control the day-to-day business activities to accomplish the business objectives. For this he properly coordinates between various factors of production. As the risk (success or failure) of business operations directly affect

his economy, he keeps a vision and control on the business affairs and avoids unnecessary expenditures.

He is required to take a numerous decisions and has to get these decisions properly implemented.

iv. Innovation:

Innovation is one of the most important functions of an entrepreneur. An entrepreneur uses information, knowledge and intuition to come up with new products, new methods of reducing costs of a product, improvement in design or function of a product, discovering new markets or new ways of organization of industry. Through innovation, an entrepreneur converts a material into a resource or combines existing resources into new and more productive configurations.

It is the creativity of an entrepreneur that results in invention (creation of new knowledge) and innovation (application of knowledge to create the new products, services or processes).

3. Distributive Functions:

The entrepreneur organizes different factors of production and sets them to work. It, therefore, becomes his responsibility to make proper allocation of funds for each factor of production, i.e., each factor of production must be properly remunerated.

The remuneration here refers to an important decision as to what should be the share of each factor of production in the sale proceeds of the entire product. The remuneration should be just and equitable and the payment to each factor should be commensurate, so that each factor is fully satisfied.

If the factors of production remain dissatisfied, they will not be able to deliver their best to the entrepreneur. So, it is the entrepreneur, who has to ultimately suffer. Hence, it is very essential for the entrepreneur to perform distributive functions with extreme care and caution.

DIFFERENCE BETWEEN ENTREPRENEUR AND INTRAPRENEUR

BASIS FOR COMPARISON	ENTREPRENEUR	INTRAPRENEUR
Meaning	Entrepreneur refers to a person who set up his own business with a new idea or concept.	Intrapreneur refers to an employee of the organization who is in charge of undertaking innovations in product, service, process etc.
Approach	Intuitive	Restorative
Resources	Uses own resources.	Use resources provided by the company.
Capital	Raised by him.	Financed by the company.
Enterprise	Newly established	An existing one
Dependency	Independent	Dependent
Risk	Borne by the entrepreneur himself.	Taken by the company.
Works for	Creating a leading position in the market.	Change and renew the existing organizational system and culture.

ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT

Entrepreneurship plays an influential role in the economic growth and standard of living of the country. As a startup founder or small business owner, you may think that you are simply working hard to build your own business and provide for yourself and your family. But you are actually doing a whole lot more for your local community, state, region, and the country as a whole. Here are the top 7 important roles an entrepreneur plays in the economic development of a country.

1.Wealth Creation and Sharing:

By establishing the business entity, entrepreneurs invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public. This mobilizes public wealth and allows people to benefit from the success of entrepreneurs and growing businesses. This kind of pooled capital that results in wealth creation and distribution is one of the basic imperatives and goals of economic development.

2.Create Jobs:

Entrepreneurs are by nature and definition job creators, as opposed to job seekers. The simple translation is that when you become an entrepreneur, there is one less job seeker in the economy, and then you provide employment for multiple other job seekers. This kind of job creation by new and existing businesses is again is one of the basic goals of economic development. This is why the Govt. of India has launched initiatives such as *StartupIndia* to promote and support new startups, and also others like the *Make in India* initiative to attract foreign companies and their FDI into the Indian economy. All this in turn creates a lot of job opportunities, and is helping in augmenting our standards to a global level.

3. Balanced Regional Development:

Entrepreneurs setting up new businesses and industrial units help with regional development by locating in less developed and backward areas. The growth of industries and business in these areas leads to infrastructure improvements like better roads and rail links, airports, stable electricity and water supply, schools, hospitals, shopping malls and other public and private services that would not otherwise be available.

Every new business that locates in a less developed area will create both direct and indirect jobs, helping lift regional economies in many different ways. The combined spending by all the new employees of the new businesses and the supporting jobs in other businesses adds to the local and regional economic output. Both central and state governments promote this kind of regional development by providing registered MSME businesses various benefits and concessions.

4. GDP and Per Capita Income:

India's MSME sector, comprised of 36 million units that provide employment for more than 80 million people, now accounts for over 37% of the country's GDP. Each new addition to these 36 million units makes use of even more resources like land, labor and capital to develop products and services that add to the national income, national product and per capita income of the country. This growth in GDP and per capita income is again one of the essential goals of economic development.

5. Standard of Living:

Increase in the standard of living of people in a community is yet another key goal of economic development. Entrepreneurs again play a key role in increasing the standard of living in a community. They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production will make a business unit more productive, while also providing its customers with the same goods at lower prices.

6. Exports:

Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important ingredient of economic development since it provides access to bigger markets, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets. Another key benefit is that this expansion that leads to more stable business revenue during economic downturns in the local economy.

7. Community Development:

Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services. For example, you need highly educated and skilled workers in

a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers.

FREQUENTLY ASKED QUESTIONS

1. Explain the meaning of Entrepreneur.
2. State the difference between Entrepreneur and Enterprise
3. State the difference between Entrepreneur and Manager
4. State the difference between Entrepreneur and Intrapreneur
5. Explain the qualities or traits of an Entrepreneur
6. Write the characteristics of Entrepreneur
7. Describe the types of an Entrepreneur
8. State the functions of an Entrepreneur
9. Briefly explain the role of entrepreneur in economic development.

UNIT -II

STEPS IN SETTING UP OF A BUSINESS UNIT:

The procedure in setting up of a business unit is a time consuming, complex and complicated activity. It involves various steps, procedures and formalities.

The Following Explains the steps in setting up off a business unit in detail:

1. Discovery of an idea.
2. Determining the objectives.
3. Identifying opportunities.
4. Detailed investigation of an idea.
5. Undertaking various research.
6. Designing a business plan.
7. Resource rising.
8. Setting up the enterprise.
9. Managing the enterprise.

1. Idea generation:

This is the most important function of an entrepreneur. Idea is generated through vision. Idea generation is a critical skill in entrepreneurship. Insight, observation, experience, education, training etc. Idea can be generated through environmental scanning and market survey. An entrepreneur conceives an idea for the formation of a company.

An entrepreneur is not someone with clever ideas but someone who has the ability to turn that idea into a real business. An entrepreneur conceives the idea of launching the project

and program the structure of business. Converting a business idea into a commercial venture is at the heart entrepreneurship

2. Determining the objectives:

The next step in setting up business venture is determining the objectives of the business. Objectives are the goals of a business venture. Objectives are the ends towards which activities of the organisation are directed. The entrepreneurs stress the need for high achievement. The objectives must be realistic in nature.

3. Identifying opportunity:

This is the first step in setting up of a business unit Entrepreneur is an opportunity seeker. As observed by Albert Einstein “In the middle of every difficulty lies opportunity”. He perceives an opportunity and strives to translate the opportunity into an idea.

Opportunities do not come suddenly. The entrepreneur must show alertness to grab opportunities when they come. The opportunities must be carefully scrutinized and evaluated.

The process of identifying opportunity involves identifying the needs and wants of the customers, scanning the environment, understanding the competitor’s policy etc.

4. Detailed investigation of an idea:

The entrepreneur then undergoes detailed investigation of an idea. He analyses the idea to find out the feasibility whether the project is profitable or not. An entrepreneur must show the initiative to develop the idea and implement it in practical sense.

5. Undertakes various researches:

After the selection of a worthy idea, an entrepreneur undertakes various researches relating to

a. Market selection

b. Competition

c. Location

d. Machinery and equipment's

e. Capital

f. Customer preferences etc.

6. Designing a business plan:

At this step an entrepreneur prepares a good business plan, the designs and creates the organisational structure for implementation of his plan. This plan is further used to achieve the realistic goals.

7. Resource Rising:

The entrepreneur has to proceed further for raising the resources like men, money, machine, material to commence the venture. Huge capital is required to install the sophisticated machinery and employ skilled man power.

A critical step in the creation of a new venture is raising the capital. An entrepreneur has to take certain steps and follow specified procedures to obtain Institutional finance.

A number of financial agencies like Banks/SFCs provide loans with certain applicable terms and conditions.

8. Setting up the Enterprise:

At this step the entrepreneur fulfill some legal formalities. He hunts for suitable location, design the premises and install machinery. All the statutory formalities are to be met.

i. Acquiring license.

ii. Permission from local authorities.

iii. Approvals from banks and financial institution.

iv. Registration etc.

9. Managing a business enterprise:

Once the project is set up, the entrepreneur must try to achieve the target of a business plan. This involves setting up of an appropriate business process. Only proper management can ensure achievement of goals.

The entrepreneur must be capable of turning his ideas into reality. He should also have the foresight to anticipate changes to avail of opportunities and meeting threats likely to arise in the near future.

PROBLEMS IN SETTING UP OF A BUSINESS:

The factors that affect the growth of business are explained in detail:

1. Lack of legal knowledge:

The entrepreneur should have adequate legal knowledge to handle legal affairs efficiently. Lack of legal knowledge on the part of entrepreneurs may affect smooth conduct of business. He should have knowledge regarding Factories Act, Wages & Salaries Act, and Workers Compensation Act etc.-

2. Lack of experience:

An entrepreneur should have enough experience to manage the business efficiently. Lack of adequate experience may create major problems and adversely affect the experience.

The major hurdles that the new entrepreneurs face are the availability of resources to carry out such a business. The most important is the allocation of funds that comes in the form of money to research and development.

3. Lack of finance:

Finance is the life blood of every business. To start up a new venture requires adequate capital. It is required to meet business expenses like purchase of raw material, payment of wages and salaries; payment of interest on loans etc. Lack of finance can create hurdles in setting up of a business unit.

4. Lack of technology:

Technology is never constant, it keeps on changing. Sophisticated technology helps in increasing the production capacity and quality of the products. Lack of suitable technology can hamper the reputation of the firm. Adoption of suitable technology can prove beneficial to the business success and vice versa.

5. Problem of human resource:

Organisation is made up of people and people make an organisation. A firm requires skilled, qualified and talented employees. Lack of competent staff is another major issue for a business unit.

6. Problem of data:

Entrepreneurship is based on research work. The Entrepreneur need to conduct a survey for gathering information regarding market condition, competition, technology, consumer etc. the data collected may not be accurate and precise. At times it is incorrect and outdated. This hampers the survival of a business.

7. Problem of marketing:

The Entrepreneur should have marketing knowledge. This helps to face cut-throat competition in all sectors. Lack of marketing efforts and knowledge with respect to product, pricing, distribution and promotion hampers the Entrepreneurial growth.

VARIOUS INSTITUTIONS CONDUCTING ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES IN INDIA:

1. Entrepreneurship Development Institute of India (EDII):

The Entrepreneurship Development Institute of India (EDI) is an autonomous body, set up in 1983. It is sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd. ICICI Ltd and State Bank of India (SBI).

This Institute is registered under the Societies Registration Act 1860 and the Public Trust Act 1950. EDI undertake research and training activities for encouraging new and emerging entrepreneurs.

2. Small Industry Development Bank of India (SIDBI):

This is a subsidiary of Industrial Development Bank of India (IDBI).

SIDBI was established in April 1990 under an Act of Indian Parliament as the principal financial institution for:

1. Promotion.
2. Financing.
3. Development of industry in the small scale sector.
4. Coordinating the functions of other institutions engaged in similar activities.

The Small Scale Industries (SSIs) sector is a vibrant and dynamic sector of the Indian economy.

3. National Institute for entrepreneurship and small business development (NIESBUD):

It was established in 1983 by the Ministry of Industry, Government of India. It aims at co-ordinating the activities of various institutions engaged in entrepreneurship development.

It provides training aid and helps to develop entrepreneurial culture in the society. It conducts national level and international level training programmes.

4. National Alliance of Young Entrepreneurs (NAYE):

NAYE was established in 1967, NAYE contributed in encouraging women entrepreneurs. It set up women's wing in 1975. Federation of Indian Women Entrepreneurs (FIWE), is a National-level organization which was founded in 1993, is one of India's Premier Institution for Women thoroughly devoted towards Entrepreneurship Development.

The objective of this organization is to promote the Economic Empowerment of Women, particularly the SME segment, by helping them to become successful entrepreneurs and become a part of the mainstream industry.

- a. Technology obsolescence
- b. Managerial inadequacies
- c. Delayed Payments
- d. Poor Quality
- e. Incidence of Sickness
- f. Lack of Appropriate Infrastructure
- g. Lack of Marketing Network**

Entrepreneurship plays an important role in the development of economy. Every developed nation have benefited from their entrepreneurs in building the economy. Bill Gate in USA is one such entrepreneur, who steered the software industry to new heights through his Microsoft Company. In India, numerous successful entrepreneurs exist, who successively built empire of their corporate structure.

Dhirubhai Ambani grew to a phenomenal height through Reliance industries. Jamsheedjee Tata, in Steel Industry, Ratan Tata etc. is few other examples of successful entrepreneurs in recent times.

PROJECT FORMULATION

Normally, micro and small-scale enterprises do not include sophisticated techniques which are used for preparing project reports of large-scale enterprises. Within the small-scale enterprises too, all the information may not be homogeneous for all units.

In fact, what and how much information will be given in the project report depends upon the size of the unit as well as nature of the production. A general set of information given in any project report is listed by Vinod Gupta (1999) in his study on “Formulation of a Project Report”.

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

These stages are:

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Sources of Finance.
5. Assessment of Working Capital Requirements.
6. Other Financial Aspects.
7. Economic and Social Variables.
8. Project Implementation.

The nature of information to be collected under each one of these stages has been given below:

1. General Information:

The information of general nature given in the project report includes the following:

Bio-data of Promoter:

Name and address of entrepreneur; the qualifications, experience and other capabilities of the entrepreneur; if these are partners, state these characteristics of all the partners individually.

Industry Profile:

A reference of analysis of industry to which the project belongs, e.g., past performance, present status, its organisation, its problems, etc.

Constitution and Organisation:

The constitution and organisational structure of the enterprise, in case of partnership firm, its registration with the Registrar of Firms; application for getting Registration Certificate from the Directorate of Industries/District Industry Centre, etc.

Product Details:

Product utility, product range; product design; advantages to be offered by the product over its substitutes, if any.

2. Project Description:

A brief description of the project covering the following aspects is given in the project report

Location of enterprise; owned or leasehold land; industrial area; No Objection Certificate (NOC) from the Municipal Authorities if the enterprise location falls in the residential area.

Physical Infrastructure:

Availability of the following items of infrastructure should be mentioned in the project report:

(i) Raw Material:

Requirement of raw material, whether inland or imported, sources of raw material supply.

(ii) Skilled Labour:

Availability of skilled labour in the area, arrangements for training labourers in various skills

These include:**(i) Power:**

Requirement for power, load sanctioned availability of power.

(ii) Fuel:

Requirement for fuel items such as coal, coke, oil or gas, state of their availability.

(iii) Water:

The sources and quality of water required should be clearly stated in the project report.

Pollution Control:

The aspects like scope of dumps, sewage system and sewage treatment plant should be clearly stated in case of industries producing emissions.

Communication System:

Availability of communication facilities, e.g., telephone, telexes etc. should be stated in the project report.

Transport Facilities:

Requirements for transport, mode of transport, potential means of transport, distances to be covered, bottlenecks etc., should be stated in the business plan.

Other Common Facilities:

Availability of common facilities like machine shops, welding shops and electrical repair shops etc. should be stated in the report.

Production Process:

A mention should be made for process involved in production and period of conversion from raw material into finished goods.

Machinery and Equipment:

A complete list of items of machinery and equipment's required indicating their size, type, cost and sources of their supply should be enclosed with the project report.

Capacity of the Plant:

The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

Technology Selected:

The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

Research and Development

A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

3. Market Potential:

While preparing a project report, the following aspects relating to market potential of the product should be stated in the report:

(i) Demand and Supply Position:

State the total expected demand for the product and present supply position. This should also be mentioned how much of the gap will be filled up by the proposed unit.

(ii) Expected Price:

An expected price of the product to be realised should be mentioned in the project report.

(iii) Marketing Strategy:

Arrangements made for selling the product should be clearly stated in the project report.

(iv) After-Sales Service:

Depending upon the nature of the product, provisions made for after-sales service should normally be stated in the project report.

(v) Transportation:

Requirement for transportation means indicating whether public transport or entrepreneur's own transport should be mentioned in the project report.

4. Capital Costs and Sources of Finance:

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin for working capital should be given in the project report. The present probable sources of finance should also be stated in the project report. The sources should indicate the owner's funds together with funds raised from financial institutions and banks.

5. Assessment of Working Capital Requirements:

The requirement for working capital and its sources of supply should be carefully and clearly mentioned in the business plan or project report. It is always better to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will minimise objections from the banker's side.

6. Other Financial Aspects:

In order to adjudge the profitability of the project to be set up, a projected Profit and Loss Account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected Balance Sheet and Cash Flow Statement should also be prepared to indicate the financial position and requirements at various stages of the project.

In addition to above, the Break-Even Analysis should also be presented in the project report. Break-even point is the level of production/ sales where the industrial enterprise shall earn neither profit nor incur loss. In fact, it will just break even. Break-even level indicates the gestation period and the likely moratorium required for repayment of loans.

Break-even point (BEP) is calculated as follows:

$$\text{BEP} = \frac{F}{S-V} \times 100$$

where, F = Fixed Cost

S = Sales Projected

V = Variable Costs

Thus, the break-even point so calculated will indicate at what percentage of sales, the enterprise will break even i.e., no profit, no loss.

7. Economic and Social Variables:

In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report.

Besides, the socio-economic benefits expected to accrue from the project should also be stated in the report itself.

Following are the examples of socioeconomic benefits:

(i) Employment Generation.

(ii) Import Substitution.

(iii) Ancillarisation.

(iv) Exports.

(v) Local Resource Utilization.

(vi) Development of the Area.

8. Project Implementation:

Last but no means the least, every entrepreneur should draw an implementation scheme or a time-table for his project to ensure the timely completion of all activities involved in setting-up an enterprise. Timely implementation is important because if there is a delay, it causes, among other things, a project cost overrun.

In India, delays in project implementation have become a common feature. Delay in project implementation jeopardizes the financial viability of the project, on the one hand, and props up the entrepreneur to drop the idea to set-up an enterprise, on the other. Hence, there is a need to draw up an implementation schedule for the project and then to adhere to it to complete the project in time.

Following is a simplified implementation schedule for a small business project:

An Illustrative Implementation Schedule

<i>Tasks/Months</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Formulation of Project Report														
2. Application for Term-Loan														
3. Term-Loan Sanction														
4. Possession of Land														
5. Construction of Building														
6. Getting Power and Water														
7. Placing Order for Machinery														
8. Receipt and Installation of Machinery														
9. Manpower Recruitment														
10. Trial Production														
11. Commencement of Commercial Production														

The above schedule can be broken up into scores of specific tasks involved in setting up the enterprise. “Project Evaluation and Review Technique (PERT)” and “Critical Path Method (CPM)” can also be used to get better insights into all activities related to implementation of the project.

ASSESSMENT OF FEASIBILITY

FEASIBILITY ANALYSIS

Feasibility analysis is the process of determining if a business ideas of people.

It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing. Feasibility analysis takes the guesswork (to a certain degree) out of a business launch, and provides an entrepreneur with a more secure notion that a business idea is feasible or viable.

1. Organizational Feasibility Analysis

Organizational feasibility aims to assess the prowess of management and

sufficiency of resources to bring a product or idea to market . The company should evaluate the ability of its management team on areas of interest and execution. Typical measures of management prowess include assessing the founders' passion for the business idea along with industry expertise, educational background, and professional experience. Founders should be honest in their self-assessment of ranking these areas.

2. Financial Feasibility Analysis

A **financial analysis** seeks to project revenue and expenses (forecasts come later in the full business plan); project a financial narrative; and estimate project costs, valuations, and cash flow projections

The financial analysis may typically include these items:

- A twelve-month profit and loss projection
- A three- or four-year profit-and-loss projection
- A cash-flow projection
- A projected balance sheet
- A breakeven calculation

The financial analysis should estimate the sales or revenue that you expect the business to generate. A number of different formulas and methods are available for calculating sales estimates. You can use industry or association data to estimate the sales of your potential new business. You can search for similar businesses in similar locations to gauge how your business might perform compared with similar performances by competitors. One commonly used equation for a sales model multiplies the number of target customers by the average revenue per customer to establish a sales projection:

$$T \times A = S$$

Target(ed) Customers/Users $\times$ Average Revenue per Customer = Sales Projection
Target(ed) Customers/Users $\times$ Average Revenue per Customer = Sales Projection

Another critical part of planning for new business owners is to understand the **breakeven**

point, which is the level of operations that results in exactly enough revenue to cover costs (see [Entrepreneurial Finance and Accounting](#) for an in-depth discussion on calculating breakeven points and the breakdown of cost types). It yields neither a profit nor a loss. To calculate the breakeven point, you must first understand the two types of costs: fixed and variable. **Fixed costs** are expenses that do not vary based on the amount of sales. Rent is one example, but most of a business's other costs operate in this manner as well. While some costs vary from month to month, costs are described as variable only if they will increase if the company sells even one more item. Costs such as insurance, wages, and office supplies are typically considered fixed costs. **Variable costs** fluctuate with the level of sales revenue and include items such as raw materials, purchases to be sold, and direct labor. With this information, you can calculate your breakeven point—the sales level at which your business has neither a profit nor a loss.⁴⁸ Projections should be more than just numbers: include an explanation of the underlying assumptions used to estimate the venture's income and expenses.

Projected cash flow outlines preliminary expenses, operating expenses, and reserves—in essence, how much you need before starting your company. You want to determine when you expect to receive cash and when you have to write a check for expenses. Your cash flow is designed to show if your working capital is adequate. A **balance sheet** shows assets and liabilities, necessary for reporting and financial management. When liabilities are subtracted from assets, the remainder is owners' equity. The financial concepts and statements introduced here are discussed fully in [Entrepreneurial Finance and Accounting](#).

3. Market Feasibility Analysis

A **market analysis** enables you to define competitors and quantify target customers and/or users in the market within your chosen industry by analyzing the overall interest in the product or service within the industry by its target market. You can define a market in terms of size, structure, growth prospects, trends, and sales potential. This information allows you to better position your company in competing for market share. After you've determined the overall size of the market, you can define your target

market, which leads to a **total available market (TAM)**, that is, the number of potential users within your business's sphere of influence. This market can be segmented by geography, customer attributes, or product-oriented segments. From the TAM, you can further distill the portion of that target market that will be attracted to your business. This market segment is known as a **serviceable available market (SAM)**.

An analysis of market feasibility examines the overall market and focuses on the anticipated share of the target market. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Projecting market share can be a subjective estimate, based not only on an analysis of the market but also on pricing, promotional, and distribution strategies. As is the case for revenue, you will have a number of different forecasts and tools available at your disposal. Other items you may include in a market analysis are a complete competitive review, historical market performance, changes to supply and demand, and projected growth in demand over time.

PROJECT REPORT

The project report is a document that contains all information regarding the proposed project. It is served as a blueprint of all operations to be undertaken for attaining the desired results. The project report is basically the business plan of action and clearly describes its goals and objectives. It is one that helps in converting the business idea into a productive venture without any chaos or confusion as it defines strategies for project execution.

Information from various aspects like technical, financial, economic, production can be arranged accordingly at the right time.

The project report is an essential tool available with management for proper monitoring of operations and helps them in recognizing any problems. Managers through project reports are able to estimate all costs of operations and possible profitability of the proposed project.

FOLLOWING ARE THE CONTENTS OF A PROJECT REPORT.

Title

The title page of the report denotes the title of a project and the author's name. It mentions the name and detail of industry for which the project is undertaken. This page must clearly define the area and scope of project.

Abstract

Abstract is a brief summary giving details about the contents of a project report. It provides an idea to reader regarding what is project report about. Anyone who does not know anything about report simply by reading its abstract can make out whether it is of their interest or not. Abstract is generally half a page long.

Acknowledgements

This section of report denotes the individuals who assisted you during your project work. It is meant for thanking the people who provided you technical or any other type of assistance such as your supervisor.

Contents Page

Content page tells about the main chapter and sub sections included in the report. Chapters with proper titles are mentioned along with the page numbers telling where the particular chapter/section begins and ends. It should be ensured that only sufficient levels of subheadings are provided under each chapter.

Introduction

It is the most crucial element of the project report. The introduction tells about the nature and scope of the report to the reader. This part summarizes what the author set out to attain, gives a clear description regarding the background of the project, main contributions, and relevance. The introduction shall summarize the key things in the report and provide the sections containing the technical material.

Background

Background component sets the project report into context and describes the layout for attaining project goals. For meeting out the proposed goals different approaches should be evaluated for choosing the efficient one. However, this part of report can be included as a part of introduction also but it is ideal to present it as a separate chapter in case if project involve extensive amount of research and ground work. All pieces of work which are listed should be provided with proper sources from where they are referred.

Body Of Report

This is the central part of project report which contains three to four chapters which describes all technical work undertaken for the completion of project. The chapter's structure dependent upon project which reflects the development of project in chronological order. It should be justified why a particular approach is chosen above other alternatives mentioned in background component. Every interesting features and problems during the implementation should be properly documented. All contents relating to testing and integration should be thoroughly discussed with the supervisor.

Conclusions And Future Work

It denotes the achievements made as a result of completing the project. This part of report concludes the success and failures of a project. It also provides suggestions for future work of project for taking it further. No project is completely perfect and each of it come with certain limitations.

Bibliography

Bibliography tells about the books, articles, journals, manuals etc. which are used while doing the project or referred in the report. Full and accurate information regarding sources used such as title, author name, issue and page number should be mentioned for readers. Providing the source of information helps readers in validating the facts of report.

Appendix

This part comprises of information that is peripheral to main body of report. Things included here are such as program listings, graphs, proofs, tables or any other thing that

would break up the theme of text if it appeared in situ. All material should be bind in a single volume and compressed as much as possible.

NEED AND OBJECTIVES OF PROJECT REPORT

1. **Selecting Best Investment Proposal:** Project report is an efficient tool for analyzing the status of any investment proposal. It shows the expected profitability and risk associated with the project and this way helps in choosing the best option.
2. **Approval of Project:** It is essential for registration or approval purposes of the proposed project. Different authorities like District industries center, Directorate of industries, government departments, etc. require project reports for giving approval.
3. **Tracking:** The Project report assists in tracking the current activities of the project. It helps team members and other stakeholders to check the project progress from time to time and helps in finding out any deviations against the original plan.
4. **Visibility:** Another important advantage of having the project report is that it gives full insight into the project. It gives a clear description of activities to be undertaken and avoids any confusion or disorder.
5. **Risk Identification:** Identification of risk is a significant step for the completion of every project. The project report enables in spotting the risk early and taking all corrective actions timely.
6. **Cost Management:** Project report helps in managing the expenses through regular reporting of all activities. It sets the standard cost of every operation in

advance and helps in finding out any deviation in these costs through tracking of the project.

7. **Financial Assistance:** It is an important tool for availing financial assistance from financial institutions or fund providers. The project report enables financial institutions in judging the profitability of the proposed project and then takes the decision accordingly for approving the funds.
8. **Test Business Soundness:** Project report helps in testing the profitability and soundness of the proposed project. It tells the total estimated costs, possible income and risk associated with any proposal.

CHARACTERISTICS OF PROJECT REPORT

1. **Scope:** The project report gives a clear picture of what is to be done or to be achieved. It describes the goals of the proposed project and activities to be undertaken for achieving these goals.
2. **Resource:** It shows the means or resources required to meet the desired scope. Project report serves as the roadmap which tells the direction in which business should go for attaining its goals.
3. **Time:** The project report denotes the standard time required for the completion of each and every task of the proposed project.
4. **Quality:** The project report explains the desired standards to be achieved by the completion of all tasks. Limit of deviations that can be accepted from these defined standards are also contained in this report.
5. **Risk:** Risk is an unavoidable factor associated with every business and needs to be monitored properly. The project report considers all risk factors that may arrive at the completion of the proposed project and also tells the ways for recovering from these factors.

SELECTION OF THE SITE (LOCATION)

1. Availability of Raw-Materials:

The place selected should be such where the raw materials are available easily. There should be an easy approach to the place of raw-materials

For example:

(i) Iron and steel industry in Bihar,

(ii) Textile factories in Gujarat and Maharashtra,

(iii) Jute works in Bengal owe their success on account of easy availability of raw-materials. It reduces the cost of transportation.

2. Nearness to the Market:

ADVERTISEMENTS: Manufacturing a thing successfully is not sufficient. It is also necessary that the output should find ready market and that the product is sold at a price to yield reasonable profit. This is possible only when the market is not far away. Nearness of the market ensures transportation costless and minimum wastage.

3. Nearness to Sources of Operating Power:

Every industry requires fuel for working the machinery and unless the region has rich fuel resources of power now available are coal, hydro-electricity and oil etc. Coal is the cheapest source of power, but it is very bulky and involves high transportation costs.

4. Labour Supplies:

For the successful and un-interrupted working of a factory, availability of adequate supply of labour of the right type at reasonable wages is also very essential. There are some industries in which the inherited skill of the workers is an important factor in the process of manufacturing.

For example—The development of the dying and printing industry in Farukhabad and the glass industry in Ferozabad d have been mainly located there due to Every manufacturing industry requires cheap and efficient means of transportation for the movement of both raw-materials from the source of supply to the factory and finished product from the factory to the markets or the centres of consumption. The location of the plant, should therefore be at a place where adequate transport facilities are available at cheaper rate.

6. Finance:

No productive activity is possible without the availability of adequate capital. Banks, stock exchanges and other similar institutions help in capital formation and expansion of industry by providing financial help to it from time to time.

7. Climate:

Certain industries for their successful working require a special type of climate. For example—Cotton textile industry requires humid climate while the photographic goods industry flourishes best in regions of dry climate. Climate also affects the efficiency of labour.

8. Momentum of Early Start or Industrial Inertia:

There is a tendency for an established industry to remain localised in a particular areas in which it arose even after some of the original advantages possessed by that area for such work have lost their previous importance. If however, the entrepreneur acts rationally and his necessary knowledge he will choose the location which offers the lowest cost per unit of output.

9. Personal Preferences:

Location of any industry may sometimes be decided according to the personal preferences and prejudices of the industrial enterprises.

10. Government Policy:

These days the government plays an important role in determining the location of new industries.

In addition to the factors discussed above cost of land and building for setting up the factory topography of the area; the possibilities of future expansion etc., are some other factors which influence the decision-making regarding location of industry.

FREQUENTLY ASKED QUESTIONS

1. Describe the selection of an product identification.
2. Explain the project formulation briefly.
3. What is Project report and its contents?
4. State the Assessment of feasibility.
5. What is the procedure for selection of site?
6. Explain the characteristics of Project report
7. State the need of the project report.
8. Explain the problems of setting up of an business unit.

UNIT – III

SELECTION OF TYPES OF ORGANISATION

Choice of a proper form of organisation is crucial for the success of a business enterprise. Every entrepreneur has to decide, at the outset, the type of ownership organization in which his enterprise is to be run. It is long term decision because the form of organization cannot be changed frequently. Therefore, the form of ownership organization should be selected after due care and thought.

From the view of ownership, there are four main forms from which the choice can be made.

These are:

1. Sole Proprietorship
2. Partnership
3. Joint stock co
4. Cooperative enterprise.

- 1. Sole Proprietorship:** A sole proprietorship is owned by only one person. This is the most common form of business ownership.
- 2. Partnership:** A business owned by two or more people. The partners share ownership and control of the business. Company:
- 3. Company:** A company is a business which is considered a separate entity from owner; even having the legal rights of a person.

SOLE PROPRIETORSHIP:

When the ownership and management of business are in control of one individual, it is known as sole proprietorship or sole trader-ship. In every country, every state, every locality Sole Proprietorship is seen everywhere. For example, the shops or stores which one sees in his/her locality i.e. the vegetable store, the sweets shop, the grocery store, the chemist shop, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship. It is not necessary that a sole trader-ship business must be a small one but, it is also possible that the volume of activities of such a business unit may be quite widespread or large. In general, since such business is owned and managed by one single individual, often the size of business remains small.

CHARACTERISTICS:

1. Ownership of Business:

One single individual gets legal title to the assets and properties of the business and the business enterprise is owned by the individual. The sole proprietor bears the entire risk or loss of the firm and entire profit arising out of business goes to the owner.

2. Managing the Business Activities:

The sole proprietor is the sole decision maker for managing all the aspects of business. As the manager of the business is the owner of the enterprise he enjoys absolute right to plan for the business and execute them without any interference from anywhere or from any person.

3. Supply of Capital:

The entire capital requirement of the business is endowed with the owner and if required in addition to his own capital he may raise more funds from outside through loans from banks or other financial institutions and through borrowings from close relatives or friends.

4. Lawful Standing:

The proprietor and the business enterprise are one and the same in the eyes of

law and enjoy no separate legal existence. The business assets and the private assets of the sole proprietor are same. The business comes to an end in the absence of the owner.

4. Unlimited Liability:

So far as the liability of sole proprietor is concerned he carries entire responsibility of business and hence the liability is unlimited. Personal property of the sole proprietor can be used to meet liabilities in case he fails to pay for the business obligations and debts arising out of business activities.

5. Stability of the Business:

The capacity, competence and the life span of the proprietor determine the stability and continuity of the sole proprietor business.

6. Legal Formalities Involved:

No legal formalities need to be followed in setting up, functioning and dissolution of a sole proprietorship business. Only for setting up a particular type of business few legal restrictions may be there and needs to be followed. For example, for opening a chemist shop, the individual must have a license from the Government; to open a restaurant, the sole proprietor needs a license from the local municipal authority.

ADVANTAGES OF SOLE PROPRIETORSHIP:

1. Easy Formation:

The major advantage of a sole Proprietorship form of business is no formalities or uncomplicated formalities needed. Any person who wishes to start such a business can easily do so in many cases without any legal formalities.

2. Flexibility in Operations:

To bring changes in any process or system of business the owner can do it as many times as required as he is not required to take permission or approval others. One man ownership and control makes it possible for change in operations to be brought about as and when necessary. In addition to this, the owner is not required to submit the results of the business to the prescribed authorities.

3. Maintenance of Business Secrets:

The owner of a sole proprietorship business enjoy another important advantage, that is, he is in a position to maintain absolute secrecy regarding his business activities as he is not expected to report about performance of his business.

4. Better Control on Business:

Since the Sole Proprietor has all authority in formulating plans, in organizing and coordinating various activities he as an owner has full control over his business. He develops and implements effective control mechanisms.

5. Prompt Decision Making:

Quick and timely decision making becomes possible as the sole trader takes all the decisions himself which enables the owner to take care of or grab available opportunities immediately and also help in identifying and formulating immediate solutions to problems.

6. Direct Incentive:

The owner can easily see the incentives available to him for carrying risk of doing business. Therefore, owner is directly motivated to put his best efforts as he alone is the beneficiary of the profits earned. The sole trader is the only person to whom the profits belong. This always acts as a stimulant to personal incentive.

7. Better Care of Consumer Needs:

Personal Attention to Consumer Needs is possible for sole proprietor. One generally finds the sole proprietor taking personal care of consumer needs as he

normally functions within a small geographical area. Due to the limited scope of business the customer care is facilitated.

8. Employment Opportunities:

The Sole Proprietor form of business promotes and motivates entrepreneurial skill among the individuals. A sole Proprietorship form of business facilitates self employment and also generates employment for many others.

9. Social Benefits:

As the sole proprietor is the master of his own business; enjoy absolute freedom in taking decisions, he can use his skill and capabilities for maintaining and developing his/her business. Through this he is able to satisfy his high self-esteem needs and able to earn self-respect in the society. Such process will gradually help him in acquiring several social qualities like self-determination, self- reliance, independent thought, initiative, action, hard work etc,. Thus, he sets an example or become a benchmark for others to follow.

10. Distribution of Wealth in Society:

A sole proprietorship form of business is generally in the form of a small scale business, there is opportunity for many individuals to own and manage small business units. Hence, it leads to widespread dispersion of economic wealth and diffuses concentration of business in the hands of a few capitalists.

DISADVANTAGES OF SOLE PROPRIETORSHIP:

1. Unlimited Liability:

All the liabilities of business are recovered from the personal assets of the owner as the owner and firm are not different in sole proprietorship form of business. This unlimited liability aspect of business restricts the sole trader to take more risk and increases the volume of his business.

2. Limited Capital/Financial Resources:

For the growth of sole proprietorship the inadequacy of finance is a major handicap. The ability to raise and borrow money by one individual is always limited hence such business remains as a small scale business.

3. Limited Capacity of Individual:

As one individual is responsible for managing business this form of business organization face several limitations such as an individual has limited knowledge and skill; his capacity to undertake responsibilities is restricted by his limited knowledge and skills; his capacity to manage and take decisions in all the areas of business is restricted, and his capacity to take or to bear the risks of business are also limited.

4. Uncertainty of Duration:

The life of the proprietor and the existence of a sole trader-ship are linked together. The illness, death or insolvency or bankruptcy of the owner brings an end to the business. The continuity of business operation is, therefore, uncertain as it is closely related with existence of owner.

SUITABILITY OF SOLE PROPRIETORSHIP:

Sole proprietorship business is suitable where the scope of business is not wide. It is suitable where the market is localized, limited; where customers give importance to personal attention given by the trader to customers; where the nature of business is simple and requires quick decision; and where capital required is small and risk involvement is not heavy. It is also considered suitable for the production of goods which involve manual skill e.g. handicrafts, filigree works, jewellery, tailoring, haircutting, etc.

PARTNERSHIP:

According to Section 4 of the Partnership Act, 1932 partnership is “the

relationship between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all”.

Persons who enters into such agreement are known individually as “partners and collectively as „firm“.

CHARACTERISTICS:

1.Restriction for Number of Partners:

There is restriction to minimum and maximum number of members in partnership firms. To start a partnership business minimum of two persons are required and the maximum membership limit is 10 in case of banking business and 20 in case of all other types of business.

2.Contractual Relationship between Partners:

The relationship between the partners of a partnership firm is created by contract. When the partners enter into partnership firm through an agreement which may be verbal, written or implied the firm come in to existence. If the partners enter in to a written agreement it is known as a ‘Partnership Deed’ which governs the operation of all the business activities.

3. Competence of Partners:

In partnership form of business organization the individuals have to enter into a contract to become partners, and therefore, they must be competent enough to do so. Thus, minors, insolvent persons and lunatics are not eligible to become partners. However, a minor can be admitted to the benefits of partnership i.e. he can have a share in the profits with consensuses of all the partners.

4.Sharing of Profit and Loss:

The partners can share profit of partnership firm in any ratio as per the agreement i.e. as agreed in their ‘Partnership Deed’. But, in the absence of an agreement, partners

can share the profits equally.

5.Unlimited Liability:

The partners of the partnership firms have unlimited liability. Partners are liable jointly and severally for the debts and obligations of the partnership firm. The creditors of the partnership firm can put down their claim on the personal properties of any individual partner or all the partners jointly. In many cases even a single partner may be called upon to pay the debts of the firm. Of course, he can get back the money due from other partners. In case of dissolution of a firm the liability of minor is, however, limited to the extent of his share in the profits.

6. Relationship of Principal-Agent among Partners:

The business activities of a partnership firm may be carried on by all the partners together or any one of them acting for all the partners. It means there is dual relationship between partners i.e. every partner is an agent when he is acting on behalf of others and he is a principal when others act on his behalf. It is, therefore, essential that there should be mutual trust and faith among the partners in the interest of the firm.

7. Transfer of Interest:

Without the consent of other partners no partner can sell or transfer his interest in the firm to anyone or any other partner. The partner can give his interest to others with the consent of all the partners.

8. Legal Status:

The partnership firm means partners and the partners mean the partnership firm. A partnership firm is just a name for the business as a whole. In the eyes of Law partnership firm does not enjoy separate recognition i.e. the firm does not enjoy a separate entity distinct from the partners.

9. Voluntary Registration:

Registration of partnership firm is voluntary and not compulsory. But registration

of the partnership firm gives the rights to enjoy several benefits, and hence, it is considerably desirable to register the partnership firm. For example, if it is registered, any partner can file a case against other partners, or an outside firm and outsiders can file a suit against partnership firm in case of any disputes, disagreements claims, etc.

10. Dissolution/Closure of Partnership Firm:

Dissolution/Closure of partnership implies two aspects. First, it shows complete closure or termination of partnership business, and second it also shows any change in the existing agreement among the partners due to a change in the number of partners or changes in the conditions of the agreement.

ADVANTAGES OF PARTNERSHIP FIRM:

1.Easy Formation:

As there is no need for every partnership firm to register it can be formed without many legal formalities and with less expenditure. Even if partners would like to register their firm the expenditure is restricted to only developing an agreement. Even the registration of a partnership is not compulsory. All that is required is an agreement among the partners, stating the terms and conditions of business. It is not even compulsory to have this agreement in writing. It is, however, advantageous to get the partnership registered and have a written agreement.

2. Larger Financial Resources:

A partnership firm can pool larger financial resources as compared to sole proprietorship because it has more number of partners to contribute to meet financial requirement of partnership firm and further these partners may raise more funds from outside through loans from banks or other financial institutions and through borrowings from close relatives or friends. Thus it can enter into bigger operations and can have more credit facilities

3. Flexibility in Operation:

Due to a limited number of partners change in operations of the firm and amendment objectives if necessary can be easily done by mutual consent of all the partners. So there is flexibility to make changes in operation in partnership business.

4. Better Management:

Partners often meet to discuss the affairs of business and can take prompt decision by their mutual consent. As there is a direct relationship between ownership, control and profit partners take more interest in the affairs of business and operate the business smoothly.

4. Sharing of Risk:

In partnership, in case of probability of risk of loss or actual loss in business partners can easily share it and one individual is not accountable for such loss like sole proprietor bear entire loss.

5. Protection of Minority Interest:

In partnership firm every partner has an equal right to contribute or say in decision making which affect firm's operation. If any decision adversely affects interests of a partner he can prevent a decision being taken and in extreme cases a dissenting partner may withdraw from partnership and can dissolve the partnership firm.

6. Better Public Relations:

In a partnership firm the group consists of small number of partners who manage the affairs of the firm which facilitates cordial relationship with the public. Compared to company form of business the better cordial relation with the public is possible.

7. Diversification of Management:

A partnership firm permits diversification of management through division of labour and specialization on the part of the owner. In big partnership firms, one often finds one

partner handling production problems, another in-charge of sales and finance, and so on. The distribution of duties and responsibilities promotes specialization and each partner performs those functions for which he/she is best qualified.

DISADVANTAGES OF PARTNERSHIP FIRM:

1. Instability of Firm:

Like Sole Proprietorship the death, insolvency or lunacy of a partner may bring about an unexpected end to partnership. It means partnership firm does not continue to exist indefinitely but its existence depends upon existence of all the partners. Further, the partnership business can be brought to a close if any partner demands its termination for any reason.

2. Unlimited Liability of Partners:

In partnership firm there is joint and several liability of partners to an unlimited extent, and therefore, any one of the partners can be called upon to pay all the debts even from his personal properties. Every partner has a right to take part in the management of the partnership firm and any wrong decision by a single partner commit the resources of the firm which may lead to heavy liabilities for others. This discourages many persons, with money and ability, to accept membership of a partnership firm.

3. Lack of Harmony:

There are greater possibilities of resistance and quarrel among the partners as every partner has equal right and voice in the firm's operation leads to differences of opinion. Differences of opinion may lead to mistrust and disharmony which may ultimately result in disruption and closure of the firm. Lack of centralized authority and conflicts in policy can disrupt the organization.

4. Limited Capital:

The capital which can be raised for partnership firm is limited as there is a restriction on the maximum number of partners i.e., 10 in case of banking business and 20 in case of all other types of business. A partnership is good insofar it can be started with limited

capital. However, it becomes a handicap in the growth and expansion phases of the business. There is a limit beyond which it is almost impossible for partners to collect capital. This limit is generally up to the personal properties of partners.

5. Lack of Public Confidence:

As there is no legal mechanism to enforce the registration of a partnership firm and the disclosure of its affairs it may suffer from lack of public confidence. In case of mismanagement in company form of business the Central Government has the absolute powers to order investigation of company affairs. This is almost totally lacking in case of a partnership and hence general public is reluctant to deal with a partnership firm, both in financial and other matters.

6. Difficulty in Withdrawing Investment:

Investing in a partnership firm is simple but its withdrawal may be difficult or costly aspect when this aspect is considered from the point of view of individual partners. This is because no partner can withdraw his interest from the firm without the consent of all partners.

SUITABILITY OF PARTNERSHIP FIRM:

In a partnership firm, persons possessing different background; having different experience of life; having varied abilities, managerial talent and skill join together to carry on a business. Members from varied background add to the administrative strength of the organization; the financial resources, the skill and expertise, and reduce risk attached with operation of business. Such firms are most suitable for comparatively small business such as mercantile houses and small manufacturing units, retail and wholesale trade, professional services etc. in reality it has been observed that initially many organizations are started as partnership firms and later, when it is economically viable and financially attractive for the investors, it is converted into a company form of business organisation.

JOINT STOCK COMPANY:

According to L. H. HANEY “a company is an artificial person created by law having a separate entity with a perpetual succession and a common seal”.

FEATURES OF JOINT STOCK COMPANY:

1. **Incorporation:** A company comes into existence only after its registration under the Companies Act, 1956.
2. **Artificial legal person:** A company is a corporate body; it is an artificial person created by law.
3. **Common seal:** A company is not a natural person. It cannot sign documents. So the common seal is used as a substitute for signature.
4. **Perpetuity:** Members may come and members may go but the company goes on forever.
5. **Numbers of members:** In a Public Limited Company, the minimum number of members is 7 and there is no limit to maximum number. In case of Private Limited Company, minimum is 2 and maximum is 50.

Joint Stock Company form of business organisation is given a legal status; is subject to certain legal regulations; is a voluntary association of persons to carry on business. Joint Stock Company is an association of persons who generally contribute money for some common purpose and such contribution is called the capital of the company. The persons who contribute capital are its members of Joint Stock Company. Every member contribute money as per their own ability and desire and the proportion of capital to which each member is entitled is called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital. The total share capital is divided into a number of units known as ‘shares’. One may have heard of the names of joint stock companies like Birla Group of Companies, Reliance Industries Limited, Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Larson & Tubro Steel Authority of India Limited, Balsara, Ponds India Limited etc. The companies

are governed by the Indian Companies Act, 1956. The Act defines a company as an artificial person created by law, having separate entity, with perpetual succession common seal.

CHARACTERISTICS:

1. Artificial person:

A Joint Stock Company is created by law and does not possess physical attributes of a natural person and therefore called as an artificial person. However, it has a separate legal status and it can sue or can be sued by any person.

2. Separate Legal Entity:

The major advantage is that being an artificial person, a company has an existence independent of its members. Joint Stock Company can own property, enter into contract and conduct any lawful business in its own name and can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company like sole proprietorship or partnership firms.

3. Common Seal:

As Joint Stock Company is created by law and does not possess physical attributes of a natural person every company has a common seal by which it is represented while dealing with outsiders and all its stakeholders. Company is responsible for use the company seal. Any document with the common seal and duly signed by an officer of the company is binding on the company.

4. Perpetual Existence:

A Joint Stock Company is created by law and its survival is not affected by the death, lunacy, insolvency or retirement of any of its members. Company once formed continues to exist as long as it fulfills the requirements of law. The owner of the firm may change due to transfer of ownership of shares to others but it does not affect existence of the company.

5. Limited Liability:

In case of payment of debts by the company, a shareholder is held liable only to the extent of the face value of share. The liability of a member of a Joint Stock Company is limited by guarantee or the shares he owns and his personal property are not at stake for payment of company's liability.

6. Transferability of Shares:

The members/shareholders of a company are free to transfer the shares held by them to anyone else and there is no restriction to own shares.

7. Formation:

When company has been registered by completing the formalities prescribed under the Indian Companies Act 1956 it comes into existence. A company is formed by the initiative of a group of persons known as promoters who complete all the legal formalities and submit required documents to the Registrar of the Companies in their respective territories.

8. Membership:

There is difference between number of members for Private Limited Company and Public Limited Company. For Private Limited Company there should be minimum two persons as a member and maximum limit is fifty members excluding present employees as members and ex employees as members. But in case of a Public Limited Company, the minimum is seven and the maximum membership is unlimited.

9. Number of Directors:

In case of Public Limited Company there should be minimum 03 board of director & maximum 12, and there is provision for appointing more number of directors provided permission is taken from central Government for the same. In case of Private Limited Company minimum 02 directors and for maximum number of directors there is no limit.

10. Management:

Joint Stock Companies follow the democratic management and control where only elected directors manage the business. In other words, the company is managed by the elected representatives of shareholders known as Directors. Even though the shareholders are the owners of the company, all of them cannot participate in the management process.

11. Raising of Capital:

A Joint Stock Company generally raises a large amount of capital through issue of shares to public at large. Company can collect required finance through issue of different types of shares such as Equity Shares, Preference Shares, and Debentures. Company can also collect deposits from public to meet the financial requirement.

ADVANTAGES OF JOINT STOCK COMPANY:

- 1. Limited Liability:** The liability of members in a Joint Stock Company is limited to the extent of face value of shares held by them. Such limited liability concept helps the company to raise huge capital by attracting a large number of small investors to invest in the company. The risk taking ability of company is more due to limited liability of its members and their personal properties are not at stake in case of inability of company to meet its debt repayment.
- 2. Continuity of Existence:** Company has a perpetual existence as company is an artificial person; created by law and possesses independent legal status; and its survival is not affected by the death, insolvency etc. of its members. The stability of company organization permits it to undertake projects of long duration, and also offers a great attraction to the creditors and investors to put their resources in the business.

3. Benefits of Large Scale Operation:

It is only the company form of organisation which can provide huge capital for large scale operations and it further leads to increase in efficiency and reduction in the cost of operation through large scale production. It further opens the scope for expansion of business.

4. Professional/Efficient Management: Due to complex nature of activities and operations and large volume of business, the Company form of business requires professional managers at every level of organization to handle such complexities. The company's financial strength permits them or can afford to appoint such professional managers. Professional managers are able to show better business results by adapting themselves to newer, better, unconventional, and even more risky methods of organization and management. The dynamism and adventurism on the part of professional managers is possible because they are trained that way and also because they do not have much financial stake in the company.

5. Social Benefit: A joint stock company provides many benefits to society such as it offers employment to a large number of people; it facilitates promotion of various ancillary industries, trade and auxiliaries to trade. Sometimes donation come in the form of money and various facilities from various industries for education, health, community service and also renders help to charitable and social institutions.

6. Research and Development: Considering their specialization different companies company generally invests a lot of money on research and development for designing and innovating new products for satisfying needs of people in a better ways; for improving processes of production, for improving quality of product, and identify new ways of training its staff, etc.

7. Public Confidence:

A company organization greatly enjoys the confidence and trust of public as the affairs of company are open to public and not secret. A company is under statutory obligation to make its activities and open for public through accounts and annual reports. Progressive and enlightened managements even voluntarily disclose to the public its activities in wider dimensions than what is required under the law. Such confidence of public helps in raising additional capital, selling its products and undertaking growth and expansion programs.

DISADVANTAGES OF JOINT STOCK COMPANY:

1. Formation is Complex: The formation of a company involves preparation of many documents (like Memorandum of Association, Articles of Association and Prospectus) in order to ensure compliance with a number of legal formalities under the Companies Act of 1956 and compliance with several other Laws. Such compliance with many legal formalities make the task of starting a company more complex compared to sole proprietorship or partnership business. These legal formalities are not only time consuming but also costly and even it does not end with formation of a company, but extend to the operation stage of business.

2. Control by a Group: Companies are controlled by a group of elected persons known as the Board of Directors. Directors and paid officials are not as sincere and honest in managing company affairs as owners would be. In practice it has been observed that company's directors are not in a position to control the organizational activities properly, may be due to lack of interest on the part of the shareholders who are widely dispersed; ignorance, indifference and lack of proper and timely information about operation of the company. Thus, the democratic virtues of a company do not really exist in practice.

3. Speculation on Company's Shares: The value or price of a share is determined in terms of the dividend expected and the reputation of the company and the shares of a company are bought and sold in the stock exchanges. These values of the shares can be

manipulated and there exists excessive speculation in the stock market about shares of the companies which is regarded as a social evil.

8. **Excessive Government Control:** Smooth functioning of the companies is affected by heavy penalty imposed by the Government for Non-compliance with the provisions of several Acts enacted by Government from time to time. A company has to file regular returns and periodical statements of income as each and every activity of company is regulated by annoying legal provisions. The result of all these is that either competent and dynamic entrepreneurs have to spend a lot of their precious time in complying with these legal formalities or they have to spend lot of money in creating a separate position or department for this purpose.
9. **Delay in Policy Decisions Making and Implementing:** As per Companies Act of 1956 and many other Laws, company has to fulfill certain procedural formalities before making any policy decision. These formalities consume more time and, therefore, policy decisions may be delayed which may affect the performance of business. Decisions are not taken by one person alone but through the committee of directors and it causes delays because of the time interval between meetings and difficulty of getting requisite quorum. Implementation is also delayed because instructions are to pass through several levels in the line of command from top to middle to operating management.
6. **Social Abuses:** Company operating as a large scale business organization possesses huge resources, which in turn provides lot of power to them. Company holds power over certain community in terms of supply of required products and services, providing employment to various sections of society etc. Any misuse of such power creates unhealthy conditions in the society e.g. having monopoly of a particular business, industry or product; exploiting workers, consumers and investors; influencing politicians and Government in getting their work done etc.
10. **Conflict of Interest:** Unlike the sole proprietorship or partnership where the interest of proprietor or partners is dominant, a company organization displays a sense of

conflicting interests among those who deal with it. The interests of preference shareholders is for more reserves come in conflict with equity shareholders who are interested in more dividends and interest of directors and managers in more remuneration and full control over company affairs. The continuous warfare between different groups of people destroys the unity of purpose and makes difficult to realize organizational objectives.

8. Corruption of Political System: In many democratic countries of the world, it is found that a big company tries to corrupt or destabilize political system to harvest short-term personal gains. This is done by making unofficial, illegal financial contributions to political parties, supporting political candidates in elections and other similar practices.

SUITABILITY OF COMPANY: A joint stock company form of business organisation is suitable in certain situations where the volume of business is quite large; where the area of operation is widespread; where the risk involved is heavy; where there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management and flexibility of operations. In certain businesses like banking and insurance, business can only be undertaken by joint stock companies. The company organization is most suitable is for larger businesses. For small business this form is too burdensome and may be too expensive. The company form of business organization is found in large-sized manufacturing, trading, and service activities as such organization need huge amount of capital outlay in fixed and other assets which can be collected by an entrepreneur by the company form of organization. For example, large construction plants; fabricating plants and various trading enterprises like big departmental and chain stores and services organizations like big transportation and engineering firms are also organized in the form of companies. Activity C: Study the particular Company considering its area of Business list out and discuss kind of legal formalities

FACTORS INFLUENCING THE CHOICE OF ORGANISATION:

For a new or proposed business, the selection of a suitable form of ownership organization is generally governed by the following factors:

1.Nature of business: The nature of business has an important bearing on the choice of the form of ownership. Business providing direct services, e.g., small retailers'', saloons, tailors, etc. and professional services, e.g., doctors, lawyers, etc., depend for their success upon personal attention to customers and the personal knowledge or skill of the owner. Manufacturing organisations of large size are more commonly set up as private and public companies

2.Size and area of operations: Large scale enterprises catering to national and international markets can be organized more successfully as private or public companies. If the scale of operations of business activities is small, sole proprietorship is suitable; if this scale of operations is modest-neither too small nor too large-partnership is preferable; whereas, in case of large scale of operations, the company form is advantageous.

3.Degree of control desired: A person who desires direct control of business prefers proprietorship rather than the company because there is a separation of ownership and management in the latter case. In case the owner is not interested in direct personal control but in large scale operation, it would be desirable to adopt the company form of ownership.

4.Division of surplus: A sole trader receives all the profits of his business but he also bears all the risks. If a person is ready to bear unlimited personal liability and desires maximum share of profits, proprietorship and partnership are preferable to company form of organization.

PROJECT OF FINANCE

SOURCES OF LONG TERM FINANCE



Equity shares: The equity shares are the main source of finance and it is contributed by the owners of the companies. Equity capital provides the strength to the financial structure of the company. It is also called as risk venture capital for it enables the enterprise to absorb all sorts of financial stress and strains.

Preference shares: Preference shares confer on preference shareholders two rights viz., to receive the preference dividend and get back their capital on priority basis. Investors, who like to earn a limited but steady return on their capital, prefer preference share investment. A company can issue different types of preference shares such as redeemable preferable shares, cumulative preference shares, participating preference shares, etc. These kinds confer certain special rights on preference shareholders as regards the repayment of capital, payment of dividends and payment of surplus at the time of liquidation.

Debentures: Debentures are very commonly used creditorship securities. Different types of debentures are issued to mobilize the debt capital from the public. They are generally secured and carry fixed percentage of interest. Registered debentures, redeemable debentures, convertible debentures, mortgage or secured debentures, ordinary debentures, etc. are a few types of debentures.

Term loans: Term loans are presently the most important source of finance. Loans obtained from banks and financial institutions are generally secured loan. They carry a fixed rate of interest and are repayable in installments. Term loans are generally repayable within a period of 10-25 years.

Term loans provide the benefit of trading on equity. The owners retain control of the enterprise. These loans can be repaid whenever not required. As a result the financial structure remains flexible. Term lending institutions put institutions on promoters, e.g., appointment of nominee directors and convertibility clause.

Retained earnings: Reserves and surplus built over the past are called retained earnings. These earnings can reinvested in business for modernization and expansion. From the ownership as well as cost of capital point of view, it is, as a source, similar to equity share capital. The cost of retained earnings is very cheap compared to cost of equity. It is the best to take up risky but very profitable projects.

SOURCES OF WORKING CAPITAL OR SHORT-TERM FINANCE:

Accounts payable: They are created when the firm purchases raw materials, supplies goods for resale on credit terms on open account. They are interest free and securities free. They also include bills payable.

Accruals: They are short-term liabilities that arise when securities are received but payment has not yet been made. Examples are wages and salaries payable, taxes payable, expenses payable, etc.

Commercial papers: These consist of promissory notes with maturities of 3 to 270 days. Individuals, insurance companies and other institutions also purchase commercial papers. This is a very recently emerged source in India.

Private loans: A short-term unsecured loan may be obtained from a wealthy shareholder, a major supplier, or other party interested in assisting the firm through a short-term difficulty.

Cash advances from customers: A customer may pay for all or a portion of future purchases before receiving the goods. This form of unsecured financing provides funds to purchase raw material and produce the final products.

Bank credit: Bank credit is the major source of finance for working capital. Banks offer both secured as well as unsecured loans to business firms. They provide credit against security.

FREQUENTLY ASKED QUESTIONS

1. Write short notes on sole proprietorship
2. Explain the advantages and disadvantages of sole proprietorship
3. State the characteristics of sole proprietorship
4. Write short notes on partnership
5. Explain the advantages and disadvantages of partnership
6. State the characteristics of partnership
7. Write short notes on joint stock company
8. Explain the advantages and disadvantages of joint stock company
9. State the characteristics of joint stock company
10. Describe the factors influencing the choice of organization
11. Explain the project of finance

UNIT -IV

INCENTIVES AND SUBSIDIES

Entrepreneur Incentives and Subsidies in India

Entrepreneurs are offered a number of incentives because they fulfill two main objectives of economic development. Firstly, they facilitate the decentralization of industries.

They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into a modern technique characterized by improved skills, high production, and a higher standard of living.

Why does the government give subsidies and Incentives?

This is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concessions, subsidies, and bounties. 'Subsidy' denotes a single lump-sum that is given by a government to an entrepreneur to cover the cost. It is granted to an industry that is considered essential in the national interest.

The term Bounty denotes bonus or financial aid that is given by a government to industry to help it compete with other units in the home market or in a foreign market. Bounty offers benefits to a particular industry while a subsidy is given in the interest of the nation. The object of incentives is to motivate entrepreneurs to start new ventures in the larger interest of the nation and society.

ADVANTAGES OF INCENTIVES & SUBSIDIES

1. They encourage the entrepreneur to start industries in backward areas.
2. They help to develop new enterprises which lead to economic development They make the entrepreneur face competition successfully.

3. They act as a motivational force that makes the potential entrepreneur enter into business activities.
4. They help the government to get a balanced regional development.
5. They help to reduce the overall problems of small scale entrepreneurs.

NEED FOR INCENTIVES AND SUBSIDIES

Incentives and subsidies are required for the following four reasons given below.

a. To Generate More Employment and Remove Unemployment:

Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause the movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

b. To Promote Entrepreneurship:

Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy, etc, are few examples of subsidies that are aimed at encouraging entrepreneurs to take up new ventures

c. To Remove Regional Disparities in Development:

Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.

d. To Provide Competitive Strength, Survival, and Growth:

Several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference, etc. will improve the competitive strength. Other concessions like concessional finance, tax relief, etc., contribute to their survival and growth.

PROBLEMS RELATING TO SUBSIDIES

Some problems may arise in formulating and implementing the subsidy system. They are as follows.

1. Subsidies may lead to inefficiency in the long run.
2. Subsidies once introduced are difficult to withdraw.
3. The administrative procedure must be effective.
4. A subsidy may remain unutilized.
5. The quantum of subsidy should be adequate to produce the desired results.
6. The target groups to whom the subsidy is to benefit should be clearly determined.
7. If the administration is inefficient or corrupt, the subsidy will not produce the desired results.
8. It is very difficult to measure the impact of subsidies.
9. The cost of administering a subsidy should be considered.
10. The subsidy scheme should be communicated to prospective beneficiaries.

SSI/ancillary units are the industrial units having an investment of not more than 3 crores rupees in fixed assets like plant & machinery's. Whereas tiny units have 25 lac for the same as on 1998. However recently the govt. has reduced the investment. To 1 crore rupees for SSI & there has been no change for tiny units.

FOLLOWING ARE THE CONCESSIONS /INCENTIVES OFFERED BY GOVT. TO SSI (Small scale industries)

1. Limits in P&M :

Govt. has reduced the ceiling of investment from 3 crores to 1 crore in 1999 with a view to secure ownership & control of material resource & easing out the problem of unemployment. This ceiling for tiny units has been retained to 25 lac.

2. Reservation of Items in small scale sector manufactured exclusively:

At present 812 items are listed in this category. These items can be manufactured by large scale units also but with 50% export obligations

3. Reservation of Items for exclusive SSI purchases:

Director General of supplies & disposal (DGS&D) has listed down 358 items, which are offered at purchase price preference 15% as compared to large-scale units & other suppliers. National small industries Corp. Ltd. Does the mktg. Of SSI products to govt. under preferential purchase policy. This avoids multiplicity of registration with various agencies.

4. Text Incentives/ concession & deductions from profits & gains:

If a unit is set up in backward area under factory act (sec 80HH) 20 % for 10 yr.

Its is 20% for 10 yr. for SSI in rural area (sec 80HHA)

20% for industries setup under factories act for 7 to 9 yr., 35% for corp. society's for 11 yr., 35% for co.'s for 11 yr.(sec80)25% for industries under factory act/ 100% for yr. & 25% for next 5 yr. If the unit is in backward area.

5. Exemptions & preferences from central excise duty:

If an SCI's has a turnover of more than 3 crore then 2 options are available

1. For 1st 1 crore duty in nill, cenvat credit no permissible
2. For 1st one crore 60% normal duty an cenvat credit permissible

Besides this they get relaxation in mode of duty payment & filing of returns

6. Foreign direct Investment.

In order to encourage modernization & technological up gradation equity participation upto 25% of total shareholding by offer industrial undertaking or foreign collaborators in SSI is permissible. Beyond this approval is needed with a commitment of 75 % to export.

7. Policy of priority credit:

Nationalized commercial banks give priority to SSI's, out of the 40% banks advances for priority sector, 15 to 17% goes to SSI's. Out of this 40% goes to tiny units having investment. 5 lac in plant & machinery & 20% for those having investment between 5 to 25 lacs. The interest rates are also very low for these loans. Prime lending rates are

applicable for loan above 2 lac.

8. Initiative for credit:

Reserve bank of India has directed 370 specialized SSI banks to provide working capital to SSI upto 20% for annual turnover limit upto 5 crore. Banks are advised to increase no. of SSI branches. Loan from SIDBI for tiny sector for credit availability has been increased from 50,000 to 2,00,000 rupees. The branch managers are empowered to take the credit decisions at branch level itself to ensure smooth flow of operations.

9. OTC exchange of India.

Institutions like UTI , IDBI, LIC, GIC, ICICI has setup these exchange to raise resource from capital mkt. It provides trading mechanism like bought out deals, market making, sponsorships for convenient to access capital market. The minimum requirement for a company to list on the exchange is 30 lac of post issue paid up capital. It is helpful for entrepreneur to setup new ventures or expand activities. Exchange also provides trading in debentures unit of Mutual Funds, bonds. Exchange has state of art technology to promote transparency for transaction all over the country.

10. Incentive scheme for acquiring ISO9000

Since ISO is required for quality certifications for exports, SSI are given the incentives for acquiring the certification to the extent of 70% of cost of subject to the maximum of 75,000

11. Integrated technology upgradation & management program

To implemented for energy conservation, pollution control, process modification. This program is started for 12 clusters all over India for small scale Units in the 9th 5 year plan with the cost of 6.5 crore.

12. Technological bureau for small enterprises (TBSE)

It is a joint venture of small industries development bank of India (SIDBI) & the asian pacific centre for transfer of technology. TBSE offers under one roof assistance & prospective small enterprises in sphere of technology transfer & fund syndication.

TAX BENEFITS AVAILABLE TO SMALL-SCALE INDUSTRIES IN INDIA ARE AS FOLLOWS:

Tax Holiday:

Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.

A small-scale industry has to satisfy the following two conditions to avail of this tax exemption facility:

1. The unit should not have been formed by the splitting or reconstruction of an existing unit.
2. The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 workers without power.

Depreciation:

Under Section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed subject to a maximum of Rs. 20 lakh deduction for depreciation on plant and machinery on the diminishing balance method.

In case of an asset acquired before the accounting period, depreciation is calculated on its written down value. For plant and machinery that are used in manufacturing in double or triple shift, an additional allowance called 'Extra Shift Allowance' is also available.

A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

1. The assets must be owned by the assessee.
2. The assets must actually be used for the purpose of the assessee's business or profession.

3. Depreciations allowance or deduction is allowed only on fixed assets, i.e. building machinery, plant and furniture.

From assessment year 1991-92, in the case of a company, depreciation will be limited to Rs. 7,590/- of the amount calculated at the specified percentage on the written down value block of assets.

Rehabilitation Allowance

A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of the following reasons:

1. Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;
2. Riot or civil disturbance;
3. Accidental fire or explosion; and
4. Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for business purposes within three years of unit's re-establishment, reconstruction, or revival .The rehabilitation allowance is allowed to the unit equivalent of 60 per cent of the amount of the deduction allowable to the unit.

Investment Allowance:

The Investment allowance was introduced way back in 1976 to replace the initial depreciation allowance. The investment allowance under Section 31 A of the Income Tax Act, 1961 is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

Although the investment allowance has been made available for the articles or things except certain items of low priority, yet as per the Eleventh Schedule to the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. In comparison with other industries, small-scale industries are

at an advantage in claiming a deduction of investment allowance. A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year failing which the benefit will be forfeited.

Expenditure on Scientific Research:

Under Section 35 of the Income Tax Act, 1961, the following deductions in respect of expenditure on scientific research are allowed:

1. Any revenue expenditure incurred on scientific research related to the business of the assessee in the previous year
2. Any sum paid to a scientific research association or a university, college, institution or to a public company which has its object, the undertaking of a scientific research.
3. Any capital expenditure incurred on scientific research related to the business of the assessee subject to the provision of Section 35(2) of the Income Tax Act, 1961.

In case of any unabsorbed capital expenditure incurred on scientific research, the provision of the Income Tax Act allow to carry it forward for adjustment against the profits earned by the business in the subsequent years for an indefinite time period.

Amortization of Certain Preliminary Expenses:

The Indian companies and resident persons, under Section 35D of the Income Tax Act 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit.

The examples of preliminary expenses are

- a. Expenses incurred in connection with the preparation of a feasibility report necessary for their business;
- b. Engineering expenses related to the business; and
- c. Legal charges, if any, for drafting agreements.

The writing off of the preliminary expenses is allowed against subject to a maximum of ten annual installments beginning with the previous year in which the new unit commences its production or expansion of an existing unit is completed. The aggregate amount of expenditure allowed be deducted is limited to 2.5 per cent of the total cost of the project.

A small-scale unit established in a backward area, under Section 80-HH, is allowed a deduction of 20 per cent on its profits and gains provided the unit satisfies the following conditions:

- a. The unit began its production after 31st December 1970 in any backward area of the country;
- b. It is a newly established unit in a backward area. It is neither split nor reconstituted out of a business already in existence in any backward area;
- c. It has not been formed by the transfer to a new business plant or machinery which was previously used for any purpose in any backward area; and
- d. It employs 10 or more workers in a manufacturing process with power or 20 or more workers without power.

Tax Concession to Small-Scale Industries in Rural Areas:

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas.

The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30th September 1977. For this purpose, the expression rural area means any area as defined under the Explanation to Section 35 CC (I) of the Income Tax Act, 1961. However, this tax deduction benefit is not allowed to the small-scale units engaged in mining activity.

The small-scale industry can avail of this tax deduction only after fulfilling the

following conditions:

1. The small-scale unit is not formed by splitting or reconstruction of a business already in existence.
2. 'It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.
3. The accounts of the unit are audited by a chartered accountant.
4. It employs 10 or more workers in manufacturing process carried on without the aid of power.
5. The unit does not claim a simultaneous deduction under Section 80-HH of the Income Tax Act, 1961.

Tax Concessions to Small-Scale Industries in Backward Areas:

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish industries in these backward areas. The newly established small-scale industries in these areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income.

This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. However, if a small-scale industry has already been established in a non-backward area and later shifted to backward area, the unit will be allowed this deduction on the profits earned from the undertaking after shifting in the backward area for a period of 10 years. A small-scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

The unit has to satisfy the following conditions to be eligible to avail of this tax benefit:

1. It is established on or after 31st December, 1970.
2. It employs at least 10 workers in a manufacturing process carried on with the aid of

power or at least 20 workers manufacturing process carried on without the aid of power.

Expenditure on Acquisition of Patents and Copyrights:

Under Section 35-A of the Income Tax Act, 1961, any expenditure of capital nature incurred in acquiring a patent and copyright by a small-scale industry is deductible from its income. But the expenditure should be incurred after 28th February 1966. The expenditure can be deducted in 14 equal installments beginning with the previous year in which the expenditure was incurred in acquiring patents and copyrights for the unit.

Profits from Business of Publication of Books:

Under Section 80-1A of the Income Tax Act, 1961 which has replaced Section 80-1 w.e.f. the assessment year 1991-92, 20% of the profits earned by a small- scale industry from the business of publication of books is deductible from its gross total income. The deduction benefit is available for total period of five years beginning with the assessment year 1992-93.

In addition, deductions are also available in respect of:

1. Royalties from any company in India (Under Section 80 M)
2. Royalties from any certain foreign companies (Under Section 800)
3. Inter-corporate Dividends (Under Section 80 M)
4. Income of Co-operative Societies (Under Section SOP)
5. Carry forward and set -off business losses (Under Section 72)

FREQUENTLY ASKED QUESTIONS

1. Write a short note on incentives and subsidies
2. What is the need of incentives and subsidies
3. Write the taxation benefits available to SSI units in india
4. Explain the problems relating to subsidies

UNIT –V

WOMEN ENTREPRENEUR

Women Entrepreneurs means the **women** or a group of **women** who initiate, organize and operate a business enterprise. A **woman entrepreneur** is therefore a confident, creative and innovative **woman**, desiring economic independence individually and simultaneously creating employment opportunities for others.

CONCEPT OF WOMEN ENTREPRENEUR

Women entrepreneur may be defined as a woman or group of women who initiate, organize, and run a business enterprise. In terms of Schumpeterian concept of innovative entrepreneurs, women who innovate, imitate or adopt a business activity are called “women entrepreneurs”.

Kamal Singh who is a woman entrepreneur from Rajasthan, has defined woman entrepreneur as “a confident, innovative and creative woman capable of achieving self-economic independence individually or in collaboration, generates employment opportunities for others through initiating, establishing and running the enterprise by keeping pace with her personal, family and social life.”

The Government of India has defined women entrepreneurs based on women participation in equity and employment of a business enterprise. Accordingly, the Government of India (GOI2006) has defined women entrepreneur as “an enterprise owned and controlled by a woman having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated in the enterprise to women.” However, this definition is subject to criticism mainly on the condition of employing more than 50 per cent women workers in the enterprises owned and run by the women.

In nutshell, women entrepreneurs are those women who think of a business

enterprise, initiate it, organize and combine the factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running a business enterprise.

FUNCTIONS OF WOMEN ENTREPRENEURS:

As an entrepreneur, a woman entrepreneur has also to perform all the functions involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis, and determination of forms of business organization, completion of promotional formalities, raising funds, procuring men, machine and materials, and operation of business.

Frederick Harbison (1956) has enumerated the following five functions of a woman entrepreneur:

1. Exploration of the prospects of starting a new business enterprise.
2. Undertaking of risks and the handling of economic uncertainties involved in business.
3. Introduction of innovations or imitation of innovations.
4. Coordination, administration and control.
5. Supervision and leadership.

THE ROLE OF WOMEN ENTREPRENEURS IS EXPLAINED IN THE FOLLOWING POINTS:

i. Employment Generation:

It implies that women entrepreneurs not only establish their enterprise, but provide job to others. Women entrepreneurship is about women's position in the society and their role as entrepreneurs in the same society. It can be understood in two ways, namely, at the individual level (number of self-employed) and at the firm level (number of firms owned by women and their economic impact). In this way, woman entrepreneurs have an

important impact on the economy in terms of their ability to create jobs for themselves as well as for others.

ii. Economic Development:

It signifies that women entrepreneurs contribute to the gross domestic product of the country by establishing enterprises and producing goods and services. Due to their entrepreneurial activity, women entrepreneurs bring dynamism in market. In this way, they also help in increasing the national income of the country.

iii. Better Utilization of Resources:

It implies that the involvement of women in industrial development ensure the effective utilization of all available resources (labor, raw materials, capital). The issue of women in the industrialization process has been emphasized only in the last decade when the 'Declaration of Mexico in July 1975', the equality of womanhood and their contribution to individual development became the center of attention.

iv. Improved Quality of Life:

It implies that women entrepreneurs are now economically independent and take decisions independently. They are now capable of upbringing their children according to their wish. They are providing quality education to their children and a better living standard to their family members. They not only improve their living standards, but also the living standards of others by providing them the means of earning.

PROBLEMS FACED BY WOMEN ENTREPRENEUR

1. Problem of Finance:

Finance is regarded as "life-blood" for any enterprise, be it big or small. However, women entrepreneurs suffer from shortage of finance on two counts.

Firstly, women do not generally have property on their names to use them as collateral for obtaining funds from external sources. Thus, their access to the external sources of funds is limited.

Secondly, the banks also consider women less credit-worthy and discourage women borrowers on the belief that they can at any time leave their business. Given such situation, women entrepreneurs are bound to rely on their own savings, if any and loans from friends and relatives who are expectedly meager and negligible. Thus, women enterprises fail due to the shortage of finance.

2. Scarcity of Raw Material:

Most of the women enterprises are plagued by the scarcity of raw material and necessary inputs. Added to this are the high prices of raw material, on the one hand, and getting raw material at the minimum of discount, on the other. The failure of many women co-operatives in 1971 engaged in basket-making is an example how the scarcity of raw material sounds the death-knell of enterprises run by women (Gupta and Srinivasan 2009).

3. Stiff Competition:

Women entrepreneurs do not have organizational set-up to pump in a lot of money for canvassing and advertisement. Thus, they have to face a stiff competition for marketing their products with both organized sector and their male counterparts. Such a competition ultimately results in the liquidation of women enterprises.

4. Limited Mobility:

Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon suspicion. Cumbersome exercise involved in starting an enterprise coupled with the officials humiliating attitude towards women compels them to give up idea of starting an enterprise.

5. Family Ties:

In India, it is mainly a women's duty to look after the children and other members of the family. Man plays a secondary role only. In case of married women, she has to

strike a fine balance between her business and family. Her total involvement in family leaves little or no energy and time to devote for business.

Support and approval of husbands seem necessary condition for women's entry into business. Accordingly, the educational level and family background of husbands positively influence women's entry into business activities.

6. Lack of Education:

In India, around three-fifths (60%) of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative education, women are not aware of business, technology and market knowledge. Also, lack of education causes low achievement motivation among women. Thus, lack of education creates one type or other problems for women in the setting up and running of business enterprises.

7. Male-Dominated Society:

Male chauvinism is still the order of the day in India. The Constitution of India speaks of equality between sexes. But, in practice, women are looked upon as abla, i.e. weak in all respects. Women suffer from male reservations about a women's role, ability and capacity and are treated accordingly. In nutshell, in the male-dominated Indian society, women are not treated equal to men. This, in turn, serves as a barrier to women entry into business.

8. Low Risk-Bearing Ability:

Women in India lead a protected life. They are less educated and economically not self-dependent. All these reduce their ability to bear risk involved in running an enterprise. Risk-bearing is an essential requisite of a successful entrepreneur.

In addition to above problems, inadequate infrastructural facilities, shortage of power, high cost of production, social attitude, low need for achievement and socio-economic constraints also hold the women back from entering into business.

RURAL ENTREPRENEUR

Rural entrepreneurship is now a days a major opportunity for the people who migrate from **rural** areas or semi - urban areas to Urban areas. It is also a fact on the contrary that the majority of **rural entrepreneurs** are facing many problems due to non-availability of primary amenities in **rural** areas like **India**.

TYPES OF RURAL ENTREPRENEURSHIP:

- a. Individual entrepreneurship
- b. Group entrepreneurship
- c. Cluster formation
- d. Cooperative

a. Individual entrepreneurship:

It is the type of the entrepreneurship where the single entrepreneur is the owner or the sole proprietor. The entrepreneur bears the whole risk and is solely responsible for the business decisions.

b. Group Entrepreneurship: It is mainly classified into three types:

- 1) Private limited company
- 2) Public limited company
- 3) Partnership

1) Private limited company: In this case, minimum two members are required and maximum members are 50. The financial capital is divided into shares and

shares are not sold to the general public. Therefore such companies are generally small in size and are owned by the families. Liability of the shareholders is limited in such companies.

2) Public limited companies: in such companies, minimum seven members are required and there is no maximum limit. Being a public limited, it can raise money from the overall public. There is separation between the control and ownership. Shareholders are the owners but they do not take active participation in the running of the business. The control of the business is in the hands of the board of directors.

3) Partnership: In this case there is no individual owner and the business is handled by the partners (maximum 20). For the partnership, mutual trust is must and all the partners should complement each other for common goals and objectives. Partnership companies are easier to form and provide large resources but it has unlimited liability on the partners.

c. Cluster formation: it's a proper and informal group of individuals to realize common objectives. It includes NGO's, VO's, SHG's & CBO's

1) NGO's (Non-Government organisations): These are the non – profit organisations sponsored or formed by the government and are registered under the Society's Registration act, 1860. A minimum seven people are grouped together for the socio- economic growth of the people. These are the formal organisations and usually receive funds from the government.

2) VO's (Voluntary Organisations): These are the organisations generally initiated by the individuals to serve the society and for the socio economic development of the people. These organisations may or may not register under any act. Such organisations are generally sponsored by the NGO's or the Government.

3) SHG's (Self Help Groups): These groups are mainly consisted of 10-20 people and are formed with the objective to mutually help each other. These groups are sponsored by the NGO's, VO's and sometimes by the Government for the socio – economic development of the backward people. It is an informal organisation.

4) CBO's (Community based organisations): They are informal in nature and are formed with the objective to enhance the bargaining power of the community. People from the common living are or from the common community come together with the common objective of upliftment of the community.

d. Cooperative: consistent with the International cooperative alliance (ICA), “a cooperative is an autonomous association of persons united voluntarily to satisfy their economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.”Need of Rural Entrepreneurship:

There is a requirement of the agricultural entrepreneurship to develop the agricultural economy.

Rural entrepreneurship is needed because of the following reasons

- **Employment Generation:** Rural Entrepreneurship may be a labour intensive and requires sizable amount of human resource. Therefore, it has a large potential of employment generation and can reduce the problem of unemployment in rural area.
- **Income Generation:** By providing employment, rural entrepreneurship has potential for income generation and thus bridging the gap between the rural and urban disparities.

- **Rural development:** Rural entrepreneurship helps in setting industries in rural areas and thus leads to the employment generation and income generation which directly help in rural development.
- **Curbs Rural – Urban migration:** Rural development helps in curbing the rural – urban migration by reducing the unequal growth in cities.
- **Environment Friendly:** Rural industries are more environment friendly thus leads to the development without damage.
- **Builds up Village republics:** Development of the rural industries serves as an effective means to build village republics and thus make them more independent.
- **Improved standard of living:** As rural entrepreneurship helps in income generation which helps in prospering the community and thus improving their standard of living.
- **Balanced regional growth:** Rural entrepreneurship will direct the concentration of industries in rural areas which leads to the balanced regional growth.

SCOPE OF RURAL ENTREPRENEURSHIP:

Rural entrepreneurship is active and is opening new scopes for the entrepreneurs and are discussed as follows:

- Rural area has the capacity of small and medium enterprises and these sectors acts as the economy builders by generating Employment and income for poor and unemployed people and is contributing more than 52% of the GDP.
- Moreover, there is a rapid expansion in the small and medium industry arena. Therefore, Repair shops, service centers, PCO, internet café, hiring of agriculture implements & tractor, computer and other skill training centers have good scope in cluster of villages.
- Entertainment, cable TV ,rural tourism and amusement parks (near urban areas) also are a number of the potential areas for rural entrepreneurs in commission sector
- Various development programs are being executed through Panchayati Raj Institutions, who are engaging contractors for civil /mechanical works. Rural youth can start this business.
- Changed consumption pattern has opened up new avenues for trading activities in rural areas
- Rural areas are also using large amount of agriculture products like fertilizers, seeds, pesticides and insecticides etc.

PROBLEMS FACED IN THE GROWTH OF RURAL ENTREPRENEURS:

Rural entrepreneurs face sizable amount of problems like illiteracy, risk factor, improper training and knowledge , limited purchasing power and hard competition from urban entrepreneurs. Various problems faced by rural entrepreneurs are following.

a) Scarcity of funds:

Rural entrepreneurs find it difficult to get external funds due to the risk involved in the rural industries. Moreover, the procedure to avail loan facility is just too long and cumbersome that its postponement often disappoints the agricultural entrepreneurs.

b) Competition: Rural entrepreneurs face tough competition from large scale industries and therefore the urban entrepreneurs as their cost of production is high thanks to high input cost.

c) Middlemen: As there is small market available for the rural entrepreneurs so they are heavily dependent on the middlemen for marketing of their products and thus Middlemen exploit rural entrepreneurs.

d) Legal formalities: As Rural entrepreneurs are illiterate and ignorant in order that they find it extremely difficult to suits various legal formalities in obtaining licenses. Moreover, the legal formalities are so complex and time consuming that it become tough for the entrepreneurs.

e) Procurement of staples: Arranging raw material is basically a troublesome task for rural entrepreneur. They may finish with poor quality raw materials and can also face the problem of storage and warehousing.

f) Risk element: Rural entrepreneurs face tough competition from large scale industries and don't have large market available for them. Therefore, have much less risk taking capacity due to shortage of financial resources and external support.

g) Lack of technical knowledge: Rural entrepreneurs suffer a drag of lack of technical knowledge because rural people are illiterate and lack of coaching facilities which acts as hurdle for the rural development.

h) Lack of infrastructural facilities: Though government is putting its best efforts but the growth of the rural entrepreneurs is not very healthy due to lack of proper and adequate infrastructural facilities.

i) Poor quality of products: Rural entrepreneurs produce inferior quality of products due to lack of availability of standard tools and equipment and the availability of poor quality raw materials.

j) Negative attitude: The environment within the family and society isn't favorable to support rural people to require up entrepreneurship as a career. It may flow from to lack of awareness and knowledge of entrepreneurial opportunities.

ADVANTAGES OF RURAL ENTREPRENEURSHIP:

- **Abundance of Resources:** Rural areas have abundant natural resources including land, water minerals and solar power and also wind power. Moreover land is easily available at cheap rates.

- **Easy availability of labour:** Semi skilled and unskilled labour is easily available and low wage rates increases the vulnerability of rural areas for industrialization.
 - **Tax advantage:** Tax burden in rural areas is low, which increases competitive strength of rural industry.
 - **Low investment:** Rural industries can be started with low investment and Production can be done at a less cost due to easy availability of resources.
 - **Employment:** Rural Industries generate jobs in the developing countries like India where the unemployment is the main problem.
 - **Slow down urban migration:** As rural industries create jobs, therefore it slows down the rural – urban migration which creates problems in urban areas.
 - **Meet demands:** in developing countries like India, where the population is extremely large, rural industries can help in meeting demands arising from local consumption needs.
- The role of rural industries is of important importance in our country thanks to above-mentioned advantages.

DEVELOPMENTAL STRATEGIES FOR RURAL ENTREPRENEURSHIP:

While developing strategy for industrial enterprise in rural areas, it is necessary to take into consideration the totality of rural reality in terms of resources physical and human as also environmental. It is believed that following approaches are often used for formulating strategy for rural industrial enterprise:

- **Harmonize Govt. efforts:** Government should synchronize its initiatives with

some NGO's or the agencies working for the rural development so that policies can be implemented in a perfect order for the rural growth.

- **Technology development:** Provisions should be made to provide the rural population with the latest technologies so that rapid development can take place.
- **Basic training for prospective rural entrepreneurs:** Prospective entrepreneurs must be identified and basic training should be provided. They should be motivated by telling the success stories of the different entrepreneurs.
- **Skill enhancement training programs:** Such training programs should be provided to the rural population so that skilled workers can be available for the rural industries.
- **Modern infrastructure facilities:** It is necessary to create modern infrastructural facilities in the rural areas so that entrepreneurs can be attracted.
- **Credit supply:** banking and non banking agencies should provide the funds at cheaper credit and at short terms and conditions.
- **Co-ordination between small and large industries:** collaborations should be encouraged between small and large scale industries so that cheaper products made by small industries can be marketed at large scale.

ROLE OF NGO IN DEVELOPMENT OF RURAL ENTREPRENEURSHIP

Rural entrepreneurship is one of the most important factors for the rural development to remove the problem of unemployment and poverty. Therefore, it is the need of the hour. Government has taken many initiatives for the rural development and started various self employment and poverty alleviation programmes like Pradhana Mantri Rozgar Yojna, IRDP, TRYSEM etc. but proved ineffective due to the improper execution of the programmes. For the rural

development, one has to be at the grassroots to identify the problems and then find the solutions and this can be done only when one is in the contact of the rural population. Such a situation necessitated the need of the NGO's to join hands with the Government and find the problems and thus helps in the execution of the programmes implemented by the government. Government therefore collaborated with the NGO's to reach the actual problems of the rural population.

Today we have large number of the NGO's working for the rural entrepreneurship. The main NGO's are: National Alliance of Young Entrepreneurs (NAYE), World Assembly of Small and Medium

Entrepreneurs (WASME), Xavier institute for Social Studies (XISS), SEWA of Ahmedabad, 'Y' SelfEmployment of Calcutta, AWAKE (Association of girls Entrepreneurs of Karnataka), and Rural Development and Self-Employment Training Institute (RUDSETIs) based in Karnataka:

NGO's functioning for the rural entrepreneurship can be classified into three types:

A. Primary level NGO's

B. Secondary Level NGO's

C. Grass root level NGO's.

A. Primary Level NGO's: These are the NGO's who assemble their own resources and implement developmental activities on their own and works at international level. Example: ACTIONAID, OXFAM, Christian Children Fund, etc. are some of the best examples of primary level NGOs in India.

B. Intermediate NGO's: These are the NGO's who arrange funds from the external agencies and impart training and conduct workshops for the target group. Example: SEWA and AWAKE are samples of intermediate NGOs

C. Grass Root Level NGO's: These are the NGO's who make direct contact with the target group and work at the grass root level. Example: Such NGO's are RUDSETIs, ANARDE Foundation (Gujarat), Indian Institute of Youth Welfare (IIYW) of Maharashtra etc.

The training imparted to the agricultural population are often divided into three types:

- i. **Stimulation:** Conducting workshops and trainings for the rural population to stimulate the entrepreneurial attitude amongst them.
- ii. **Counselling:** Providing counseling and consultancy services to the rural entrepreneurs regarding Project analysis, selection of an idea, preparation of business plan etc.
- iii. **Assistance:** Providing help to the target group in financial support and providing market for their products.

The NGOs can convince be a boon for rural entrepreneurship thanks to following reasons

- a. NGO's works at the grassroot level so they are near to the rural population which helps in understanding them well.
- b. Their experiments with the community can helps in developing policies.
- c. working of the NGO's is flexible so they help in formulate appropriate solutions and can tailor to meet the individual needs..
- d. NGO's concerns with the rural poor, so can reach at the remote locations, where it is not possible for the government to reach.

e. Due to their flexibility, they have the capability to innovate and adapt using technology transfer and settle them according to the local conditions.

CHALLENGES ROUND-FACED BY RURAL ENTREPRENEURSHIP

Some of the key challenges round-faced by rural entrepreneurship in India are delineated below as follows:

1. FAMILY CHALLENGES:

Convincing to choose business over job is under no circumstances a straightforward task for a personal. The primary issue compared is- can you create more cash within the business of your alternative or will you're employed as a successor of closed corporation. this is often be actually a stage wherever it becomes nearly not possible to persuade that you just can generate more money along with your passion than doing what your dada is doing.

2. SOCIAL CHALLENGES:

Even robust family challenges are continuously at the highest as a result of because it matters the foremost however from time to time social challenges are important. Allow us to think about Associate in Nursing example whereby say you and your friend graduated at the identical time. You opted for entrepreneurship and your friend opts for employment. Once few years he currently encompasses a flat, automobile and what not as a result of he may simply get those with a loan however you continue to don't have anything to indicate off and this can be wherever the challenge comes in.

3. TECHNOLOGICAL CHALLENGES:

Indian education system actually lags an excessive amount of from the duty business as a full on the other hand it lags even way more once it involves on-line entrepreneurship. What technology would be ideal and the way to use that technology effectively and with efficiency is that the question that must be answered by entrepreneur.

4. MONETARY CHALLENGES:

This essentially refers to issue in borrowing fund. For on-line entrepreneurs monetary challenges are plenty completely different in India. Once you are beginning as Associate in Nursing bourgeois you don't choose venture funding however positively attempt to visit funding for tiny to medium business folks. Several nontechnical business folks don't perceive the net business models as a full and then obtaining Associate in Nursing initial business funding from them becomes much difficult. Alternative choice what entrepreneurs will consider could be a loan however loan intrinsically isn't in the least an option in India for brand spanking new on-line entrepreneurs.

5. POLICY CHALLENGES:

Now then there aren't of changes within the policies enforced by the govt. issues of TRIMS and journeys to cause policy challenges. Major issues of availing raw materials, issues of raising equity capital, issues of devolution of native and obsolete technology, enhanced pollutions, ecological imbalance, exploitation of tiny and poor countries etc.

FREQUENTLY ASKED QUESTIONS

1. Explain the meaning of Women entrepreneur
2. State the concept and role of an Women entrepreneur
3. Explain the Functions of an entrepreneur
4. Discuss the problems faced by an Women Entrepreneur
5. State the role of an women Entrepreneur in Economic development
6. Write the meaning of an Rural Entrepreneur
7. Explain the need and scope of Rural Entrepreneur
8. Discuss the development of an rural entrepreneur
9. Explain the advantages of rural entrepreneur
10. Describe the problems faced by Rural entrepreneur
11. State the problems faced by an rural entrepreneur.

